PULTEGROUP INC/MI/
Form 10-Q
July 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

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

Commission File Number 1-9804

PULTEGROUP, INC.
(Exact name of registrant as specified in its charter)

MICHIGAN	38-2766606
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Bloomfield Hills Parkway, Suite 300
Bloomfield Hills, Michigan 48304
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

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

Number of shares of common stock outstanding as of July 20, 2012: 383,754,839

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2012 (Unaudited)	December 31, 2011 (Note)
ASSETS		
Cash and equivalents	$1,310,478	$1,083,071
Restricted cash	86,795	101,860
House and land inventory	4,551,893	4,636,468
Land held for sale	139,346	135,307
Land, not owned, under option agreements	10,482	24,905
Residential mortgage loans available-for-sale	234,334	258,075
Investments in unconsolidated entities	31,576	35,988
Income taxes receivable	28,897	27,154
Other assets	403,226	420,444
Intangible assets	155,798	162,348
	$6,952,825	$6,885,620
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of $35,180 and $48,380 in 2012 and 2011, respectively	$214,254	$196,447
Customer deposits	117,320	46,960
Accrued and other liabilities	1,340,179	1,411,941
Income tax liabilities	212,477	203,313
Senior notes	3,093,548	3,088,344
	4,977,778	4,947,005
Shareholders' equity	1,975,047	1,938,615
	$6,952,825	$6,885,620

Note: The Condensed Consolidated Balance Sheet at December 31, 2011 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Homebuilding				
Home sale revenues	$1,024,405	$899,763	$1,838,191	$1,682,234
Land sale revenues	8,749	5,068	47,147	6,364
	1,033,154	904,831	1,885,338	1,688,598
Financial Services	36,251	22,381	65,103	43,816
Total revenues	1,069,405	927,212	1,950,441	1,732,414
Homebuilding Cost of Revenues:				
Home sale cost of revenues	869,379	789,678	1,581,545	1,474,708
Land sale cost of revenues	7,611	3,787	41,008	4,717
	876,990	793,465	1,622,553	1,479,425
Financial Services expenses	20,327	39,053	42,336	59,526
Selling, general and administrative expenses	124,186	138,380	247,500	280,826
Other expense (income), net	10,498	11,668	17,117	15,578
Interest income	(1,164)	(1,145)	(2,363)	(2,582)
Interest expense	198	317	415	668
Equity in (earnings) loss of unconsolidated entities	(1,556)	(1,193)	(3,552)	(2,302)
Income (loss) before income taxes	39,926	(53,333)	26,435	(98,725)
Income tax expense (benefit)	(2,510)	2,052	(4,335)	(3,814)
Net income (loss)	$42,436	$(55,385)	$30,770	$(94,911)
Net income (loss) per share:				
Basic	$0.11	$(0.15)	$0.08	$(0.25)
Diluted	$0.11	$(0.15)	$0.08	$(0.25)
Number of shares used in calculation:				
Basic	380,655	379,781	380,579	379,663
Effect of dilutive securities	1,548	—	1,446	—
Diluted	382,203	379,781	382,025	379,663

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$ 42,436	$ (55,385)	$ 30,770	$ (94,911)
Other comprehensive income (loss), net of tax:				
Change in fair value of derivatives	58	64	115	73
Foreign currency translation adjustments	—	—	—	(51)
Other comprehensive income (loss)	58	64	115	22
Comprehensive income (loss)	$ 42,494	$ (55,321)	$ 30,885	$ (94,889)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	$				
Shareholders' Equity, January 1, 2012	382,608	$3,826	$2,986,240	$ (1,306)	$ (1,050,145)	$1,938,615
Stock awards, net of cancellations	1,235	12	(12)	—	—	—
Stock repurchases	(101)	(1)	(785)	—	(122)	(908)
Stock-based compensation	—	—	6,455	—	—	6,455
Net income (loss)	—	—	—	—	30,770	30,770
Other comprehensive income (loss)	—	—	—	115	—	115
Shareholders' Equity, June 30, 2012	383,742	$3,837	$2,991,898	$ (1,191)	$ (1,019,497)	$1,975,047
Shareholders' Equity, January 1, 2011	382,028	$3,820	$2,972,919	$ (1,519)	$ (840,053)	$2,135,167
Stock awards, net of cancellations	1,043	10	(10)	—	—	—
Stock repurchases	(252)	(2)	(1,963)	—	9	(1,956)
Stock-based compensation	—	—	11,405	—	—	11,405
Net income (loss)	—	—	—	—	(94,911)	(94,911)
Other comprehensive income (loss)	—	—	—	22	—	22
Shareholders' Equity, June 30, 2011	382,819	$3,828	$2,982,351	$ (1,497)	$ (934,955)	$2,049,727

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2012	2011
Cash flows from operating activities:		
Net income (loss)	$30,770	$(94,911)
Adjustments to reconcile net income (loss) to net cash flows provided by (used in) operating activities:		
Write-down of land and deposits and pre-acquisition costs	9,218	7,486
Depreciation and amortization	14,828	16,973
Stock-based compensation expense	8,886	11,405
Equity in (earnings) loss of unconsolidated entities	(3,552)	(2,302)
Distributions of earnings from unconsolidated entities	5,782	440
Loss on debt repurchases	—	3,537
Other, net	850	1,156
Increase (decrease) in cash due to:		
Restricted cash	(1,215)	307
Inventories	72,222	(180,964)
Residential mortgage loans available-for-sale	23,768	27,590
Other assets	12,020	93,699
Accounts payable, accrued and other liabilities	28,799	(101,337)
Income tax liabilities	9,164	(2,406)
Net cash provided by (used in) operating activities	211,540	(219,327)
Cash flows from investing activities:		
Distributions from unconsolidated entities	2,696	3,856
Investments in unconsolidated entities	(858)	(3,184)
Net change in loans held for investment	627	519
Change in restricted cash related to letters of credit	16,280	(103,940)
Proceeds from the sale of fixed assets	4,627	9,178
Capital expenditures	(6,997)	(10,848)
Net cash provided by (used in) investing activities	16,375	(104,419)
Cash flows from financing activities:		
Borrowings (repayments) under credit arrangements	400	(68,831)
Stock repurchases	(908)	(1,956)
Net cash provided by (used in) financing activities	(508)	(70,787)
Net increase (decrease) in cash and equivalents	227,407	(394,533)
Cash and equivalents at beginning of period	1,083,071	1,483,390
Cash and equivalents at end of period	$1,310,478	$1,088,857
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	$(5,840)	$(5,915)
Income taxes paid (refunded), net	$(11,756)	$(3,851)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Summary of significant accounting policies

Basis of presentation

PulteGroup, Inc. is one of the largest homebuilders in the United States, and our common stock trades 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 operations.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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.

Reclassification

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 June 30, 2012 and December 31, 2011 also included $13.4 million and $13.0 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. Restricted cash consists primarily of deposits maintained with financial institutions under certain cash-collateralized letter of credit agreements (see Note 9). The remaining balances relate to certain other accounts with restrictions, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer.

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

Other expense (income), net

Other expense (income), net consists of the following ($000’s omitted):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Write-offs of deposits and pre-acquisition costs	$166	$3,709	$905	$4,332
Loss on debt retirements	—	3,496	—	3,537
Lease exit and related costs (a)	3,801	6,225	6,160	6,187
Amortization of intangible assets	3,275	3,275	6,550	6,550
Miscellaneous expense (income), net	3,256	(5,037)	3,502	(5,028)
	$10,498	$11,668	$17,117	$15,578

(a) Excludes $0.1 million and $2.5 million of lease exit costs classified within Financial Services expenses during the three and six months ended June 30, 2012, respectively, and $0.1 million during both the three and six months ended June 30, 2011. See Note 2.

Notes receivable

In certain instances, we may accept consideration for land sales or other transactions in the form of a note receivable. The counterparties for these transactions are generally land developers or other real estate investors. We consider the creditworthiness of the counterparty when evaluating the relative risk and return involved in pursuing the applicable transaction. Due to the unique facts and circumstances surrounding each receivable, we assess the need for an allowance on an individual basis. Factors considered as part of this assessment include the counterparty's payment history, the value of any underlying collateral, communications with the counterparty, knowledge of the counterparty's financial condition and plans, and the current and expected economic environment. Allowances are recorded in other expense (income), net when it becomes likely that some amount will not be collectible. Such receivables are reported net of allowance for credit losses within other assets. Notes receivable are written off when it is determined that collection efforts will no longer be pursued. Interest income is recognized as earned.

The following represents our notes receivable and related allowance for credit losses at June 30, 2012 and December 31, 2011 ($000’s omitted):

	June 30, 2012	December 31, 2011
Notes receivable, gross	$78,274	$78,834
Allowance for credit losses	(43,950)	(41,647)
Notes receivable, net	$34,324	$37,187

We also record other receivables from various parties in the normal course of business, including amounts due from municipalities, insurance companies, and vendors. Such receivables are generally non-interest bearing and non-collateralized, payable either on demand or upon the occurrence of a specified event, and are generally reported in other assets. See Residential mortgage loans available-for-sale in Note 1 for a discussion of our receivables related to mortgage operations.

Earnings per share

Basic earnings per share is computed by dividing income (loss) available to common shareholders (the “numerator”) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (the “denominator”) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of stock options, non-vested restricted stock, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Earnings per share excludes 21.9 million

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

and 22.2 million stock options and other potentially dilutive instruments for the three and six months ended June 30, 2012, respectively. All stock options, non-vested restricted stock, and other potentially dilutive instruments were excluded from the calculation for the three and six months ended June 30, 2011 due to the net loss recorded during the periods.

Land, not owned, under option agreements

In the ordinary course of business, 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. Under ASC 810, “Consolidation” (“ASC 810”), if the entity holding the land under option is a variable interest entity (“VIE”), our deposit represents a variable interest in that entity. If we are determined to be the primary beneficiary of the VIE, then we are required to consolidate the VIE.

Only a portion of our land option agreements are with entities considered VIEs. In evaluating whether there exists a need to consolidate a VIE, we take into consideration that the VIE is generally protected from the first dollar of loss under our land option agreement due to our deposit. Likewise, the VIE's gains are generally capped based on the purchase price within the land option agreement. However, we generally have little control or influence over the operations of these VIEs due to our lack of an equity interest in them. Additionally, creditors of the VIE have no recourse against us, and we do not provide financial or other support to these VIEs other than as stipulated in the land option agreements. 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. In recent years, we have canceled a considerable number of land option agreements, which has resulted in significant write-offs of the related deposits and pre-acquisition costs but did not expose us to the overall risks or losses of the applicable VIEs. No VIEs required consolidation under ASC 810 at either June 30, 2012 or December 31, 2011.

Additionally, we determined that certain land option agreements represent financing arrangements pursuant to ASC 470-40, “Accounting for Product Financing Arrangements” (“ASC 470-40”), even though we generally have no obligation to pay these future amounts. As a result, we recorded $10.5 million and $24.9 million at June 30, 2012 and December 31, 2011, respectively, to land, not owned, under option agreements with a corresponding increase to accrued and other liabilities. Such amounts represent the remaining purchase price under the land option agreements, some of which are with VIEs, in the event we exercise the purchase rights under the agreements.

The following provides a summary of our interests in land option agreements as of June 30, 2012 and December 31, 2011 ($000’s omitted):

	June 30, 2012			December 31, 2011		
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements
Consolidated VIEs	$4,224	$30,914	$5,455	$2,781	$5,957	$3,837
Unconsolidated VIEs	20,428	239,178	—	21,180	240,958	—
Other land option	31,260	456,383	5,027	33,086	451,079	21,068

agreements	$55,912	$726,475	$10,482	$57,047	$697,994	$24,905

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

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination. In accordance with ASC 825, "Financial Instruments" ("ASC 825"), we use the fair value option for residential mortgage loans available-for-sale, which 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." 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. See Note 10 for a 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 interest rate lock 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 June 30, 2012 and December 31, 2011, residential mortgage loans available-for-sale had an aggregate fair value of $234.3 million and $258.1 million, respectively, and an aggregate outstanding principal balance of $223.7 million and $248.2 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled $0.2 million and $(1.9) million for the three months ended June 30, 2012 and 2011, respectively, and $(0.3) million and $(1.4) million for the six months ended June 30, 2012 and 2011, 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 were $24.1 million and $12.3 million for the three months ended June 30, 2012 and 2011, respectively, and $43.1 million and $25.1 million for the six months ended June 30, 2012 and 2011, respectively, and have been included in Financial Services revenues.

Mortgage servicing rights

We sell the servicing rights for the loans we originate on a flow basis 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. We recognize the fair value of our rights to service a mortgage loan as revenue at the time of entering into an interest rate lock commitment with a borrower. Due to the short period of time the servicing rights are held, we do not amortize the servicing asset. The servicing sales contracts provide for the reimbursement of payments made by the purchaser if loans prepay within specified periods of time, generally within 90 to 120 days after sale. We establish reserves for this liability at the time the sale is recorded. Such reserves are included in accrued and other liabilities and were immaterial at June 30, 2012 and December 31, 2011. Servicing rights recognized in Financial Services revenues totaled $3.9 million and $3.8 million during the three months ended June 30, 2012 and 2011, respectively, and $8.5 million and $8.7 million during the six months ended June 30, 2012 and 2011, respectively.

Derivative instruments and hedging activities

We are 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). In order to reduce these risks, we use other derivative financial instruments to economically hedge the interest rate lock commitment. The principal derivative instruments we use to hedge this risk are forward contracts on mortgage-backed securities and whole loan investor commitments. We enter into these derivative financial instruments based upon our portfolio of interest rate lock commitments and closed loans. We do not use any derivative financial instruments for trading purposes.

Fair values for interest rate lock commitments, including the value of servicing rights, are based on market prices for similar instruments. At June 30, 2012 and December 31, 2011, we had interest rate lock commitments in the total amount of $194.8 million and $97.6 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.

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

Forward contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price and may be settled in cash, by offsetting the position, or through the delivery of the financial instrument. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize the 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. Forward contracts on mortgage-backed securities are valued based on market prices for similar instruments. We also use whole loan investor commitments, which are obligations of the investor to buy loans at a specified price within a specified time period. Fair values for whole loan investor commitments are based on market prices for similar instruments from the specific whole loan investor. At June 30, 2012 and December 31, 2011, we had unexpired forward contracts of $384.5 million and $311.5 million, respectively, and whole loan investor commitments of $3.1 million and $1.6 million, respectively. Changes in the fair value of interest rate lock commitments 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 interest rate lock commitments 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 value of derivative instruments and their location in the Condensed Consolidated Balance Sheet is summarized below ($000's omitted):

	June 30, 2012		December 31, 2011	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest rate lock commitments	$8,256	$—	$3,552	$1
Forward contracts	23	3,472	44	3,514
Whole loan commitments	19	36	52	41
	$8,298	$3,508	$3,648	$3,556

New accounting pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, "Fair Value Measurement" ("ASU 2011-04"), which amended Accounting Standards Codification (ASC) 820 to clarify existing guidance and minimize differences between U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 requires entities to provide information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and provide additional disclosures for classes of assets and liabilities disclosed at fair value. We adopted ASU 2011-04 as of January 1, 2012, which did not have a material impact on our financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, "Statement of Comprehensive Income" ("ASU 2011-05"), which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. ASU 2011-05 was effective for our fiscal year beginning January 1, 2012. The standard did not impact our reported results of operations but did impact our financial statement presentation. We now present items of other comprehensive income in the Statement of Consolidated Comprehensive Income rather than in the Statement of Shareholders' Equity.

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

2. Restructuring

In response to the challenging operating environment in recent years, we have taken a series of actions designed to reduce ongoing operating costs and improve operating efficiencies. As a result of these actions, we incurred total restructuring charges as summarized below ($000's omitted):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee severance benefits	$1,250	$5,549	$1,445	$8,537
Lease exit costs	3,080	6,308	7,829	6,301
Other	807	15	807	11
	$5,137	$11,872	$10,081	$14,849

Of the total restructuring costs reflected in the above table, $0.1 million and $0.5 million are classified within Financial Services expenses for the three months ended June 30, 2012 and 2011, respectively, and $2.5 million and $1.1 million for the six months ended June 30, 2012 and 2011, respectively. All other employee severance benefits are included within selling, general and administrative expense, while lease exit and other costs are included in other expense (income), net. The remaining liability for employee severance benefits and exited leases totaled $1.0 million and $31.7 million, respectively, at June 30, 2012 and $2.6 million and $29.7 million, respectively, at December 31, 2011. Substantially all of the remaining liability for employee severance benefits will be paid within the next year, while cash expenditures related to the remaining liability for lease exit costs will be incurred over the remaining terms of the applicable office leases, which generally extend several years. The restructuring costs relate to various reportable segments and did not materially impact the comparability of any one segment.

3. Inventory and land held for sale

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

	June 30, 2012	December 31, 2011
Homes under construction	$1,286,551	$1,210,717
Land under development	2,542,204	2,610,501
Land held for future development	723,138	815,250
	$4,551,893	$4,636,468

We capitalize interest cost into inventory during the active development and construction of our communities. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is recorded based on the cyclical timing of home closings. Interest expensed to Homebuilding cost of revenues included capitalized interest related to inventory impairments of $2.2 million and $1.3 million, for the three months ended June 30, 2012 and 2011, respectively, and $3.0 million and $1.3 million for the six months ended June 30, 2012 and 2011, respectively. We capitalized all Homebuilding interest costs into inventory because the level of our active inventory exceeded our debt levels.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest in inventory, beginning of period	$359,205	$344,754	$355,068	$323,379
Interest capitalized	51,316	55,946	102,639	112,137
Interest expensed	(52,070)	(41,894)	(99,256)	(76,710)
Interest in inventory, end of period	$358,451	$358,806	$358,451	$358,806
Interest incurred*	$51,316	$55,946	$102,639	$112,137

* Homebuilding interest incurred includes interest on senior debt and certain other financing arrangements.

Land valuation adjustments and write-offs

Impairment of inventory

In accordance with ASC 360, "Property, Plant, and Equipment" ("ASC 360"), we record valuation adjustments on land inventory and related communities under development when events and circumstances indicate that they may be impaired and when the cash flows estimated to be generated by those assets are less than their carrying amounts. Such indicators include gross margin or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. For communities that are not yet active, a significant additional consideration includes an evaluation of the probability, timing, and cost of obtaining necessary approvals from local municipalities and any potential concessions that may be necessary in order to obtain such approvals. We also consider potential changes to the product offerings in a community and any alternative strategies for the land, such as the sale of the land either in whole or in parcels. Communities that demonstrate potential impairment indicators are tested for impairment. We compare the expected undiscounted cash flows for these communities to their carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we calculate the fair value of the community in accordance with ASC 360. Impairment charges are required to be recorded if the fair value of the community's inventory is less than its carrying value.

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

During the three months ended June 30, 2012, we reviewed each of our land positions for potential impairment indicators and performed detailed impairment calculations for approximately 10 communities. As discussed above, determining the fair value of a community's inventory involves a number of variables, many of which are interrelated.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

The table below summarizes certain quantitative unobservable inputs utilized in determining the fair value of impaired communities at June 30, 2012:

Unobservable input	Range		
Average selling price ($000s)	$194	-	$626
Sales pace per quarter (units)	1	-	7
Discount rate	12%	-	12%

The below summary provides, as of the date indicated, the number of communities for which we recognized impairment charges, the fair value of those communities at such date (net of impairment charges), and the amount of impairment charges recognized ($000's omitted):

	2012			2011		
Quarter Ended	Number of Communities Impaired	Fair Value of Communities Impaired, Net of Impairment Charges	Impairment Charges	Number of Communities Impaired	Fair Value of Communities Impaired, Net of Impairment Charges	Impairment Charges
March 31	4	$7,468	$4,514	1	$483	$103
June 30	4	16,311	2,796	6	6,665	3,300
			$7,310			$3,403

We recorded these valuation adjustments within Homebuilding home sale cost of revenues.

Our evaluations for impairments recorded to date were based on our best estimates of the future cash flows for our communities. However, if conditions in the homebuilding industry or our local markets worsen in the future or if our strategy related to certain communities changes, we may be required to evaluate our assets for further impairments or write-downs, which could result in future charges that might be significant.

Net realizable value adjustments – land held for sale

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

Land held for sale is valued at the lower of carrying value or net realizable value (fair value less costs to sell). In determining the net realizable value of land held for sale, we consider recent offers received, prices for land in recent comparable sales transactions, and other factors. During the three months ended June 30, 2012 and 2011, we recognized net realizable value adjustments of $0.4 million and $(0.2) million, respectively. Such adjustments totaled $1.0 million and $(0.2) million during the six months ended June 30, 2012 and 2011, respectively. We record these net realizable value adjustments within Homebuilding land sale cost of revenues.
Land held for sale was as follows ($000's omitted):

	June 30, 2012	December 31, 2011
Land held for sale, gross	$186,902	$190,099

Net realizable value reserves	(47,556)	(54,792)
Land held for sale, net	$139,346	$135,307

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

Write-off of deposits and pre-acquisition costs

We write off deposits and pre-acquisition costs related to land option contracts when it becomes probable that we will not go forward with the project or recover the capitalized costs. Such decisions take into consideration changes in local market conditions, the willingness of land sellers to modify terms of the related purchase agreements, the timing of required land takedowns, the availability and best use of necessary incremental capital, and other factors. We wrote off (net of recoveries) deposits and pre-acquisition costs in the amount of $0.2 million and $3.7 million during the three months ended June 30, 2012 and 2011, respectively, and $0.9 million and $4.3 million during the six months ended June 30, 2012 and 2011, respectively. We record these write-offs of deposits and pre-acquisition costs within other expense (income), net.

4. Segment information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments. During 2011, we realigned our organizational structure and reportable segment presentation. As part of the change in presentation, we removed the "Other non-operating" distinction. Amounts previously classified within "Other non-operating" have been reclassified to "Other homebuilding." Accordingly, the segment information provided in this note has been reclassified to conform to the current presentation for all periods presented.

Northeast:	Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
Southeast:	Georgia, North Carolina, South Carolina, Tennessee
Florida:	Florida
Texas:	Texas
North:	Illinois, Indiana, Michigan, Minnesota, Missouri, Northern California, Ohio, Oregon, Washington
Southwest:	Arizona, Colorado, Hawaii, Nevada, New Mexico, Southern California

We also have one 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.

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 - "Summary of Significant Accounting Policies" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2011.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)

	Operating Data by Segment ($000's omitted)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues:				
Northeast	$167,747	$136,009	$308,081	$262,320
Southeast	168,182	167,381	301,590	309,936
Florida	150,046	134,280	274,044	251,054
Texas	161,876	153,378	292,067	284,534
North	203,005	172,693	389,161	306,832
Southwest	182,298	141,090	320,395	273,922
	1,033,154	904,831	1,885,338	1,688,598
Financial Services	36,251	22,381	65,103	43,816
Consolidated revenues	$1,069,405	$927,212	$1,950,441	$1,732,414
Income (loss) before income taxes:				
Northeast	$16,141	$1,395	$22,637	$900
Southeast	14,484	9,400	19,497	13,552
Florida	17,304	6,008	22,807	6,107
Texas	8,851	7,257	15,897	11,135
North	8,646	(6,715)	11,787	(11,876)
Southwest	14,876	(5,007)	13,935	(10,070)
Other homebuilding (a)	(56,363)	(49,028)	(102,973)	(92,803)
	23,939	(36,690)	3,587	(83,055)
Financial Services (b)	15,987	(16,643)	22,848	(15,670)
Consolidated income (loss) before income taxes	$39,926	$(53,333)	$26,435	$(98,725)

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

(b) Financial Services income (loss) before income taxes includes interest income of $1.3 million and $2.6 million for the three and six months ended June 30, 2012, respectively, and $1.1 million and $2.1 million for the three and six months ended June 30, 2011, respectively.

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

	Land-Related Charges by Segment ($000's omitted)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Land and community valuation adjustments:				
Northeast	$535	$—	$535	$—
Southeast	—	228	—	269
Florida	—	—	—	—
Texas	—	—	—	—
North	98	1,818	1,988	1,818
Southwest	—	—	1,810	—
Other homebuilding (a)	2,163	1,254	2,977	1,316
	$2,796	$3,300	$7,310	$3,403
Net realizable value adjustments (NRV) - land held for sale:				
Northeast	$—	$—	$—	$—
Southeast	(4)	—	281	—
Florida	—	—	38	—
Texas	258	—	258	—
North	184	(249)	65	(249)
Southwest	(78)	—	361	—
	$360	$(249)	$1,003	$(249)
Write-off of deposits and pre-acquisition costs:				
Northeast	$37	$1,695	$88	$1,958
Southeast	(12)	28	543	233
Florida	—	118	11	118
Texas	24	48	49	61
North	46	1,113	143	1,175
Southwest	71	707	71	787
	$166	$3,709	$905	$4,332
Total land-related charges	$3,322	$6,760	$9,218	$7,486

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

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

Operating Data by Segment
($000's omitted)
June 30, 2012

	Homes Under Construction	Land Under Development	Land Held for Future Development	Total Inventory	Total Assets
Northeast	$229,407	$447,267	$115,103	$791,777	$924,851
Southeast	172,078	307,200	118,059	597,337	619,826
Florida	138,812	312,538	104,638	555,988	630,784
Texas	141,918	279,442	67,564	488,924	556,373
North	289,075	359,987	67,431	716,493	778,768
Southwest	257,958	557,212	179,902	995,072	1,068,936
Other homebuilding (a)	57,303	278,558	70,441	406,302	2,109,675
	1,286,551	2,542,204	723,138	4,551,893	6,689,213
Financial Services	—	—	—	—	263,612
	$1,286,551	$2,542,204	$723,138	$4,551,893	$6,952,825

December 31, 2011

	Homes Under Construction	Land Under Development	Land Held for Future Development	Total Inventory	Total Assets
Northeast	$237,722	$457,010	$119,549	$814,281	$957,844
Southeast	166,302	315,208	123,209	604,719	626,506
Florida	137,900	321,841	110,040	569,781	637,418
Texas	136,325	294,814	77,125	508,264	568,974
North	268,011	360,202	91,260	719,473	803,174
Southwest	216,067	577,656	216,554	1,010,277	1,099,058
Other homebuilding (a)	48,390	283,770	77,513	409,673	1,904,847
	1,210,717	2,610,501	815,250	4,636,468	6,597,821
Financial Services	—	—	—	—	287,799
	$1,210,717	$2,610,501	$815,250	$4,636,468	