

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

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

**For the fiscal year ended December 31, 2019**  
**OR**

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

**Commission File Number 1-9804**

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**PULTEGROUP, 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.)

**3350 Peachtree Road NE, Suite 150**

**Atlanta, Georgia 30326**

(Address of principal executive offices) (Zip Code)

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

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Shares, par value \$0.01	PHM	New York Stock Exchange
Series A Junior Participating Preferred Share Purchase Rights		New York Stock Exchange

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

**NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

The aggregate market value of the registrant's voting shares held by nonaffiliates of the registrant as of June 30, 2019, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$8,648,189,224. As of January 23, 2020, the registrant had 269,975,049 shares of common shares outstanding.

**Documents Incorporated by Reference**

Applicable portions of the Proxy Statement for the 2020 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form.

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**PULTEGROUP, INC.**  
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## PART I

### ITEM I. BUSINESS

#### **PulteGroup, Inc.**

PulteGroup, Inc. is a Michigan corporation organized in 1956. We are one of the largest homebuilders in the United States ("U.S."), and our common shares are included in the S&P 500 Index and trade on the New York Stock Exchange under the ticker symbol "PHM". Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also have mortgage banking operations, conducted principally through Pulte Mortgage LLC ("Pulte Mortgage"), and title and insurance brokerage operations.

Homebuilding, our core business, which includes the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land, generated 98% of our consolidated revenues in each of 2019, 2018, and 2017. We offer a broad product line to meet the needs of homebuyers in our targeted markets. Through our brands, which include Centex, Pulte Homes, Del Webb, DiVosta Homes, John Wieland Homes and Neighborhoods, and American West we offer a wide variety of home designs, including single-family detached, townhouses, condominiums, and duplexes at different prices and with varying levels of options and amenities to our major customer groups: first-time, move-up, and active adult. Over our history, we have delivered nearly 750,000 homes.

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

Northeast:	<i>Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia</i>
Southeast:	<i>Georgia, North Carolina, South Carolina, Tennessee</i>
Florida:	<i>Florida</i>
Midwest:	<i>Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio</i>
Texas:	<i>Texas</i>
West:	<i>Arizona, California, Nevada, New Mexico, Washington</i>

We also have a reportable segment for our financial services operations, which consists principally of mortgage banking, title, and insurance brokerage operations. Our Financial Services segment operates generally in the same geographic markets as our Homebuilding segments.

Financial information for each of our reportable business segments is included in [Note 3](#) to our Consolidated Financial Statements.

#### *Available information*

We file annual, quarterly, and current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). These filings are available at the SEC's website at [www.sec.gov](http://www.sec.gov). Our internet website address is [www.PulteGroupInc.com](http://www.PulteGroupInc.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through our website as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our code of ethics for principal officers, our code of ethical business conduct, our corporate governance guidelines, and the charters of the Audit, Compensation and Management Development, Nominating and Governance, and Finance and Investment Committees of our Board of Directors are also posted on our website and are available in print, free of charge, upon request.

## Homebuilding Operations

	Years Ended December 31, (\$000's omitted)				
	2019	2018	2017	2016	2015
Home sale revenues	\$ 9,915,705	\$ 9,818,445	\$ 8,323,984	\$ 7,451,315	\$ 5,792,675
Home closings	23,232	23,107	21,052	19,951	17,127

For information and analysis of recent trends in our operations, see Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Our Homebuilding operations are geographically diverse within the U.S. As of December 31, 2019, we operated out of 863 active communities in 42 markets across 23 states. Sales prices of unit closings during 2019 ranged from approximately \$100,000 to over \$2,300,000, with 92% falling within the range of \$200,000 to \$750,000. The average unit selling price in 2019 was \$427,000, compared with \$425,000 in 2018, \$395,000 in 2017, \$373,000 in 2016, and \$338,000 in 2015. The increase in average selling price in recent years resulted from a number of factors, including favorable market conditions and changes in the geographical and product mix of homes sold. Our average unit selling price since 2015 was also impacted by our acquisition in January 2016 of substantially all of the assets of JW Homes ("Wieland"), a brand geared toward move-up homebuyers.

Sales of single-family detached homes, as a percentage of total unit sales, were 85% in 2019 and 2018, compared with 88% in 2017, 87% in 2016, and 86% in 2015. The decrease in the percentage of single-family detached homes since 2017 can be attributed to the geographic mix of homes sold and an increase in the number of our communities in more urban locations where higher density attached homes are more commonplace.

We believe that national publicly-traded builders have a competitive advantage over local builders through their ability to: access more reliable and lower cost financing through the capital markets; control and entitle large land positions; gain better access to scarce labor resources; and achieve greater geographic and product diversification. Among our national publicly-traded peer group, we believe that builders with broad geographic and product diversity and sustainable capital positions will benefit from this scale and diversification in any market conditions. Our strategy to enhance shareholder value is centered around the following operational objectives:

- Drive operational gains and asset efficiency in support of high returns over the housing cycle;
- Shorten the duration of our owned land pipeline to improve returns and reduce risks;
- Maintain disciplined business practices to maximize returns on investment;
- Increase scale within our existing markets by appropriately expanding market share among our primary buyer groups: first-time, move-up, and active adult;
- Focus on building-to-order while maintaining an appropriate balance of speculative homes; and
- Invest capital consistent with our stated priorities: invest in the business, fund our dividend, and routinely return excess funds to shareholders through share repurchases.

### *Land acquisition and development*

We acquire land primarily for the construction of homes for sale. We select locations for development of homebuilding communities after completing a feasibility study, which includes, among other things, soil tests, independent environmental studies and other engineering work, an evaluation of necessary zoning and other governmental entitlements, and extensive market research that enables us to match the location with our product offering to meet the needs of consumers. We consider factors such as proximity to developed areas, population and job growth patterns, and, if applicable, estimated development costs. We frequently manage a portion of the risk of controlling our land positions through the use of land option agreements, which enable us to defer acquiring portions of properties owned by land sellers until we have determined whether and when to exercise our option. Our use of land option agreements can serve to reduce the financial risk associated with long-term land holdings. We typically acquire land with the intent to complete sales of housing units within 24 to 36 months from the date of opening a community, except in the case of certain Del Webb active adult developments and other large master-planned projects for which the completion of community build-out requires a longer time period. While our overall supply of controlled land is in excess of our short-term needs in certain of our markets, some of our controlled land consists of long-term positions that will not be converted to home sales in the near term. Accordingly, we remain active in our pursuit of new land investment. We also

periodically sell select parcels of land to third parties for commercial or other development or if we determine that they no longer fit into our strategic operating plans.

Land is generally purchased after it is zoned and developed, or is ready for development, for our intended use. 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; and constructing roads, sewers, water and drainage facilities, and community amenities, such as parks, pools, and clubhouses. We use our staff and the services of independent engineers and consultants for land development activities. Land development work is performed primarily by independent contractors and, when needed, local government authorities who construct sewer and water systems in some areas. At December 31, 2019, we controlled 158,262 lots, of which 93,359 were owned and 64,903 were under land option agreements.

### *Sales and marketing*

We are dedicated to improving the quality and value of our homes through innovative architectural and community designs. Analyzing various qualitative and quantitative data obtained through extensive market research, we stratify our potential customers into well-defined homebuyer groups. Such stratification provides a method for understanding the business opportunities and risks across the full spectrum of consumer groups in each market. Once the needs of potential homebuyers are understood, we link our home design and community development efforts to the specific lifestyle of each consumer group. Through our understanding of each consumer group, we seek to provide homes that better meet the needs and wants of each homebuyer.

Our homes targeted to first-time homebuyers tend to be smaller with product offerings geared toward lower average selling prices or higher density. Move-up homebuyers tend to place more of a premium on location and amenities. These communities typically offer larger homes at higher price points. Through our Del Webb brand, we address the needs of active adults, to whom we offer both destination communities and “in place” communities, for homebuyers who prefer to remain in their current geographic area. Many of these active adult communities are age-restricted to the age fifty-five and over homebuyer and are highly amenitized, offering a variety of features, including golf courses, recreational centers, and educational classes, to facilitate the homebuyer maintaining an active lifestyle. In order to make the cost of these highly amenitized communities affordable to the individual homeowner, Del Webb communities tend to be larger than first-time or move-up homebuyer communities. During 2019, 29%, 45%, and 26% of our home closings were to first-time, move-up, and active adult customers, respectively, which reflects a slight increase toward first-time buyers over 2018 consistent with our increased investment to serve first-time buyers.

We believe that we are an innovator in home design, and we view our design capabilities as an integral aspect of our marketing strategy. Our in-house architectural services teams, supplemented by outside consultants, follow a 12-step product development process to introduce new features and technologies based on customer-validated data. Following this disciplined process results in distinctive design features, both in exterior facades and interior options and features. We typically offer a variety of house floor plans and elevations in each community, including potential options and upgrades, such as different flooring, countertop, fixture, and appliance choices, and design our base house and option packages to meet the needs of our customers as defined through rigorous market research. Energy efficiency represents an important source of value for new homes compared with existing homes and represents a key area of focus for our home designs, including high efficiency heating, ventilation, and air conditioning systems and insulation, low-emissivity windows, solar power in certain geographies, and other energy-efficient features.

We market our homes to prospective homebuyers through internet listings and link placements, mobile applications, media advertising, illustrated brochures, and other advertising displays. We have made significant enhancements in our tools and business practices to adapt our selling efforts to today's tech-enabled customers. This includes our websites ([www.centex.com](http://www.centex.com), [www.pulte.com](http://www.pulte.com), [www.delwebb.com](http://www.delwebb.com), [www.divosta.com](http://www.divosta.com), [www.americanwesthomes.com](http://www.americanwesthomes.com), and [www.jwhomes.com](http://www.jwhomes.com)), which provide tools to help users find a home that meets their needs, investigate financing alternatives, communicate moving plans, maintain a home, learn more about us, and communicate directly with us.

Our sales teams consist primarily of commissioned employees, and the majority of our home closings also involve independent third party sales brokers. Our sales consultants are responsible for guiding the customer through the sales process, including selecting the community, house floor plan, and options that meet the customer's needs. We are committed to industry-leading customer service through a variety of quality initiatives, including our customer care program, which seeks to ensure that homebuyers are engaged and satisfied at every stage of the process. Fully furnished and landscaped model homes physically located in our communities, which leverage the expertise of our interior designers, are generally used to showcase

our homes and their distinctive design features. We have also introduced virtual reality walkthroughs of our house floor plans in certain communities to provide prospective homebuyers a more cost effective means to provide a realistic vision of our homes.

The majority of our homes are sold on a built-to-order basis where we do not begin construction of the home until we have a signed contract with a customer. However, we also build speculative ("spec") homes in most of our communities, which allow us to compete more effectively with existing homes available in the market, especially for homebuyers that require a home within a short time frame. We determine our spec home strategy for each community based on local market factors and maintain a level of spec home inventory based on our current and planned sales pace and construction cadence for the community.

Our sales contracts with customers generally require payment of a deposit at the time of contract signing and sometimes additional deposits upon selection of certain options or upgrade features for their homes. Our sales contracts also typically include a financing contingency that provides customers with the right to cancel if they cannot obtain mortgage financing at specified interest rates within a specified period. Our contracts may also include other contingencies, such as the sale of an existing home. Backlog, which represents orders for homes that have not yet closed, was \$4.5 billion (10,507 units) at December 31, 2019 and \$3.8 billion (8,722 units) at December 31, 2018. For orders in backlog, we have received a signed customer contract and customer deposit, which is refundable in certain instances. Of the orders in backlog at December 31, 2019, substantially all are scheduled to be closed during 2020, though all orders are subject to potential cancellation by or final negotiations with the customer. In the event of contract cancellation, the majority of our sales contracts stipulate that we have the right to retain the customer's deposit, though we may choose to refund the deposit in certain instances.

### *Construction*

The construction of our homes is conducted under the supervision of our on-site construction field managers. Substantially all of our construction work is performed by independent subcontractors under contracts that establish a specific scope of work at an agreed-upon price. Using a selective process, we have aligned with what we believe are premier subcontractors and suppliers to deliver quality throughout all aspects of the house construction process. In addition, our construction field managers and customer care associates interact with our homebuyers throughout the construction process and instruct homebuyers on post-closing home maintenance.

Continuous improvement in our house construction process is a key area of focus. We seek to build superior quality homes while maintaining efficient construction operations by using standard materials and components from a variety of sources and by using industry and company-specific construction practices. We are improving our product offerings and production processes through the following programs:

- Common management of house plans to deliver house designs that customers value the most and that can be built at the highest quality and at an efficient cost;
- Value engineering our house plans to optimize house designs in terms of material content and ease of construction while still providing a clear value to the customer;
- Utilizing our proprietary construction standards and practices, training of our field leadership and construction personnel, communication with our suppliers, and auditing our compliance; and
- Working with our suppliers using a data driven, collaborative method to reduce construction costs to what the associated construction activities or materials "should cost" in the market.

Generally, the construction materials used in our operations are readily available from numerous sources. However, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in global commodity prices, national tariffs, and other foreign trade factors. Additionally, the ability to consistently source qualified labor at reasonable prices remains challenging as labor supply growth has not kept pace with construction demand. To protect against changes in construction costs, labor and materials costs are generally established prior to or near the time when related sales contracts are signed with customers. In addition, we leverage our size by actively negotiating for certain materials on a national or regional basis to minimize costs. We are also working to establish a more integrated system that can effectively link suppliers, contractors, and the production schedule. However, we cannot determine the extent to which necessary building materials and labor will be available at reasonable prices in the future.

### *Competition*

The housing industry in the U.S. is fragmented and highly competitive. While we are one of the largest homebuilders in the U.S., our national market share represented only approximately 3% of U.S. new home sales in 2019. In each of our local

markets, there are numerous national, regional, and local homebuilders with whom we compete. Additionally, new home sales have traditionally represented less than 15% of overall U.S. home sales (new and existing homes). Therefore, we also compete with sales of existing house inventory and any provider of for sale or rental housing units, including apartment operators. We compete primarily on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences.

### *Seasonality*

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

### *Regulation and environmental matters*

Our operations are subject to extensive regulations imposed and enforced by various federal, state, and local governing authorities. These regulations are complex and include building codes, land zoning and other entitlement restrictions, health and safety regulations, labor practices, marketing and sales practices, environmental regulations, rules and regulations relating to mortgage financing and title operations, and various other laws, rules, and regulations. Collectively, these regulations have a significant impact on the site selection and development of our communities; our house design and construction techniques; our relationships with customers, employees, suppliers, and subcontractors; and many other aspects of our business. The applicable governing authorities frequently have broad discretion in administering these regulations, including inspections of our homes prior to closing with the customer in the majority of municipalities in which we operate. Additionally, we may experience extended timelines for receiving required approvals from municipalities or other government agencies that can delay our anticipated development and construction activities in our communities.

### **Financial Services Operations**

We conduct our financial services business, which includes mortgage banking, title, and insurance brokerage operations, through Pulte Mortgage and other subsidiaries. Pulte Mortgage arranges financing through the origination of mortgage loans primarily for the benefit of our homebuyers. We are a lender approved by the Federal Housing Administration ("FHA") and Department of Veterans Affairs ("VA") and are a seller/servicer approved by Government National Mortgage Association ("Ginnie Mae"), Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), and other investors. In our conventional mortgage lending activities, we follow underwriting guidelines established by Fannie Mae, Freddie Mac, and private investors. We believe that our customers' use of our in-house mortgage and title operations provides us with a competitive advantage by enabling more control over the quality of the overall home buying process for our customers, while also helping us align the timing of the house construction process with our customers' financing needs.

Operating through a captive business model targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. Our Homebuilding customers continue to account for substantially all of our loan production. We originated the mortgage loans for 67% of the homes we closed in 2019, 62% in 2018, 66% in 2017, and 65% in 2016 and 2015. Other home closings are settled via either cash, which typically represent approximately 20% of home closings, or third party lenders.

In originating mortgage loans, we initially use our own funds, including funds available pursuant to credit agreements with third parties, and subsequently sell such mortgage loans to third party investors in the secondary market. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. We also sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the loans and related servicing rights for only a short period of time.

The mortgage industry in the U.S. is highly competitive. We compete with other mortgage companies and financial institutions to provide attractive mortgage financing to our homebuyers. We utilize a centralized fulfillment center for our mortgage operations that performs underwriting, processing, and closing functions. We believe centralizing both the fulfillment

and origination of our loans improves the speed, efficiency, and quality of our mortgage operations, improving our profitability and allowing us to focus on providing attractive mortgage financing opportunities for our customers.

In originating and servicing mortgage loans, we are subject to the rules and regulations of the government-sponsored investors and other investors that purchase the loans we originate, as well as to those of other government agencies that have oversight of the government-sponsored investors or consumer lending rules in the U.S. In addition to being affected by changes in these programs, our mortgage banking business is also affected by many of the same factors that impact our homebuilding business.

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If a loan is determined to be faulty, we either indemnify the investor for potential future losses, repurchase the loan from the investor, or reimburse the investor's actual losses.

Our subsidiary title insurance companies serve as title insurance agents and underwriters in select markets by providing title insurance policies and examination and closing services to buyers of homes we sell. Historically, we have not experienced significant claims related to our title operations.

Our insurance brokerage operations serve as a broker for home, auto, and other personal insurance policies in select markets to buyers of homes we sell. All such insurance policies are placed with third party insurance carriers.

## **Employees**

At December 31, 2019, we employed 5,245 people, of which 897 were employed in our Financial Services operations. Our employees are not represented by any union. Contracted work, however, may be performed by union contractors. We consider our employee relations to be good.

## **ITEM 1A. RISK FACTORS**

Discussion of our business and operations included in this annual report on Form 10-K should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are, or may become, subject. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies, or prospects in a material and adverse manner.

***The homebuilding industry is cyclical and a deterioration in industry conditions or downward changes in general economic or other business conditions could adversely affect our business or our financial results.***

The residential homebuilding industry is sensitive to changes in economic conditions and other factors, such as the level of employment, consumer confidence, consumer income, availability of financing, and interest rate levels. Adverse changes in any of these conditions generally, or in the markets where we operate, could decrease demand and pricing for new homes in these areas or result in customer cancellations of pending contracts, which could adversely affect the number of home deliveries we make or reduce the prices we can charge for homes, either of which could result in a significant decrease in our revenues and earnings that could materially and adversely affect our financial condition.

Beginning in 2006 and continuing through 2011, the U.S. housing market was unfavorably impacted by severe weakness in new home sales attributable to, among other factors, weak consumer confidence, tightened mortgage standards, significant foreclosure activity, a more challenging appraisal environment, higher than normal unemployment levels, and significant uncertainty in the global economy. During this period, we incurred significant losses, including impairments of our land inventory and certain other assets. Since 2011, overall industry new home sales have increased, and we returned to profitability beginning in 2012. However, the recovery in housing demand has been slow by historical standards and the adjustments we have made to our operating strategy may not be successful if the current housing market were to deteriorate significantly.



***Future increases in interest rates, reductions in mortgage availability, or other increases in the effective costs of owning a home could prevent potential customers from buying our homes and adversely affect our business and financial results.***

A large majority of our customers finance their home purchases through mortgage loans, many through Pulte Mortgage. Mortgage interest rates in recent years have been at or near historic lows, thereby making new homes more affordable. Increases in interest rates or decreases in the availability of mortgage financing could adversely affect the market for new homes. Potential homebuyers may be less willing or able to pay the increased monthly costs resulting from higher interest rates or to obtain mortgage financing. Lenders may increase the qualifications needed for mortgages or adjust their terms to address any increased credit risk. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their current homes to potential buyers who need financing. These factors could adversely affect the sales or pricing of our homes and could also reduce the volume or margins in our financial services business. Our financial services business could also be impacted to the extent we are unable to match interest rates and amounts on loans we have committed to originate through the various hedging strategies we employ. 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 our business. For example, during 2018, we experienced lower than expected conversions of traffic to signups, especially among first-time and move-up buyers, beginning in May 2018 when mortgage rates increased.

The liquidity provided by Fannie Mae and Freddie Mac to the mortgage industry is also critical to the housing market. The impact of the federal government's conservatorship of Fannie Mae and Freddie Mac on the short-term and long-term demand for new housing remains unclear. Any limitations or restrictions on the availability of financing by these agencies could adversely affect interest rates, mortgage financing, and our sales of new homes and mortgage loans. Additionally, the availability of FHA and VA mortgage financing is an important factor in marketing some of our homes.

Mortgage interest expense and real estate taxes represent significant costs of homeownership, both of which were historically generally deductible for an individual's federal and, in some cases, state income taxes. In December 2017, a law commonly known as the Tax Cuts and Jobs Act (the "Tax Act") was enacted. While the Tax Act lowers the tax rates applicable to many businesses and individuals, it also, among other things, (i) limits the federal deduction for mortgage interest so that it only applies to the first \$750,000 of a new mortgage (as compared to \$1 million under previous tax law), (ii) introduced a \$10,000 cap on the federal deduction for state and local taxes, including real estate taxes, and (iii) eliminated the federal deduction for interest on certain home equity loans. The Tax Act also increased the standard deduction for individuals. As a result, fewer individuals are expected to itemize their income tax deductions, which would mitigate the income tax advantages associated with homeownership for those individuals. The combination of these changes could reduce home ownership affordability and demand, especially in regions with higher housing prices or higher state and local income taxes. Any further changes in income tax law which eliminates or reduces the income tax benefits associated with home ownership could have an adverse impact on our business.

***Our success depends on our ability to acquire land suitable for residential homebuilding at reasonable prices, in accordance with our land investment criteria.***

The homebuilding industry is highly competitive for suitable land. The availability of finished and partially finished developed lots and undeveloped land for purchase that meet our internal criteria depends on a number of factors outside our control, including land availability in general, competition with other homebuilders and land buyers for desirable property, inflation in land prices, zoning, allowable housing density, and other regulatory requirements. Should suitable lots or land become less available, the number of homes we may be able to build and sell could be reduced, and the cost of land could be increased, perhaps substantially, which could adversely impact our results of operations.

Our long-term ability to build homes depends on our acquiring land suitable for residential building at reasonable prices in locations where we want to build. We experience significant competition for suitable land as a result of land constraints in many of our markets. As competition for suitable land increases, and as available land is developed, the cost of acquiring suitable remaining land could rise, and the availability of suitable land at acceptable prices may decline. Any land shortages or any decrease in the supply of suitable land at reasonable prices could limit our ability to develop new communities or result in increased land costs. We may not be able to pass through to our customers any increased land costs, which could adversely impact our revenues, earnings, and margins.

***Supply shortages and other risks related to the demand for skilled labor and building materials could increase costs and delay deliveries.***

The homebuilding industry is highly competitive for skilled labor. Labor shortages in certain of our markets have become more acute in recent years as the supply chain adjusts to industry growth. Additionally, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in local and global commodity prices as well as government regulation, such as government-imposed tariffs or trade restrictions on supplies such as steel and lumber. During 2019, we experienced increases in the prices of some building materials and shortages of skilled labor in some areas. Increased costs or shortages of skilled labor and/or materials cause increases in construction costs and/or could cause construction delays. We may not be able to pass on increases in construction costs to customers and generally are unable to pass on any such increases to customers who have already entered into sales contracts as those sales contracts generally fix the price of the home at the time the contract is signed, which may be well in advance of the construction of the home. Sustained increases in construction costs may, over time, erode our margins, and pricing competition may restrict our ability to pass on any such additional costs, thereby decreasing our margins.

***If the market value of our land drops significantly, our profits could decrease and result in write-downs of the carrying values of land we own.***

The market value of land can fluctuate significantly as a result of changing market conditions, and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. If housing demand decreases below what we anticipated when we acquired our inventory, we may not be able to make profits similar to what we have made in the past, we may experience less than anticipated profits, and/or we may not be able to recover our costs when we sell and build homes. When market conditions are such that land values are not appreciating, land option arrangements previously entered into may become less desirable, at which time we may elect to forego deposits and pre-acquisition costs and terminate the agreement. In the face of adverse market conditions, we may have substantial inventory carrying costs, we may have to write down our inventory to its fair value, and/or we may have to sell land or homes at a loss. At times we have been required to record significant write-downs of the carrying value of our land inventory, and we have elected not to exercise options to purchase land, even though that required us to forfeit deposits and write-off pre-acquisition costs. For example, we incurred land-related charges totaling \$27.1 million, \$99.4 million, \$191.9 million in 2019, 2018, 2017, respectively. Although we have taken efforts to reduce our exposure to costs of that type, a certain amount of exposure is inherent in the homebuilding business. If market conditions were to deteriorate in the future, we could again be required to record significant write downs to our land inventory, which would decrease the asset values reflected on our balance sheet and materially and adversely affect our earnings and our stockholders' equity.

***We are subject to claims related to mortgage loans we sold in the secondary mortgage market that may be significant.***

Our mortgage operations may be responsible for losses arising out of claims associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. To date, the significant majority of these claims made by investors against our mortgage operations relate to loans originated prior to 2009, during which inherently riskier loan products became more common in the origination market. We may also be required to indemnify underwriters that purchased and securitized loans originated by a former subsidiary of Centex Corporation ("Centex"), which we acquired in 2009, for losses incurred by investors in those securitized loans based on similar breaches of representations and warranties. As of December 31, 2019, our mortgage subsidiaries were defendants in legal proceedings in which the plaintiffs are seeking indemnification for alleged breaches of representations and warranties made by the mortgage subsidiaries in the mortgage loan sale agreements and may also be subject to other similar claims for which legal proceedings had not been instituted as of December 31, 2019.

The resolution of claims related to alleged breaches of these representations and warranties and repurchase claims could have a material adverse effect on our financial condition, cash flows and results of operations. Given the unsettled litigation, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates. Accordingly, there can be no assurance that such reserves will not need to be increased in the future.

***Our inability to sell mortgages into the secondary market could significantly reduce our ability to sell homes unless we are willing to become a long-term investor in loans we originate.***

We sell substantially all of the residential mortgage loans we originate within a short period in the secondary mortgage market. If we were unable to sell loans into the secondary mortgage market or directly to Fannie Mae and Freddie Mac, we would have to either (a) curtail our origination of residential mortgage loans, which among other things, could significantly reduce our ability to sell homes, or (b) commit our own funds to long term investments in mortgage loans, which, in addition to requiring us to deploy substantial amounts of our own funds, could delay the time when we recognize revenues from home sales on our statements of operations.

***Adverse capital and credit market conditions may significantly affect our access to capital and cost of capital.***

The capital and credit markets can experience significant volatility. We may need credit-related liquidity for the future development of our business and other capital needs. Without sufficient liquidity, we may not be able to purchase additional land or develop land, which could adversely affect our financial results. At December 31, 2019, we had cash, cash equivalents, and restricted cash of \$1.3 billion as well as \$737.2 million available under our revolving credit facility, net of outstanding letters of credit. However, our internal sources of liquidity and revolving credit facility may prove to be insufficient, and, in such case, we may not be able to successfully obtain additional financing on terms acceptable to us, or at all.

Another source of liquidity includes our ability to use letters of credit and surety bonds relating to certain performance-related obligations and as security for certain land option agreements and insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. At December 31, 2019, we had outstanding letters of credit and surety bonds totaling \$262.8 million and \$1.4 billion, respectively. These letters of credit are generally issued via our unsecured revolving credit facility, which contains certain financial covenants and other limitations. If we are unable to obtain letters of credit or surety bonds when required, or the conditions imposed by issuers increase significantly, our liquidity could be adversely affected.

***Competition for homebuyers could reduce our deliveries or decrease our profitability.***

The U.S. housing industry is highly competitive. Homebuilders compete for homebuyers in each of our markets with numerous national, regional, and local homebuilders on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences. This competition with other homebuilders could reduce the number of homes we deliver or cause us to accept reduced margins to maintain sales volume.

We also compete with resales of existing or foreclosed homes, housing speculators, and available rental housing. Increased competitive conditions in the residential resale or rental market in the regions where we operate could decrease demand for new homes or unfavorably impact pricing for new homes.

***The loss of the services of members of our senior management or a significant number of our operating employees could negatively affect our business.***

Our success depends upon the skills, experience, and active participation of our senior management, many of whom have been with the Company for a significant number of years. If we were to lose members of our senior management, we might not be able to find appropriate replacements on a timely basis, and our operations could be negatively affected. Also, the loss of a significant number of operating employees in key roles or geographies where we are not able to hire qualified replacements could have a material adverse effect on our business.

***Our income tax provision and tax reserves may be insufficient if a taxing authority is successful in asserting positions that are contrary to our interpretations and related reserves, if any.***

Significant judgment is required in determining our provision for income taxes and our reserves for federal, state, and local taxes. In the ordinary course of business, there may be matters for which the ultimate outcome is uncertain. Our evaluation of our tax matters is based on a number of factors, including relevant facts and circumstances, applicable tax law, correspondence with tax authorities during the course of audits, and effective settlement of audit issues. Although we believe our approach to determining the tax treatment for such items is appropriate, no assurance can be given that the final tax authority review will not be materially different than that which is reflected in our income tax provision and related tax

reserves. Such differences could have a material adverse effect on our income tax provision in the period in which such determination is made and, consequently, on our financial position, cash flows, or net income.

We are periodically audited by various federal, state, and local authorities regarding tax matters. Our current audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal, and, in some cases, litigation process. As each audit is concluded, adjustments, if any, are recorded in our financial statements in the period determined. To provide for potential tax exposures, we consider a variety of factors, including relevant facts and circumstances, applicable tax law, correspondence with taxing authorities, and effective settlement of audit issues. If these reserves are insufficient upon completion of an audit, there could be an adverse impact on our financial position, cash flows, and results of operations.

***We may not realize our deferred tax assets.***

As of December 31, 2019, we had deferred tax assets, net of deferred tax liabilities, of \$254.1 million, against which we provided a valuation allowance of \$84.0 million. The ultimate realization of our deferred tax assets is dependent upon generating future taxable income. While we have recorded valuation allowances against certain of our deferred tax assets, the valuation allowances are subject to change as facts and circumstances change.

Our ability to utilize net operating losses (“NOLs”), built-in losses (“BILs”), and tax credit carryforwards to offset our future taxable income or income tax would be limited if we were to undergo an “ownership change” within the meaning of Section 382 of the Internal Revenue Code (the “IRC”). In general, an “ownership change” occurs whenever the percentage of the stock of a corporation owned by “5-percent shareholders” (within the meaning of Section 382 of the IRC) increases by more than 50 percentage points over the lowest percentage of the stock of such corporation owned by such “5-percent shareholders” at any time over the testing period.

An ownership change under Section 382 of the IRC would establish an annual limitation to the amount of NOLs, BILs, and tax credit carryforwards we could utilize to offset our taxable income or income tax in any single year. The application of these limitations might prevent full utilization of the deferred tax assets attributable to our NOLs, BILs, and tax credit carryforwards. To preserve our ability to utilize NOLs, BILs, and other tax benefits in the future without a Section 382 limitation, we adopted a shareholder rights plan, which is triggered upon certain transfers of our securities, and amended our by-laws to prohibit certain transfers of our securities. Our shareholder rights plan, as amended, expires June 1, 2022, unless our board of directors and shareholders approve an amendment to extend the term prior thereto. Notwithstanding the foregoing measures, there can be no assurance that we will not undergo an ownership change within the meaning of Section 382.

The value of our deferred tax assets is also dependent upon the tax rates expected to be in effect at the time taxable income is expected to be generated. A decrease in enacted corporate tax rates in our major jurisdictions, especially the U.S. federal corporate tax rate, would decrease the value of our deferred tax assets, which could be material.

***We have significant intangible assets. If these assets become impaired, then our profits and shareholders’ equity may be reduced.***

We have significant intangible assets related to business combinations. If the carrying value of intangible assets is deemed impaired, the carrying value is written down to fair value. This would result in a charge to our earnings. If management’s expectations of future results and cash flows decrease significantly, impairments of the remaining intangible assets may occur.

***Government regulations could increase the cost and limit the availability of our development and homebuilding projects or affect our related financial services operations and adversely affect our business or financial results.***

Our operations are subject to building, safety, environmental, and other regulations imposed and enforced by various federal, state, and local governing authorities. New housing developments may also be subject to various assessments for schools, parks, streets, and other public improvements. These assessments have increased over recent years as other funding mechanisms have decreased causing local governing authorities to seek greater contributions from homebuilders. All of these factors can cause an increase in the effective cost of our homes.

We also are subject to a variety of local, state, and federal laws and regulations concerning protection of health, safety, and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available.

These matters may result in delays, may cause us to incur substantial compliance, remediation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. More stringent requirements could be imposed in the future on homebuilders and developers, thereby increasing the cost of compliance.

Our financial services operations are also subject to numerous federal, state, and local laws and regulations. These include eligibility requirements for participation in federal loan programs and compliance with consumer lending and similar requirements such as disclosure requirements, prohibitions against discrimination, and real estate settlement procedures. They also subject our operations to examination by applicable agencies, pursuant to which those agencies may limit our ability to provide mortgage financing or title services to potential purchasers of our homes. For our homes to qualify for FHA or VA mortgages, we must satisfy valuation standards and site, material, and construction requirements of those agencies.

***Homebuilding is subject to warranty and other claims in the ordinary course of business that can be significant.***

As a homebuilder, we are subject to home warranty, construction defect, and other claims arising in the ordinary course of business. We rely on subcontractors to perform the actual construction of our homes and, in some cases, to select and obtain building materials. Despite our detailed specifications and quality control procedures, in some cases, subcontractors may use improper construction processes or defective materials. If defective materials are used, it can result in the need to perform extensive repairs to large numbers of homes. We record warranty and other reserves relating to the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built.

We have, and require our subcontractors to have, general liability, property, errors and omissions, workers compensation, and other business insurance. These insurance policies protect us against a portion of our risk of loss from claims, subject to certain self-insured per occurrence and aggregate retentions, deductibles, and available policy limits. In certain instances, we may offer our subcontractors the opportunity to purchase insurance through one of our captive insurance subsidiaries or participate in a project-specific insurance program provided by us. Policies issued by our captive insurance subsidiaries represent self-insurance of these risks by us. We reserve for costs to cover our self-insured and deductible amounts under these policies and for any costs of claims and lawsuits based on an analysis of our historical claims, which includes an estimate of claims incurred but not yet reported. Because of the uncertainties inherent in these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements, and our reserves will be adequate to address all our warranty and construction defect claims in the future. Contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions, and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of general liability insurance for construction defects are currently costly and limited. We have responded to increases in insurance costs and coverage limitations by increasing our self-insured retentions. There can be no assurance that coverage will not be further restricted or become more costly. Additionally, we are exposed to counterparty default risk related to our subcontractors, our insurance carriers, and our subcontractors' insurance carriers.

***Natural disasters, severe weather conditions and changing climate patterns could delay deliveries, increase costs, and decrease demand for new homes in affected areas.***

Our homebuilding operations are located in many areas that are subject to natural disasters and severe weather. The occurrence of natural disasters or severe weather conditions can delay new home deliveries, increase costs by damaging inventories, reduce the availability of materials, and negatively impact the demand for new homes in affected areas. Furthermore, if our insurance does not fully cover business interruptions or losses resulting from these events, our earnings, liquidity, or capital resources could be adversely affected. In 2019 and 2018, several hurricanes caused disruptions in our south eastern coastal markets but did not result in a material impact to our results of operations. In addition, while they also did not have a material impact on our business in 2019, the increased prevalence of forest fires in our western markets have caused disruptions to our sales operations and development delays. As local governmental authorities and utilities are required to spend increasing amounts of their resources responding to and remediating weather and climate related events, their ability to provide approvals and service to new housing communities may be impaired.

Government restrictions, standards, or regulations intended to reduce greenhouse gas emissions or potential climate change impacts are likely to result in restrictions on land development in certain areas and may increase energy, transportation, or raw material costs, which could reduce our housing gross profit margins and adversely affect our results of operations. For example, as the risk of flooding in coastal and other flood prone areas increases, local governments may increase the requirements on new home builders for zoning approvals and restrict areas where new homes may be built, resulting in increased development costs and greater competition for more desirable land parcels.

***Inflation may result in increased costs that we may not be able to recoup.***

Inflation can adversely affect us by increasing costs of land, materials, and labor. In addition, significant inflation is often accompanied by higher interest rates, which may have a negative impact on demand for our homes. In an inflationary environment, economic conditions and other market factors may make it difficult for us to raise home prices enough to keep up with the rate of inflation, which would reduce our profit margins. Although the rate of inflation has been historically low for the last several years, we currently are experiencing increases in the prices of labor and certain materials above the general inflation rate.

***Information technology failures or data security breaches could harm our business.***

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (through cyberattacks from computer hackers and sophisticated organizations), catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees or cyber-attacks or errors by third party vendors who have access to our confidential data, or that of our customers. While we are continuously working to improve our information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to enhance our levels of protection, to the extent possible, against cyber risks and security breaches, and monitor to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have an impact on our business, there is no assurance that advances in computer capabilities, new technologies, methods or other developments will detect or prevent security breaches and safeguard access to proprietary or confidential information. If our computer systems and our back-up systems are damaged, breached, or cease to function properly, or if there are intrusions or failures of critical infrastructure such as the power grid or communications systems, we could suffer extended interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information (including information about our employees, homebuyers and business partners). Any such disruption could damage our reputation, result in market value declines, lead to legal proceedings against us by affected third parties resulting in penalties or fines, and require us to incur significant costs to remediate or otherwise resolve these issues.

***We can be injured by improper acts of persons over whom we do not have control or by the attempt to impose liabilities or obligations of third parties on us.***

Although we expect all of our subcontractors, employees, officers, and directors to comply at all times with all applicable laws, rules, and regulations, there may be instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable laws, regulations, or governmental guidelines. When we learn of practices that do not comply with applicable laws or regulations, including practices relating to homes, buildings, or multifamily rental properties we build or finance, we move actively to stop the non-complying practices as soon as possible, and we have taken disciplinary action regarding subcontractors and employees of ours who were aware of non-complying practices and did not take steps to address them, including in some instances terminating their employment. However, regardless of the steps we take after we learn of practices that do not comply with applicable laws or regulations, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices' having taken place.

The homes we sell are built by employees of subcontractors and other contract parties. We do not have the ability to control what these contract parties pay their employees or subcontractors or the work rules they impose on their employees or subcontractors. However, various governmental agencies are trying to hold contract parties like us responsible for violations of wage and hour laws and other work-related laws by firms whose employees are performing contracted services. Governmental rulings or changes in state or local laws that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control.

***Negative publicity could negatively impact sales, which could cause our revenues or results of operations to decline.***

Our business strategy relies heavily on our reputation and brands, which are critical to our success. Unfavorable media or investor and analyst reports related to our industry, company, brand, marketing, personnel, operations, business performance, or prospects may affect our stock price and the performance of our business, regardless of its accuracy or inaccuracy. Furthermore, the speed at which negative publicity is disseminated has increased dramatically through the use of electronic communication, including social media outlets, websites and other digital platforms. Our success in maintaining and enhancing our brand depends on our ability to adapt to this rapidly changing media environment. Adverse publicity or negative

commentary from any media outlets could damage our reputation and reduce the demand for our homes, which would adversely affect our business.

In addition, we can be affected by poor relations with the residents of communities we develop because efforts made by us to resolve issues or disputes that may arise in connection with the operation or development of their communities, or in connection with the transition of a homeowners association, could be deemed unsatisfactory by the affected residents and subsequent actions by these residents could adversely affect sales or our reputation. In addition, we could decide or be required to make material expenditures related to the settlement of such issues or disputes, which could adversely affect our results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our homebuilding and corporate headquarters are located in leased office facilities at 3350 Peachtree Road NE, Suite 150, Atlanta, Georgia 30326. Pulte Mortgage leases its primary office facilities in Englewood, Colorado. We also maintain various support functions in leased facilities in Tempe, Arizona. Our homebuilding divisions and financial services branches lease office space in the geographic locations in which they conduct their daily operations.

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

**ITEM 3. LEGAL PROCEEDINGS**

We are involved in various legal and governmental proceedings incidental to our continuing business operations, many involving claims related to certain construction defects. The consequences of these matters are not presently determinable but, in our opinion, after consulting with legal counsel and taking into account insurance and reserves, the ultimate liability is not expected to have a material adverse impact on our results of operations, financial position, or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds our estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

**ITEM 4. MINE SAFETY DISCLOSURES**

This Item is not applicable.

#### ITEM 4A. INFORMATION ABOUT OUR EXECUTIVE OFFICERS

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

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Year Became An Executive Officer</b>
Ryan R. Marshall	45	President and Chief Executive Officer	2012
John Chadwick	58	Executive Vice President and Chief Operating Officer	2019
Robert T. O'Shaughnessy	54	Executive Vice President and Chief Financial Officer	2011
Todd N. Sheldon	52	Executive Vice President, General Counsel and Corporate Secretary	2017
Michelle Hairston	43	Senior Vice President, Human Resources	2018
James L. Ossowski	51	Senior Vice President, Finance	2013
Stephen P. Schlageter	49	Senior Vice President, Operations and Strategy	2018

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

Mr. Marshall was appointed Chief Executive Officer in September 2016. Previously, he held the positions of President since February 2016 and Executive Vice President, Homebuilding Operations since May 2014.

Mr. Chadwick was appointed Executive Vice President and Chief Operating Officer in April 2019 and previously held the position of Area President over various geographical markets since 2012.

Mr. O'Shaughnessy was appointed Executive Vice President and Chief Financial Officer in May 2011.

Mr. Sheldon was appointed Executive Vice President, General Counsel and Corporate Secretary in March 2017. Prior to joining our company, he served as Executive Vice President, General Counsel and Secretary at Americold Realty Trust from June 2013 to March 2017.

Ms. Hairston was appointed Senior Vice President, Human Resources in April 2018 and previously held the positions of Area Vice President of Human Resources, for the East and Midwest Areas since May 2015 and Vice President of Human Resources, Talent Acquisition between May 2015 and September 2016. She served as an Area Vice President, Human Resources over various geographical markets since 2009.

Mr. Ossowski was appointed Senior Vice President, Finance in February 2017 and previously held the position of Vice President, Finance and Controller since February 2013.

Mr. Schlageter was appointed Senior Vice President, Operations & Strategy in September 2017 and previously held the position of Area President over various geographical markets since 2012.

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



**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common shares are listed on the New York Stock Exchange (Symbol: PHM). At January 23, 2020, there were 2,175 shareholders of record.

**Issuer Purchases of Equity Securities**

	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (\$000's omitted)
October 1, 2019 to October 31, 2019	55,178	\$ 40.27	55,178	\$ 553,271 (2)
November 1, 2019 to November 30, 2019	414,862	38.70	414,862	\$ 537,215 (2)
December 1, 2019 to December 31, 2019	294,564	39.61	294,564	\$ 525,548 (2)
Total	764,604	\$ 39.16	764,604	

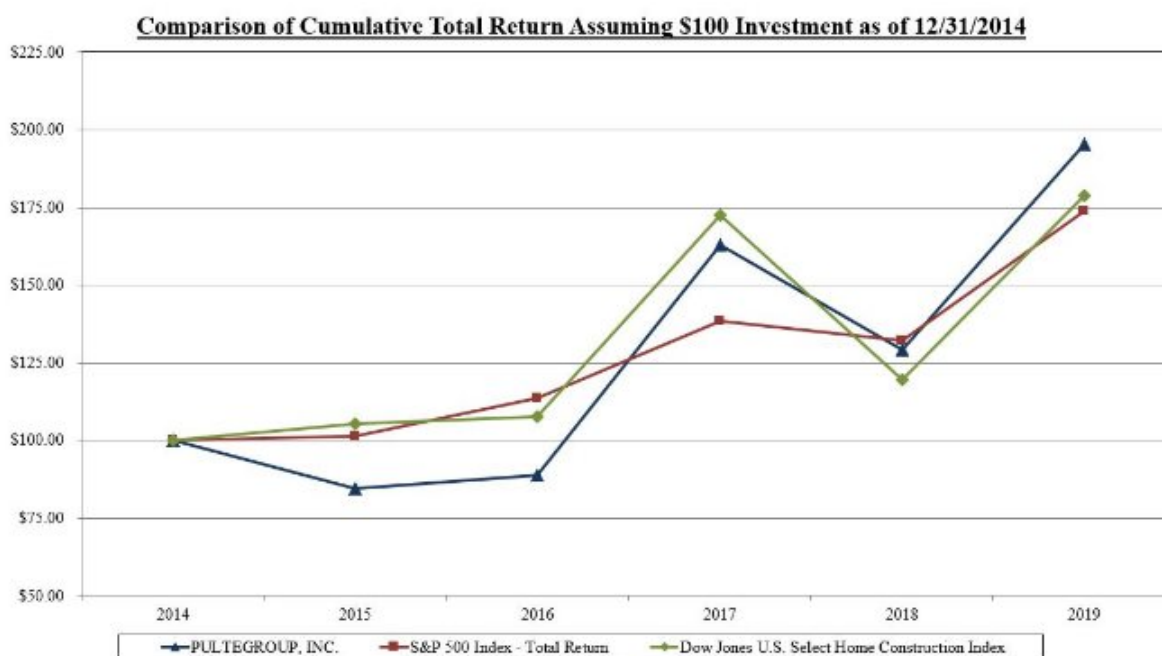
- (1) During 2019, participants surrendered 0.4 million shares for payment of minimum tax obligations upon the vesting or exercise of previously granted share-based compensation awards. Such shares were not repurchased as part of our publicly-announced share repurchase programs and are excluded from the table above.
- (2) The Board of Directors approved a share repurchase authorization totaling \$500.0 million in January 2018 and an increase of \$500.0 million to such authorization in May 2019. There is no expiration date for this program, under which \$525.5 million remained available as of December 31, 2019. During 2019, we repurchased 8.4 million shares for a total of \$274.3 million under this program.

The information required by this item with respect to equity compensation plans is set forth under [Item 12](#) of this annual report on Form 10-K and is incorporated herein by reference.

## Performance Graph

The following line graph compares, for the fiscal years ended December 31, 2015, 2016, 2017, 2018, and 2019, (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on PulteGroup's common shares, with (b) the cumulative total return of the Standard & Poor's 500 Stock Index and with (c) the Dow Jones U.S. Select Home Construction Index. The Dow Jones U.S. Select Home Construction Index is a widely-recognized index comprised primarily of large national homebuilders. We believe comparison of our shareholder return to this index represents a meaningful analysis for investors.

### COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN\* AMONG PULTEGROUP, INC., S&P 500 INDEX, AND PEER INDEX Fiscal Year Ended December 31, 2019



	2014	2015	2016	2017	2018	2019
PULTEGROUP, INC.	\$ 100.00	\$ 84.46	\$ 88.79	\$ 162.86	\$ 129.04	\$ 195.28
S&P 500 Index - Total Return	100.00	101.38	113.51	138.29	132.23	173.86
Dow Jones U.S. Select Home Construction Index	100.00	105.45	107.79	172.63	119.58	178.89

\* Assumes \$100 invested on December 31, 2014, and the reinvestment of dividends.

**ITEM 6. SELECTED FINANCIAL DATA**

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

	<b>Years Ended December 31,</b> <b>(000's omitted, except per share data)</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING DATA:</b>					
<b>Homebuilding:</b>					
Revenues	\$ 9,978,526	\$ 9,982,949	\$ 8,385,526	\$ 7,495,404	\$ 5,844,658
Income before income taxes	\$ 1,236,261	\$ 1,288,804	\$ 865,332	\$ 860,766	\$ 757,317
<b>Financial Services:</b>					
Revenues	\$ 234,431	\$ 205,382	\$ 192,160	\$ 181,126	\$ 140,445
Income before income taxes	\$ 103,315	\$ 58,736	\$ 73,496	\$ 73,084	\$ 58,706
<b>Consolidated results:</b>					
Revenues	\$ 10,212,957	\$ 10,188,331	\$ 8,577,686	\$ 7,676,530	\$ 5,985,103
Income before income taxes	\$ 1,339,576	\$ 1,347,540	\$ 938,828	\$ 933,850	\$ 816,023
Income tax expense	(322,876)	(325,517)	(491,607)	(331,147)	(321,933)
Net income	\$ 1,016,700	\$ 1,022,023	\$ 447,221	\$ 602,703	\$ 494,090
<b>PER SHARE DATA:</b>					
<b>Net income per share:</b>					
Basic	\$ 3.67	\$ 3.56	\$ 1.45	\$ 1.76	\$ 1.38
Diluted	\$ 3.66	\$ 3.55	\$ 1.44	\$ 1.75	\$ 1.36
<b>Number of shares used in calculation:</b>					
Basic	274,495	283,578	305,089	339,747	356,576
Effect of dilutive securities	802	1,287	1,725	2,376	3,217
Diluted	275,297	284,865	306,814	342,123	359,793
<b>Shareholders' equity</b>	<b>\$ 20.20</b>	<b>\$ 17.39</b>	<b>\$ 14.60</b>	<b>\$ 13.63</b>	<b>\$ 13.63</b>
<b>Cash dividends declared</b>	<b>\$ 0.45</b>	<b>\$ 0.38</b>	<b>\$ 0.36</b>	<b>\$ 0.36</b>	<b>\$ 0.33</b>

**December 31,  
(\$000's omitted)**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>BALANCE SHEET DATA:</b>					
House and land inventory	\$ 7,680,614	\$ 7,253,353	\$ 7,147,130	\$ 6,770,655	\$ 5,450,058
Total assets	10,715,597	10,172,976	9,686,649	10,178,200	9,189,406
Notes payable	2,765,040	3,028,066	3,006,967	3,129,298	2,109,841
Shareholders' equity	5,458,180	4,817,782	4,154,026	4,659,363	4,759,325

**Years Ended December 31,**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>OTHER DATA:</b>					
Markets, at year-end	42	44	47	49	50
Average active communities	863	832	779	705	618
Closings (units)	23,232	23,107	21,052	19,951	17,127
Net new orders (units)	24,977	22,833	22,626	20,326	18,008
Backlog (units), at year-end	10,507	8,722	8,996	7,422	6,731
Average selling price (per unit)	\$ 427,000	\$ 425,000	\$ 395,000	\$ 373,000	\$ 338,000

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Favorable demographic and economic conditions, combined with the recently improving affordability of housing, have supported the ongoing recovery in U.S. new home sales that began in 2012. In recent years, we have made significant investments to acquire and develop land inventory and open new communities. We have grown our investment in the business in a disciplined manner by emphasizing smaller projects and working to shorten our years of owned land supply, including increasing the use of land option agreements, which now account for 41% of our controlled lots as compared with 11% at the beginning of 2012. We have also focused our land investments on closer-in locations where we think demand is more sustainable when the market ultimately moderates. We have accepted the trade-off of having to pay more for certain land positions where we can be more confident in future performance. The combination of favorable demand conditions, our investments in new communities, strategic pricing, and construction efficiencies resulted in growth in our revenues each year during the period from 2012 to 2019.

We entered 2019 in the midst of an industry-wide softening in demand that began in mid-2018. To varying degrees, the slowdown occurred across all major buyer groups and substantially all of our geographies. This slowdown was correlated with an increase in mortgage interest rates, which contributed to ongoing affordability challenges confronting many prospective buyers. As a result, we entered 2019 with a smaller backlog than the year before. However, demand improved in mid-2019 as we experienced increased traffic to our communities and higher new order volume relative to the same period in 2018. The improvement continued through the remainder of 2019, especially among first-time buyers, in part due to improving affordability driven by increasing wages, slower price appreciation, and a decline in mortgage interest rates. Based on these favorable economic factors and our investments in new communities, we were able to generate a 9% increase in new orders and a 20% increase in ending backlog in 2019 compared with 2018. While the slow start to 2019 resulted in our full year closings and home sale revenues each increasing only 1% over 2018, we still delivered higher earnings per share in 2019 compared with 2018.

We believe that the actions we have taken over the past few years to shorten the duration of our land inventory, increase our use of land option agreements, and drive daily execution of our business while maintaining a conservative financial position allow us to operate effectively in most economic conditions. Additionally, our overall financial condition continues to support investing in the business while returning excess capital to shareholders, including completion of the following capital activities in 2019:

- Continued to invest in new communities, as reflected in the increase to 863 average active communities;
- Acquired the homebuilding operations of American West located in Las Vegas, Nevada, for \$163.7 million;
- Increased our quarterly dividend by 9% to \$0.12 per share;
- Repurchased \$274.3 million of common shares;
- Increased our share repurchase authorization by \$500.0 million; and
- Completed a tender offer to retire \$274.0 million of our unsecured senior notes maturing in 2021.

The following tables and related discussion set forth key operating and financial data for our Homebuilding and Financial Services operations as of and for the fiscal years ended December 31, 2019 and 2018. For similar operating and financial data and discussion of our fiscal 2018 results compared to our fiscal 2017 results, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II of our annual report on Form 10-K for the fiscal year ended December 31, 2018, which was filed with the SEC on January 31, 2019.

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

	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Income before income taxes:</b>		
Homebuilding	\$ 1,236,261	\$ 1,288,804
Financial Services	103,315	58,736
Income before income taxes	1,339,576	1,347,540
Income tax expense	(322,876)	(325,517)
Net income	\$ 1,016,700	\$ 1,022,023
<b>Per share data - assuming dilution:</b>		
Net income	\$ 3.66	\$ 3.55

- Homebuilding income before income taxes remained strong in 2019. Homebuilding income before income taxes also reflected the following significant income (expense) items (\$000's omitted):

		<b>2019</b>	<b>2018</b>
Land inventory impairments (see <a href="#">Note 2</a> )	Home sale cost of revenues	\$ (8,617)	\$ (70,965)
Warranty claim (see <a href="#">Note 11</a> )	Home sale cost of revenues	(14,800)	—
Net realizable value adjustments ("NRV") - land held for sale (see <a href="#">Note 2</a> )	Land sale cost of revenues	(5,368)	(11,489)
California land sale gains (see <a href="#">Note 3</a> )	Land sale revenues / cost of revenues	—	26,401
Insurance reserve adjustments (see <a href="#">Note 11</a> )	Selling, general, and administrative expenses	49,437	35,873
Write-offs of insurance receivables (see <a href="#">Note 11</a> )	Selling, general, and administrative expenses	(22,617)	—
Write-offs of deposits and pre-acquisition costs (see <a href="#">Note 2</a> )	Other expense, net	(13,116)	(16,992)
		<u>\$ (15,081)</u>	<u>\$ (37,172)</u>

For additional information on the above, see the applicable Notes to the Consolidated Financial Statements.

- The increase in Financial Services income in 2019 compared with 2018 was primarily the result of higher volumes, which largely resulted from an improved capture rate and margin per loan, as well as a \$16.1 million increase in loan origination liabilities in 2018 (see [Note 11](#)). Interest rates generally declined during 2019, which led to a less competitive mortgage environment contributing to improved capture rate and higher gains from sales of mortgages.
- Our effective tax rate was 24.1% and 24.2%, for 2019 and 2018, respectively (see [Note 8](#)).

## Homebuilding Operations

The following is a summary of income before income taxes for our Homebuilding operations (\$000's omitted):

	Years Ended December 31,		
	2019	FY 2019 vs. FY 2018	2018
Home sale revenues	\$ 9,915,705	1 %	\$ 9,818,445
Land sale and other revenues (a)	62,821	(62)%	164,504
Total Homebuilding revenues	9,978,526	— %	9,982,949
Home sale cost of revenues (b)	(7,628,700)	1 %	(7,540,937)
Land sale cost of revenues (a) (c)	(56,098)	(56)%	(126,560)
Selling, general, and administrative expenses ("SG&A") (d)	(1,044,337)	3 %	(1,012,023)
Other expense, net (e)	(13,130)	(10)%	(14,625)
Income before income taxes	\$ 1,236,261	(4)%	\$ 1,288,804
<b>Supplemental data:</b>			
Gross margin from home sales (b)	23.1%	(10) bps	23.2%
SG&A % of home sale revenues (d)	10.5%	20 bps	10.3%
Closings (units)	23,232	1 %	23,107
Average selling price	\$ 427	0 %	\$ 425
<b>Net new orders:</b>			
Units	24,977	9 %	22,833
Dollars	\$ 10,615,363	10 %	\$ 9,675,529
Cancellation rate	14%		14%
Average active communities	863	4 %	832
<b>Backlog at December 31:</b>			
Units	10,507	20 %	8,722
Dollars	\$ 4,535,805	18 %	\$ 3,836,147

- (a) Includes net gains of \$26.4 million related to two land sale transactions in California in 2018 (see [Note 3](#)).
- (b) Includes the amortization of capitalized interest; land inventory impairments of \$8.6 million and \$71.0 million in 2019 and 2018, respectively (see [Note 2](#)); and warranty charges of \$14.8 million related to a closed-out community in 2019 (see [Note 11](#)).
- (c) Includes net realizable value adjustments on land held for sale of \$5.4 million and \$11.5 million in 2019 and 2018, respectively (see [Note 2](#)).
- (d) Includes insurance reserve reversals of \$49.4 million and \$35.9 million in 2019 and 2018, respectively, and write-offs of insurance receivables of \$22.6 million in 2019 (see [Note 11](#)).
- (e) See "Other expense, net" for a table summarizing significant items (see [Note 1](#)).

### Home sale revenues

Home sale revenues for 2019 were higher than 2018 by \$97.3 million, or 1%. The increase was attributable to a 1% increase in closings. The increase in revenues is attributable to an improved demand environment in the majority of our markets starting in mid-2019 substantially offset by lower revenues in our Northern California Division, which reflects the completion, or near completion, of several high-performing communities combined with moderating demand in that market.

### Home sale gross margins

Home sale gross margins were 23.1% in 2019, compared with 23.2% in 2018. Our results in 2019 and 2018 include the effect of the aforementioned land inventory impairments totaling \$8.6 million and \$71.0 million, respectively. Excluding such impairments, gross margins remained strong in both 2019 and 2018 relative to historical levels and reflect a combination of factors, including shifts in community mix and the aforementioned warranty charge of \$14.8 million in 2019 related to a closed-out community in the Southeast. The pricing environment in many of our markets allowed us to effectively manage pressure in house and land costs, though sales discounts have increased moderately in response to the affordability issues faced by homebuyers and our increased use of speculative inventory. Amortized interest costs increased in dollar terms but remained consistent with the prior year as a percentage of revenue at 1.8%.

### Land sale and other revenues

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sale revenues and their related gains or losses vary between periods, depending on the timing of land sales and our strategic operating decisions. Land sales contributed net gains of \$6.7 million and \$37.9 million in 2019 and 2018, respectively. The gains in 2018 resulted primarily from two land sale transactions in California that contributed \$26.4 million.

### SG&A

SG&A as a percentage of home sale revenues was 10.5% and 10.3% in 2019 and 2018, respectively. The gross dollar amount of our SG&A increased \$32.3 million, or 3%, in 2019 compared with 2018. The increase is primarily attributable to higher headcount as order volumes increased in the second half of 2019, increased information technology spend, operating costs associated with the American West transaction, higher model home costs, and insurance receivable write-offs of \$22.6 million in 2019 in connection with policy settlement negotiations with certain of our carriers (see [Note 11](#)).

### Other expense, net

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

	2019	2018
Write-offs of deposits and pre-acquisition costs ( <a href="#">Note 2</a> )	\$ (13,116)	\$ (16,992)
Loss on debt retirement ( <a href="#">Note 5</a> )	(4,927)	(76)
Amortization of intangible assets ( <a href="#">Note 1</a> )	(14,200)	(13,800)
Interest income	16,739	7,593
Interest expense	(584)	(618)
Equity in earnings (loss) of unconsolidated entities ( <a href="#">Note 4</a> )	747	2,690
Miscellaneous, net	2,211	6,578
Total other expense, net	<u>\$ (13,130)</u>	<u>\$ (14,625)</u>



### Net new orders

Net new orders in units increased 9% in 2019 compared with 2018. The increase resulted from the higher number of active communities, which increased 4% to 863 in 2019, and a strengthening market in the back half of 2019. Net new orders in dollars increased by 10% compared with 2018. The increase is a result of improved demand which began in the second quarter of 2019 and continued through the remainder of the year, especially among first-time buyers, in part due to improving affordability driven by increasing wages, slower price appreciation, and a decline in mortgage interest rates. The cancellation rate (canceled orders for the period divided by gross new orders for the period) remained stable in 2019 at 14%. Ending backlog units, which represent orders for homes that have not yet closed, increased 20% as measured in units and 18% as measured in dollars at December 31, 2019 compared with December 31, 2018. The increase is primarily attributable to increased demand relating to the continued strength in the housing market.

### Homes in production

The following is a summary of our homes in production at December 31, 2019 and 2018:

	2019	2018
Sold	7,423	6,245
Unsold		
Under construction	2,672	2,531
Completed	685	715
	3,357	3,246
Models	1,342	1,216
Total	12,122	10,707

The number of homes in production at December 31, 2019 was 13% higher compared to December 31, 2018. The increase in homes under production resulted primarily from the higher backlog.

### Controlled lots

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

	December 31, 2019			December 31, 2018		
	Owned	Optioned	Controlled	Owned	Optioned	Controlled
Northeast	4,999	4,240	9,239	5,813	3,694	9,507
Southeast	16,174	12,802	28,976	15,800	11,806	27,606
Florida	20,281	17,802	38,083	18,652	15,855	34,507
Midwest	10,016	12,027	22,043	10,097	11,883	21,980
Texas	16,256	10,573	26,829	14,380	11,035	25,415
West	25,633	7,459	33,092	24,788	5,774	30,562
Total	93,359	64,903	158,262	89,530	60,047	149,577
Developed (%)	39%	22%	32%	39%	21%	32%

Of our controlled lots, 93,359 and 89,530 were owned and 64,903 and 60,047 were under land option agreements at December 31, 2019 and 2018, respectively. While competition for well-positioned land is robust, we continue to pursue strategic land investments that we believe can achieve appropriate risk-adjusted returns on invested capital. The remaining purchase price under our land option agreements totaled \$3.2 billion at December 31, 2019. These land option agreements generally may be canceled at our discretion and in certain cases extend over several years. Our maximum exposure related to these land option agreements is generally limited to our deposits and pre-acquisition costs, which totaled \$299.4 million, of which \$11.0 million is refundable, at December 31, 2019.

## Homebuilding Segment Operations

Our homebuilding operations represent our core business. Homebuilding offers a broad product line to meet the needs of homebuyers in our targeted markets. As of December 31, 2019, we conducted our operations in 42 markets located throughout 23 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	<i>Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia</i>
Southeast:	<i>Georgia, North Carolina, South Carolina, Tennessee</i>
Florida:	<i>Florida</i>
Midwest:	<i>Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio</i>
Texas:	<i>Texas</i>
West:	<i>Arizona, California, Nevada, New Mexico, Washington</i>

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

The following table presents selected financial information for our reportable Homebuilding segments:

<b>Operating Data by Segment (\$000's omitted)</b>			
<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>FY 2019 vs. FY 2018</b>	<b>2018</b>
<b>Home sale revenues:</b>			
Northeast	\$ 771,349	(3)%	\$ 795,211
Southeast	1,673,670	(4)%	1,740,239
Florida	2,068,422	8 %	1,911,537
Midwest	1,485,370	— %	1,492,572
Texas	1,384,533	7 %	1,296,183
West	2,532,361	(2)%	2,582,703
	<u>\$ 9,915,705</u>	<u>1 %</u>	<u>\$ 9,818,445</u>
<b>Income before income taxes (a):</b>			
Northeast	\$ 116,221	292 %	\$ 29,629
Southeast (b)	175,763	(13)%	202,639
Florida	309,596	7 %	289,418
Midwest	184,438	3 %	179,568
Texas	195,751	1 %	193,946
West (c)	386,361	(25)%	511,828
Other homebuilding (d)	(131,869)	(12)%	(118,224)
	<u>\$ 1,236,261</u>	<u>(4)%</u>	<u>\$ 1,288,804</u>
<b>Closings (units):</b>			
Northeast	1,443	(7)%	1,558
Southeast	3,982	(6)%	4,220
Florida	5,045	6 %	4,771
Midwest	3,583	(4)%	3,716
Texas	4,528	8 %	4,212
West	4,651	— %	4,630
	<u>23,232</u>	<u>1 %</u>	<u>\$ 23,107</u>
<b>Average selling price:</b>			
Northeast	\$ 535	5 %	\$ 510
Southeast	420	2 %	412
Florida	410	2 %	401
Midwest	415	3 %	402
Texas	306	(1)%	308
West	544	(3)%	558
	<u>\$ 427</u>	<u>0 %</u>	<u>\$ 425</u>

(a) Includes land-related charges as summarized in the following land-related charges table (see [Note 2](#)).

(b) Southeast includes a warranty charge of \$14.8 million in 2019 related to a closed-out community (see [Note 11](#)).

(c) Includes gains of \$26.4 million related to two land sale transactions in California in 2018.

(d) Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Also includes: write-off of \$22.6 million of insurance receivables associated with the resolution of certain insurance matters in 2019; insurance reserve reversals of \$49.4 million and \$35.9 million in 2019 and 2018, respectively (see [Note 11](#)).

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

<b>Operating Data by Segment (\$000's omitted)</b>			
<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>FY 2019 vs. FY 2018</b>	<b>2018</b>
<b>Net new orders - units:</b>			
Northeast	1,562	3%	1,516
Southeast	4,237	3%	4,114
Florida	5,462	10%	4,982
Midwest	3,721	2%	3,631
Texas	4,886	14%	4,278
West	5,109	18%	4,312
	<u>24,977</u>	<u>9%</u>	<u>22,833</u>
<b>Net new orders - dollars:</b>			
Northeast	\$ 861,234	8%	\$ 799,373
Southeast	1,758,110	2%	1,721,103
Florida	2,246,631	11%	2,029,999
Midwest	1,548,927	4%	1,492,453
Texas	1,489,188	12%	1,332,598
West	2,711,273	18%	2,300,003
	<u>\$ 10,615,363</u>	<u>10%</u>	<u>\$ 9,675,529</u>
<b>Cancellation rates:</b>			
Northeast	11%		10%
Southeast	11%		12%
Florida	12%		13%
Midwest	12%		12%
Texas	17%		19%
West	16%		17%
	<u>14%</u>		<u>14%</u>
<b>Unit backlog:</b>			
Northeast	589	25%	470
Southeast	1,865	16%	1,610
Florida	2,306	22%	1,889
Midwest	1,540	10%	1,402
Texas	1,850	24%	1,492
West	2,357	27%	1,859
	<u>10,507</u>	<u>20%</u>	<u>8,722</u>
<b>Backlog dollars:</b>			
Northeast	\$ 347,696	35%	\$ 257,812
Southeast	783,469	12%	699,030
Florida	978,261	22%	800,051
Midwest	651,977	11%	588,420
Texas	590,868	22%	486,212
West	1,183,534	18%	1,004,622
	<u>\$ 4,535,805</u>	<u>18%</u>	<u>\$ 3,836,147</u>

The following table presents additional selected financial information for our reportable Homebuilding segments:

	<b>Operating Data by Segment (\$000's omitted)</b>	
	<b>Years Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Land-related charges*:</b>		
Northeast	\$ 1,122	\$ 74,488
Southeast	15,697	8,140
Florida	2,811	1,166
Midwest	2,581	7,361
Texas	1,151	1,204
West	2,568	5,159
Other homebuilding	1,171	1,928
	<u>\$ 27,101</u>	<u>\$ 99,446</u>

\* Land-related charges include land impairments, net realizable value adjustments for land held for sale, and write-offs of deposits and pre-acquisition costs. Other homebuilding consists primarily of write-offs of capitalized interest resulting from land-related charges. See [Notes 2](#) and [3](#) to the Consolidated Financial Statements for additional discussion of these charges.

*Northeast:*

For 2019, Northeast home sale revenues decreased 3% compared with 2018 due to a 7% decrease in closings, partially offset by a 5% increase in average selling price, reflecting lower results in the Northeast Corridor. The increased income before income taxes resulted primarily from the \$74.5 million of land charges taken in 2018. Net new orders increased 3%, which is attributable primarily to New England and Mid-Atlantic.

*Southeast:*

For 2019, Southeast home sale revenues decreased 4% compared with 2018 due to a 6% decrease in closings partially offset by a 2% increase in average selling price. The decrease in closings and increase in average selling price occurred across substantially all of our markets. Income before income taxes decreased 13% primarily as a result of lower gross margin, which stemmed partly from charges of \$14.8 million related to estimated costs to complete repairs in a closed-out community. Net new orders increased 3%, which is attributable to a majority of our markets.

*Florida:*

For 2019, Florida home sale revenues increased 8% compared with 2018 due to a 6% increase in closings combined with a 2% increase in average selling price. The increase in closings and average selling price were attributable to the majority of our markets. The increased income before income taxes for 2019 resulted primarily from higher revenues and improved gross margin. Net new orders increased 10%, which is attributable to all of our markets.

*Midwest:*

For 2019, Midwest home sale revenues decreased slightly compared with the prior year period due to a 4% decrease in closings partially offset by a 3% increase in the average selling price. The decrease in closings occurred across the majority of our markets while the increase in average selling price occurred across the majority of our markets. Income before income taxes increased 3% primarily as a result of improved gross margins. Net new orders increased 2% across the majority of our markets.

*Texas:*

For 2019, Texas home sale revenues increased 7% compared with the prior year period due to an 8% increase in closings partially offset by a 1% decrease in the average selling price. The increase in closings occurred in all of our markets except Houston. Houston closings were impacted by the timing of new communities as overall demand remains strong. Income before income taxes increased slightly as a result of higher closings offset by lower margins compared to 2018. Net new orders increased 14%, which is attributable to all of our markets.

*West:*

For 2019, West home sale revenues decreased 2% compared with the prior year period due to a 3% decrease in the average selling price partially offset by a slight increase in closings. The decreased revenues were concentrated in Northern California, which resulted from the completion, or near completion, of several high performing communities combined with moderating demand in that market. Income before income taxes decreased 25% primarily as the result of lower volumes and profitability in Northern California in 2019 as well as two significant land sale gains totaling \$26.4 million in 2018. Net new orders increased by 18% in 2019 compared with 2018 with significant increases in Las Vegas, which benefited from the American West acquisition in April 2019, and Arizona.

**Financial Services Operations**

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

	Years Ended December 31,		
	2019	FY 2019 vs. FY 2018	2018
Mortgage revenues	\$ 169,917	14 %	\$ 149,642
Title services revenues	51,836	13 %	45,865
Insurance brokerage commissions	12,678	28 %	9,875
Total Financial Services revenues	234,431	14 %	205,382
Expenses	(130,770)	(11)%	(147,422)
Other income, net	(346)	(145)%	776
Income before income taxes	\$ 103,315	76 %	\$ 58,736
Total originations:			
Loans	15,821	9 %	14,464
Principal	\$ 4,976,973	12 %	\$ 4,456,360

	Years Ended December 31,	
	2019	2018
<b>Supplemental data:</b>		
Capture rate	82.4%	76.2%
Average FICO score	751	752
Loan application backlog	\$ 2,804,017	\$ 2,012,340
<b>Funded origination breakdown:</b>		
Government (FHA, VA, USDA)	20%	20%
Other agency	71%	68%
Total agency	90%	88%
Non-agency	10%	12%
Total funded originations	100%	100%

#### Revenues

Total Financial Services revenues during 2019 increased 14% compared with 2018. The increase occurred primarily as the result of higher volumes, which largely resulted from an improved capture rate and improved margin per loan. Interest rates generally declined during 2019, which led to a less competitive mortgage environment contributing to improved capture rate and higher gains from sales of mortgages.

#### Income before income taxes

The increase in income before income taxes for 2019 as compared with 2018 was due primarily to higher volume, higher revenue per loan, and improved expense leverage. Additionally, 2018 included a \$16.1 million increase in loan origination liabilities (see [Note 11](#)).

#### Income Taxes

Our effective tax rate was 24.1% and 24.2% for 2019 and 2018, respectively. Each year's rate differs from the federal statutory rate primarily due to state income tax expense.

#### Liquidity and Capital Resources

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

At December 31, 2019, we had unrestricted cash and equivalents of \$1.2 billion, restricted cash balances of \$33.5 million, and \$737.2 million available under our revolving credit facility. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments.

We retired outstanding debt totaling \$310.0 million and \$82.8 million during 2019 and 2018, respectively. Our ratio of debt-to-total capitalization, excluding our Financial Services debt, was 33.6%, which is within our targeted range of 30.0% to 40.0%, at December 31, 2019.

#### Unsecured senior notes

During 2019, we completed a tender offer to retire \$274.0 million of our unsecured senior notes maturing in 2021. At December 31, 2019, we had \$2.7 billion of unsecured senior notes outstanding with no repayments due until March 2021 when \$426.0 million of notes are scheduled to mature.

### *Other notes payable*

Certain of our local homebuilding operations are party to non-recourse and limited recourse collateralized notes payable with third parties that totaled \$53.4 million at December 31, 2019. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within notes payable.

### *Revolving credit facility*

In June 2018, we entered into the Second Amended and Restated Credit Agreement ("Revolving Credit Facility"), which matures in June 2023. The Revolving Credit Facility has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at December 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. We had no borrowings outstanding and \$262.8 million and \$239.4 million of letters of credit issued under the Revolving Credit Facility at December 31, 2019 and 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2019, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$737.2 million and \$760.6 million as of December 31, 2019 and 2018, respectively.

### *Pulte Mortgage*

Pulte Mortgage provides mortgage financing for the majority of our home closings by utilizing its own funds and funds made available pursuant to credit agreements with third parties. Pulte Mortgage uses these resources to finance its lending activities until the loans are sold in the secondary market, which generally occurs within 30 days.

Pulte Mortgage maintains a master repurchase agreement with third party lenders. In August 2019, Pulte Mortgage entered into an amended and restated repurchase agreement (the "Repurchase Agreement") to extend the termination date to July 2020. The maximum aggregate commitment was \$375.0 million during the seasonally high borrowing period from December 26, 2019 through January 13, 2020. At all other times, the maximum aggregate commitment ranges from \$220.0 million to \$270.0 million. The purpose of the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$326.6 million and \$348.4 million outstanding under the Repurchase Agreement at December 31, 2019, and 2018, respectively, and was in compliance with its covenants and requirements as of such dates.

### *Share repurchase program*

We repurchased 8.4 million, and 10.9 million shares in 2019 and 2018, respectively, for a total of \$274.3 million and \$294.6 million in 2019 and 2018, respectively, under this program. In 2018, our Board of Directors authorized a \$500.0 million share repurchase program and approved an increase of \$500.0 million in May 2019. At December 31, 2019, we had remaining authorization to repurchase \$525.5 million of common shares.

### *Dividends*

Our declared quarterly cash dividends totaled \$124.4 million and \$108.5 million in 2019 and 2018, respectively.



## *Cash flows*

### Operating activities

Our net cash provided by operating activities in 2019 was \$1.1 billion, compared with net cash provided by operating activities of \$1.4 billion in 2018. Generally, the primary drivers of our cash flow from operations are profitability and changes in inventory levels and residential mortgage loans available-for-sale. Our positive cash flow from operations for 2019 was primarily due to our net income of \$1.0 billion, which included non-cash land-related charges of \$27.1 million and \$105.4 million of deferred income tax expense. These factors were partially offset by a net increase in inventories of \$237.7 million and a \$48.3 million increase in residential mortgage loans available-for-sale.

Our positive cash flow from operations for 2018 was primarily due to our net income of \$1.0 billion, which included non-cash land-related charges of \$99.4 million and \$362.8 million of deferred income tax expense, supplemented by a \$107.3 million reduction in residential mortgage loans available-for-sale. These factors were partially offset by a net increase in inventories of \$50.4 million resulting from higher levels of spec inventory.

### Investing activities

Net cash used in investing activities totaled \$226.2 million in 2019, compared with \$41.9 million in 2018. The 2019 cash outflows primarily reflect our acquisition of American West in April 2019 for \$163.7 million as well as \$58.1 million related to our ongoing capital expenditures in new communities and information technology applications. The use of cash from investing activities in 2018 was primarily due to \$59.0 million of capital expenditures for new community openings combined with expenditures on information technology applications.

### Financing activities

Net cash used in financing activities was \$733.6 million in 2019 compared with \$580.3 million during 2018. The net cash used in financing activities for 2019 resulted primarily from the repurchase of 8.4 million common shares for \$274.3 million under our repurchase authorization, repayments of debt of \$310.0 million, and cash dividends of \$122.4 million.

Net cash used in financing activities for 2018 resulted primarily from the repurchase of 10.9 million common shares for \$294.6 million under our repurchase authorization, repayments of debt of \$82.8 million, cash dividends of \$104.0 million, and net repayments of \$89.4 million under the Repurchase Agreement related to the aforementioned decrease in residential mortgage loans available-for-sale.

## **Inflation**

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

## **Seasonality**

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

## Contractual Obligations and Commercial Commitments

The following table summarizes our payments under contractual obligations as of December 31, 2019:

	Payments Due by Period (\$000's omitted)				
	2020	2021-2022	2023-2024	After 2024	Total
Contractual obligations:					
Notes payable (a)	\$ 176,435	\$ 739,009	\$ 271,250	\$ 3,016,853	\$ 4,203,547
Operating lease obligations	18,995	39,128	28,983	22,476	109,582
Total contractual obligations (b)	\$ 195,430	\$ 778,137	\$ 300,233	\$ 3,039,329	\$ 4,313,129

- (a) Represents principal and interest payments related to our senior notes and limited recourse collateralized financing arrangements.  
(b) We do not have any payments due in connection with capital lease or long-term purchase obligations.

We are subject to certain obligations associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option, which may serve to reduce our financial risks associated with long-term land holdings. At December 31, 2019, we had \$299.4 million of deposits and pre-acquisition costs, of which \$11.0 million is refundable, relating to option agreements to acquire 64,903 lots with a remaining purchase price of \$3.2 billion. We expect to acquire the majority of such land within the next three years.

We are currently under examination by various taxing jurisdictions and anticipate 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 our major tax jurisdictions remains open for examination for tax years 2015 to 2019. At December 31, 2019, we had \$40.3 million of gross unrecognized tax benefits and \$6.5 million of related accrued interest and penalties.

The following table summarizes our other commercial commitments as of December 31, 2019:

	Amount of Commitment Expiration by Period (\$000's omitted)				
	2020	2021-2022	2023-2024	After 2024	Total
Other commercial commitments:					
Guarantor credit facilities (a)	\$ —	\$ —	\$ 1,000,000	\$ —	\$ 1,000,000
Non-guarantor credit facilities (b)	375,000	—	—	—	375,000
Total commercial commitments (c)	\$ 375,000	\$ —	\$ 1,000,000	\$ —	\$ 1,375,000

- (a) The \$1.0 billion in 2023-2024 represents the capacity of our unsecured revolving credit facility, under which no borrowings were outstanding, and \$262.8 million of letters of credit were issued at December 31, 2019.  
(b) Represents the capacity of the Repurchase Agreement, of which \$326.6 million was outstanding at December 31, 2019. The capacity of \$375.0 million was effective through January 13, 2020 after which it ranges from \$220.0 million to \$270.0 million until its expiration in July 2020.  
(c) The above table excludes an aggregate \$1.4 billion of surety bonds, which typically do not have stated expiration dates.

## Off-Balance Sheet Arrangements

We use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the development of our homebuilding projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related homebuilding projects. If the obligations related to a project are ongoing, annual extensions of the letters of credit are typically granted on a year-to-year basis. At December 31, 2019, we had outstanding letters of credit of \$262.8 million. Our surety bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. These bonds, which approximated \$1.4 billion at December 31, 2019,

are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At December 31, 2019, these agreements had an aggregate remaining purchase price of \$3.2 billion. Pursuant to these land option agreements, we provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

### **Critical Accounting Policies and Estimates**

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

#### *Revenue recognition*

**Home sale revenues** - Home sale revenues and related profit are generally recognized when title to and possession of the home are transferred to the buyer at the home closing date. Little to no estimation is involved in recognizing such revenues.

**Land sale revenues** - We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sales are generally outright sales of specified land parcels with cash consideration due on the closing date, which is generally when performance obligations are satisfied. Certain land sale contracts may contain unique terms that require management judgment in determining the appropriate revenue recognition, but the impact of such transactions is generally immaterial.

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

Revenues associated with our title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed. Insurance brokerage commissions relate to commissions on home and other insurance policies placed with third party carriers through various agency channels. Our performance obligations for policy renewal commissions are considered satisfied upon issuance of the initial policy, and related contract assets for estimated future renewal commissions are included in other assets and totaled \$35.1 million at December 31, 2019. Due to uncertainties in the estimation process and the long duration of renewal policies, which can extend years into the future, actual results could differ from such estimates.

#### *Inventory and cost of revenues*

Inventory is stated at cost unless the carrying value is determined to not be recoverable, in which case the affected inventory is written down to fair value. Cost includes land acquisition, land development, and home construction costs, including interest, real estate taxes, and certain direct and indirect overhead costs related to development and construction. For those communities for which construction and development activities have been idled, applicable interest and real estate taxes are expensed as incurred. Land acquisition and development costs are allocated to individual lots using an average lot cost determined based on the total expected land acquisition and development costs and the total expected home closings for the community. The specific identification method is used to accumulate home construction costs.

We capitalize interest cost into homebuilding inventories. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated over the period based on the timing of home closings.

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and closing costs applicable to the home. Sales commissions are classified within selling, general, and administrative expenses. The construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid, based on an analysis of budgeted construction costs. This accrual is reviewed for accuracy based on actual payments made after closing compared with the amount accrued, and adjustments are made if needed. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community's remaining lots.

We test inventory for impairment when events and circumstances indicate that the undiscounted cash flows estimated to be generated by the community may be less than its carrying amount. Such indicators include gross margins 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. Communities that demonstrate potential impairment indicators are tested for impairment by comparing the expected undiscounted cash flows for the community to its carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we determine the fair value of the community and impairment charges are recorded if the fair value of the community's inventory is less than its carrying value.

We generally determine the fair value of each community using a combination of discounted cash flow models and market comparable transactions, where available. These estimated cash flows are significantly impacted by estimates related to expected average selling prices, expected sales paces, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the discounted cash flow models are specific to each community. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, the long life cycles of many communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from such estimates.

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

In accordance with ASC 825, "Financial Instruments" ("ASC 825"), we use the fair value option for our residential mortgage loans available-for-sale. Election of the fair value option for residential mortgage loans available-for-sale allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. Changes in the fair value of these loans are reflected in revenues as they occur.

#### *Loan origination liabilities*

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If a loan is determined to be faulty, we either indemnify the investor for potential future losses, repurchase the loan from the investor, or reimburse the investor's actual losses. Estimating the required liability for these potential losses requires a significant level of management judgment. Given the unsettled litigation, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

#### *Allowance for warranties*

Home purchasers are provided with a limited warranty against certain building defects, including a one-year comprehensive limited warranty and coverage for certain other aspects of the home's construction and operating systems for periods of up to (and in limited instances exceeding) 10 years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time revenue is recognized. Factors that affect our warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and the projected cost of claims. We periodically

assess the adequacy of our recorded warranty liability for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from our estimates.

#### *Income taxes*

We evaluate our deferred tax assets each period to determine if a valuation allowance is required based on whether it is "more likely than not" that some portion of the deferred tax assets would not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of sufficient taxable income during future periods. We conduct our evaluation by considering all available positive and negative evidence. This evaluation considers, among other factors, historical operating results, forecasts of future profitability, the duration of statutory carryforward periods, and the outlooks for the U.S. housing industry and broader economy. The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We follow the provisions of ASC 740, "Income Taxes" ("ASC 740"), which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Significant judgment is required to evaluate uncertain tax positions. Our evaluations of tax positions consider a variety of factors, including relevant facts and circumstances, applicable tax law, correspondence with taxing authorities, and effective settlements of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense (benefit) in the period in which the change is made. Interest and penalties related to income taxes and unrecognized tax benefits are recognized as a component of income tax expense (benefit).

#### *Self-insured risks*

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

Our recorded reserves for all such claims totaled \$709.8 million and \$737.0 million at December 31, 2019 and 2018, respectively, the vast majority of which relate to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 68% and 65% of the total general liability reserves at December 31, 2019 and 2018, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on our historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses. Because of the inherent uncertainty in estimating future losses related to these claims, actual costs could differ significantly from estimated costs. Based on the actuarial analyses performed, we believe the range of reasonably possible losses related to these claims is \$600 million to \$800 million. While this range represents our best estimate of our ultimate liability related to these claims, due to a variety of factors, including those factors described above, there can be no assurance that the ultimate costs realized by us will fall within this range.

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

Adjustments to reserves are recorded in the period in which the change in estimate occurs. During 2019 and 2018, we reduced general liability reserves by \$49.4 million and \$35.9 million, respectively, as a result of changes in estimates resulting

from actual claim experience observed being less than anticipated in previous actuarial projections. The changes in actuarial estimates were driven by changes in actual claims experience that, in turn, impacted actuarial estimates for potential future claims. These changes in actuarial estimates did not involve any changes in actuarial methodology but did impact the development of estimates for future periods, which resulted in adjustments to the IBNR portion of our recorded liabilities.

In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. Our receivables from insurance carriers totaled \$118.4 million and \$153.0 million at December 31, 2019 and 2018, respectively. The insurance receivables relate to costs incurred or to be incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of both known and anticipated future construction defect claims that we believe to be insured related to previously closed homes. We believe collection of these insurance receivables is probable based on various factors, including the legal merits of our positions after review by legal counsel, favorable legal rulings received to date, the credit quality of our carriers, and our long history of collecting significant amounts of insurance reimbursements under similar insurance policies related to similar claims, including significant amounts funded by the above carriers under different policies.

While the outcome of these matters cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows.

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

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

The following tables set forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of December 31, 2019 and 2018 (\$000's omitted).

<b>As of December 31, 2019 for the Years ending December 31,</b>								
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Thereafter</b>	<b>Total</b>	<b>Fair Value</b>
<b>Rate-sensitive liabilities:</b>								
Fixed rate debt	\$ 21,327	\$ 447,712	\$ 10,295	\$ —	\$ —	\$ 2,300,000	\$ 2,779,334	\$ 3,152,046
Average interest rate	2.09%	4.17%	0.39%	—%	—%	5.90%	5.57%	
Variable rate debt <i>(a)</i>	\$ 326,573	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 326,573	\$ 326,573
Average interest rate	3.59%	—%	—%	—%	—%	—%	3.59%	
<b>As of December 31, 2018 for the Years ending December 31,</b>								
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>	<b>Total</b>	<b>Fair Value</b>
<b>Rate-sensitive liabilities:</b>								
Fixed rate debt	\$ 24,088	\$ 9,968	\$ 706,720	\$ —	\$ —	\$ 2,300,000	\$ 3,040,776	\$ 2,898,606
Average interest rate	5.31%	3.81%	4.28%	—%	—%	5.90%	5.51%	
Variable rate debt <i>(a)</i>	\$ 348,949	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 348,949	\$ 348,948
Average interest rate	4.41%	—%	—%	—%	—%	—%	4.41%	

*(a) Includes the Pulte Mortgage Repurchase Agreement. There were no borrowings outstanding under our Revolving Credit Facility at either December 31, 2019 or 2018.*

Pulte Mortgage is exposed to market risks from commitments to lend, movements in interest rates, and canceled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a derivative financial instrument (interest rate is locked to the borrower). The interest rate risk continues through the loan closing and until the loan is sold to an investor. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 60 days. In periods of rising interest rates, the length of exposure will generally increase due to customers locking in an interest rate sooner as opposed to letting the interest rate float. In periods of low or decreasing interest rates, the length of exposure will also generally increase as customers desire to lock before the possibility of rising rates.

In order to reduce these risks, we use other derivative financial instruments, principally cash forward placement contracts on mortgage-backed securities and whole loan investor commitments, to economically hedge the interest rate lock commitment. We generally enter into one of the aforementioned derivative financial instruments upon accepting interest rate lock commitments. Changes in the fair value of interest rate lock commitments and the other derivative financial instruments are recognized in Financial Services revenues. We do not use any derivative financial instruments for trading purposes.

At December 31, 2019 and 2018, residential mortgage loans available-for-sale had an aggregate fair value of \$509.0 million and \$461.4 million, respectively. At December 31, 2019 and 2018, we had aggregate interest rate lock commitments of \$255.3 million and \$285.0 million, respectively, which were originated at interest rates prevailing at the date of commitment. Unexpired forward contracts totaled \$518.2 million and \$511.0 million at December 31, 2019 and 2018, respectively, and whole loan investor commitments totaled \$200.7 million and \$187.8 million, respectively, at such dates. Hypothetical changes in the fair values of our financial instruments arising from immediate parallel shifts in long-term mortgage rates would not be material to our financial results due to the offsetting nature in the movements in fair value of our financial instruments.

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

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "plan," "project," "may," "can," "could," "might," "should," "will" and similar expressions identify forward-looking statements, including statements related to any impairment charge and the impacts or effects thereof, expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; competition within the industries in which we operate; the availability and cost of land and other raw materials used by us in our homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions and the levels of our land spend; the availability and cost of insurance covering risks associated with our businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws which could have a greater impact on our effective tax rate or the value of our deferred tax assets than we anticipate; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See [Item 1A – Risk Factors](#) for a further discussion of these and other risks and uncertainties applicable to our businesses. 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**PULTEGROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2019 and 2018**  
**(\$000's omitted, except per share data)**

	2019	2018
<b>ASSETS</b>		
Cash and equivalents	\$ 1,217,913	\$ 1,110,088
Restricted cash	33,543	23,612
Total cash, cash equivalents, and restricted cash	1,251,456	1,133,700
House and land inventory	7,680,614	7,253,353
Land held for sale	24,009	36,849
Residential mortgage loans available-for-sale	508,967	461,354
Investments in unconsolidated entities	59,766	54,590
Other assets	895,686	830,359
Intangible assets	124,992	127,192
Deferred tax assets, net	170,107	275,579
	<u>\$ 10,715,597</u>	<u>\$ 10,172,976</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Accounts payable, including book overdrafts of \$51,827 and \$54,381 at December 31, 2019 and 2018, respectively	\$ 435,916	\$ 352,029
Customer deposits	294,427	254,624
Accrued and other liabilities	1,399,368	1,360,483
Income tax liabilities	36,093	11,580
Financial Services debt	326,573	348,412
Notes payable	2,765,040	3,028,066
Total liabilities	<u>5,257,417</u>	<u>5,355,194</u>
Shareholders' equity:		
Preferred shares, \$0.01 par value; 25,000,000 shares authorized, none issued	\$ —	\$ —
Common shares, \$0.01 par value; 500,000,000 shares authorized, 270,235,297 and 277,109,507 shares issued and outstanding at December 31, 2019 and 2018, respectively	2,702	2,771
Additional paid-in capital	3,235,149	3,201,427
Accumulated other comprehensive loss	(245)	(345)
Retained earnings	2,220,574	1,613,929
Total shareholders' equity	<u>5,458,180</u>	<u>4,817,782</u>
	<u>\$ 10,715,597</u>	<u>\$ 10,172,976</u>

See Notes to Consolidated Financial Statements.



**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the years ended December 31, 2019, 2018, and 2017  
(000's omitted, except per share data)

	2019	2018	2017
<b>Revenues:</b>			
Homebuilding			
Home sale revenues	\$ 9,915,705	\$ 9,818,445	\$ 8,323,984
Land sale and other revenues	62,821	164,504	61,542
	9,978,526	9,982,949	8,385,526
Financial Services	234,431	205,382	192,160
Total revenues	10,212,957	10,188,331	8,577,686
<b>Homebuilding Cost of Revenues:</b>			
Home sale cost of revenues	(7,628,700)	(7,540,937)	(6,461,152)
Land sale cost of revenues	(56,098)	(126,560)	(134,449)
	(7,684,798)	(7,667,497)	(6,595,601)
<b>Financial Services expenses</b>	(130,770)	(147,422)	(119,289)
<b>Selling, general, and administrative expenses</b>	(1,044,337)	(1,012,023)	(891,581)
<b>Other expense, net</b>	(13,476)	(13,849)	(32,387)
<b>Income before income taxes</b>	1,339,576	1,347,540	938,828
<b>Income tax expense</b>	(322,876)	(325,517)	(491,607)
<b>Net income</b>	\$ 1,016,700	\$ 1,022,023	\$ 447,221
<b>Net income per share:</b>			
Basic	\$ 3.67	\$ 3.56	\$ 1.45
Diluted	\$ 3.66	\$ 3.55	\$ 1.44
Cash dividends declared	\$ 0.45	\$ 0.38	\$ 0.36
<b>Number of shares used in calculation:</b>			
Basic	274,495	283,578	305,089
Effect of dilutive securities	802	1,287	1,725
Diluted	275,297	284,865	306,814

See Notes to Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the years ended December 31, 2019, 2018, and 2017  
(\$000's omitted)

	2019	2018	2017
Net income	\$ 1,016,700	\$ 1,022,023	\$ 447,221
Other comprehensive income, net of tax:			
Change in value of derivatives	100	100	81
Other comprehensive income	100	100	81
Comprehensive income	<u>\$ 1,016,800</u>	<u>\$ 1,022,123</u>	<u>\$ 447,302</u>

See Notes to Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
For the years ended December 31, 2019, 2018, and 2017  
(000's omitted)

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	\$				
<b>Shareholders' Equity, December 31, 2016</b>	319,090	\$ 3,191	\$ 3,116,490	\$ (526)	\$ 1,540,208	\$ 4,659,363
Cumulative effect of accounting change (see <a href="#">Note 1</a> )	—	—	(406)	—	18,644	18,238
Stock option exercises	2,352	24	27,696	—	—	27,720
Share issuances	1,008	13	3,555	—	—	3,568
Dividends declared	—	—	—	—	(110,046)	(110,046)
Share repurchases	(35,698)	(360)	—	—	(909,971)	(910,331)
Cash paid for shares withheld for taxes	—	—	—	—	(5,995)	(5,995)
Share-based compensation	—	—	24,207	—	—	24,207
Net income	—	—	—	—	447,221	447,221
Other comprehensive income	—	—	—	81	—	81
<b>Shareholders' Equity, December 31, 2017</b>	<u>286,752</u>	<u>\$ 2,868</u>	<u>\$ 3,171,542</u>	<u>\$ (445)</u>	<u>\$ 980,061</u>	<u>\$ 4,154,026</u>
Cumulative effect of accounting change (see <a href="#">Note 1</a> )	—	—	—	—	22,411	22,411
Stock option exercises	605	6	6,549	—	—	6,555
Share issuances	1,210	12	3,475	—	—	3,487
Dividends declared	—	—	—	—	(108,489)	(108,489)
Share repurchases	(11,457)	(115)	—	—	(294,451)	(294,566)
Cash paid for shares withheld for taxes	—	—	(284)	—	(7,626)	(7,910)
Share-based compensation	—	—	20,145	—	—	20,145
Net income	—	—	—	—	1,022,023	1,022,023
Other comprehensive income	—	—	—	100	—	100
<b>Shareholders' Equity, December 31, 2018</b>	<u>277,110</u>	<u>\$ 2,771</u>	<u>\$ 3,201,427</u>	<u>\$ (345)</u>	<u>\$ 1,613,929</u>	<u>\$ 4,817,782</u>
Stock option exercises	547	5	6,394	—	—	6,399
Share issuances	1,013	10	5,790	—	—	5,800
Dividends declared	—	—	—	—	(124,356)	(124,356)
Share repurchases	(8,435)	(84)	—	—	(274,249)	(274,333)
Cash paid for shares withheld for taxes	—	—	—	—	(11,450)	(11,450)
Share-based compensation	—	—	21,538	—	—	21,538
Net income	—	—	—	—	1,016,700	1,016,700
Other comprehensive income	—	—	—	100	—	100
<b>Shareholders' Equity, December 31, 2019</b>	<u>270,235</u>	<u>\$ 2,702</u>	<u>\$ 3,235,149</u>	<u>\$ (245)</u>	<u>\$ 2,220,574</u>	<u>\$ 5,458,180</u>

See Notes to Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the years ended December 31, 2019, 2018, and 2017  
(\$000's omitted)

	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net income	\$ 1,016,700	\$ 1,022,023	\$ 447,221
Adjustments to reconcile net income to net cash from operating activities:			
Deferred income tax expense	105,438	362,777	422,307
Land-related charges	27,101	99,446	191,913
Depreciation and amortization	53,999	49,429	50,998
Share-based compensation expense	28,368	28,290	33,683
Loss on debt retirements	4,927	76	—
Other, net	1,155	(3,688)	(1,789)
Increase (decrease) in cash due to:			
Inventories	(237,741)	(50,362)	(569,030)
Residential mortgage loans available-for-sale	(48,261)	107,330	(33,009)
Other assets	(15,125)	(64,174)	55,099
Accounts payable, accrued and other liabilities	140,984	(101,400)	65,687
Net cash provided by (used in) operating activities	<u>1,077,545</u>	<u>1,449,747</u>	<u>663,080</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(58,119)	(59,039)	(32,051)
Investments in unconsolidated entities	(9,515)	(1,000)	(23,037)
Business acquisition	(163,724)	—	—
Other investing activities, net	5,129	18,097	4,846
Net cash provided by (used in) investing activities	<u>(226,229)</u>	<u>(41,942)</u>	<u>(50,242)</u>
<b>Cash flows from financing activities:</b>			
Debt issuance costs	—	(8,164)	—
Repayments of notes payable	(309,985)	(82,775)	(134,747)
Borrowings under revolving credit facility	—	1,566,000	2,720,000
Repayments under revolving credit facility	—	(1,566,000)	(2,720,000)
Financial Services borrowings (repayments), net	(21,841)	(89,393)	106,183
Stock option exercises	6,399	6,555	27,720
Share repurchases	(274,333)	(294,566)	(910,331)
Cash paid for shares withheld for taxes	(11,450)	(7,910)	(5,995)
Dividends paid	(122,350)	(104,020)	(112,748)
Net cash provided by (used in) financing activities	<u>(733,560)</u>	<u>(580,273)</u>	<u>(1,029,918)</u>
Net increase (decrease)	117,756	827,532	(417,080)
Cash, cash equivalents, and restricted cash at beginning of period	1,133,700	306,168	723,248
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,251,456</u>	<u>\$ 1,133,700</u>	<u>\$ 306,168</u>
<b>Supplemental Cash Flow Information:</b>			
Interest paid (capitalized), net	\$ 5,605	\$ 557	\$ (942)
Income taxes paid, net	<u>\$ 137,119</u>	<u>\$ 89,204</u>	<u>\$ 14,875</u>

See Notes to Consolidated Financial Statements.

**PULTEGROUP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of significant accounting policies**

*Basis of presentation*

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

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include the accounts of PulteGroup, Inc. and all of its direct and indirect subsidiaries and variable interest entities in which PulteGroup, Inc. is deemed to be the primary beneficiary. All significant intercompany accounts, transactions, and balances have been eliminated in consolidation.

*Business acquisitions*

In April 2019, we acquired certain assets of American West, located in Las Vegas, Nevada, for \$163.7 million. The assets acquired included approximately 1,200 finished lots and control of approximately 2,300 additional lots through land option agreements. The acquired assets were recorded at their estimated fair values, including \$12.0 million associated with the American West tradename, which is being amortized over a 20-year life. The acquisition of these assets was not material to our results of operations or financial condition.

In January 2020, we acquired substantially all of the operations of Innovative Construction Group, an offsite construction framing company located in Jacksonville, Florida. This acquisition is not expected to have a material impact on our results of operations or financial condition.

*Use of estimates*

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

*Reclassifications*

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

*Subsequent events*

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

*Cash and equivalents*

Cash and equivalents include institutional money market investments and time deposits with a maturity of three months or less when acquired. Cash and equivalents at December 31, 2019 and 2018 also included \$6.2 million and \$40.9 million, respectively, of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit.

*Restricted cash*

We maintain certain cash balances that are restricted as to their use, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer. Total cash, cash equivalents, and restricted cash includes restricted cash balances of \$33.5 million and \$23.6 million at December 31, 2019 and 2018, respectively.

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

*Investments in unconsolidated entities*

We have investments in a number of unconsolidated entities, including joint ventures, with independent third parties. The equity method of accounting is used for unconsolidated entities over which we have significant influence; generally this represents ownership interests of at least 20% and not more than 50%. Under the equity method of accounting, we recognize our proportionate share of the earnings and losses of these entities. Certain of these entities sell land to us. We defer the recognition of profits from such activities until the time we ultimately sell the related land.

We evaluate our investments in unconsolidated entities for recoverability in accordance with Accounting Standards Codification (“ASC”) 323, “Investments – Equity Method and Joint Ventures” (“ASC 323”). If we determine that a loss in the value of the investment is other than temporary, we write down the investment to its estimated fair value. Any such losses are recorded to equity in (earnings) loss of unconsolidated entities, which is reflected in other expense, net. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates. See [Note 4](#).

*Intangible assets*

Goodwill, which represents the cost of acquired businesses in excess of the fair value of the net assets of such businesses at the acquisition date, totaled \$40.4 million at December 31, 2019 and 2018. We assess goodwill for impairment annually in the fourth quarter and if events or changes in circumstances indicate the carrying amount may not be recoverable.

Intangible assets also include tradenames acquired in connection with acquisitions and totaled \$84.6 million, net of accumulated amortization of \$204.4 million, at December 31, 2019, and \$86.8 million, net of accumulated amortization of \$190.2 million, at December 31, 2018. Such tradenames are generally being amortized over 20-year lives. Amortization expense totaled \$14.2 million in 2019 and \$13.8 million in 2018 and 2017, respectively, and is expected to be \$14.4 million in 2020, \$11.0 million in 2021 and \$6.3 million each year from 2022 - 2024. The ultimate realization of these assets is dependent upon the future cash flows and benefits that we expect to generate from their use. We assess tradenames for impairment if events or changes in circumstances indicate the carrying amount may not be recoverable.

*Property and equipment*

Property and equipment are recorded at cost. Maintenance and repair costs are expensed as incurred. Depreciation is computed by the straight-line method based upon estimated useful lives as follows: office furniture and equipment - 3 to 10 years; leasehold improvements - life of the lease; software and hardware - 3 to 5 years; model park improvements and furnishings - 1 to 5 years. Property and equipment are included in other assets and totaled \$111.7 million net of accumulated depreciation of \$218.9 million at December 31, 2019 and \$92.9 million net of accumulated depreciation of \$209.3 million at December 31, 2018. Depreciation expense totaled \$39.8 million, \$35.6 million, and \$37.2 million in 2019, 2018, and 2017, respectively.

*Advertising costs*

Advertising costs are expensed to selling, general, and administrative expense as incurred and totaled \$53.9 million, \$51.0 million, and \$45.0 million, in 2019, 2018, and 2017, respectively.

*Employee benefits*

We maintain a defined contribution retirement plan that covers substantially all of our employees. Company contributions to the plan totaled \$19.1 million, \$17.9 million, and \$15.7 million in 2019, 2018, and 2017, respectively.

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

*Other expense, net*

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

	2019	2018	2017
Write-offs of deposits and pre-acquisition costs <a href="#">(Note 2)</a>	\$ (13,116)	\$ (16,992)	\$ (11,367)
Amortization of intangible assets <a href="#">(Note 1)</a>	(14,200)	(13,800)	(13,800)
Loss on debt retirement <a href="#">(Note 5)</a>	(4,927)	(76)	—
Interest income	16,739	7,593	2,537
Interest expense	(584)	(618)	(503)
Equity in earnings (loss) of unconsolidated entities <a href="#">(Note 4)</a> (a)	747	2,690	(1,985)
Miscellaneous, net	1,865	7,354	(7,269)
Total other expense, net	<u>\$ (13,476)</u>	<u>\$ (13,849)</u>	<u>\$ (32,387)</u>

(a) Includes an \$8.0 million impairment of an investment in an unconsolidated entity in 2017 (see [Note 2](#)).

*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 unvested shares, (the "Denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, unvested restricted share units, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price of our common shares are considered anti-dilutive and excluded from the diluted earnings per share calculation. Anti-dilutive shares were immaterial in 2019, 2018 and 2017.

In accordance with ASC 260 "Earnings Per Share" ("ASC 260"), the two-class method determines earnings per share for each class of common share and participating securities according to an earnings allocation formula that adjusts the Numerator for dividends or dividend equivalents and participation rights in undistributed earnings. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are participating securities and, therefore, are included in computing earnings per share pursuant to the two-class method. Our outstanding restricted share units and deferred shares are considered participating securities. The following table presents a reconciliation of the numerator used in our earnings per common share calculation (\$000's omitted):

	December 31, 2019	December 31, 2018	December 31, 2017
Numerator:			
Net income	\$ 1,016,700	\$ 1,022,023	\$ 447,221
Less: earnings distributed to participating securities	(1,228)	(1,208)	(1,192)
Less: undistributed earnings allocated to participating securities	(9,143)	(9,984)	(3,380)
Numerator for basic earnings per share	<u>\$ 1,006,329</u>	<u>\$ 1,010,831</u>	<u>\$ 442,649</u>
Add: undistributed earnings allocated to participating securities	9,143	9,984	3,380
Less: undistributed earnings reallocated to participating securities	(9,117)	(9,939)	(3,361)
Numerator for diluted earnings per share	<u>\$ 1,006,355</u>	<u>\$ 1,010,876</u>	<u>\$ 442,668</u>

*Share-based compensation*

We measure compensation cost for share-based compensation on the grant date. Fair value for restricted share units is determined based on the quoted price of our common shares on the grant date. We recognize compensation expense for restricted share units, the majority of which cliff vest at the end of three years, ratably over the vesting period. For share-based awards containing performance conditions, we recognize compensation expense ratably over the vesting period when it is

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

probable that the stated performance targets will be achieved and record cumulative adjustments in the period in which estimates change. Compensation expense related to our share-based awards is included in selling, general, and administrative expense, except for a small portion recognized in Financial Services expenses. See [Note 7](#).

*Income taxes*

The provision for income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment is required. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated results of operations or financial position.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We follow the provisions of ASC 740 which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Significant judgment is required to evaluate uncertain tax positions. Our evaluations of tax positions consider a variety of factors, including relevant facts and circumstances, applicable tax law, correspondence with taxing authorities, and effective settlements of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense (benefit) in the period in which the change is made. Interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense (benefit). See [Note 8](#).

*Revenue recognition*

Home sale revenues - Home sale revenues and related profit are generally recognized when title to and possession of the home are transferred to the buyer at the home closing date. Our performance obligation to deliver the agreed-upon home is generally satisfied at the home closing date. Home sale contract assets consist of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit and classified as cash. Contract liabilities include customer deposit liabilities related to sold but undelivered homes, which totaled \$294.4 million and \$254.6 million at December 31, 2019 and 2018, respectively. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. See [Note 11](#) for information on warranties and related obligations.

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

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

Revenues associated with our title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed. Insurance brokerage commissions relate to commissions on home and other insurance policies placed with third party carriers through various agency channels. Our performance obligations for policy renewal commissions are considered satisfied upon issuance of the initial policy, and related contract assets for estimated future renewal commissions are included in other assets and totaled \$35.1 million and \$30.8 million at December 31, 2019 and 2018, respectively. Contract assets totaling \$27.7 million were recognized on January 1, 2018, in conjunction with the adoption of Accounting Standards Codification ("ASC") 606, "Revenue from Contracts with Customers" ("ASC 606"). Refer to "*New accounting pronouncements*" within [Note 1](#) for further discussion.



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

*Sales incentives*

When sales incentives involve a discount on the selling price of the home, we record the discount as a reduction of revenue at the time of house closing. If the sales incentive requires us to provide a free product or service to the customer, the cost of the free product or service is recorded as cost of revenues at the time of house closing.

*Inventory and cost of revenues*

Inventory is stated at cost unless the carrying value is determined to not be recoverable, in which case the affected inventory is written down to fair value. Cost includes land acquisition, land development, and home construction costs, including interest, real estate taxes, and certain direct and indirect overhead costs related to development and construction. For those communities for which construction and development activities have been idled, applicable interest and real estate taxes are expensed as incurred. Land acquisition and development costs are allocated to individual lots using an average lot cost determined based on the total expected land acquisition and development costs and the total expected home closings for the community. The specific identification method is used to accumulate home construction costs.

We capitalize interest cost into homebuilding inventories. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated over the period based on the timing of home closings.

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and closing costs applicable to the home. Sales commissions are classified within selling, general, and administrative expenses. The construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community's remaining lots.

We test inventory for impairment when events and circumstances indicate that the undiscounted cash flows estimated to be generated by the community may be less than its carrying amount. Such indicators include gross margins 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 or strategy for the community, and other known qualitative factors. Communities that demonstrate potential impairment indicators are tested for impairment by comparing the expected undiscounted cash flows for the community to its carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we estimate the fair value of the community, and impairment charges are recorded if the fair value of the community's inventory is less than its carrying value. See [Note 2](#).

*Land held for sale*

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land held for sale is recorded at the lower of cost or fair value less costs to sell. In determining the value of land held for sale, we consider recent offers received, prices for land in recent comparable sales transactions, and other factors. We record net realizable value adjustments for land held for sale within Homebuilding land sale cost of revenues. See [Note 2](#).

*Land option agreements*

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

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

decisions take into consideration changes in local market conditions, the timing of required land purchases, the availability and best use of necessary incremental capital, and other factors. We record any such write-offs of deposits and pre-acquisition costs within other expense, net. See [Note 2](#).

If an entity holding the land under option is a variable interest entity (“VIE”), our deposit represents a variable interest in that entity. No VIEs required consolidation at either December 31, 2019 or 2018 because we determined that we were not the primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the applicable land option agreements. The following provides a summary of our interests in land option agreements (\$000’s omitted):

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Deposits and Pre-acquisition Costs	Remaining Purchase Price
Land options with VIEs	\$ 123,775	\$ 1,466,585	\$ 90,717	\$ 1,079,507
Other land options	175,662	1,755,377	127,851	1,522,903
	<u>\$ 299,437</u>	<u>\$ 3,221,962</u>	<u>\$ 218,568</u>	<u>\$ 2,602,410</u>

*Warranty liabilities*

Home buyers are provided with a limited warranty against certain building defects, including a one-year comprehensive limited warranty and coverage for certain other aspects of the home's construction and operating systems for periods of up to (and in limited instances exceeding) 10 years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time revenue is recognized (see [Note 11](#)).

*Self-insured risks*

We maintain, and require the majority of our subcontractors to maintain, general liability insurance coverage, including coverage for certain construction defects. We also maintain builders' risk, property, errors and omissions, workers compensation, and other business insurance coverage. These insurance policies protect us against a portion of the risk of loss from claims, subject to certain self-insured per occurrence and aggregate retentions, deductibles, and available policy limits. However, we retain a significant portion of the overall risk for such claims. We reserve for these costs on an undiscounted basis at the time revenue is recognized for each home closing and evaluate the recorded liabilities based on actuarial analyses of our historical claims, which include estimates of claims incurred but not yet reported. Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs. In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from our subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. See [Note 11](#).

*Residential mortgage loans available-for-sale*

Substantially all of the loans originated by us and their related servicing rights are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. In accordance with ASC 825, “Financial Instruments” (“ASC 825”), we use the fair value option to record residential mortgage loans available-for-sale. Election of the fair value option for these loans allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. We do not designate any derivative instruments as hedges or apply the hedge accounting provisions of ASC 815, “Derivatives and Hedging” (“ASC 815”). See [Note 11](#) for discussion of the risks retained related to mortgage loan originations.

Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. At December 31, 2019 and 2018, residential mortgage loans available-for-sale had an aggregate fair value of \$509.0 million and \$461.4 million, respectively, and an aggregate outstanding principal balance of \$494.1 million and \$444.2 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled \$(0.6) million and \$0.7 million for

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

the years ended December 31, 2019 and 2018, respectively. These changes in fair value were substantially offset by changes in fair value of the corresponding hedging instruments. Net gains from the sale of mortgages during 2019, 2018, and 2017 were \$129.4 million, \$111.3 million, and \$110.9 million, respectively, and have been included in Financial Services revenues.

*Mortgage servicing rights*

We sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the servicing rights for only a short period of time. The servicing sales contracts provide for the reimbursement of payments made by the purchaser if loans prepay within specified periods of time, generally within 90 to 120 days after sale. We establish reserves for this exposure at the time the sale is recorded. Such reserves were immaterial at December 31, 2019 and 2018.

*Interest income on mortgage loans*

Interest income on mortgage loans is recorded in Financial Services revenues, accrued from the date a mortgage loan is originated until the loan is sold, and totaled \$9.7 million, \$11.3 million, and \$9.5 million in 2019, 2018, and 2017, respectively. Loans are placed on non-accrual status once they become greater than 90 days past due their contractual terms. Subsequent payments received are applied according to the contractual terms of the loan. Mortgage discounts are not amortized as interest income due to the short period the loans are held until sale to third party investors.

*Derivative instruments and hedging activities*

We are party to interest rate lock commitments ("IRLCs") with customers resulting from our mortgage origination operations. At December 31, 2019 and 2018, we had aggregate IRLCs of \$255.3 million and \$285.0 million, respectively, which were originated at interest rates prevailing at the date of commitment. Since we can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements. We evaluate the creditworthiness of these transactions through our normal credit policies.

We hedge our exposure to interest rate market risk relating to residential mortgage loans available-for-sale and IRLCs using forward contracts on mortgage-backed securities, which are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price, and whole loan investor commitments, which are obligations of an investor to buy loans at a specified price within a specified time period. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. At December 31, 2019 and 2018, we had unexpired forward contracts of \$518.2 million and \$511.0 million, respectively, and whole loan investor commitments of \$200.7 million and \$187.8 million, respectively. Changes in the fair value of IRLCs and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

There are no credit-risk-related contingent features within our derivative agreements, and counterparty risk is considered minimal. Gains and losses on IRLCs are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 60 days.

The fair values of derivative instruments and their location in the Consolidated Balance Sheets are summarized below (\$000's omitted):

	December 31, 2019		December 31, 2018	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest rate lock commitments	\$ 8,351	\$ 149	\$ 9,196	\$ 161
Forward contracts	299	1,372	315	7,229
Whole loan commitments	880	284	393	1,111
	<u>\$ 9,530</u>	<u>\$ 1,805</u>	<u>\$ 9,904</u>	<u>\$ 8,501</u>

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

*New accounting pronouncements*

We adopted ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), effective January 1, 2017. Excess tax benefits or deficiencies for stock-based compensation are now reflected in the Consolidated Statements of Operations as a component of income tax expense, whereas previously they were recognized in equity. We have also elected to account for forfeitures as they occur, rather than estimate expected forfeitures. As a result of adopting ASU 2016-09, we applied the modified retrospective approach and recorded a cumulative-effect adjustment that increased our retained earnings and deferred tax assets as of January 1, 2017 by \$18.6 million, as a result of previously unrecognized excess tax benefits (see [Note 8](#)). Additionally, the impact of recognizing excess tax benefits and deficiencies in the consolidated statement of operations resulted in a \$7.7 million reduction in our income tax expense for 2017. The remaining aspects of adopting ASU 2016-09 did not have a material impact on our financial statements.

On January 1, 2018, we adopted ASC 606, a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We applied the modified retrospective method to contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. We recorded a net increase to opening retained earnings of \$22.4 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting ASC 606, with the impact primarily related to the recognition of contract assets for insurance brokerage commission renewals. There was not a material impact to revenues as a result of applying ASC 606 and there have not been significant changes to our business processes, systems, or internal controls as a result of implementing the standard.

On January 1, 2019, we adopted Accounting Standards Update ("ASU") No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") and related amendments using a modified retrospective approach with an effective date as of January 1, 2019. ASU 2016-02 requires leases with durations greater than 12 months to be recorded on balance sheet in our consolidated financial statements. Prior year financial statements were not required to be recast under the new standard and, therefore, have not been reflected as such in our consolidated financial statements. We elected the package of transition practical expedients, which allowed us to carry forward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. The adoption of ASU 2016-02 had no impact on retained earnings. See [Note 11](#) "Leases" for additional information about this adoption.

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. The standard is effective for us for annual and interim periods beginning January 1, 2020. We are currently evaluating the impact the standard will have on our financial statements and do not expect a material impact on our financial statements.

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

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for the Company beginning January 1, 2021. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on its financial statements.

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

**2. Inventory and land held for sale**

Major components of inventory at December 31, 2019 and 2018 were (\$000's omitted):

	2019	2018
Homes under construction	\$ 2,899,016	\$ 2,630,158
Land under development	4,347,107	4,129,225
Raw land	434,491	493,970
	<u>\$ 7,680,614</u>	<u>\$ 7,253,353</u>

In all periods presented, we capitalized all Homebuilding interest costs into inventory because the level of our active inventory exceeded our debt levels. Activity related to interest capitalized into inventory is as follows (\$000's omitted):

	Years Ended December 31,		
	2019	2018	2017
Interest in inventory, beginning of period	\$ 227,495	\$ 226,611	\$ 186,097
Interest capitalized	164,114	172,809	181,719
Interest expensed	(181,226)	(171,925)	(141,205)
Interest in inventory, end of period	<u>\$ 210,383</u>	<u>\$ 227,495</u>	<u>\$ 226,611</u>

*Land-related charges*

We recorded the following land-related charges (\$000's omitted):

	Statement of Operations Classification	2019			2018		2017	
		\$	5,368	\$	11,489	\$	83,576	
Net realizable value adjustments ("NRV") - land held for sale	Land sale cost of revenues							
Land impairments	Home sale cost of revenues		8,617		70,965		88,952	
Impairments of unconsolidated entities	Other expense, net		—		—		8,018	
Write-offs of deposits and pre-acquisition costs	Other expense, net		13,116		16,992		11,367	
Total land-related charges		<u>\$ 27,101</u>		<u>\$ 99,446</u>		<u>\$ 191,913</u>		

Land-related charges have not been a significant broad-based issue since the U.S. housing recovery began in 2012. However, we experienced changes to facts and circumstances related to specific individual communities in 2018 and 2017 that elevated such charges.

As explained in [Note 1](#), we periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. The higher level of NRVs in 2017 were primarily the result of a plan we announced in May 2017 to sell select non-core and underutilized land parcels following a strategic review of our land portfolio. As part of that review, we determined that we would sell certain inactive land parcels, representing approximately 17 communities and 4,600 lots. These land parcels were located in diverse geographic areas and no longer fit into our strategic plans. The land parcels identified for sale included: land requiring significant additional development spend that would not yield suitable returns; land in excess of near-term need; and land entitled for certain product types inconsistent with our primary offerings. As a consequence of the change in strategy with respect to the future use of these land parcels, we recorded NRVs totaling \$81.0 million in the three months ended June 30, 2017, related to inventory with a pre-NRV carrying value of \$151.0 million. An additional \$2.6 million of NRVs were recorded throughout 2017 as the result of adjustments to the aforementioned valuations as the sale process progressed or related to other land parcels we chose to sell. The estimated fair values of these inactive land parcels that were held for sale were generally based on comparisons to market comparable transactions, letters of intent, active negotiations with market participants, or similar market-based information.

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

supplemented in certain instances by estimated future net cash flows discounted for inherent risk associated with each underlying asset. The majority of these parcels were sold to third parties in either 2017 or 2018; such transactions are classified as land sale revenues.

Land impairments relate to communities that are either active or that we intend to eventually open and build out. On a quarterly basis, we review each of our land positions for potential indicators of impairment and perform detailed impairment calculations for communities that display indicators of potential impairment.

- In 2019, we recorded impairment charges of \$8.6 million relating to a number of communities where we experienced slower sales paces and lower average selling prices.
- In 2018, we received an unfavorable determination related to one of our communities that had been idle while pursuing entitlements for over 10 years. This unfavorable determination caused a significant reduction in the number of lots and necessitated certain changes to the expected product offering and land development that, combined with rising costs and a softening in demand in the applicable local market, resulted in an impairment of \$59.2 million. Impairments for all other communities in 2018 totaled \$11.8 million.
- In 2017, our impairments resulted from:
  - As part of the May 2017 strategic review, we decided to accelerate the monetization of two communities through a combination of changing the product offerings and lowering the sales prices within the communities. This decision resulted in land impairments of \$31.5 million in the three months ended June 30, 2017.
  - Separately, we recorded an impairment charge of \$53.0 million related to one large project. This impairment resulted from increases in our estimates for future land development and house construction costs combined with lower pricing and slower sales paces for this project, which is located in an area where competitive conditions limit our ability to offset our cost increases through higher sales prices. Impairments for all other communities in 2017 totaled \$4.5 million.

We determine the fair value of a community's inventory using a combination of discounted cash flow models and market comparable transactions, where available. These estimated cash flows are significantly impacted by estimates related to expected average selling prices, expected sales paces, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the cash flow models are specific to each community and typically do not assume improvements in market conditions in the near term. 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. Accordingly, determining the fair value of a community's inventory involves a number of variables, many of which are interrelated. The table below summarizes certain quantitative unobservable inputs utilized in determining the fair value of impaired communities (\$000's omitted):

	<b>Communities Impaired</b>	<b>Fair Value of Communities Impaired, Net of Impairment Charges</b>	<b>Impairment Charges</b>	<b>Average Selling Price</b>	<b>Quarterly Sales Pace (homes)</b>	<b>Discount Rate</b>
2019	5	\$ 12,589	\$ 8,617	\$284 to \$550	1 to 6	12% to 14%
2018	8	\$ 24,062	\$ 70,965	\$287 to \$586	2 to 11	12% to 22%
2017	9	\$ 19,252	\$ 88,952	\$207 to \$818	1 to 11	12% to 25%

Our evaluations for impairments are based on our best estimates of the future cash flows for our communities. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, the long life cycles of certain of our communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from such estimates.

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

**3. Segment information**

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Home sale revenues for detached and attached homes were \$8.3 billion and \$1.6 billion in 2019, \$8.2 billion and \$1.6 billion in 2018, and \$7.3 billion and \$1.1 billion in 2017, respectively. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	<i>Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia</i>
Southeast:	<i>Georgia, North Carolina, South Carolina, Tennessee</i>
Florida:	<i>Florida</i>
Midwest:	<i>Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio</i>
Texas:	<i>Texas</i>
West:	<i>Arizona, California, Nevada, New Mexico, Washington</i>

We also have a reportable segment for our Financial Services operations, which consist principally of mortgage banking, title, and insurance brokerage operations. The Financial Services segment operates generally in the same markets as the Homebuilding segments. Evaluation of segment performance is generally based on income before income taxes. Each reportable segment generally follows the same accounting policies described in [Note 1](#).

	<b>Operating Data by Segment (\$000's omitted)</b>		
	<b>Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>			
Northeast	\$ 797,963	\$ 839,700	\$ 693,877
Southeast	1,684,655	1,746,161	1,564,116
Florida	2,074,194	1,944,170	1,494,389
Midwest	1,495,037	1,497,389	1,450,192
Texas	1,389,211	1,301,004	1,168,755
West	2,537,466	2,654,525	2,014,197
	9,978,526	9,982,949	8,385,526
Financial Services	234,431	205,382	192,160
Consolidated revenues	<u>\$ 10,212,957</u>	<u>\$ 10,188,331</u>	<u>\$ 8,577,686</u>
<b>Income before income taxes (a):</b>			
Northeast	\$ 116,221	\$ 29,629	\$ 21,190
Southeast (b)	175,763	202,639	122,532
Florida (b)	309,596	289,418	208,825
Midwest	184,438	179,568	178,231
Texas	195,751	193,946	182,862
West (c)	386,361	511,828	229,504
Other homebuilding (d)	(131,869)	(118,224)	(77,812)
	1,236,261	1,288,804	865,332
Financial Services	103,315	58,736	73,496
Consolidated income before income taxes	<u>\$ 1,339,576</u>	<u>\$ 1,347,540</u>	<u>\$ 938,828</u>

- (a) Includes certain land-related charges (see the following table and [Note 2](#)).
- (b) Includes warranty charges totaling \$14.8 million in 2019 related to a closed-out community in Southeast and \$12.4 million in 2017 related to a closed-out community in Florida (see [Note 11](#)).
- (c) West includes gains of \$26.4 million in 2018 related to two land sale transactions in California.

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

- (d) *Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Also included are write-offs of insurance receivables associated with the resolution of certain insurance matters totaling \$22.6 million and \$29.6 million in 2019 and 2017, respectively (see [Note 11](#)), and general liability insurance reserve reversals of \$49.4 million, \$35.9 million, and \$97.8 million in 2019, 2018 and 2017, respectively (see [Note 11](#)).*

<b>Operating Data by Segment (\$000's omitted)</b>			
<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Land-related charges*:</b>			
Northeast	\$ 1,122	\$ 74,488	\$ 51,362
Southeast	15,697	8,140	55,689
Florida	2,811	1,166	9,702
Midwest	2,581	7,361	8,917
Texas	1,151	1,204	2,521
West	2,568	5,159	56,996
Other homebuilding	1,171	1,928	6,726
	\$ 27,101	\$ 99,446	\$ 191,913

- \* *Land-related charges include land impairments, net realizable value adjustments for land held for sale, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue. Other homebuilding consists primarily of write-offs of capitalized interest related to such land-related charges. See [Note 2](#) for additional discussion of these charges.*

<b>Operating Data by Segment (\$000's omitted)</b>			
<b>Years Ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Depreciation and amortization:</b>			
Northeast	\$ 1,962	\$ 2,093	\$ 2,392
Southeast	4,448	5,231	5,117
Florida	5,775	4,893	4,883
Midwest	4,417	4,271	4,449
Texas	3,423	3,082	3,301
West	9,317	6,758	5,828
Other homebuilding (a)	19,553	18,908	21,326
	48,895	45,236	47,296
Financial Services	5,104	4,193	3,702
	\$ 53,999	\$ 49,429	\$ 50,998

- (a) *Other homebuilding includes amortization of intangible assets.*



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

**Operating Data by Segment**

(\$000's omitted)

**December 31, 2019**

	<b>Homes Under Construction</b>	<b>Land Under Development</b>	<b>Raw Land</b>	<b>Total Inventory</b>	<b>Total Assets</b>
Northeast	\$ 345,644	\$ 242,666	\$ 25,098	\$ 613,408	\$ 698,661
Southeast	430,008	724,258	72,804	1,227,070	1,354,086
Florida	539,895	894,716	99,228	1,533,839	1,700,198
Midwest	315,822	464,733	31,881	812,436	886,889
Texas	343,230	447,707	84,926	875,863	949,236
West	881,551	1,289,255	105,606	2,276,412	2,538,803
Other homebuilding (a)	42,866	283,772	14,948	341,586	1,953,440
	2,899,016	4,347,107	434,491	7,680,614	10,081,313
Financial Services	—	—	—	—	634,284
	<u>\$ 2,899,016</u>	<u>\$ 4,347,107</u>	<u>\$ 434,491</u>	<u>\$ 7,680,614</u>	<u>\$ 10,715,597</u>

**December 31, 2018**

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

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

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

**4. Investments in unconsolidated entities**

We participate in a number of joint ventures and other investments with independent third parties. These entities generally purchase, develop, and sell land, including selling land to us for use in our homebuilding operations. A summary of our investments in such entities is presented below (\$000's omitted):

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Investments in joint ventures with limited recourse debt	\$ 39,527	\$ 31,551
Investments in joint ventures with debt non-recourse to PulteGroup	3,655	3,471
Investments in other unconsolidated entities	16,584	19,568
Total investments in unconsolidated entities	<u>\$ 59,766</u>	<u>\$ 54,590</u>
Total joint venture debt	<u>\$ 775</u>	<u>\$ 42,948</u>
PulteGroup proportionate share of joint venture debt:		
Joint venture debt with limited recourse guaranties	\$ —	\$ 21,059
Joint venture debt non-recourse to PulteGroup	205	217
PulteGroup's total proportionate share of joint venture debt	<u>\$ 205</u>	<u>\$ 21,276</u>

In 2019, 2018, and 2017, we recognized earnings (losses) from unconsolidated joint ventures of \$0.7 million, \$2.7 million, and \$(2.0) million, respectively. We received distributions from our unconsolidated joint ventures of \$5.1 million, \$12.1 million, and \$9.4 million, in 2019, 2018, and 2017, respectively. We made capital contributions of \$9.5 million, \$1.0 million and \$23.0 million in 2019, 2018, and 2017, respectively.

The timing of cash flows related to a joint venture and any related financing agreements varies by agreement. If additional capital contributions are required and approved by the joint venture, we would need to contribute our pro rata portion of those capital needs in order to not dilute our ownership in the joint ventures. While future capital contributions may be required, we believe the total amount of such contributions will be limited. Our maximum financial exposure related to joint ventures is unlikely to exceed the combined investment and limited recourse guaranty totals.

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

**5. Debt**

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

	December 31,	
	2019	2018
4.250% unsecured senior notes due March 2021 (a)	\$ 425,954	\$ 700,000
5.500% unsecured senior notes due March 2026 (a)	700,000	700,000
5.000% unsecured senior notes due January 2027 (a)	600,000	600,000
7.875% unsecured senior notes due June 2032 (a)	300,000	300,000
6.375% unsecured senior notes due May 2033 (a)	400,000	400,000
6.000% unsecured senior notes due February 2035 (a)	300,000	300,000
Net premiums, discounts, and issuance costs (b)	(14,295)	(13,247)
Total senior notes	\$ 2,711,659	\$ 2,986,753
Other notes payable	53,381	41,313
Notes payable	\$ 2,765,040	\$ 3,028,066
Estimated fair value	\$ 3,152,046	\$ 2,899,143

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

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

The indentures governing the senior notes impose certain restrictions on the incurrence of additional debt along with other limitations. At December 31, 2019, we were in compliance with all of the covenants and requirements under the senior notes. Refer to [Note 12](#) for supplemental consolidating financial information.

Other notes payable include non-recourse and limited recourse collateralized notes with third parties that totaled \$53.4 million and \$41.3 million at December 31, 2019 and 2018, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and have no recourse to any other assets. The stated interest rates on these notes range up to 8.00%.

We retired outstanding debt totaling \$310.0 million, \$82.8 million, and \$134.7 million during 2019, 2018, and 2017, respectively. The retirements in 2019 included a tender offer to retire \$274.0 million of our unsecured senior notes maturing in 2021 which resulted in a loss of \$4.9 million, which included the write-off of debt issuance costs, unamortized discounts and premiums, and transaction fees related to the repurchased debt, and is reflected in other expense, net.

*Revolving credit facility*

We maintain a revolving credit facility ("Revolving Credit Facility") maturing in June 2023 that has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at December 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. In the event that LIBOR is no longer widely available, the agreement contemplates transitioning to an alternative widely available market rate agreeable between the parties. We had no borrowings outstanding and \$262.8 million and \$239.4 million of letters of credit issued under the Revolving Credit Facility at December 31, 2019 and 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2019, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$737.2 million and \$760.6 million as of December 31, 2019 and 2018, respectively.

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

*Pulte Mortgage*

Pulte Mortgage maintains a master repurchase agreement with third party lenders. In August 2019, Pulte Mortgage entered into an amended and restated repurchase agreement (the “Repurchase Agreement”) that extended the maturity date to July 2020. The maximum aggregate commitment was \$375.0 million during the seasonally high borrowing period from December 26, 2019 through January 13, 2020. At all other times, the maximum aggregate commitment ranges from \$220.0 million to \$270.0 million. The purpose of the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$326.6 million and \$348.4 million outstanding under the Repurchase Agreement at December 31, 2019, and 2018, respectively, and was in compliance with its covenants and requirements as of such dates.

The following is aggregate borrowing information for our mortgage operations (\$000’s omitted):

	December 31,	
	2019	2018
Available credit lines	\$ 375,000	\$ 520,000
Unused credit lines	\$ 48,427	\$ 171,588
Weighted-average interest rate	4.16%	4.27%

**6. Shareholders’ equity**

Our declared quarterly cash dividends totaled \$124.4 million, \$108.5 million, and \$110.0 million in 2019, 2018, and 2017, respectively. Under a share repurchase program authorized by our Board of Directors, we repurchased 8.4 million, 10.9 million, and 35.4 million shares in 2019, 2018, and 2017, respectively, for a total of \$274.3 million, \$294.6 million, and \$910.3 million in 2019, 2018, and 2017, respectively. At December 31, 2019, we had remaining authorization to repurchase \$525.5 million of common shares.

Under our stock compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of restricted shares and share units, generally related to the payment of tax obligations. During 2019, 2018, and 2017, employees surrendered shares valued at \$11.5 million, \$7.9 million, and \$6.0 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

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

**7. Stock compensation plans**

We maintain a stock award plan for both employees and non-employee directors. The plan provides for the grant of a variety of equity awards, including options (generally non-qualified options), restricted shares, restricted share units ("RSUs"), and performance shares to key employees (as determined by the Compensation and Management Development Committee of the Board of Directors) for periods not to exceed ten years. Non-employee directors are awarded an annual distribution of common shares. Options granted to employees generally vest incrementally over four years and are generally exercisable for ten years from the vest date. Shares issued upon the exercise of a stock option are from newly issued shares. RSUs represent the right to receive an equal number of common shares and are converted into common shares upon distribution. RSUs generally cliff vest after three years. RSU holders receive cash dividends during the vesting period. Performance shares vest upon attainment of the stated performance targets and minimum service requirements and are converted into common shares upon distribution. As of December 31, 2019, there were 23.6 million shares that remained available for grant under the plan. Our stock compensation expense for the three years ended December 31, 2019, is presented below (\$000's omitted):

	2019	2018	2017
RSUs and performance shares	\$ 21,538	\$ 20,145	\$ 24,207
Long-term incentive plans	6,830	8,145	9,476
	<u>\$ 28,368</u>	<u>\$ 28,290</u>	<u>\$ 33,683</u>

*Stock options*

A summary of stock option activity for the three years ended December 31, 2019, is presented below (000's omitted, except per share data):

	2019		2018		2017	
	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price
Outstanding, beginning of year	563	\$ 12	1,168	\$ 11	3,623	\$ 12
Granted	—	—	—	—	—	—
Exercised	(547)	12	(605)	11	(2,353)	12
Forfeited	—	—	—	—	(102)	28
Outstanding, end of year	<u>16</u>	<u>\$ 8</u>	<u>563</u>	<u>\$ 12</u>	<u>1,168</u>	<u>\$ 11</u>
Options exercisable at year end	<u>16</u>	<u>\$ 8</u>	<u>563</u>	<u>\$ 12</u>	<u>1,168</u>	<u>\$ 11</u>

We did not issue any stock options during 2019, 2018, or 2017. As a result, there is no unrecognized compensation cost related to stock option awards at December 31, 2019. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The aggregate intrinsic value of stock options that were exercised during 2019, 2018, and 2017 was \$10.5 million, \$11.7 million, and \$31.1 million, respectively. As of December 31, 2019, options outstanding, all of which were exercisable, had an intrinsic value of \$0.5 million and an exercise price of \$8.

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

*Restricted shares (including RSUs and performance shares)*

A summary of restricted share activity, including RSUs and performance shares, for the three years ended December 31, 2019, is presented below (000's omitted, except per share data):

	2019		2018		2017	
	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value
Outstanding, beginning of year	3,074	\$ 23	3,271	\$ 19	2,974	\$ 19
Granted	932	27	833	31	1,251	21
Distributed	(1,181)	17	(786)	22	(775)	19
Forfeited	(144)	26	(244)	22	(179)	19
Outstanding, end of year	2,681	\$ 26	3,074	\$ 23	3,271	\$ 19
Vested, end of year	153	\$ 20	129	\$ 21	152	\$ 17

During 2019, 2018, and 2017, the total fair value of shares vested during the year was \$20.0 million, \$17.1 million, and \$15.0 million, respectively. Unamortized compensation cost related to restricted share awards was \$19.7 million at December 31, 2019. These costs will be expensed over a weighted-average period of approximately 2 years. Additionally, there were 0.2 million RSUs outstanding at December 31, 2019, that had vested but had not yet been paid out because the payout date had been deferred by the holders.

*Long-term incentive plans*

We maintain long-term incentive plans for senior management and other employees that provide awards based on the achievement of stated performance targets over three-year periods. Awards are stated in dollars but are settled in common shares based on the stock price at the end of the performance period. If the share price falls below a floor of \$5.00 per share at the end of the performance period or we do not have a sufficient number of shares available under our stock incentive plans at the time of settlement, then a portion of each award will be paid in cash. We adjust the liabilities and recognize the expense associated with the awards based on the probability of achieving the stated performance targets at each reporting period. Liabilities for these awards totaled \$15.0 million and \$17.0 million at December 31, 2019 and 2018, respectively.

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

**8. Income taxes**

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

	2019	2018	2017
Current expense (benefit)			
Federal	\$ 196,186	\$ (44,462)	\$ 81,101
State and other	21,252	7,202	(11,801)
	<u>\$ 217,438</u>	<u>\$ (37,260)</u>	<u>\$ 69,300</u>
Deferred expense (benefit)			
Federal	\$ 74,700	\$ 271,544	\$ 444,695
State and other	30,738	91,233	(22,388)
	<u>\$ 105,438</u>	<u>\$ 362,777</u>	<u>\$ 422,307</u>
Income tax expense (benefit)	<u>\$ 322,876</u>	<u>\$ 325,517</u>	<u>\$ 491,607</u>

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

	2019	2018	2017
Income taxes at federal statutory rate	21.0 %	21.0 %	35.0 %
State and local income taxes, net of federal tax	3.7	4.0	3.1
Tax accounting method change	—	(2.5)	—
Changes in tax laws, including the Tax Act	0.2	1.0	18.3
Deferred tax asset valuation allowance	(0.4)	0.9	(1.1)
Tax contingencies	(0.1)	0.1	(1.0)
Other	(0.3)	(0.3)	(1.9)
Effective rate	<u>24.1 %</u>	<u>24.2 %</u>	<u>52.4 %</u>

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made broad and complex changes to the U.S. tax code, including, but not limited to, the following that impact us: (1) reducing the U.S. federal corporate rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax; (3) creating a new limitation on deductible interest expense; (4) repealing the domestic production activities deduction; (5) limiting the deductibility of certain executive compensation; and (6) limiting certain other deductions. As the result of the Tax Act, we recorded net tax expense of \$172.1 million in 2017 related to the remeasurement of our deferred tax balances and other effects.

The 2019 and 2018 effective tax rates utilize the reduced 21% tax rate due to the Tax Act while the 2017 effective tax rate utilizes the prior 35% tax rate but reflects the revaluation of deferred taxes due to the Tax Act's enactment.

The 2019 effective tax rate differs from the federal statutory rate primarily due to state income tax expense on current year earnings, changes in valuation allowances relating to projected utilization of certain state net operating loss carryforwards, and state tax law changes. The 2018 effective tax rate differs from the federal statutory rate primarily due to state income tax expense on current year earnings, tax benefits due to Internal Revenue Service (IRS) acceptance of a tax accounting method change applicable to the 2017 tax year, valuation allowances relating to projected utilization of certain state net operating loss carryforwards, and state tax law changes. The acceptance of the tax accounting method change provided a deferral of profit on home sales, which resulted in a favorable adjustment in 2018 due to the tax rate reduction in the Tax Act. The 2017 effective tax rate differs from the federal statutory rate primarily due to remeasurement of deferred taxes resulting from the enactment of the Tax Act, state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, the domestic production activities deduction, and state tax law changes.

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

Deferred tax assets and liabilities reflect temporary differences arising from the different treatment of items for tax and accounting purposes. Components of our net deferred tax asset are as follows (\$000's omitted):

	At December 31,	
	2019	2018
Deferred tax assets:		
Accrued insurance	\$ 142,515	\$ 144,225
Inventory valuation reserves	97,585	132,495
Other	64,373	50,237
NOL carryforwards:		
Federal	12,962	27,122
State	200,710	228,959
Tax credits	8,648	7,692
	<u>526,793</u>	<u>590,730</u>
Deferred tax liabilities:		
Deferred income	(228,186)	(195,596)
Intangibles and other	(44,547)	(26,966)
	<u>(272,733)</u>	<u>(222,562)</u>
Valuation allowance	(83,953)	(92,589)
Net deferred tax asset	<u>\$ 170,107</u>	<u>\$ 275,579</u>

Our federal NOL carryforward deferred tax asset of \$13.0 million expires, if unused, between 2031 and 2032. We also have state NOLs in various jurisdictions which may generally be carried forward up to 20 years, depending on the jurisdiction. Our state NOL carryforward deferred tax assets will expire if unused at various dates as follows: \$35.9 million from 2020 to 2024 and \$164.8 million from 2025 and thereafter.

We evaluate our deferred tax assets each period to determine if a valuation allowance is required based on whether it is "more likely than not" that some portion of the deferred tax assets would not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of sufficient taxable income during future periods. We conduct our evaluation by considering all available positive and negative evidence. This evaluation considers, among other factors, historical operating results, forecasts of future profitability, the duration of statutory carryforward periods, and the outlooks for the U.S. housing industry and broader economy.

The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We had \$40.3 million and \$30.6 million of gross unrecognized tax benefits at December 31, 2019 and 2018, respectively. If recognized, \$21.6 million and \$19.7 million, respectively, of these amounts would impact our effective tax rate. Additionally, we had accrued interest and penalties of \$6.5 million and \$5.8 million at December 31, 2019 and 2018, respectively.

It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to \$23.0 million, excluding interest and penalties, primarily due to potential settlements. A reconciliation of the change in the unrecognized tax benefits is as follows (\$000's omitted):



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

	2019	2018	2017
Unrecognized tax benefits, beginning of period	\$ 30,554	\$ 48,604	\$ 21,502
Increases related to positions taken during a prior period	2,376	5,389	20,555
Decreases related to positions taken during a prior period	(7,918)	(31,850)	(9,665)
Increases related to positions taken during the current period	16,332	8,411	18,895
Decreases related to settlements with taxing authorities	(1,044)	—	—
Decreases related to lapse of the applicable statute of limitations	—	—	(2,683)
Unrecognized tax benefits, end of period	<u>\$ 40,300</u>	<u>\$ 30,554</u>	<u>\$ 48,604</u>

We continue to participate in the Compliance Assurance Process (“CAP”) with the IRS as an alternative to the traditional IRS examination process. As a result of our participation in CAP, federal tax years 2017 and prior are closed. Tax year 2018 is expected to close by the first quarter of 2020. We are also currently under examination by various state taxing jurisdictions and anticipate finalizing certain of the examinations within the next twelve months. The outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2015 to 2019.

**9. Fair value disclosures**

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

- Level 1 Fair value determined based on quoted prices in active markets for identical assets or liabilities.
- Level 2 Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.
- Level 3 Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows, or similar techniques

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

Financial Instrument	Fair Value Hierarchy	Fair Value	
		December 31, 2019	December 31, 2018
<b>Measured at fair value on a recurring basis:</b>			
Residential mortgage loans available-for-sale	Level 2	\$ 508,967	\$ 461,354
Interest rate lock commitments	Level 2	8,202	9,035
Forward contracts	Level 2	(1,073)	(6,914)
Whole loan commitments	Level 2	596	(718)
<b>Measured at fair value on a non-recurring basis:</b>			
House and land inventory	Level 3	\$ 9,979	\$ 18,253
Land held for sale	Level 2	4,193	17,813
<b>Disclosed at fair value:</b>			
Cash and equivalents (including restricted cash)	Level 1	\$ 1,251,456	\$ 1,133,700
Financial Services debt	Level 2	326,573	348,412
Other notes payable	Level 2	53,381	41,313
Senior notes payable	Level 2	3,098,665	2,857,830

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

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

Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the above table represent only those assets whose carrying values were adjusted to fair value during the quarterly period ended as of the respective balance sheet dates. See [Note 1](#) for a more detailed discussion of the valuation methods used for inventory.

The carrying amounts of cash and equivalents, Financial Services debt, Other notes payable and the Revolving Credit Facility approximate their fair values due to their short-term nature and floating interest rate terms. The fair values of the Senior notes payable are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues. The carrying value of the senior notes payable was \$2.8 billion and \$3.0 billion at December 31, 2019 and 2018, respectively.

**10. Other assets and accrued and other liabilities**

Other assets are presented below (\$000's omitted):

	December 31,	
	2019	2018
Accounts and notes receivable:		
Insurance receivables ( <a href="#">Note 11</a> )	\$ 118,366	\$ 152,987
Other receivables	129,781	136,319
	248,147	289,306
Prepaid expenses	123,220	131,523
Deposits and pre-acquisition costs ( <a href="#">Note 1</a> )	299,437	218,568
Property and equipment, net ( <a href="#">Note 1</a> )	111,713	92,935
Right-of-use assets ( <a href="#">Note 11</a> ) (a)	70,029	—
Income taxes receivable	2,285	58,090
Other	40,855	39,937
	<u>\$ 895,686</u>	<u>\$ 830,359</u>

(a) *Right-of-use assets have no balance at December 31, 2018 as a result of the Company's adoption of ASU 2016-02 using a modified retrospective approach with an effective date of January 1, 2019 ([Note 11](#)).*

We record receivables from various parties in the normal course of business, including amounts due from insurance companies (see [Note 11](#)) and municipalities. In certain instances, we may accept consideration for land sales or other transactions in the form of a note receivable.

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

Accrued and other liabilities are presented below (\$000's omitted):

	December 31,	
	2019	2018
Self-insurance liabilities (Note 11)	\$ 709,798	\$ 737,013
Compensation-related liabilities	171,533	161,068
Lease liabilities (Note 11) (a)	91,408	—
Warranty liabilities (Note 11)	91,389	79,154
Accrued interest	48,483	52,521
Loan origination liabilities (Note 11)	25,159	50,282
Other	261,598	280,445
	\$ 1,399,368	\$ 1,360,483

(a) Lease liabilities have no balance at December 31, 2018 as a result of the Company's adoption of ASU 2016-02 using a modified retrospective approach with an effective date of January 1, 2019 (Note 11).

## 11. Commitments and contingencies

### *Loan origination liabilities*

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If a loan is determined to be faulty, we either indemnify the investor for potential future losses, repurchase the loan from the investor, or reimburse the investor's actual losses.

CTX Mortgage Company, LLC ("CTX Mortgage") was the mortgage subsidiary of Centex and ceased originating loans in December 2009. In the matter *Lehman Brothers Holdings, Inc. ("Lehman")* in the U.S. Bankruptcy Court in the Southern District of New York, Lehman has initiated an adversary proceeding against CTX Mortgage seeking indemnity for loans sold to it by CTX Mortgage prior to 2009. This claim is part of a broader action by Lehman in U.S. Bankruptcy Court against more than 100 mortgage originators and brokers. On August 13, 2018, the court denied a motion to dismiss filed by CTX Mortgage and other defendants, and on December 17, 2018, Lehman filed an amended adversary complaint against CTX Mortgage. Lehman's complaint alleges claims for indemnifiable losses of up to \$261.0 million due from CTX Mortgage. We believe that CTX Mortgage has meritorious defenses and CTX Mortgage will continue to vigorously defend itself in this matter. We have recorded a liability for an amount that we consider to be the best estimate within a range of potential losses.

In addition, both CTX Mortgage and Pulte Mortgage sold certain loans originated prior to 2009 to financial institutions for inclusion in residential mortgage-backed securities or other securitizations issued by such financial institutions. In connection with such sales, CTX Mortgage and Pulte Mortgage have been put on notice of potential direct and / or third party claims for indemnification arising out of litigation relating to certain of these residential mortgage-backed securities or other securitizations and both CTX Mortgage and Pulte Mortgage have a pending litigation matter relating to such claims. We cannot yet quantify CTX Mortgage's or Pulte Mortgage's potential liability as a result of these indemnification obligations. We do not believe, however, that these matters will have a material adverse impact on the results of operations, financial position, or cash flows of the Company.

Estimating the required liability for these potential losses requires a significant level of management judgment. During 2018, we increased our loan origination liabilities by \$16.1 million based on settlements or probable settlements of a number of claims related to loans originated by CTX Mortgage prior to 2009. Reserves provided (released) are reflected in Financial Services expenses. Changes in these liabilities were as follows (\$000's omitted):

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Liabilities, beginning of period	\$ 50,282	\$ 34,641	\$ 35,114
Reserves provided (released), net	(225)	16,130	(50)
Payments	(24,898)	(489)	(423)
Liabilities, end of period	<u>\$ 25,159</u>	<u>\$ 50,282</u>	<u>\$ 34,641</u>

Given the unsettled litigation, changes in values of underlying collateral over time, unpredictable factors inherent in litigation, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

*Community development and other special district obligations*

A community development district or similar development authority (“CDD”) is a unit of local government created under various state statutes that utilizes the proceeds from the sale of bonds to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds, including principal and interest, is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. Generally, we are only responsible for paying the special assessments for the period during which we are the landowner of the applicable parcels.

*Letters of credit and surety bonds*

In the normal course of business, we post letters of credit and surety bonds pursuant to certain performance-related obligations, as security for certain land option agreements, and under various insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. We had outstanding letters of credit and surety bonds totaling \$262.8 million and \$1.4 billion, respectively, at December 31, 2019, and \$239.4 million and \$1.3 billion, respectively, at December 31, 2018. In the event any such letter of credit or surety bonds is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be drawn. Our surety bonds generally do not have stated expiration dates; rather, we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

*Litigation and regulatory matters*

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

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

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

*Warranty liabilities*

Factors that affect our warranty liabilities include the number of homes sold, historical and anticipated rates of warranty claims, and the projected cost of claims. We periodically assess the adequacy of the warranty liabilities for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from the current estimates. Changes in warranty liabilities were as follows (\$000's omitted):

	2019	2018	2017
Warranty liabilities, beginning of period	\$ 79,154	\$ 72,709	\$ 66,134
Reserves provided	60,818	65,567	50,014
Payments	(75,635)	(64,525)	(58,780)
Other adjustments (a)	27,052	5,403	15,341
Warranty liabilities, end of period	<u>\$ 91,389</u>	<u>\$ 79,154</u>	<u>\$ 72,709</u>

(a) Includes charges totaling \$14.8 million in 2019 related to a closed-out community in Southeast and \$12.4 million in 2017 related to a closed-out community in Florida.

*Self-insured risks*

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

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

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

Our recorded reserves for all such claims totaled \$709.8 million and \$737.0 million at December 31, 2019 and 2018, respectively, the vast majority of which relate to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 68% and 65% of the total general liability reserves at December 31, 2019 and 2018, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on our historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses.

Volatility in both national and local housing market conditions can affect the frequency and cost of construction defect claims. Additionally, IBNR estimates comprise the majority of our liability and are subject to a high degree of uncertainty due

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

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

Adjustments to reserves are recorded in the period in which the change in estimate occurs. During 2019, 2018, and 2017, we reduced reserves, primarily general liability reserves, by \$49.4 million, \$35.9 million, and \$97.8 million respectively, as a result of changes in estimates resulting from actual claim experience observed being less than anticipated in previous actuarial projections. The changes in actuarial estimates were driven by changes in actual claims experience that, in turn, impacted actuarial estimates for potential future claims. These changes in actuarial estimates did not involve any changes in actuarial methodology but did impact the development of estimates for future periods, which resulted in adjustments to the IBNR portion of our recorded liabilities. Costs associated with our insurance programs are classified within selling, general, and administrative expenses. Changes in these liabilities were as follows (\$000's omitted):

	2019	2018	2017
Balance, beginning of period	\$ 737,013	\$ 758,812	\$ 831,058
Reserves provided	83,209	93,156	98,176
Adjustments to previously recorded reserves (a)	(49,437)	(35,873)	(97,789)
Payments, net (a)	(60,987)	(79,082)	(72,633)
Balance, end of period	\$ 709,798	\$ 737,013	\$ 758,812

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

In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. As reflected in [Note 10](#), our receivables from insurance carriers totaled \$118.4 million and \$153.0 million at December 31, 2019 and 2018, respectively. The insurance receivables relate to costs incurred or to be incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of both known and anticipated future construction defect claims that we believe to be insured related to previously closed homes. Given the complexity inherent with resolving construction defect claims in the homebuilding industry as described above, there generally exists a significant lag between our payment of claims and our reimbursements from applicable insurance carriers. In addition, disputes between homebuilders and carriers over coverage positions relating to construction defect claims are common. Resolution of claims with carriers involves the exchange of significant amounts of information and frequently involves legal action.

In 2019 and 2017, we recorded write-offs of \$22.6 million and \$29.6 million, respectively, in connection with policy settlement negotiations with certain of our carriers. We believe collection of our recorded insurance receivables is probable based on the legal merits of our positions after review by legal counsel, the high credit ratings of our carriers, and our long history of collecting significant amounts of insurance reimbursements under similar insurance policies related to similar claims. While the outcomes of these matters cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows.

#### Leases

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

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

ROU assets are classified within other assets on the balance sheet, while lease liabilities are classified within accrued and other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets and lease liabilities were \$70.0 million and \$91.4 million, respectively, at December 31, 2019. During 2019, we recorded an additional \$17.6 million of lease liabilities under operating leases. Payments on lease liabilities during 2019 totaled \$23.4 million.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. Our total lease expense was \$36.4 million, \$33.6 million, and \$30.8 million during 2019, 2018, and 2017, respectively. Our total lease expense in 2019 is inclusive of variable lease costs of \$6.7 million and short-term lease costs of \$9.6 million. Sublease income was de minimis. The future minimum lease payments required under our leases as of December 31, 2019 were as follows (\$000's omitted):

<b>Years Ending December 31,</b>	
2020	\$ 18,995
2021	20,523
2022	18,605
2023	17,306
2024	11,677
Thereafter	22,476
<b>Total lease payments (a)</b>	<b>109,582</b>
Less: Interest (b)	18,174
<b>Present value of lease liabilities (c)</b>	<b>\$ 91,408</b>

- (a) Lease payments include options to extend lease terms that are reasonably certain of being exercised and exclude \$6.0 million of legally binding minimum lease payments for leases signed but not yet commenced at December 31, 2019.
- (b) Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.
- (c) The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 6.1 years and 5.8%, respectively, at December 31, 2019.

**12. Supplemental Guarantor information**

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

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

	<b>Unconsolidated</b>			<b>Eliminating</b> <b>Entries</b>	<b>Consolidated</b> <b>PulteGroup,</b> <b>Inc.</b>
	<b>PulteGroup,</b> <b>Inc.</b>	<b>Guarantor</b> <b>Subsidiaries</b>	<b>Non-Guarantor</b> <b>Subsidiaries</b>		
<b>ASSETS</b>					
Cash and equivalents	\$ —	\$ 1,026,743	\$ 191,170	\$ —	\$ 1,217,913
Restricted cash	—	31,328	2,215	—	33,543
Total cash, cash equivalents, and restricted cash	—	1,058,071	193,385	—	1,251,456
House and land inventory	—	7,554,662	125,952	—	7,680,614
Land held for sale	—	24,009	—	—	24,009
Residential mortgage loans available-for-sale	—	—	508,967	—	508,967
Investments in unconsolidated entities	—	59,266	500	—	59,766
Other assets	8,172	688,996	198,518	—	895,686
Intangible assets	—	124,992	—	—	124,992
Deferred tax assets, net	182,461	—	(12,354)	—	170,107
Investments in subsidiaries and intercompany accounts, net	8,103,191	1,081,472	9,279,403	(18,464,066)	—
	<b>\$ 8,293,824</b>	<b>\$ 10,591,468</b>	<b>\$ 10,294,371</b>	<b>\$ (18,464,066)</b>	<b>\$ 10,715,597</b>
<b>LIABILITIES AND SHAREHOLDERS'</b>					

**EQUITY**

Liabilities:										
Accounts payable, customer deposits, accrued and other liabilities	\$	87,892	\$	1,781,893	\$	259,926	\$	—	\$	2,129,711
Income tax liabilities		36,093		—		—		—		36,093
Financial Services debt		—		—		326,573		—		326,573
Notes payable		2,711,659		53,381		—		—		2,765,040
Total liabilities		2,835,644		1,835,274		586,499		—		5,257,417
Total shareholders' equity		5,458,180		8,756,194		9,707,872		(18,464,066)		5,458,180
	\$	8,293,824	\$	10,591,468	\$	10,294,371	\$	(18,464,066)	\$	10,715,597



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

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

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

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

**CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**For the year ended December 31, 2019**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Revenues:</b>					
Homebuilding					
Home sale revenues	\$ —	\$ 9,725,421	\$ 190,284	\$ —	\$ 9,915,705
Land sale and other revenues	—	61,282	1,539	—	62,821
	—	9,786,703	191,823	—	9,978,526
Financial Services	—	—	234,431	—	234,431
	—	9,786,703	426,254	—	10,212,957
<b>Homebuilding Cost of Revenues:</b>					
Home sale cost of revenues	—	(7,485,268)	(143,432)	—	(7,628,700)
Land sale cost of revenues	—	(54,143)	(1,955)	—	(56,098)
	—	(7,539,411)	(145,387)	—	(7,684,798)
Financial Services expenses	—	(483)	(130,287)	—	(130,770)
Selling, general, and administrative expenses	—	(994,262)	(50,075)	—	(1,044,337)
Other expense, net	(5,423)	(46,490)	38,437	—	(13,476)
Intercompany interest	(8,194)	—	8,194	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(13,617)	1,206,057	147,136	—	1,339,576
Income tax (expense) benefit	3,404	(289,102)	(37,178)	—	(322,876)
Income (loss) before equity in income (loss) of subsidiaries	(10,213)	916,955	109,958	—	1,016,700
Equity in income (loss) of subsidiaries	1,026,913	120,622	962,865	(2,110,400)	—
Net income (loss)	1,016,700	1,037,577	1,072,823	(2,110,400)	1,016,700
Other comprehensive income (loss)	100	—	—	—	100
Comprehensive income (loss)	\$ 1,016,800	\$ 1,037,577	\$ 1,072,823	\$ (2,110,400)	\$ 1,016,800

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

**CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**For the year ended December 31, 2018**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Revenues:</b>					
Homebuilding					
Home sale revenues	\$ —	\$ 9,694,703	\$ 123,742	\$ —	\$ 9,818,445
Land sale and other revenues	—	162,012	2,492	—	164,504
	—	9,856,715	126,234	—	9,982,949
Financial Services	—	—	205,382	—	205,382
	—	9,856,715	331,616	—	10,188,331
<b>Homebuilding Cost of Revenues:</b>					
Home sale cost of revenues	—	(7,449,343)	(91,594)	—	(7,540,937)
Land sale cost of revenues	—	(125,016)	(1,544)	—	(126,560)
	—	(7,574,359)	(93,138)	—	(7,667,497)
Financial Services expenses	—	(563)	(146,859)	—	(147,422)
Selling, general, and administrative expenses	—	(974,858)	(37,165)	—	(1,012,023)
Other expense, net	(580)	(53,765)	40,496	—	(13,849)
Intercompany interest	(7,835)	—	7,835	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(8,415)	1,253,170	102,785	—	1,347,540
Income tax (expense) benefit	2,104	(304,218)	(23,403)	—	(325,517)
Income (loss) before equity in income (loss) of subsidiaries	(6,311)	948,952	79,382	—	1,022,023
Equity in income (loss) of subsidiaries	1,028,334	73,097	782,948	(1,884,379)	—
Net income (loss)	1,022,023	1,022,049	862,330	(1,884,379)	1,022,023
Other comprehensive income (loss)	100	—	—	—	100
Comprehensive income (loss)	\$ 1,022,123	\$ 1,022,049	\$ 862,330	\$ (1,884,379)	\$ 1,022,123

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

**CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**For the year ended December 31, 2017**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Revenues:</b>					
Homebuilding					
Home sale revenues	\$ —	\$ 8,229,392	\$ 94,592	\$ —	\$ 8,323,984
Land sale and other revenues	—	57,711	3,831	—	61,542
	—	8,287,103	98,423	—	8,385,526
Financial Services	—	—	192,160	—	192,160
	—	8,287,103	290,583	—	8,577,686
<b>Homebuilding Cost of Revenues:</b>					
Home sale cost of revenues	—	(6,385,167)	(75,985)	—	(6,461,152)
Land sale cost of revenues	—	(131,363)	(3,086)	—	(134,449)
	—	(6,516,530)	(79,071)	—	(6,595,601)
Financial Services expenses	—	(527)	(118,762)	—	(119,289)
Selling, general, and administrative expenses	—	(785,266)	(106,315)	—	(891,581)
Other expense, net	(482)	(63,050)	31,145	—	(32,387)
Intercompany interest	(2,485)	—	2,485	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(2,967)	921,730	20,065	—	938,828
Income tax (expense) benefit	1,127	(483,435)	(9,299)	—	(491,607)
Income (loss) before equity in income (loss) of subsidiaries	(1,840)	438,295	10,766	—	447,221
Equity in income (loss) of subsidiaries	449,061	58,559	226,864	(734,484)	—
Net income (loss)	447,221	496,854	237,630	(734,484)	447,221
Other comprehensive income (loss)	81	—	—	—	81
Comprehensive income (loss)	\$ 447,302	\$ 496,854	\$ 237,630	\$ (734,484)	\$ 447,302

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

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2019**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Net cash provided by (used in) operating activities</b>	\$ 195,371	\$ 858,338	\$ 23,836	\$ —	\$ 1,077,545
Cash flows from investing activities:					
Capital expenditures	—	(48,899)	(9,220)	—	(58,119)
Investment in unconsolidated subsidiaries	—	(8,807)	(708)	—	(9,515)
Cash used for business acquisition	—	(163,724)	—	—	(163,724)
Other investing activities, net	—	3,337	1,792	—	5,129
<b>Net cash provided by (used in) investing activities</b>	—	(218,093)	(8,136)	—	(226,229)
Cash flows from financing activities:					
Proceeds from debt, net of issuance costs	—	—	—	—	—
Repayments of debt	(280,259)	(29,189)	(537)	—	(309,985)
Borrowings under revolving credit facility	—	—	—	—	—
Repayments under revolving credit facility	—	—	—	—	—
Financial Services borrowings (repayments), net	—	—	(21,841)	—	(21,841)
Stock option exercises	6,399	—	—	—	6,399
Share repurchases	(274,333)	—	—	—	(274,333)
Cash paid for shares withheld for taxes	(11,450)	—	—	—	(11,450)
Dividends paid	(122,350)	—	—	—	(122,350)
Intercompany activities, net	486,622	(482,352)	(4,270)	—	—
<b>Net cash provided by (used in) financing activities</b>	(195,371)	(511,541)	(26,648)	—	(733,560)
Net increase (decrease)	—	128,704	(10,948)	—	117,756
Cash, cash equivalents, and restricted cash at beginning of year	—	929,367	204,333	—	1,133,700
Cash, cash equivalents, and restricted cash at end of year	\$ —	\$ 1,058,071	\$ 193,385	\$ —	\$ 1,251,456

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

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2018**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Net cash provided by (used in) operating activities</b>	\$ 494,521	\$ 791,350	\$ 163,876	\$ —	\$ 1,449,747
Cash flows from investing activities:					
Capital expenditures	—	(51,147)	(7,892)	—	(59,039)
Investment in unconsolidated subsidiaries	—	(1,000)	—	—	(1,000)
Cash used for business acquisitions	—	—	—	—	—
Other investing activities, net	—	11,300	6,797	—	18,097
<b>Net cash provided by (used in) investing activities</b>	—	(40,847)	(1,095)	—	(41,942)
Cash flows from financing activities:					
Proceeds from debt, net of issuance costs	(8,164)	—	—	—	(8,164)
Repayments of debt	—	(81,758)	(1,017)	—	(82,775)
Borrowings under revolving credit facility	1,566,000	—	—	—	1,566,000
Repayments under revolving credit facility	(1,566,000)	—	—	—	(1,566,000)
Financial Services borrowings (repayments), net	—	—	(89,393)	—	(89,393)
Stock option exercises	6,555	—	—	—	6,555
Share repurchases	(294,566)	—	—	—	(294,566)
Cash paid for shares withheld for taxes	(7,910)	—	—	—	(7,910)
Dividends paid	(104,020)	—	—	—	(104,020)
Intercompany activities, net	(86,416)	102,821	(16,405)	—	—
<b>Net cash provided by (used in) financing activities</b>	(494,521)	21,063	(106,815)	—	(580,273)
Net increase (decrease)	—	771,566	55,966	—	827,532
Cash, cash equivalents, and restricted cash at beginning of year	—	157,801	148,367	—	306,168
Cash, cash equivalents, and restricted cash at end of year	\$ —	\$ 929,367	\$ 204,333	\$ —	\$ 1,133,700

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

**CONSOLIDATING STATEMENT OF CASH FLOWS**  
**For the year ended December 31, 2017**  
**(\$000's omitted)**

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
<b>Net cash provided by (used in) operating activities</b>	\$ 309,760	\$ 328,163	\$ 25,157	\$ —	\$ 663,080
Cash flows from investing activities:					
Capital expenditures	—	(25,432)	(6,619)	—	(32,051)
Investment in unconsolidated subsidiaries	—	(23,037)	—	—	(23,037)
Cash used for business acquisitions	—	—	—	—	—
Other investing activities, net	—	5,778	(932)	—	4,846
<b>Net cash provided by (used in) investing activities</b>	—	(42,691)	(7,551)	—	(50,242)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	106,183	—	106,183
Proceeds from debt, net of issuance costs	—	—	—	—	—
Repayments of debt	(123,000)	(10,301)	(1,446)	—	(134,747)
Borrowings under revolving credit facility	2,720,000	—	—	—	2,720,000
Repayments under revolving credit facility	(2,720,000)	—	—	—	(2,720,000)
Stock option exercises	27,720	—	—	—	27,720
Share repurchases	(910,331)	—	—	—	(910,331)
Cash paid for shares withheld for taxes	(5,995)	—	—	—	(5,995)
Dividends paid	(112,748)	—	—	—	(112,748)
Intercompany activities, net	814,594	(728,555)	(86,039)	—	—
<b>Net cash provided by (used in) financing activities</b>	(309,760)	(738,856)	18,698	—	(1,029,918)
Net increase (decrease)	—	(453,384)	36,304	—	(417,080)
Cash, cash equivalents, and restricted cash at beginning of year	—	611,185	112,063	—	723,248
Cash, cash equivalents, and restricted cash at end of year	\$ —	\$ 157,801	\$ 148,367	\$ —	\$ 306,168

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

**13. Quarterly results (unaudited)**

**UNAUDITED QUARTERLY INFORMATION**  
**(000's omitted, except per share data)**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total (a)
<b>2019</b>					
<b>Homebuilding:</b>					
Revenues	\$ 1,952,831	\$ 2,433,028	\$ 2,645,550	\$ 2,947,116	\$ 9,978,526
Cost of revenues (b)	(1,494,841)	(1,874,369)	(2,035,972)	(2,279,615)	(7,684,798)
Income before income taxes (c)	204,294	295,698	333,862	402,407	1,236,261
<b>Financial Services:</b>					
Revenues	\$ 43,862	\$ 55,957	\$ 64,815	\$ 69,797	\$ 234,431
Income before income taxes	12,409	25,078	32,284	33,544	103,315
<b>Consolidated results:</b>					
Revenues	\$ 1,996,693	\$ 2,488,985	\$ 2,710,365	\$ 3,016,913	\$ 10,212,957
Income before income taxes	216,703	320,776	366,146	435,951	1,339,576
Income tax expense	(49,946)	(79,735)	(93,042)	(100,153)	(322,876)
Net income	\$ 166,757	\$ 241,041	\$ 273,104	\$ 335,798	\$ 1,016,700
<b>Net income per share:</b>					
Basic	\$ 0.59	\$ 0.86	\$ 0.99	\$ 1.23	\$ 3.67
Diluted	\$ 0.59	\$ 0.86	\$ 0.99	\$ 1.22	\$ 3.66
<b>Number of shares used in calculation:</b>					
Basic	277,637	276,652	272,992	270,843	274,495
Effect of dilutive securities	1,003	932	640	632	802
Diluted	278,640	277,584	273,632	271,475	275,297

(a) Due to rounding, the sum of quarterly results may not equal the total for the year. Additionally, quarterly and year-to-date computations of per share amounts are made independently.

(b) Cost of revenues includes a warranty charge related to a closed-out community of \$9.0 million during the 3rd Quarter (See [Note 11](#)).

(c) Homebuilding income before income taxes includes insurance reserve reversals of \$12.8 million and \$31.1 million during the 2nd and 4th Quarters, respectively; and write-offs of insurance receivables of \$11.6 million and \$12.6 million in the 1st and 2nd Quarters, respectively.



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

**UNAUDITED QUARTERLY INFORMATION**  
**(000's omitted, except per share data)**

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total (a)
<b>2018</b>					
<b>Homebuilding:</b>					
Revenues	\$ 1,924,155	\$ 2,516,958	\$ 2,597,746	\$ 2,944,091	\$ 9,982,949
Cost of revenues (b)	(1,471,488)	(1,900,316)	(1,976,220)	(2,319,473)	(7,667,497)
Income before income taxes (c)	210,358	388,453	365,055	324,938	1,288,804
<b>Financial Services:</b>					
Revenues	\$ 45,938	\$ 52,764	\$ 51,620	\$ 55,059	\$ 205,382
Income before income taxes (d)	13,833	20,717	19,633	4,553	58,736
<b>Consolidated results:</b>					
Revenues	\$ 1,970,093	\$ 2,569,722	\$ 2,649,366	\$ 2,999,150	\$ 10,188,331
Income before income taxes	224,191	409,170	384,688	329,491	1,347,540
Income tax expense	(53,440)	(85,081)	(95,153)	(91,842)	(325,517)
Net income	\$ 170,751	\$ 324,089	\$ 289,535	\$ 237,649	\$ 1,022,023
<b>Net income per share:</b>					
Basic	\$ 0.59	\$ 1.12	\$ 1.01	\$ 0.84	\$ 3.56
Diluted	\$ 0.59	\$ 1.12	\$ 1.01	\$ 0.84	\$ 3.55
<b>Number of shares used in calculation:</b>					
Basic	286,683	285,276	283,489	278,964	283,578
Effect of dilutive securities	1,343	1,378	1,183	1,248	1,287
Diluted	288,026	286,654	284,672	280,212	284,865

- (a) Due to rounding, the sum of quarterly results may not equal the total for the year. Additionally, quarterly and year-to-date computations of per share amounts are made independently.
- (b) Cost of revenues includes land inventory impairments of \$66.9 million and net realizable value adjustments on land held for sale of \$9.0 million in the 4th Quarter. See [Note 2](#) for a complete discussion of land-related charges for the full year.
- (c) Homebuilding income before income taxes includes an insurance reserve reversal of \$37.9 million in the 2nd Quarter (see [Note 11](#)) and write-offs of pre-acquisition costs of \$9.6 million in the 4th quarter (see [Note 2](#)).
- (d) Financial Services income before income taxes includes a charge related to loan origination liabilities of \$16.2 million in the 4th quarter (see [Note 11](#)).

## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of PulteGroup, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PulteGroup, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 30, 2020 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

## Self-insured Risks

Description of the Matter      The Company's reserves for self-insured risks totaled \$709.8 million at December 31, 2019, of which the majority relates to incurred but not reported ("IBNR") losses associated with exposures to construction defects on homes previously sold. As discussed in Notes 1 and 11 of the consolidated financial statements, the Company reserves for costs associated with construction defect claims (including IBNR losses and expected claims management expense) based on actuarial analyses of the Company's historical claims activity. The actuarial analyses that determine the IBNR reserves consider a variety of factors, which principally include the frequency and severity of losses.

Auditing the Company's IBNR reserve for construction defects is complex due to the significant measurement uncertainty associated with the estimate, the use of various actuarial methods, and management's application of significant judgment. In addition, the reserve estimate is sensitive to significant management assumptions, including the frequency and severity assumptions used in the computation of the IBNR reserve and loss development factors for reported claims.

How We Addressed the Matter  
in Our Audit      We obtained an understanding, evaluated the design, and tested the operating effectiveness of the Company's controls that address the risks of material misstatement relating to the measurement and valuation of the IBNR reserve. For example, we tested controls over management's review of the significant actuarial assumptions and the data inputs used by management when estimating IBNR losses.

To test the IBNR reserve associated with construction defects exposures, our audit procedures included, among others, testing the completeness and accuracy of the underlying claims data used in management's estimation calculations and reviewing the Company's reinsurance contracts by policy year to assess the Company's self-insured retentions, deductibles, and coverage limits, which represent inputs to the actuarial models. Furthermore, we involved our actuarial specialists to assist in our assessment of the methodologies used by management to estimate the IBNR reserve. We compared the Company's self-insurance reserve (inclusive of the IBNR estimate) to a range developed by our actuarial specialists based on independently selected assumptions.

## Land Impairments

Description of the Matter      At December 31, 2019, the Company's house and land inventory was \$7.7 billion. As more fully described in Notes 1 and 2 to the consolidated financial statements, the Company assesses each community to identify indicators of potential impairment. When an indicator of potential impairment is identified, the Company evaluates the recoverability of the community by comparing the expected undiscounted cash flows for the community to its carrying value. For any community whose carrying value exceeds the expected undiscounted cash flows, the Company estimates the fair value of the community, and impairment charges are recorded if the carrying value of the community exceeds its fair value. The Company recognized impairment charges of \$8.6 million for the year ended December 31, 2019.

Auditing the Company's projected future undiscounted cash flows and fair value for a community involves subjectivity as estimates of such cash flows and the determination of fair values are sensitive to significant assumptions such as expected average selling prices; expected sales paces; and anticipated land development, construction, and overhead costs specific to each community, as well as the discount rate used in determining a community's fair value.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's processes used to estimate the undiscounted cash flows and fair values of its communities with indicators of potential impairment and to determine the measurement of any related impairment charges. For example, we tested controls over the appropriateness of the assumptions and the completeness and accuracy of the data that management used in the undiscounted cash flow and fair value models.

Our testing of the Company's undiscounted cash flow models, fair value determinations, and impairment charges included, among other audit procedures, assessing the methodologies used, evaluating the completeness and accuracy of the data used by management in its analysis, and evaluating the significant assumptions used by management to project future cash flows and estimate fair values. We also compared community data to the Company's accounting records and recalculated the Company's estimated future cash flows.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1973.

Atlanta, GA  
January 30, 2020

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

This Item is not applicable.

## ITEM 9A. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

### Internal Control Over Financial Reporting

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

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

Management is also responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Management recognizes that there are inherent limitations in the effectiveness of any internal control and effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Additionally, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2019. Management's assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this assessment, management asserts that the Company has maintained effective internal control over financial reporting as of December 31, 2019.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this annual report, has issued its report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2019.

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

To the Shareholders and the Board of Directors of PulteGroup, Inc.

**Opinion on Internal Control over Financial Reporting**

We have audited PulteGroup, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, PulteGroup, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated January 30, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

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

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

/s/ Ernst & Young LLP

Atlanta, GA  
January 30, 2020

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

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

This Item is not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this Item with respect to our executive officers is set forth in Item 4A of this Annual Report on Form 10-K. Information required by this Item with respect to members of our Board of Directors and with respect to our audit committee will be contained in the Proxy Statement for the 2020 Annual Meeting of Shareholders (“2020 Proxy Statement”), which will be filed no later than 120 days after December 31, 2019, under the captions “Election of Directors” and “Committees of the Board of Directors - Audit Committee” and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2020 Proxy Statement under the caption “Delinquent Section 16(a) Reports,” and is incorporated herein by this reference. Information required by this Item with respect to our code of ethics will be contained in the 2020 Proxy Statement under the caption “Corporate Governance - Governance Guidelines; Code of Ethical Business Conduct; Code of Ethics” and is incorporated herein by this reference.

Our code of ethics for principal officers, our code of ethical business conduct, our corporate governance guidelines, and the charters of the Audit, Compensation and Management Development, Nominating and Governance, and Finance and Investment committees of our Board of Directors are also posted on our website and are available in print, free of charge, upon request.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this Item will be contained in the 2020 Proxy Statement under the captions “2019 Executive Compensation” and “2019 Director Compensation” and is incorporated herein by this reference, provided that the Compensation and Management Development Committee Report shall not be deemed to be “filed” with this Annual Report on Form 10-K.

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

Information required by this Item will be contained in the 2020 Proxy Statement under the captions “Beneficial Security Ownership” and “Equity Compensation Plan Information” and is incorporated herein by this reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information required by this Item will be contained in the 2020 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Board of Directors Information” and is incorporated herein by this reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required by this Item will be contained in the 2020 Proxy Statement under the captions “Audit and Non-Audit Fees” and “Audit Committee Preapproval Policies” and is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K:

#### (1) Financial Statements

<a href="#">Consolidated Balance Sheets at December 31, 2019 and 2018</a>	<a href="#">40</a>
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017</a>	<a href="#">41</a>
<a href="#">Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017</a>	<a href="#">42</a>
<a href="#">Consolidated Statements of Shareholders' Equity for the years ended December 31, 2019, 2018, and 2017</a>	<a href="#">43</a>
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017</a>	<a href="#">44</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">45</a>

#### (2) Financial Statement Schedules

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

#### (3) Exhibits

The following exhibits are filed with this Annual Report on Form 10-K or are incorporated herein by reference:

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

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



- (e) [Third Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 7, 2019, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent \(Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 7, 2019\)](#)
- (f) [Description of the Registrant's Securities \(Filed herewith\)](#)
- (10) (a) [PulteGroup, Inc. 401\(k\) Plan \(Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-115570\)\\*](#)
- (b) [PulteGroup, Inc. 2002 Stock Incentive Plan \(Incorporated by reference to our Proxy Statement dated April 3, 2002 and as Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-123223\)\\*](#)
- (c) [PulteGroup, Inc. 2013 Senior Management Incentive Plan \(Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013\)\\*](#)
- (d) [PulteGroup, Inc. 2019 Senior Management Incentive Plan \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 8, 2019\)\\*](#)
- (e) [PulteGroup, Inc. Long-Term Incentive Program \(Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008\)\\*](#)
- (f) [Form of PulteGroup, Inc. Long Term Incentive Award Agreement \(Incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008\)\\*](#)
- (g) [Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Company Performance Measures \(Incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008\)\\*](#)
- (h) [Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Individual Performance Measures \(Incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008\)\\*](#)
- (i) [PulteGroup, Inc. 2013 Stock Incentive Plan \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013\)\\*](#)
- (j) [Amendment Number One to the PulteGroup, Inc. 2013 Stock Incentive Plan dated February 10, 2017 \(Incorporated by reference to Exhibit 10 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2017\)\\*](#)
- (k) [PulteGroup, Inc. 2004 Stock Incentive Plan \(as Amended and Restated as of July 9, 2009\) \(Incorporated by reference to Exhibit 10\(a\) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009\)\\*](#)
- (l) [Form of Restricted Stock Unit Award Agreement \(as Amended\) under PulteGroup, Inc. 2013 Stock Incentive Plan \(Incorporated by reference to Exhibit 10\(k\) of our Annual Report on Form 10-K for the year ended December 31, 2017\)\\*](#)
- (m) [Form of Stock Option Agreement under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans \(Incorporated by reference to Exhibit 10\(s\) of our Annual Report on Form 10-K for the year ended December 31, 2007\)\\*](#)
- (n) [Form of Stock Option Agreement \(as amended\) under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans \(Incorporated by reference to Exhibit 10\(t\) of our Annual Report on Form 10-K for the year ended December 31, 2007\)\\*](#)
- (o) [PulteGroup, Inc. Long Term Compensation Deferral Plan \(As Amended and Restated Effective January 1, 2004\) \(Incorporated by reference to Exhibit 10\(a\) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006\)\\*](#)
- (p) [PulteGroup, Inc. Deferred Compensation Plan For Non-Employee Directors, as amended and restated effective as of January 1, 2017 \(Incorporated by reference to Exhibit 10\(b\) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2017\)\\*](#)
- (q) [Form of Performance Award Agreement under PulteGroup, Inc. 2008 Senior Management Incentive Plan \(Incorporated by reference to Exhibit 10\(a\) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012\)\\*](#)
- (r) [PulteGroup, Inc. Executive Severance Policy \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 12, 2013\)\\*](#)

- (s) [PulteGroup, Inc. Amended Retirement Policy \(Effective November 30, 2017\) \(Incorporated by reference to Exhibit 10\(u\) of our Annual Report on Form 10-K for the year ended December 31, 2017\)\\*](#)
- (t) [Second Amended and Restated Credit Agreement dated June 22, 2018 among PulteGroup, Inc., as Borrower, Bank of America, N.A., as Administrative Agent, and the other Lenders party thereto \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on June 22, 2018\)](#)
- (u) [Amended and Restated Master Repurchase Agreement dated September 4, 2015, among Comerica Bank, as Agent, Lead Arranger and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller \(Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on September 8, 2015\)](#)
- (v) [Second Amendment to Amended and Restated Master Repurchase Agreement dated June 24, 2016 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on June 29, 2016\)](#)
- (w) [Third Amendment to Amended and Restated Master Repurchase Agreement dated August 15, 2016 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on August 17, 2016\)](#)
- (x) [Fourth Amendment to Amended and Restated Master Repurchase Agreement dated December 27, 2016 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on December 29, 2016\)](#)
- (y) [Fifth Amendment to Amended and Restated Master Repurchase Agreement dated August 14, 2017 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on August 15, 2017\)](#)
- (z) [Sixth Amendment to Amended and Restated Master Repurchase Agreement dated August 3, 2018 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on August 9, 2018\)](#)
- (aa) [Ninth Amendment to Amended and Restated Master Repurchase Agreement dated August 1, 2019 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on August 5, 2019\)](#)
- (ab) [Tenth Amendment to Amended and Restated Master Repurchase Agreement dated August 7, 2019 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on August 9, 2019\)](#)
- (ac) [Letter Agreement by and among William J. Pulte \(grandson of the founder\), William J. Pulte \(founder\), William J. Pulte Trust dtd 01/26/90, Joan B. Pulte Trust dtd 01/26/90 and PulteGroup, Inc., dated September 8, 2016 \(Incorporated by reference to Exhibit 10.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2016\)](#)
- (ad) [Transition Agreement by and between PulteGroup, Inc. and Richard J. Dugas, Jr., dated September 8, 2016 \(Incorporated by reference to Exhibit 10.2 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on September 8, 2016\)\\*](#)
- (21) [Subsidiaries of the Registrant \(Filed herewith\)](#)
- (23) [Consent of Independent Registered Public Accounting Firm \(Filed herewith\)](#)
- (24) [Power of Attorney \(Filed herewith\)](#)
- (31) (a) [Rule 13a-14\(a\) Certification by Ryan R. Marshall, President and Chief Executive Officer \(Filed herewith\)](#)
- (b) [Rule 13a-14\(a\) Certification by Robert T. O'Shaughnessy, Executive Vice President and Chief Financial Officer \(Filed herewith\)](#)
- (32) [Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14\(b\) of the Securities Exchange Act of 1934 \(Furnished herewith\)](#)
- 101.INS Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF	InlineXBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

\* Indicates a management contract or compensatory plan or arrangement

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

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

PULTEGROUP, INC.  
(Registrant)

January 30, 2020

By: /s/ Robert T. O'Shaughnessy  
Robert T. O'Shaughnessy  
Executive Vice President and Chief Financial Officer

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

January 30, 2020

<p><u>/s/ Ryan R. Marshall</u> Ryan R. Marshall President and Chief Executive Officer (Principal Executive Officer) and Member of Board of Directors</p>	<p><u>/s/ Robert T. O'Shaughnessy</u> Robert T. O'Shaughnessy Executive Vice President and Chief Financial Officer (Principal Financial Officer)</p>	<p><u>/s/ James L. Ossowski</u> James L. Ossowski Senior Vice President, Finance (Principal Accounting Officer)</p>
<p>Brian P. Anderson</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>Bryce Blair</p>	<p>Non-Executive Chairman of Board of Directors</p>	<p>}</p>
<p>Richard W. Dreiling</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>Thomas J. Folliard</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>Cheryl W. Grisé</p>	<p>Member of Board of Directors</p>	<p><u>/s/ Robert T. O'Shaughnessy</u> Robert T. O'Shaughnessy</p>
<p>André J. Hawaux</p>	<p>Member of Board of Directors</p>	<p>Executive Vice President and Chief Financial Officer</p>
<p>John R. Peshkin</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>Scott F. Powers</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>William J. Pulte</p>	<p>Member of Board of Directors</p>	<p>}</p>
<p>Lila Snyder</p>	<p>Member of Board of Directors</p>	<p>}</p>

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

PulteGroup, Inc., a Michigan corporation (the "Company"), has two classes of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): Common Shares, \$0.01 par value per share ("Common Shares") and Series A Junior Participating Preferred Share Purchase Rights (the "Preferred Rights"). The Common Shares are listed on The New York Stock Exchange under the ticker symbol "PHM". Computershare Trust Company, N.A. is the transfer agent and registrar for the Common Shares. Prior to the distribution date (as such term is defined below), the Preferred Rights are associated with the Common Shares, are evidenced by Common Share certificates and are transferable with and only with the underlying Common Shares.

The following is a description of the rights of our Common Shares and Preferred Rights and related provisions of the Company's Restated Articles of Incorporation (the "Articles"), Amended and Restated By-laws (the "By-laws"), applicable Michigan law, Certificate of Designation of Series A Junior Participating Preferred Shares ("Certificate of Designation") and that certain Amended and Restated Section 382 Rights Agreement (as amended as of March 14, 2013, March 10, 2016 and March 7, 2019, the "Rights Plan") by and between the Company and Computershare Trust Company, N.A., as rights agent. This description is qualified in its entirety by, and should be read in conjunction with, the Articles, the By-laws, applicable Michigan law, the Certificate of Designation and the Rights Plan.

**DESCRIPTION OF COMMON SHARES**

**Authorized Capital Stock**

The Company's authorized capital stock consists of 500,000,000 Common Shares and 25,000,000 Preferred Shares, \$0.01 par value (the "Preferred Shares"). As of December 31, 2019, 270,235,297 Common Shares were issued and outstanding and no Preferred Shares were issued or outstanding.

***Fully Paid and Nonassessable***

All of the outstanding Common Shares are fully paid and nonassessable and are not subject to further calls or assessments by us.

***Voting Rights***

The holders of Common Shares are entitled to one vote per share on all matters to be voted on by such holders. Holders of Common Shares are not entitled to cumulative voting rights. Other than as provided in the Articles or pursuant to applicable law and subject to the voting rights of any holders of Preferred shares, if an action is to be taken by vote of the shareholders, it shall be authorized by a majority of the votes cast by the holders of Common Shares entitled to vote on the action in all matters other than the election of directors for which the number of nominees exceeds the number of directors to be elected.

***Dividends***

The holders of Common Shares are entitled to receive such dividends, if any, as may be declared from time to time by the Company's board of directors (the "Board") in its discretion from funds legally available therefor, subject to the rights of any holders of our Preferred Shares to receive such dividends.

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***Right to Receive Liquidation Distributions***

Upon liquidation, dissolution or winding-up, the holders of Common Shares are entitled to share ratably in any assets remaining available for distribution after the satisfaction in full of the prior rights of creditors, including holders of our indebtedness, and the aggregate liquidation preference of any Preferred Shares then outstanding.

***No Preemptive or Similar Rights***

Our Common Shares have no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions with respect to such Common Shares.

***Preferred Shares***

Our Board has authority to divide the 25,000,000 authorized Preferred Shares into series and to fix the rights and preferences of any series so established. Variations between different series may be created by the Board with respect to such matters as voting rights, rate of dividend, priority of payment, rights of accumulation, redemption or signing fund terms, preferences upon liquidation or dissolution, conversion rights and any other preferences or rights.

If we offer Preferred Shares in the future, the Board will determine the terms of such shares, including the following, where applicable:

- the designation of the shares and the number of shares that constitute the series;
  - the dividend rate (or the method of calculating dividends), if any, on the shares of the series and the priority as to payment of dividends with respect to other classes or series of our shares of capital stock;
  - whether dividends will be cumulative or non-cumulative and, if cumulative, the date from which dividends on the Preferred Shares will accumulate;
  - the dividend periods (or the method of calculating the dividend periods);
  - whether and the extent to which such Preferred Shares shall be entitled to participate in dividends with shares of any other series or class of stock;
  - the voting rights of the Preferred Shares, if any;
  - the liquidation preference and the priority as to payment of the liquidation preference with respect to other classes or series of our capital stock and any other rights of the shares of the class or series upon our liquidation, dissolution or winding-up;
  - whether or not the shares of the series will be convertible into or exchangeable for securities and, if so, the security into which they are convertible or exchangeable and the terms and conditions of conversion or exchange, including the conversion or exchange price or the manner of determining it;
  - whether or not and on what terms the shares of the series will be subject to redemption or repurchase at our option;
  - whether the Preferred Shares of the series will be listed on a national securities exchange or quoted on an automated quotation system;
  - federal income tax considerations; and
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- the other material terms, rights and privileges and any qualifications, limitations or restrictions of the rights or privileges of the series.

## **DESCRIPTION OF PREFERRED RIGHTS**

Each Preferred Right entitles its holder, under the circumstances described below, to purchase from us one one-thousandth of a Series A Preferred Share (as defined below) at a purchase price of \$50 per right, subject to adjustment.

### ***Series A Preferred Shares***

Of our 25,000,000 authorized Preferred Shares, our Board has designated 500,000 shares as “Series A Junior Participating Preferred Shares” (the “Series A Preferred Shares”).

### ***Ranking***

The Series A Preferred Shares will rank junior to all other series of our Preferred Shares as to payment of dividends and the distribution of assets, whether or not upon our dissolution, liquidation or winding up, unless the terms of any such series provides otherwise.

### ***Dividends***

Subject to the rights of any senior-ranking shares, commencing upon the first quarterly dividend payment date after the first issuance of shares of Series A Preferred Shares, holders of our Series A Preferred Shares are entitled to receive quarterly dividends in an amount per share equal to the greater of (i) \$1.00 per share or (ii) subject to certain adjustment provisions, 1000 times the aggregate per share amount of all cash dividends plus 1000 times the aggregate per share amount of all non-cash dividends or other distributions (other than a dividend payable in Common Shares or a subdivision of outstanding Common Shares (by reclassification or otherwise) (collectively, “common share adjustments”)) declared on Common Shares since the immediately preceding quarterly dividend payment date or, with respect to the first quarterly dividend payment date, since the first issuance of any shares of Series A Preferred Shares, all subject to adjustment in the event of a declaration of a common-share-dividend on our Common Shares or a subdivision or combination of our outstanding shares.

Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Shares from the quarterly dividend payment date immediately following the date of issue of such Series A Preferred Shares, unless such shares are issued prior to the record date for the first quarterly dividend payment date, in which case dividends on such shares shall begin to accrue from the date such shares are issued, or unless such shares are issued on a quarterly dividend payment date or a date after the record date for a quarterly dividend and before such quarterly dividend payment date, in either of which events such dividends will begin to accrue and be cumulative from such quarterly dividend payment date. Accrued but unpaid dividends on the Series A Preferred Shares will not bear interest.

Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Shares are in arrears, until all such arrears, whether or not declared, have been paid in full, we may not:

- declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire any Common Shares or other shares ranking junior to the Series A Preferred Shares;
  - declare or pay dividends on or make any other distributions on any shares ranking equally with the Series A Preferred Shares, except dividends paid ratably on the Series A Preferred Shares and all such equal-ranking shares on which dividends are payable or in arrears;
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- redeem or purchase or otherwise acquire any shares ranking equally with the Series A Preferred Shares, except such redemption, purchase or acquisition is done in exchange for shares of our capital stock ranking junior to the Series A Preferred Shares; or
- purchase or otherwise acquire any Series A Preferred Shares or any shares ranking equally with the Series A Preferred Shares, except in accordance with a purchase offer made to all holders of such shares upon such terms as our Board determines in good faith will result in fair and equitable treatment among such shares.

### *Voting*

Holders of Series A Preferred Shares are entitled to 1000 votes per share held (subject to adjustment for common share adjustments). Except as otherwise provided by law or the Certificate of Designation, holders of Series A Preferred Shares will be entitled to vote collectively as a single class with holders of Common Shares on all matters submitted to a vote of our shareholders. In addition, at any time dividends on any Series A Preferred Shares are in arrears in an amount equal to six quarterly dividends, holders of Series A Preferred Shares and holders of our other outstanding Preferred Shares, if any, with dividends in arrears in an amount equal to six quarterly dividends, voting as a class, irrespective of series, will have the right to elect two directors to our Board. Holders of Series A Preferred Shares will cease to be entitled to participate in such election when all accrued and unpaid dividends on all outstanding Series A Preferred Shares for all previous quarterly dividend periods and for the current quarterly dividend period have been declared and paid or set apart for payment.

### *Liquidation*

In the event of our liquidation, dissolution or winding up, the holders of Series A Preferred Shares shall be entitled to receive a liquidation payment in an amount per Series A Preferred Share equal to \$1,000, plus all accrued and unpaid dividends and distributions on such share, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). After payment of the full amount of the Series A Liquidation Preference to which they are entitled, holders of Series A Preferred Shares shall not receive any additional distributions unless holders of our Common Shares have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 1,000 (as adjusted for common share adjustments). After we have paid the full amount of the Series A Liquidation Preference and the Common Adjustment to all entitled holders, holders of Series A Preferred Shares and holders of Common Shares shall share ratably in our remaining assets. If our available assets are insufficient to pay the Series A Liquidation Preference and the liquidation preference of all other series of our Preferred Shares, if any, ranking equally with the Series A Preferred Shares, then we shall distribute our remaining assets ratably to the holders of Series A Preferred Shares and such other preferred shares in proportion to their respective liquidation preferences.

### *Redemption*

The Series A Preferred Shares are not redeemable.

### *Protection Against Adverse Amendments*

Our Articles of Incorporation may not be amended in any manner that would materially alter or change the powers, preferences or special rights of the Series A Preferred Shares without the affirmative vote of the holders of a majority of the outstanding Series A Preferred Shares, voting separately as a class.

### *Rights Plan*

On March 18, 2010, we entered into the Rights Plan with Computershare Trust Company, N.A., as rights agent, which amended and restated that certain Section 382 Rights Agreement, dated as of March 5, 2009, as amended as of April 7, 2009 and as of September 24, 2009 (collectively, the "Original Rights Agreement"), between the Company and Computershare Trust Company, N.A., as rights agent. Our Board had previously declared a dividend

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distribution of one Preferred Right for each outstanding Common Share to shareholders of record at the close of business on March 16, 2009, pursuant to the Original Rights Agreement.

Our Board adopted the Rights Plan in an effort to protect shareholder value by attempting to protect against a possible limitation on our ability to use our net operating loss carryforwards (the “NOLs”) and certain other tax benefits to reduce potential future U.S. federal income tax obligations. If we experience an “ownership change,” as defined in Section 382 of the Code and the regulations thereunder, our ability to fully utilize the NOLs and certain other tax benefits on an annual basis will be substantially limited, and the timing of the usage of the NOLs and such other benefits could be substantially delayed, which could therefore significantly impair the value of those assets.

The Rights Plan is intended to act as a deterrent to any person or group, together with its affiliates and associates, being or becoming the beneficial owner of 4.9% or more of our (i) Common Shares, (ii) Preferred Shares (other than Preferred Shares described in Section 1504(a)(4) of the Code), and (iii) any other interest in us that would be treated as “stock” pursuant to Treasury Regulation § 1.382-2T(f)(18) (collectively, “covered securities”).

The following general summary of the Rights Plan is qualified in its entirety by reference to the Rights Plan, which is filed as an exhibit to the registration statement of which this prospectus forms a part.

*The Rights.* Each Preferred Right entitles its holder, under the circumstances described below, to purchase from us one one-thousandth of a Series A Preferred Share at a purchase price of \$50 per Preferred Right, subject to adjustment. Our Common Shares issued while the Rights Plan is in effect will be issued with Preferred Rights attached.

*Acquiring Person.* Under the Rights Plan, an “acquiring person” is any person or group, who or which, together with its affiliates and associates, becomes a beneficial owner of 4.9% or more of our covered securities, other than solely as a result of (a) a reduction in the amount of our covered securities outstanding; (b) the exercise of any options, warrants, rights or similar interests (including restricted shares) granted by us to our directors, officers and employees; (c) any unilateral grant of any of our covered securities by us or (d) any issuance of our covered securities by us or any share dividend, share split or similar transaction effected by us in which all holders of our covered securities are treated equally.

A person shall be deemed to be a “beneficial owner” of, shall be deemed to have “beneficial ownership” and shall be deemed to “beneficially own” any securities which such person directly owns, or would be deemed to constructively own, pursuant to Section 382 of the Code and the regulations promulgated thereunder.

The term “acquiring person,” however, does not include:

- us, any of our subsidiaries, any employee benefit plan or other compensation arrangement of ours or of any of our subsidiaries, or any entity organized, appointed or established by us or any of our subsidiaries for or pursuant to the terms of any such plan or compensation arrangement;
  - any exempted person (as defined below);
  - William J. Pulte, any spouse of William J. Pulte, any descendant of William J. Pulte or the spouse of any such descendant, the estate of any of the foregoing or any trust or other arrangement for the benefit of any of the foregoing or any charitable organization established by any of the foregoing (the “Pulte Family”);
  - any group which includes any member or members of the Pulte Family if a majority of the covered securities of such group are beneficially owned by a member or members of the Pulte Family;
  - any person or group who becomes the beneficial owner of 4.9% or more of our covered securities as a result of an exempted transaction (as defined below);
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- any person whom or which our Board in good faith determines has inadvertently acquired beneficial ownership of 4.9% or more of our covered securities, so long as such person promptly enters into, and delivers to us, an irrevocable commitment to divest as promptly as practicable, and thereafter divests as promptly as practicable a sufficient number of our covered securities so that such person would no longer be a beneficial owner of 4.9% or more of our covered securities; or
- any affiliate, associate or stockholder of Centex Corporation, or the general partners, limited partners or members of such stockholders who would have been an acquiring person solely as a result of the execution, delivery or performance of the merger agreement between us and Centex or certain voting agreements relating to such merger until such time that such person acquires beneficial ownership of additional covered securities of ours.

Our Board may, in its sole discretion, exempt any person or group who would otherwise be an acquiring person from being deemed an acquiring person for purposes of the Rights Plan if it determines at any time prior to the time at which the Preferred Rights are no longer redeemable that the beneficial ownership of such person or group would not jeopardize, endanger or limit (in timing or amount) the availability of our NOLs and other tax benefits. Any such person or group is an “exempted person” under the Rights Plan. Our Board, in its sole discretion, may subsequently make a contrary determination and such person would then become an acquiring person.

An “exempted transaction” is a transaction that our Board determines, in its sole discretion, is an exempted transaction and, unlike the determination of an exempted person, such determination is irrevocable.

*Separation from Common Shares.* Initially, the Preferred Rights will be associated with our Common Shares and evidenced by Common Share certificates, which will contain a notation incorporating the Rights Plan by reference, and will be transferable with and only with the underlying Common Shares. Subject to certain exceptions, the Preferred Rights become exercisable and trade separately from our Common Shares only upon the “distribution date,” which occurs upon the earlier of:

- 10 days following a public announcement that a person or group of persons has become an acquiring person or such earlier date as a majority of our Board becomes aware of the existence of an acquiring person (the “share acquisition date”) (unless, prior to the expiration of our right to redeem the Preferred Rights, such person or group is determined by our Board to be an “exempted person”; in which case the share acquisition date will be deemed not to have occurred); or
- 10 business days (or later date if determined by our Board prior to such time as any person or group becomes an acquiring person) following the commencement of a tender offer or exchange offer which, if consummated, would result in a person or group becoming an acquiring person.

Until the distribution date, the surrender for transfer of any of outstanding Common Shares will also constitute the transfer of the Preferred Rights associated with those shares.

As soon as practicable after the distribution date, separate certificates or book-entry statements will be mailed to holders of record of Common Shares as of the close of business on the distribution date. From and after the distribution date, the separate Preferred Rights certificates or book-entry statements alone will represent the Preferred Rights. Except as otherwise provided in the Rights Plan, only Common Shares issued prior to the distribution date will be issued with Preferred Rights.

*Expiration.* The Preferred Rights are not exercisable until the distribution date and, unless earlier redeemed or exchanged by us as described below, will expire upon the earliest of:

- the close of business on June 1, 2022 (the “Expiration Date”);
  - the time at which the Preferred Rights are redeemed;
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- the time at which the Preferred Rights are exchanged;
- the close of business on the effective date of the repeal of Section 382 or any successor statute if our Board determines that the Rights Plan is no longer necessary or desirable for the preservation of certain tax benefits; and
- the close of business on the first day of our taxable year to which our Board determines that certain tax benefits may not be carried forward.

*Effects of Triggering Event.* If a person or group becomes an acquiring person (a “flip-in event”), each holder of a Preferred Right (other than any acquiring person and certain transferees of an acquiring person, whose Preferred Rights automatically become null and void) will have the right to receive, upon exercise, Common Shares having a value equal to two times the exercise price of the Preferred Right. If an insufficient number of Common Shares are available for issuance, then our Board is required to substitute cash, reduction in the exercise price, property or other securities of ours for our Common Shares. The Preferred Rights may not be exercised following a flip-in event while we have the ability to cause the Preferred Rights to be redeemed, as described below.

For example, at an exercise price of \$50 per Preferred Right, each Preferred Right not owned by an acquiring person (or by certain transferees thereof) following a flip-in event would entitle its holder to purchase \$100 worth of our Common Shares (or other consideration, as noted above) for \$50. Assuming that our Common Shares had a per share value of \$15 at that time, the holder of each valid Preferred Right would be entitled to purchase approximately 6.7 Common Shares for \$50.

*Exchange.* At any time after there is an acquiring person and prior to the acquisition by the acquiring person of 50% or more of our outstanding Common Shares, our Board may exchange the Preferred Rights (other than Preferred Rights owned by the acquiring person and certain transferees thereof which will have become void), in whole or in part, at an exchange ratio of one Common Share, or, at its option, one one-thousandth of a Series A Preferred Share (or of a share of a class or series of our Preferred Shares having equivalent rights, preferences and privileges (“equivalent preferred shares”)), per Preferred Right (subject to adjustment).

*Adjustments.* The exercise price payable, and the number of Preferred Shares or other securities or property issuable, upon exercise of the Preferred Rights are subject to adjustment from time to time to prevent dilution:

With certain exceptions, no adjustment in the exercise price will be required until cumulative adjustments amount to at least 1% of the exercise price. No fractional Series A Preferred Shares will be issued, and, in lieu thereof, an adjustment in cash will be made based on the market price of the Series A Preferred Shares on the last trading day prior to the date of exercise.

*Redemption.* In general, we may redeem the Preferred Rights in whole, but not in part, at a price of \$0.001 per Preferred Right (subject to adjustment and payable in cash, Common Shares or other consideration deemed appropriate by our Board) at any time until the earlier of (i) ten days following the share acquisition date and (ii) the Expiration Date. Immediately upon the action of our Board authorizing any redemption, the Preferred Rights will terminate, and the only right of the holders of Preferred Rights will be to receive the redemption price.

*Shareholder Rights; Tax Effects.* Until a Preferred Right is exercised, its holder will have no rights as our shareholder, including, without limitation, the right to vote, the right to receive dividends or liquidation rights. Similarly, the Preferred Rights are not convertible and no preemptive rights or sinking fund provisions apply to the Preferred Rights. While the distribution of the Preferred Rights will not result in the recognition of taxable income by us or our shareholders, shareholders may, depending upon the circumstances, recognize taxable income after a flip-in event.

*Amendment.* The terms of the Preferred Rights may be amended by our Board without the consent of the holders of the Preferred Rights, including, without limitation, to extend the Expiration Date of the Rights Plan and to increase

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or decrease the purchase price. Once there is an acquiring person, however, no amendment can adversely affect the interests of the holders of the Preferred Rights.

### ***Transfer Restrictions***

Our By-laws contain certain restrictions on the direct or indirect transfer of (i) Common Shares, (ii) Preferred Shares (other than Preferred Shares described in Section 1504(a)(4) of the Internal Revenue Code of 1986, as amended (the “Code”)), (iii) warrants, rights or options (including options within the meaning of Sections 1.382-2T(h)(4)(v) and 1.382-4 of the regulations promulgated under the Code by the United States Department of the Treasury (“Treasury Regulations”)) to purchase our securities and (iv) any interest in us that would be treated as “stock” pursuant to Treasury Regulation § 1.382-2T(f)(18). The restrictions are designed to prohibit any such transfers that could limit or impair our ability to use our net operating loss carryforwards, capital loss forwards, general business credit carryforwards, alternative minimum tax credit forwards, foreign tax credit carryforwards, and similar tax benefits (collectively, the “tax benefits”).

Specifically, subject to certain limited exceptions, the transfer restrictions prohibit any such transfers (including the creation or grant of an option) to the extent that, as a result of such transfer (or any series of transfers of which such transfer is a part), either (i) any person or group of persons would become the owner of 4.9% or more of our outstanding Common Shares, whether directly or indirectly, or (ii) the percentage ownership of an existing 4.9%-or-more holder of our outstanding Common Shares would increase. For purposes of the transfer restrictions, a person’s ownership of Common Shares is regarded as including shares such person would be deemed to constructively own or which otherwise would be aggregated with shares owned by such person under Section 382 of the Code, and the Treasury Regulations thereunder.

The transfer restrictions will remain in effect until (i) the repeal of Section 382 of the Code or any successor law if our Board determines that the transfer restrictions are no longer necessary for the preservation of the tax benefits, (ii) the beginning of a taxable year of ours to which Board determines that no tax benefits may be carried forward or (iii) such date as our Board shall fix as the expiration date of the transfer restrictions.

The transferee of any such prohibited transfer will not be recognized as our shareholder for any purpose whatsoever in respect of the shares which are the subject of the prohibited transfer (such shares, the “excess shares”). Until the excess shares are acquired by another person in a transfer that is not prohibited, the purported transferee will not be entitled with respect to such excess shares to any rights as our shareholder, including the right to vote such excess shares and to receive dividends or distributions, whether liquidating or otherwise, in respect of such excess shares, if any, and the excess shares will be deemed to remain with the transferor unless and until the excess shares are transferred in a manner permitted under our By-laws.

As a condition to the registration of the transfer of any shares, any person who is a beneficial, legal or record holder of any shares, and any proposed transferee and any person controlling, controlled by or under common control with the proposed transferee, shall provide such information as we may request from time to time to determine compliance with these transfer restrictions or the status of our tax benefits.

### ***Depositary Shares***

We may elect to offer fractional Preferred Shares rather than full shares. If so, we will issue “depositary receipts” for these “depositary shares.” Each depositary share will represent a fraction of a share of a particular series of Preferred Shares. If we offer depositary shares pursuant to these provisions in the future, the applicable prospectus supplement will describe the terms of the depositary shares and the underlying Preferred Shares to which the depositary shares relate.

### ***Voting Rights***

Our Articles require, in addition to any vote required by law, the affirmative vote of the holders of at least 69.3% of the shares voting at a meeting of shareholders in connection with (a) any merger or consolidation of the Company or

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any subsidiary with any “Interested Shareholder,” as defined therein, or any corporation which is, or after the merger or consolidation would be, an “Affiliate,” as defined therein, of an Interested Shareholder that was an Interested Shareholder prior to the transaction; (b) certain transfers to any Interested Shareholder or Affiliate of an Interested Shareholder, other than the Company or any of our subsidiaries, of any of our assets or any subsidiary which have an aggregate book value of 10% or more of consolidated net worth; (c) certain transfers by us or any subsidiary of “Equity Securities,” as defined therein, of the Company or any subsidiary which have an aggregate market value of 5% or more of the total market value of our outstanding shares to any Interested Shareholder or Affiliate of an Interested Shareholder, other than us or our subsidiaries (subject to certain exceptions); (d) the adoption of any plan or proposal for our liquidation or dissolution proposed by or on behalf of an Interested Shareholder or any Affiliate of an Interested Shareholder; (e) any reclassification of securities or recapitalization of the Company, or any merger, consolidation or share exchange by us with any of our subsidiaries which has the effect of increasing the proportionate amount of the outstanding shares of any class of our Equity Securities or Equity Securities of any subsidiary which is directly or indirectly owned by an Interested Shareholder or any Affiliate of an Interested Shareholder (each of the Transactions referred to in clauses (a) through (e), a “Business Combination”); or (f) any agreement, contract or arrangement providing for one or more of the foregoing. An “Interested Shareholder” generally includes any beneficial owner of 10% or more of the voting power of the Company or any Affiliate of ours that at any time within the two year period prior to the date in question was the beneficial owner of 10% or more of the voting power of the Company.

The foregoing supermajority vote is not required if (i) the Board approves such Business Combination and either the Interested Shareholder has been an Interested Shareholder continuously for at least two years prior to the date of the Board approval or such proposed transaction was approved by the Board prior to the time the Interested Shareholder became an Interested Shareholder or (ii) a majority of the outstanding stock of such other corporation is owned by us or our subsidiaries.

The foregoing supermajority provisions may only be amended by the affirmative vote of 69.3% of the shares voting on the proposed amendment at a meeting of shareholders, in addition to any vote otherwise required by law.

#### ***Certain Anti-Takeover Effects and Provisions of our Articles and By-laws***

##### *Number of Directors; Filing Vacancies; Removal*

Our Charter provides that the number of directors will be between three and fifteen directors and our Board will fix the exact number of directors to comprise our Board. A director may only be removed by vote of the holders of a majority of the shares entitled to vote at an election of directors. Additionally, any vacancy on the Board may only be filled by a majority of the remaining directors then in office, whether or not less than a quorum, or by a sole remaining director. These provisions have the effect of making it difficult for a potential acquirer to gain control of our Board.

##### *Special Meetings*

Our By-laws provide that special meetings may be called only by the Board, our President or our Secretary, or by such persons upon a request in writing signed by a majority of the Board or by the holders of not less than twenty percent of the capital stock of the Company issued and outstanding and entitled to vote thereat. This provision may delay consideration of a shareholder proposal until the Company’s next annual meeting unless a special meeting is called pursuant to our By-laws.

##### *Proxy Access and Advance Notice of Shareholder Nominations*

Our By-laws have proxy access and advance notice procedures for shareholders to make nominations of candidates for election as directors. No business other than that stated in the notice for such meeting shall be transacted at any meeting without the unanimous consent of all the shareholder entitled to vote thereat. Our By-laws govern shareholder nominations of candidates for election as directors except with respect to the rights of holders of our Preferred Shares.

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Under our By-laws, any shareholder entitled to vote in the election of directors may nominate one or more persons for election as directors at a meeting if written notice or notice by electronic transmission of such shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States mail, postage prepaid, to the Corporate Secretary of the Company not later than 60 days in advance of such meeting (except that, if public disclosure of the meeting is made less than 70 days prior to the meeting, the notice need only be received within 10 days following such public disclosure). Each such notice must be accompanied by a written consent of each proposed nominee to being named in the proxy statement as a nominee and to serving as a director if elected, together with a written representation that such person currently intends to serve as a director for the term for which he or she is standing for election and must set forth:

(i) as to each person whom the shareholder proposes to nominate for election as a director: (1) the name, age, business address and residence address of the person; (2) the principal occupation or employment of the person; (3) the class and number of common shares of the Company which are owned beneficially or of record by such person; and (4) any other information relating to the person that would be required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Section 14 of the Exchange Act; and

(ii) as to the shareholder giving the notice: (1) the name and address, as they appear on the Company's books, of such shareholder and the name and address of the beneficial owner, if any, on whose behalf the nomination is made; (2) the class and number of Common Shares which are owned beneficially or of record by such shareholder or such beneficial owner on the date of such shareholder's notice; (3) whether and the extent to which any hedging or other similar transaction, agreement, arrangement or understanding has been entered into by or on behalf of such shareholder or beneficial owner with respect to any Common Share; (4) a description of all arrangements or understandings between such shareholder or such beneficial owner and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such shareholder; (5) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to nominate the persons named in its notice; and (6) any other information relating to such shareholder or such beneficial owner that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act.

In addition and pursuant our By-laws, a shareholder, or group of up to 20 shareholders, that has owned continuously for at least three years Common Shares representing an aggregate of at least 3% of the Company's outstanding Common Shares, may nominate and include in the Company's proxy materials director nominees constituting up to 20% of the Company's Board of Directors, provided that the shareholder(s) and nominee(s) satisfy the requirements in the By-laws. A notice of such nomination must be provided to the Secretary of the Company not less than one hundred twenty nor more than one hundred fifty days in advance of the date which is the anniversary of the date the Company's proxy statement was released to security holders in connection with the previous year's annual meeting, except where information or documents are required to be provided after the date the notice is first submitted, as set forth in the By-laws, or, if the date of the applicable annual meeting has been changed by more than thirty days from the date contemplated at the time of the previous year's proxy statement, not less than ninety days before the date of the applicable annual meeting, or, if later, the tenth day following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting, whichever occurs first, and in no event shall the adjournment or postponement of an annual meeting, or the announcement thereof, commence a new time period (or extend any time period) for the giving of the notice. In addition, the Company may solicit against a shareholder nominee included in the proxy statement and, in certain circumstances, may omit a nominee from its proxy statement.

The nominating notice must provide certain information specified in the By-laws, including, without limitation:

- documentary evidence verifying and certifying that, the nominating shareholder owns, and has continuously owned for the preceding three years, the minimum number of shares required, and the nominating shareholder's agreement to provide documentary evidence verifying and certifying the nominating shareholder's continuous ownership of the minimum number of shares through the record date;
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- an undertaking to provide immediate notice if the nominating shareholder ceases to own the minimum number of shares prior to the date of the annual meeting;
- a copy of the Schedule 14N (or any successor form) relating to the shareholder nominee, completed and filed with the Securities and Exchange Commission by the nominating shareholder as applicable, in accordance with Securities and Exchange Commission rules;
- the written consent of each shareholder nominee to being named in the Company's proxy statement, form of proxy and ballot as a nominee and to serving as a director if elected;
- a written notice of the nomination of such shareholder nominee that includes additional information, agreements, representations and warranties by the nominating shareholder or each member of a nominating group;
- an executed agreement pursuant to which the nominating shareholder or each member of a nominating group agrees to a number of specified covenants and other provisions;
- an executed questionnaire provided by the Company's Secretary upon request, which must be submitted within ten days of the nominating shareholder's first submission of the nomination notice; and
- an executed agreement, which must be submitted within ten days of the nominating shareholder's first submission of the nomination notice, by the shareholder nominee with respect to certain representations, warranties and covenants.

***Certain Provisions of the Michigan Business Corporation Act***

Chapter 7A of the Michigan Business Corporation Act ("MBCA") may affect attempts to acquire control of the Company. Pursuant to our Articles of Incorporation, we have expressly elected not to be subject to the provisions of Chapter 7A of the MBCA; however, the Board may terminate this election in whole or in part by action of the majority of directors then in office. Chapter 7A applies to "Business Combinations," defined to include, among other transactions, certain mergers, substantial sales of assets or securities and recapitalizations between covered Michigan business corporations or their subsidiaries and an "Interested Shareholder" (generally a beneficial owner of 10% or more of the voting power of the Company's outstanding voting stock). In general, Chapter 7A requires, for any Business Combination, an advisory statement from the Board, the approval of holders of at least 90% of each class of the shares entitled to vote and the approval of holders of at least two-thirds of such voting shares not held by the Interested Shareholder, its affiliates and associates. These requirements do not apply, however, where the Interested Shareholder satisfies certain "fair price," form of consideration and other requirements and at least five years have elapsed after the person involved became an Interested Shareholder. Our Board has the power to elect to be subject to Chapter 7A as to specifically identified or unidentified Interested Shareholders.

**SUBSIDIARIES OF PULTEGROUP, INC.**  
**As of December 31, 2019**

<b>Company Name</b>	<b>Jurisdiction of Formation</b>
Centex LLC	Nevada
Centex Construction Of New Mexico, LLC	Delaware
Centex Development Company, L.P.	Delaware
Centex Homes	Nevada
Centex Homes, LLC	Delaware
Centex International II, LLC	Nevada
Centex Real Estate Company, LLC	Nevada
Contractors Insurance Company of North America, Inc., a Risk Retention Group	Hawaii
Dean Realty Company	Michigan
Del Webb California Corp.	Arizona
Del Webb Communities, Inc.	Arizona
Del Webb Communities of Illinois, Inc.	Arizona
Del Webb Corporation	Delaware
Del Webb Home Construction, Inc.	Arizona
Del Webb Limited Holding Co.	Arizona
Del Webb Texas Limited Partnership	Arizona
Del Webb's Coventry Homes, Inc.	Arizona
DiVosta Building, LLC	Michigan
DiVosta Homes, L.P.	Delaware
DiVosta Homes Holdings, LLC	Delaware
DW Homebuilding Co.	Arizona
Nomas LLC	Nevada
North American Builders Indemnity Company	Hawaii
PH 19 Corporation	Michigan
PH 43 LLC	Michigan
PH 55 LLC	Michigan
PH1 Corporation	Michigan
PHNE Business Trust	Massachusetts
PN II, Inc.	Nevada
Potomac Yard Development LLC	Delaware
Preserve II, Inc.	Michigan
Pulte Arizona Services, Inc.	Michigan
Pulte Development Corporation	Michigan
Pulte Development New Mexico, Inc.	Michigan
Pulte Diversified Company, LLC	Michigan
Pulte Home Company, LLC	Michigan
Pulte Home Corporation of The Delaware Valley	Michigan
Pulte Homes of California, Inc.	Delaware
Pulte Homes of Indiana, LLC	Indiana
Pulte Homes of Michigan LLC	Michigan
Pulte Homes of Minnesota LLC	Minnesota
Pulte Homes of New England LLC	Michigan
Pulte Homes of New Mexico, Inc.	Michigan
Pulte Homes of New York LLC	Delaware
Pulte Homes of NJ, Limited Partnership	Michigan
Pulte Homes of Ohio LLC	Michigan
Pulte Homes of PA, Limited Partnership	Michigan



Pulte Homes of Texas, L.P.	Texas
Pulte Homes of Washington, Inc.	Michigan
Pulte Homes Tennessee Limited Partnership	Nevada
Pulte Interiors, LLC	Michigan
Pulte Land Company, LLC	Michigan
Pulte Mortgage LLC	Delaware
Pulte Nevada I LLC	Delaware
Pulte Payroll Corporation	Michigan
Pulte Purchasing Corporation	Michigan
Pulte Realty Holding Company, LLC	Michigan
Pulte Realty Limited Partnership	Michigan
Pulte Texas Holdings, LLC	Michigan
Pulte/BP Murrieta Hills, LLC	California
Pulte Homes Tennessee, Inc.	Michigan
RN Acquisition 2 Corp.	Nevada
Terravita Home Construction Co.	Arizona

Certain subsidiaries have been omitted from this list. Such omitted subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary as defined in Rule 1-02(w) of Regulation S-X.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements (Form S-3 No. 333-209598, Form S-8 No. 333-115570, Form S-8 No. 333-123223, Form S-8 No. 333-150961, Form S-8 No. 333-161441 and Form S-8 No. 333-188986) of PulteGroup, Inc. of our reports dated January 30, 2020, with respect to the consolidated financial statements of PulteGroup, Inc., and the effectiveness of internal control over financial reporting of PulteGroup, Inc., included in this Annual Report (Form 10-K) of PulteGroup, Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Atlanta, Georgia  
January 30, 2020

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that the undersigned hereby constitutes and appoints each of Ryan R. Marshall, Robert O'Shaughnessy, Todd N. Sheldon, and James Ossowski, signing singly, his true and lawful attorney-in-fact to:

1. Execute for and on behalf of the undersigned, in the undersigned's capacity as a director of PulteGroup, Inc. (the "Company"), the Annual Report on Form 10-K for the fiscal year ending December 31, 2019 ("Annual Report"), in accordance with the Securities Exchange Act of 1934, as amended, and the rules thereunder; and,
2. Do and perform any and all acts for and on behalf of the undersigned which may be necessary or desirable to complete and execute any such Annual Report, complete and execute any amendment or amendments thereto, and timely file such documents with the United States Securities and Exchange Commission and any stock exchange, stock market or similar authority; and,
3. Take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, and in the best interest of, or legally required by, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

The undersigned hereby grants to each such attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever requisite, necessary, or proper to be done in the exercise of any of the rights and powers herein granted, as fully to all intents and purposes as the undersigned might or could do if personally present, with full power of substitution or revocation, hereby ratifying and confirming all that such attorney-in-fact, or such attorney-in-fact's substitute or substitutes, shall lawfully do or cause to be done by virtue of this power of attorney and the rights and powers herein granted. The undersigned acknowledges that the foregoing attorneys-in-fact, in serving in such capacity at the request of the undersigned, are not assuming, nor is the Company assuming, any of the undersigned's responsibilities to comply with any rule of the Securities Exchange Act of 1934, as amended.

This Power of Attorney shall remain in full force and effect until the undersigned is no longer required to sign the Annual Report on Form 10-K with respect to the undersigned's role as a director of the Company, unless earlier revoked by the undersigned in a signed writing delivered to the foregoing attorneys-in-fact.

IN WITNESS WHEREOF, the undersigned has caused this Power of Attorney to be executed as of the dates set forth below.

/s/ Brian P. Anderson

Brian P. Anderson

December 31, 2019

/s/ Bryce Blair

Bryce Blair

December 19, 2019

/s/ Richard W. Dreiling

Richard W. Dreiling

December 18, 2019

/s/ Thomas J. Folliard

Thomas J. Folliard

December 18, 2019

/s/ Cheryl W. Grisé

Cheryl W. Grisé

December 19, 2019

/s/ André J. Hawaux

André J. Hawaux

December 19, 2019

/s/ John R. Peshkin

John R. Peshkin

December 18, 2019

/s/ Scott F. Powers

Scott F. Powers

December 18, 2019

/s/ William J. Pulte

William J. Pulte

December 31, 2019

/s/ Lila J. Snyder

Lila J. Snyder

January 5, 2020

## CHIEF EXECUTIVE OFFICER'S CERTIFICATION

I, Ryan R. Marshall, certify that:

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

Date: January 30, 2020

/s/ Ryan R. Marshall

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Ryan R. Marshall

President and Chief Executive Officer

## CHIEF FINANCIAL OFFICER'S CERTIFICATION

I, Robert T. O'Shaughnessy, certify that:

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

Date: January 30, 2020

/s/ Robert T. O'Shaughnessy

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Robert T. O'Shaughnessy  
Executive Vice President and  
Chief Financial Officer

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

In connection with the Annual Report of PulteGroup, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies that to his knowledge:

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

Date: January 30, 2020

/s/ Ryan R. Marshall

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Ryan R. Marshall  
President and Chief Executive Officer

/s/ Robert T. O'Shaughnessy

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Robert T. O'Shaughnessy  
Executive Vice President and  
Chief Financial Officer