

PULTEGROUP INC/MI/
Form 10-Q
October 24, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

or

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

Commission File Number 1-9804

PULTEGROUP, INC.
(Exact name of registrant as specified in its charter)
MICHIGAN 38-2766606
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

3350 Peachtree Road NE, Suite 150
Atlanta, Georgia 30326
(Address of principal executive offices) (Zip Code)

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

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

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 NO

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of common shares outstanding as of October 19, 2017: 293,967,648

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2017 (Unaudited)	December 31, 2016 (Note)
ASSETS		
Cash and equivalents	\$ 158,237	\$ 698,882
Restricted cash	38,860	24,366
Total cash, cash equivalents, and restricted cash	197,097	723,248
House and land inventory	7,370,152	6,770,655
Land held for sale	96,149	31,728
Residential mortgage loans available-for-sale	364,734	539,496
Investments in unconsolidated entities	61,497	51,447
Other assets	797,439	857,426
Intangible assets	144,442	154,792
Deferred tax assets, net	939,759	1,049,408
	\$ 9,971,269	\$ 10,178,200
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 441,481	\$ 405,455
Customer deposits	306,641	187,891
Accrued and other liabilities	1,439,254	1,483,854
Financial Services debt	245,824	331,621
Revolving credit facility	83,000	—
Senior notes	3,109,984	3,110,016
	5,626,184	5,518,837
Shareholders' equity	4,345,085	4,659,363
	\$ 9,971,269	\$ 10,178,200

Note: The Condensed Consolidated Balance Sheet at December 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Homebuilding				
Home sale revenues	\$2,055,891	\$1,881,718	\$5,606,953	\$5,027,843
Land sale revenues	27,176	13,167	36,746	20,604
	2,083,067	1,894,885	5,643,699	5,048,447
Financial Services	46,952	48,020	135,995	126,950
Total revenues	2,130,019	1,942,905	5,779,694	5,175,397
Homebuilding Cost of Revenues:				
Home sale cost of revenues	(1,564,605)	(1,417,705)	(4,332,221)	(3,766,302)
Land sale cost of revenues	(25,123)	(11,428)	(115,950)	(17,859)
	(1,589,728)	(1,429,133)	(4,448,171)	(3,784,161)
Financial Services expenses	(29,304)	(26,906)	(86,150)	(79,204)
Selling, general, and administrative expenses	(237,495)	(250,914)	(689,974)	(749,502)
Other expense, net	(5,243)	(23,617)	(25,337)	(42,402)
Income before income taxes	268,249	212,335	530,062	520,128
Income tax expense	(90,710)	(83,865)	(160,255)	(190,598)
Net income	\$177,539	\$128,470	\$369,807	\$329,530
Per share:				
Basic earnings	\$0.59	\$0.37	\$1.18	\$0.95
Diluted earnings	\$0.58	\$0.37	\$1.18	\$0.94
Cash dividends declared	\$0.09	\$0.09	\$0.27	\$0.27
Number of shares used in calculation:				
Basic	298,538	340,171	309,453	344,383
Effect of dilutive securities	1,690	2,250	1,861	2,557
Diluted	300,228	342,421	311,314	346,940

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Net income	\$177,539	\$128,470	\$369,807	\$329,530
Other comprehensive income, net of tax:				
Change in value of derivatives	20	20	61	61
Other comprehensive income	20	20	61	61
Comprehensive income	\$177,559	\$128,490	\$369,868	\$329,591

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	\$				
Shareholders' Equity, January 1, 2017	319,090	\$3,191	\$3,116,490	\$ (526)	\$1,540,208	\$4,659,363
Cumulative effect of accounting change (see <u>Note 1</u>)	—	—	(406)	—	18,643	18,237
Stock option exercises	1,954	20	22,745	—	—	22,765
Share issuances, net of cancellations	741	10	3,555	—	—	3,565
Dividends declared	—	—	—	—	(83,685)	(83,685)
Share repurchases	(27,849)	(281)	—	—	(665,531)	(665,812)
Share-based compensation	—	—	20,784	—	—	20,784
Net income	—	—	—	—	369,807	369,807
Other comprehensive income	—	—	—	61	—	61
Shareholders' Equity, September 30, 2017	293,936	\$2,940	\$3,163,168	\$ (465)	\$1,179,442	\$4,345,085
Shareholders' Equity, January 1, 2016	349,149	\$3,491	\$3,093,802	\$ (609)	\$1,662,641	\$4,759,325
Stock option exercises	498	5	5,840	—	—	5,845
Share issuances, net of cancellations	523	5	8,851	—	—	8,856
Dividends declared	—	—	—	—	(93,127)	(93,127)
Share repurchases	(17,856)	(177)	—	—	(350,669)	(350,846)
Share-based compensation	—	—	12,976	—	—	12,976
Excess tax benefits (deficiencies) from share-based awards	—	—	(588)	—	—	(588)
Net income	—	—	—	—	329,530	329,530
Other comprehensive income	—	—	—	61	—	61
Shareholders' Equity, September 30, 2016	332,314	\$3,324	\$3,120,881	\$ (548)	\$1,548,375	\$4,672,032

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$369,807	\$329,530
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income tax expense	127,856	198,974
Land-related charges	131,254	13,185
Depreciation and amortization	38,689	40,218
Share-based compensation expense	26,505	19,813
Other, net	(1,438)	4,493
Increase (decrease) in cash due to:		
Inventories	(758,006)	(1,100,173)
Residential mortgage loans available-for-sale	173,148	92,649
Other assets	22,120	11,502
Accounts payable, accrued and other liabilities	122,544	83,303
Net cash provided by (used in) operating activities	252,479	(306,506)
Cash flows from investing activities:		
Capital expenditures	(23,548)	(30,551)
Investment in unconsolidated subsidiaries	(22,007)	(14,049)
Cash used for business acquisition	—	(430,458)
Other investing activities, net	5,788	5,473
Net cash used in investing activities	(39,767)	(469,585)
Cash flows from financing activities:		
Proceeds from debt issuance	—	1,995,961
Repayments of debt	(7,001)	(985,734)
Borrowings under revolving credit facility	971,000	619,000
Repayments under revolving credit facility	(888,000)	(619,000)
Financial Services borrowings (repayments)	(85,797)	(109,083)
Stock option exercises	22,765	5,845
Share repurchases	(665,812)	(350,846)
Dividends paid	(86,018)	(94,298)
Net cash provided by (used in) financing activities	(738,863)	461,845
Net increase (decrease)	(526,151)	(314,246)
Cash, cash equivalents, and restricted cash at beginning of period	723,248	775,435
Cash, cash equivalents, and restricted cash at end of period	\$197,097	\$461,189
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	\$11,516	\$(11,324)
Income taxes paid (refunded), net	\$17,206	\$(74)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Basis of presentation

PulteGroup, Inc. is one of the largest homebuilders in the United States ("U.S."), and our common shares trade on the New York Stock Exchange under the ticker symbol "PHM". Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also 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 U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Business acquisition

We acquired substantially all of the assets of JW Homes ("Wieland") in January 2016 for \$430.5 million in cash and the assumption of certain payables related to such assets. The acquired net assets were located in Atlanta, Charleston, Charlotte, Nashville, and Raleigh, and included approximately 7,000 lots, including 375 homes in inventory, and control of approximately 1,300 lots through land option contracts. We also assumed a sales order backlog of 317 homes. The acquired net assets were recorded at their estimated fair values and resulted in goodwill of \$40.4 million and separately identifiable intangible assets of \$18.0 million comprised of the John Wieland Homes and Neighborhoods 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.

Use of estimates

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

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 (the "SEC").

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

Other expense, net

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Write-offs of deposits and pre-acquisition costs <u>(Note 2)</u>	\$2,680	\$2,541	\$9,397	\$12,996
Lease exit and related costs (a)	219	4,644	624	10,589
Amortization of intangible assets	3,450	3,450	10,350	10,350
Interest income	(485)	(887)	(1,917)	(2,659)
Interest expense	101	165	371	526
Equity in loss (earnings) of unconsolidated entities (b)	(415)	(485)	4,154	(4,489)
Miscellaneous, net (c)	(307)	14,189	2,358	15,089
Total other expense, net	\$5,243	\$23,617	\$25,337	\$42,402

Lease exit and related costs for the three and nine months ended September 30, 2016, resulted from actions taken to (a) reduce overheads and the substantial completion of our corporate headquarters relocation from Michigan to Georgia, which began in 2013.

(b) Includes an \$8.0 million impairment of an investment in an unconsolidated entity in the nine months ended September 30, 2017 (see Note 2).

(c) Miscellaneous, net includes a charge of \$15.0 million related to the settlement of a disputed land transaction for the three and nine months ended September 30, 2016 (see Note 8).

Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders (the "Numerator") by the weighted-average number of common shares outstanding, adjusted for unvested shares (the "Denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, unvested restricted shares, unvested restricted share units, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Our diluted earnings per share calculation excluded potentially dilutive instruments, including stock options and unvested restricted share units, totaling 0.1 million for both the three and nine months ended September 30, 2017, and 2.3 million for both the three and nine months ended September 30, 2016.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income	\$177,539	\$128,470	\$369,807	\$329,530
Less: earnings distributed to participating securities	(294)	(269)	(899)	(836)
Less: undistributed earnings allocated to participating securities	(1,645)	(870)	(2,837)	(1,764)
Numerator for basic earnings per share	\$175,600	\$127,331	\$366,071	\$326,930
Add back: undistributed earnings allocated to participating securities	1,645	870	2,837	1,764
Less: undistributed earnings reallocated to participating securities	(1,636)	(865)	(2,820)	(1,751)
Numerator for diluted earnings per share	\$175,609	\$127,336	\$366,088	\$326,943
Denominator:				
Basic shares outstanding	298,538	340,171	309,453	344,383
Effect of dilutive securities	1,690	2,250	1,861	2,557
Diluted shares outstanding	300,228	342,421	311,314	346,940
Earnings per share:				
Basic	\$0.59	\$0.37	\$1.18	\$0.95
Diluted	\$0.58	\$0.37	\$1.18	\$0.94

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. At September 30, 2017 and December 31, 2016, residential mortgage loans available-for-sale had an aggregate fair value of \$364.7 million and \$539.5 million, respectively, and an aggregate outstanding principal balance of \$352.7 million and \$529.7 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled \$0.7 million and \$(1.0) million for the three months ended September 30, 2017 and 2016, respectively, and \$(3.4) million and \$0.3 million for the nine months ended September 30, 2017 and 2016, respectively. These changes in fair value were substantially offset by changes in the fair value of corresponding hedging instruments. Net gains from the sale of mortgages were \$27.1 million and \$30.1 million for the three months ended September 30, 2017 and 2016, respectively, and \$80.1 million and \$77.4 million for the nine months ended September 30, 2017 and 2016, respectively, and have been included in Financial Services revenues.

Derivative instruments and hedging activities

We are party to interest rate lock commitments ("IRLCs") with customers resulting from our mortgage origination operations. At September 30, 2017 and December 31, 2016, we had aggregate IRLCs of \$346.6 million and \$273.9 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 September 30, 2017 and December 31, 2016, we had unexpired forward contracts of \$532.0 million and \$610.0 million, respectively, and whole loan investor

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

commitments of \$137.8 million and \$157.6 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 and residential mortgage loans available-for-sale are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 60 days.

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

	September 30, 2017		December 31, 2016	
	Other Assets	Accrued and Other Liabilities	Other Assets	Accrued and Other Liabilities
Interest rate lock commitments	\$10,434	\$ 400	\$9,194	\$ 501
Forward contracts	1,124	607	8,085	1,004
Whole loan commitments	237	826	1,135	863
	\$11,795	\$ 1,833	\$18,414	\$ 2,368

New accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The FASB has also issued a number of updates to this standard. The standard is effective for us for annual and interim periods beginning January 1, 2018, and, at that time, we expect to apply the modified retrospective method of adoption.

We have been actively engaged in discussions with the FASB and within our industry and continue to assess all potential effects of adopting the standard. We do not expect significant changes to our business processes, systems, or internal controls as a result of adopting the standard. We also do not expect the adoption of ASU 2014-09 to have a material impact on our financial statements. However, we continue to evaluate the impact of the revised disclosure requirements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets. ASU 2016-02 is effective for us for annual and interim periods beginning January 1, 2019, and early adoption is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. While the recognition of right-of-use assets and related liabilities will have a material effect on our consolidated balance sheets, we do not expect a material impact on our consolidated statement of operations. We continue to evaluate the full impact of the new standard, including the impact on our business processes, systems, and internal controls.

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, respectively, as a result of previously unrecognized excess tax benefits (see Note 6). Additionally, the impact of recognizing excess tax benefits and deficiencies in the income statement resulted in a \$5.4 million reduction in our income tax expense for the nine months ended September 30, 2017. The remaining aspects of adopting ASU 2016-09 did not have a material impact on our financial statements.

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

In June 2016, the 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 and also requires that credit losses from available-for-sale debt securities be presented as an allowance instead of a write-down. ASU 2016-13 is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and requires full retrospective application on adoption. We are currently evaluating the impact the standard will have on our financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which addresses several specific cash flow issues. ASU 2016-15 is effective for us for annual and interim periods beginning January 1, 2018, with early adoption permitted, and requires full retrospective application on adoption. We do not expect ASU 2016-15 to have 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, with early adoption permitted. We do not expect ASU 2017-04 to have a material impact on our financial statements.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets (Subtopic 610-20)" ("ASU 2017-05"). ASU 2017-05 updates the definition of an "in substance nonfinancial asset" and clarifies the derecognition guidance for nonfinancial assets to conform with the new revenue recognition standard. The effective date and transition methods of ASU 2017-05 are aligned with ASU 2014-09 described above. We are currently evaluating the impact that the standard will have on our financial statements.

2. Inventory

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

	September 30, 2017	December 31, 2016
Homes under construction	\$ 2,737,849	\$ 1,921,259
Land under development	4,066,748	4,072,109
Raw land	565,555	777,287
	\$ 7,370,152	\$ 6,770,655

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest in inventory, beginning of period	\$212,850	\$167,488	\$186,097	\$149,498

Interest capitalized	46,077	42,030	135,949	115,545
Interest expensed	(36,381)	(32,857)	(99,500)	(88,382)
Interest in inventory, end of period	\$222,546	\$176,661	\$222,546	\$176,661

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

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reduces our financial risks associated with long-term land holdings. Option deposits and pre-acquisition costs (such as environmental testing, surveys, engineering, and entitlement costs) are capitalized if the costs are directly identifiable with the land under option, the costs would be capitalized if we owned the land, and acquisition of the property is probable. Such costs are reflected in other assets and are reclassified to inventory upon taking title to the land. We write off deposits and pre-acquisition costs when it becomes probable that we will not go forward with the project or recover the capitalized costs. Such decisions take into consideration changes in local market conditions, the timing of required land purchases, the availability and best use of necessary incremental capital, and other factors. We record any such write-offs of deposits and pre-acquisition costs within other expense, net.

If an entity holding the land under option is a variable interest entity ("VIE"), our deposit represents a variable interest in that entity. No VIEs required consolidation at either September 30, 2017 or December 31, 2016 because we determined that we were not the VIEs' primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the land option agreements.

The following provides a summary of our interests in land option agreements as of September 30, 2017 and December 31, 2016 (\$000's omitted):

	September 30, 2017		December 31, 2016	
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Deposits and Pre-acquisition Costs	Remaining Purchase Price
Land options with VIEs	\$73,652	\$792,407	\$68,527	\$849,901
Other land options	128,168	1,475,258	126,909	1,252,662
	\$201,820	\$2,267,665	\$195,436	\$2,102,563

Land-related charges

We test inventory for impairment when events and circumstances indicate that the cash flows estimated to be generated by the community are less than its carrying amount. On May 3, 2017, we committed to a plan to sell select non-core and underutilized land parcels following a strategic review of our land portfolio. We determined that we would sell certain currently inactive land parcels, representing approximately 4,600 lots, and work is underway to monetize two small communities representing an additional 400 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. Actions required to complete the planned sales have been initiated, but the timing of completing the dispositions is unknown. We will seek to redeploy the proceeds and related tax benefits from these dispositions into higher returning projects.

As a consequence of the change in strategy with respect to the future use of these land parcels, we recorded land-related charges totaling \$120.0 million related to inventory with a pre-impairment carrying value of \$161.9 million in the nine months ended September 30, 2017. As a result of this review, we also recorded \$5.1 million of write-offs of deposits and pre-acquisition costs related to land option contracts we no longer plan to pursue in the nine months ended September 30, 2017.

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In total, we recorded the following overall land-related charges (\$000's omitted):

	Statement of Operations Classification	Three Months Ended		Nine Months Ended	
		September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Land inventory impairments	Home sale cost of revenues	\$—	\$—	\$31,487	\$—
Net realizable value adjustments ("NRV") - land held for sale	Land sale cost of revenues	(534) 121	82,353	189
Impairments of unconsolidated entities	Other expense, net	—	—	8,017	—
Write-offs of deposits and pre-acquisition costs	Other expense, net	2,680	2,541	9,397	12,996
Total land-related charges		\$2,146	\$2,662	\$131,254	\$13,185

The estimated fair values of these land parcels were based on sales contracts or letters of intent, comparisons to market comparable transactions, estimated future net cash flows discounted for inherent risk associated with each underlying asset, or similar information. The estimated cash flows for certain parcels incorporate 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 valuations are specific to each community tested for impairment and typically do not assume improvements in market conditions in the near term. In certain instances, the determination of fair value 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 and ranged from 18% 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 these communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from such estimates.

3. Segment information

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

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

Southeast: Georgia, North Carolina, South Carolina, Tennessee

Florida: Florida

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

Texas: Texas

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

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

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	Operating Data by Segment (\$000's omitted)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues:				
Northeast	\$ 168,352	\$ 155,226	\$ 425,206	\$ 426,397
Southeast	393,788	375,148	1,103,509	1,057,249
Florida	337,933	307,588	1,015,456	860,869
Midwest	405,827	342,709	1,008,086	819,250
Texas	269,781	261,693	792,565	730,456
West	507,386	452,521	1,298,877	1,154,226
	2,083,067	1,894,885	5,643,699	5,048,447
Financial Services	46,952	48,020	135,995	126,950
Consolidated revenues	\$ 2,130,019	\$ 1,942,905	\$ 5,779,694	\$ 5,175,397
Income before income taxes (a):				
Northeast (b)	\$ 21,046	\$ 6,056	\$ (12,803)	\$ 34,884
Southeast	45,109	36,370	117,749	96,898
Florida (c)	52,191	45,891	132,824	130,546
Midwest	59,636	36,792	115,463	68,665
Texas	42,727	38,878	122,045	103,618
West	75,753	55,347	107,987	130,683
Other homebuilding (d)	(45,999)	(28,271)	(103,441)	(93,252)
	250,463	191,063	479,824	472,042
Financial Services	17,786	21,272	50,238	48,086
Consolidated income before income taxes	\$ 268,249	\$ 212,335	\$ 530,062	\$ 520,128

- (a) Includes land-related charges of \$2.1 million and \$131.3 million for the three and nine months ended September 30, 2017, respectively (see Land-related charges in following table).
- (b) Northeast includes a charge of \$15.0 million related to the settlement of a disputed land transaction for the three and nine months ended September 30, 2016 (see Note 8).
- (c) Florida includes a warranty charge of \$12.3 million for the nine months ended September 30, 2017 related to a closed-out community (see Note 8).
Other homebuilding includes the amortization of intangible assets and capitalized interest and other items not allocated to the operating segments. Other homebuilding also includes write-offs of \$5.3 million and \$20.3 million
- (d) of insurance receivables associated with the resolution of certain insurance matters in the three and nine months ended September 30, 2017, respectively, and an insurance reserve reversal of \$19.8 million in the nine months ended September 30, 2017 (see Note 8).

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Operating Data by Segment

(\$000's omitted)

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016

Land-related charges*:

Northeast	\$1,184	\$464	\$51,102	\$990
Southeast	889	396	1,847	2,252
Florida	109	68	8,862	597
Midwest	(393)	391	7,703	1,242
Texas	51	245	898	397
West	306	1,098	56,747	7,707
Other homebuilding	—	—	4,095	—
	\$2,146	\$2,662	\$131,254	\$13,185

Land-related charges include land impairments, net realizable value adjustments on land held for sale, impairments
 * of investments in unconsolidated entities, and write-offs of deposits and pre-acquisition costs for land option
 contracts we elected not to pursue (see Note 2). Other homebuilding consists primarily of write-offs of capitalized
 interest related to such land-related charges.

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Operating Data by Segment

(\$000's omitted)

September 30, 2017

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$291,366	\$308,675	\$79,375	\$679,416	\$844,507
Southeast	452,249	629,864	132,558	1,214,671	1,345,121
Florida	402,228	864,682	81,058	1,347,968	1,494,185
Midwest	361,074	476,700	29,261	867,035	929,743
Texas	310,360	407,531	90,497	808,388	891,686
West	872,477	1,115,706	131,703	2,119,886	2,326,631
Other homebuilding (a)	48,095	263,590	21,103	332,788	1,703,680
	2,737,849	4,066,748	565,555	7,370,152	9,535,553
Financial Services	—	—	—	—	435,716
	\$2,737,849	\$4,066,748	\$565,555	\$7,370,152	\$9,971,269

December 31, 2016

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$175,253	\$375,899	\$135,447	\$686,599	\$798,369
Southeast	354,047	650,805	148,793	1,153,645	1,243,188
Florida	309,525	683,376	183,168	1,176,069	1,330,847
Midwest	256,649	474,287	50,302	781,238	851,457
Texas	219,606	413,312	74,750	707,668	793,917
West	580,082	1,226,190	159,387	1,965,659	2,200,058
Other homebuilding (a)	26,097	248,240	25,440	299,777	2,351,082
	1,921,259	4,072,109	777,287	6,770,655	9,568,918
Financial Services	—	—	—	—	609,282
	\$1,921,259	\$4,072,109	\$777,287	\$6,770,655	\$10,178,200

(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.

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4. Debt

Senior notes

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

	September 30, 2017	December 31, 2016
7.625% unsecured senior notes due October 2017 (a)	\$ 123,000	\$ 123,000
4.250% unsecured senior notes due March 2021 (b)	700,000	700,000
5.500% unsecured senior notes due March 2026 (b)	700,000	700,000
5.000% unsecured senior notes due January 2027 (b)	600,000	600,000
7.875% unsecured senior notes due June 2032 (b)	300,000	300,000
6.375% unsecured senior notes due May 2033 (b)	400,000	400,000
6.000% unsecured senior notes due February 2035 (b)	300,000	300,000
Net premiums, discounts, and issuance costs (c)	(13,016)	(12,984)
Total senior notes	\$ 3,109,984	\$ 3,110,016
Estimated fair value	\$ 3,356,459	\$ 3,112,297

- (a) Not redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.
- (b) Redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.
- (c) The 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.

In February 2016, we issued \$1.0 billion of unsecured senior notes, consisting of \$300 million of 4.25% senior notes due March 1, 2021, and \$700 million of 5.50% senior notes due March 1, 2026. In July 2016, we issued an additional \$1.0 billion of unsecured notes, consisting of an additional \$400 million of the 4.25% senior notes due March 1, 2021, and \$600 million of 5.00% senior notes due January 15, 2027. During October 2017, we settled the 7.625% notes on their due date.

Revolving credit facility

We maintain a senior unsecured revolving credit facility (the "Revolving Credit Facility") that matures in June 2019 and provides for maximum borrowings of \$750.0 million. The Revolving Credit Facility contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to \$1.25 billion, subject to certain conditions and availability of additional bank commitments. On October 13, 2017, we exercised the accordion feature to increase the maximum borrowing capacity to \$1.0 billion. 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 \$375.0 million at September 30, 2017. 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 in the Revolving Credit Facility. At September 30, 2017, we had \$83.0 million of borrowings outstanding and \$244.7 million of letters of credit issued under the Revolving Credit Facility, respectively. At December 31, 2016, we had no borrowings outstanding and \$219.1 million of letters of credit issued under the Revolving Credit Facility, 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 September 30, 2017, we had \$422.3 million available under the facility and were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

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Limited recourse notes payable

Certain of our local homebuilding operations are party to limited recourse collateralized notes payable with third parties that totaled \$24.8 million at September 30, 2017 and \$19.3 million at December 31, 2016. These notes have maturities ranging up to four years, are generally collateralized by the land positions to which they relate, and are classified within accrued and other liabilities. The stated interest rates on these notes range up to 8.25%.

Joint venture debt

At September 30, 2017, aggregate outstanding debt of unconsolidated joint ventures was \$55.8 million of which \$52.5 million was related to one joint venture in which we have a 50% interest. In connection with this loan, we and our joint venture partner provided customary limited recourse guaranties in which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding. The limited guaranties include, but are not limited to: (i) completion of certain aspects of the project; (ii) an environmental indemnity provided to the lender; and (iii) an indemnification of the lender from certain "bad boy acts" of the joint venture.

Pulte Mortgage

Pulte Mortgage maintains a master repurchase agreement with third party lenders. In August 2017, Pulte Mortgage entered into an amended and restated repurchase agreement (the "Repurchase Agreement") that extended the effective date to August 2018. The maximum aggregate commitment is \$300.0 million at September 30, 2017, which increases to \$475.0 million during the seasonally high borrowing period from December 26, 2017 through January 11, 2018. At all other times, the maximum aggregate commitment ranges from \$250.0 million to \$400.0 million. The purpose of 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 \$245.8 million and \$331.6 million outstanding under the Repurchase Agreement at September 30, 2017 and December 31, 2016, respectively, and was in compliance with all of its covenants and requirements as of such dates.

5. Shareholders' equity

During the nine months ended September 30, 2017, we declared cash dividends totaling \$83.7 million and repurchased 27.8 million shares under our repurchase authorization for \$659.8 million. For the nine months ended September 30, 2016, we declared cash dividends totaling \$93.1 million and repurchased 17.7 million shares under our repurchase authorization for \$347.7 million. At September 30, 2017, we had remaining authorization to repurchase \$345.0 million of common shares.

Under our share-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of shares, generally related to the payment of minimum tax obligations. During the nine months ended September 30, 2017 and 2016, participants surrendered shares valued at \$6.0 million and \$3.2 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

6. Income taxes

Our effective tax rate for the three and nine months ended September 30, 2017 was 33.8% and 30.2%, respectively, compared to 39.5% and 36.6%, respectively, for the same periods in 2016. Our effective tax rate for the current period differed from the federal statutory tax rate primarily due to state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, the domestic production activities deduction, and tax law changes. For the same period in the prior year, our effective tax rate differed from the federal statutory tax rate primarily due to state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, and tax law changes. Our effective tax rates for the three and nine months ended September 30, 2017 are lower than for the prior year periods primarily as the result of tax law changes and the domestic production activities deduction.

At September 30, 2017 and December 31, 2016, we had deferred tax assets, net of deferred tax liabilities and valuation allowance, of \$0.9 billion and \$1.0 billion, respectively. The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of deferred tax assets that

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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. At September 30, 2017 and December 31, 2016, we had \$12.1 million and \$21.5 million, respectively, of gross unrecognized tax benefits and \$2.2 million and \$12.2 million, respectively, of related accrued interest and penalties. It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to \$8.7 million, excluding interest and penalties, primarily due to potential audit settlements.

As a result of the adoption of ASU No. 2016-09 (see Note 1), we recorded a cumulative-effect adjustment to increase retained earnings and deferred tax assets as of January 1, 2017 by \$18.6 million for previously unrecognized excess tax benefits.

We are currently under examination by the IRS as part of the Compliance Assurance Process ("CAP") and various state taxing jurisdictions, and anticipate finalizing certain examinations within the next twelve months. The final outcome of these examinations is not yet determinable. The statutes of limitation for our major tax jurisdictions generally remain open for examination for tax years 2010 through the current year. Net operating loss and credit carryforwards remain open to examination until the tax year of utilization closes.

7. Fair value disclosures

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

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

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

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

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

Financial Instrument	Fair Value Hierarchy	Fair Value	
		September 30, 2017	December 31, 2016
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	\$364,734	\$ 539,496
Interest rate lock commitments	Level 2	10,034	8,693
Forward contracts	Level 2	517	7,081
Whole loan commitments	Level 2	(589)) 272
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	\$—	\$ 8,920
Land held for sale	Level 2	—	1,670
Disclosed at fair value:			
Cash and equivalents (including restricted cash)	Level 1	\$197,097	\$ 723,248
Financial Services debt	Level 2	245,824	331,621
Revolving credit facility	Level 2	83,000	—
Senior notes	Level 2	3,356,459	3,112,297

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

Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the above table represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates. See [Note 2](#) for a more detailed discussion of the valuation methods used for inventory and land held for sale. Investments in unconsolidated entities use similar valuation methods to inventory and land held for sale.

The carrying amounts of cash and equivalents, Financial Services debt, and the Revolving Credit Facility approximate their fair values due to their short-term nature and floating interest rate terms. The fair values of senior notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues. The carrying value of senior notes was \$3.1 billion at both September 30, 2017 and December 31, 2016.

8. Commitments and contingencies

Loan origination liabilities

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met

certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. Determining the liabilities for anticipated losses requires a significant level of management judgment. Given the nature of these claims and the uncertainty regarding their ultimate resolution, actual costs could differ from our current estimates. Changes in these liabilities were as follows (\$000's omitted):

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	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Liabilities, beginning of period	\$34,934	\$35,945	\$35,114	\$46,381
Reserves provided (released), net	(39)	(138)	(44)	629
Payments	(152)	(264)	(327)	(11,467)
Liabilities, end of period	\$34,743	\$35,543	\$34,743	\$35,543

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 \$244.7 million and \$1.2 billion, respectively, at September 30, 2017 and \$219.1 million and \$1.1 billion, respectively, at December 31, 2016. In the event any such letter of credit or surety bond is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. 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 projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

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. During the three months ended September 30, 2016, we settled a contract dispute related to a land transaction that we terminated approximately ten years prior in response to a collapse in housing demand. As a result of the settlement, we recorded a charge of \$15.0 million, which is reflected in other expense, net.

Allowance for warranties

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

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Warranty liabilities, beginning of period	\$73,353	\$61,839	\$66,134	\$61,179
Reserves provided	12,286	19,221	35,374	45,744
Payments	(14,679)	(14,886)	(43,594)	(40,548)
Other adjustments (a)	265	(1,753)	13,311	(1,954)
Warranty liabilities, end of period	\$71,225	\$64,421	\$71,225	\$64,421

(a) During the nine months ended September 30, 2017, we recognized a charge of \$12.3 million related to estimated costs to complete repairs in 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, plumbing, foundations and other concrete work, windows, roofing, and heating, ventilation and air conditioning systems. The availability of general liability insurance for the homebuilding industry and its subcontractors has become increasingly limited, and the insurance policies available require companies to maintain 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 generally requires a per occurrence deductible up to an overall aggregate retention level. Beginning with the first dollar, amounts paid to satisfy insured claims apply to our per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by insurance up to our purchased coverage levels. Our insurance policies, including the captive insurance subsidiaries' reinsurance policies, are maintained with highly-rated underwriters for whom we believe counterparty default risk is not significant.

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

Our recorded reserves for all such claims totaled \$824.6 million and \$831.1 million at September 30, 2017 and December 31, 2016, 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 69% of the total general liability reserves at both September 30, 2017 and December 31, 2016. 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.

Housing market conditions have been volatile across most of our markets over the past ten years, and we believe such conditions can affect the frequency and cost of construction defect claims. Additionally, IBNR estimates comprise the majority of our liability and are subject to a high degree of uncertainty due to a variety of factors, including changes in claims reporting and resolution patterns, third party recoveries, insurance industry practices, the regulatory environment, and legal precedent.

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

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.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Balance, beginning of period	\$814,756	\$936,711	\$831,058	\$924,563
Reserves provided, net	24,361	21,674	62,970	67,190
Adjustments to previously recorded reserves (a)	(511)	(1,441)	(22,304)	(1,889)
Payments, net (b)	(13,981)	(24,994)	(47,099)	(57,914)
Balance, end of period	\$824,625	\$931,950	\$824,625	\$931,950

- (a) Includes a general liability reserve reversal of \$19.8 million for the nine months ended September 30, 2017, related to the resolution of one previously reported claim.
- (b) Includes net changes in amounts expected to be recovered from our insurance carriers, which are recorded to other assets (see below).

In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. Such receivables are recorded in other assets and totaled \$261.1 million and \$307.3 million at September 30, 2017 and December 31, 2016, respectively. The insurance receivables relate to costs incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of construction defect claims that we believe are insured. Given the complexity inherent with resolving construction defect claims in the homebuilding industry as described above, there generally exists a significant lag between our payment of claims and our reimbursements from applicable insurance carriers. In addition, disputes between homebuilders and carriers over coverage positions relating to construction defect claims are common. Resolution of claims with carriers involves the exchange of significant amounts of information and frequently involves legal action. We recorded write-offs of \$5.3 million and \$20.3 million of insurance receivables associated with the resolution of certain insurance matters in the three and nine months ended September 30, 2017, respectively.

Additionally, we are the plaintiff in litigation with certain of our insurance carriers in regard to \$77.5 million of recorded insurance receivables relating to the applicability of coverage to such costs under their policies. We believe collection of these insurance receivables, including those in litigation, is probable based on the legal merits of our positions after review by legal counsel, favorable legal rulings received to date, 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 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.

9. Supplemental Guarantor information

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

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

CONDENSED CONSOLIDATING BALANCE SHEET
SEPTEMBER 30, 2017
(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	\$—	\$ 104,487	\$ 53,750	\$—	\$ 158,237
Restricted cash	—	37,685	1,175	—	38,860
Total cash, cash equivalents, and restricted cash	—	142,172	54,925	—	197,097
House and land inventory	—	7,270,051	100,101	—	7,370,152
Land held for sale	—	96,149	—	—	96,149
Residential mortgage loans available- for-sale	—	—	364,734	—	364,734
Investments in unconsolidated entities	119	55,720	5,658	—	61,497
Other assets	10,793	633,108	153,538	—	797,439
Intangible assets	—	144,442	—	—	144,442
Deferred tax assets, net	940,922	—	(1,163) —	939,759
Investments in subsidiaries and intercompany accounts, net	6,713,036	130,933	7,249,758	(14,093,727) —
	\$7,664,870	\$8,472,575	\$7,927,551	\$(14,093,727)	\$9,971,269
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	\$ 126,801	\$ 1,873,135	\$ 187,440	\$—	\$ 2,187,376
Financial Services debt	—	—	245,824	—	245,824
Revolving credit facility	83,000	—	—	—	83,000
Senior notes	3,109,984	—	—	—	3,109,984
Total liabilities	3,319,785	1,873,135	433,264	—	5,626,184
Total shareholders' equity	4,345,085	6,599,440	7,494,287	(14,093,727) 4,345,085
	\$7,664,870	\$8,472,575	\$7,927,551	\$(14,093,727)	\$9,971,269

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

CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2016
(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	\$—	\$588,353	\$ 110,529	\$—	\$ 698,882
Restricted cash	—	22,832	1,534	—	24,366
Total cash, cash equivalents, and restricted cash	—	611,185	112,063	—	723,248
House and land inventory	—	6,707,392	63,263	—	6,770,655
Land held for sale	—	31,218	510	—	31,728
Residential mortgage loans available- for-sale	—	—	539,496	—	539,496
Investments in unconsolidated entities	105	46,248	5,094	—	51,447
Other assets	12,364	716,923	128,139	—	857,426
Intangible assets	—	154,792	—	—	154,792
Deferred tax assets, net	1,051,351	—	(1,943)	—	1,049,408
Investments in subsidiaries and intercompany accounts, net	6,835,075	(376,748)	6,845,781	(13,304,108)	—
	\$7,898,895	\$7,891,010	\$ 7,692,403	\$(13,304,108)	\$ 10,178,200
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	\$ 129,516	\$1,755,756	\$ 191,928	\$—	\$ 2,077,200
Financial Services debt	—	—	331,621	—	331,621
Senior notes	3,110,016	—	—	—	3,110,016
Total liabilities	3,239,532	1,755,756	523,549	—	5,518,837
Total shareholders' equity	4,659,363	6,135,254	7,168,854	(13,304,108)	4,659,363
	\$7,898,895	\$7,891,010	\$ 7,692,403	\$(13,304,108)	\$ 10,178,200

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the three months ended September 30, 2017

(\$000's omitted)

	Unconsolidated				Consolidated
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$2,032,391	\$ 23,500	\$—	\$2,055,891
Land sale revenues	—	26,907	269	—	27,176
	—	2,059,298	23,769	—	2,083,067
Financial Services					
	—	—	46,952	—	46,952
	—	2,059,298	70,721	—	2,130,019
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(1,545,712)	(18,893)	—	(1,564,605)
Land sale cost of revenues	—	(24,896)	(227)	—	(25,123)
	—	(1,570,608)	(19,120)	—	(1,589,728)
Financial Services expenses	—	(121)	(29,183)	—	(29,304)
Selling, general, and administrative expenses	—	(225,845)	(11,650)	—	(237,495)
Other expense, net	(96)	(11,623)	6,476)	—	(5,243)
Intercompany interest	(756)	—	756)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(852)	251,101)	18,000)	—	268,249)
Income tax (expense) benefit	945)	(84,666)	(6,989)	—	(90,710)
Income (loss) before equity in income (loss) of subsidiaries	93)	166,435)	11,011)	—	177,539)
Equity in income (loss) of subsidiaries	177,446)	18,040)	114,564)	(310,050)	—
Net income (loss)	177,539)	184,475)	125,575)	(310,050)	177,539)
Other comprehensive income	20)	—)	—)	—)	20)
Comprehensive income (loss)	\$177,559)	\$184,475)	\$ 125,575)	\$(310,050)	\$177,559)

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the three months ended September 30, 2016

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$1,871,284	\$ 10,434	\$—	\$1,881,718
Land sale revenues	—	13,167	—	—	13,167
	—	1,884,451	10,434	—	1,894,885
Financial Services					
	—	—	48,020	—	48,020
	—	1,884,451	58,454	—	1,942,905
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(1,406,471)	(11,234)	—	(1,417,705)
Land sale cost of revenues	—	(11,428)	—	—	(11,428)
	—	(1,417,899)	(11,234)	—	(1,429,133)
Financial Services expenses					
	—	(145)	(26,761)	—	(26,906)
Selling, general, and administrative expenses					
	—	(244,904)	(6,010)	—	(250,914)
Other expense, net					
	(823)	(26,166)	3,372	—	(23,617)
Intercompany interest					
	(487)	(2,072)	2,559	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries					
	(1,310)	193,265	20,380	—	212,335
Income tax (expense) benefit					
	498	(76,552)	(7,811)	—	(83,865)
Income (loss) before equity in income (loss) of subsidiaries					
	(812)	116,713	12,569	—	128,470
Equity in income (loss) of subsidiaries					
	129,282	21,948	75,884	(227,114)	—
Net income (loss)					
	128,470	138,661	88,453	(227,114)	128,470
Other comprehensive income					
	20	—	—	—	20
Comprehensive income (loss)					
	\$128,490	\$138,661	\$ 88,453	\$(227,114)	\$128,490

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the nine months ended September 30, 2017

(\$000's omitted)

	Unconsolidated				Consolidated
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$5,554,349	\$ 52,604	\$—	\$5,606,953
Land sale revenues	—	34,171	2,575	—	36,746
	—	5,588,520	55,179	—	5,643,699
Financial Services					
	—	—	135,995	—	135,995
	—	5,588,520	191,174	—	5,779,694
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(4,288,754)	(43,467)	—	(4,332,221)
Land sale cost of revenues	—	(113,899)	(2,051)	—	(115,950)
	—	(4,402,653)	(45,518)	—	(4,448,171)
Financial Services expenses	—	(384)	(85,766)	—	(86,150)
Selling, general, and administrative expenses	—	(653,930)	(36,044)	—	(689,974)
Other expense, net	(354)	(46,339)	21,356)	—	(25,337)
Intercompany interest	(1,634)	—	1,634)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(1,988)	485,214)	46,836)	—	530,062)
Income tax (expense) benefit	1,377)	(143,324)	(18,308)	—	(160,255)
Income (loss) before equity in income (loss) of subsidiaries	(611)	341,890)	28,528)	—	369,807)
Equity in income (loss) of subsidiaries	370,418)	36,307)	197,494)	(604,219)	—
Net income (loss)	369,807)	378,197)	226,022)	(604,219)	369,807)
Other comprehensive income	61)	—)	—)	—)	61)
Comprehensive income (loss)	\$369,868)	\$378,197)	\$ 226,022)	\$(604,219)	\$369,868)

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME

For the nine months ended September 30, 2016

(\$000's omitted)

	Unconsolidated				Consolidated
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$5,011,027	\$ 16,816	\$—	\$5,027,843
Land sale revenues	—	19,069	1,535	—	20,604
	—	5,030,096	18,351	—	5,048,447
Financial Services					
	—	—	126,950	—	126,950
	—	5,030,096	145,301	—	5,175,397
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(3,750,011)	(16,291)	—	(3,766,302)
Land sale cost of revenues	—	(16,577)	(1,282)	—	(17,859)
	—	(3,766,588)	(17,573)	—	(3,784,161)
Financial Services expenses					
	—	(405)	(78,799)	—	(79,204)
Selling, general, and administrative expenses					
	—	(729,629)	(19,873)	—	(749,502)
Other expense, net					
	(1,164)	(56,599)	15,361)	—	(42,402)
Intercompany interest					
	(1,487)	(6,290)	7,777)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries					
	(2,651)	470,585)	52,194)	—	520,128)
Income tax (expense) benefit					
	1,008)	(171,535)	(20,071)	—	(190,598)
Income (loss) before equity in income (loss) of subsidiaries					
	(1,643)	299,050)	32,123)	—	329,530)
Equity in income (loss) of subsidiaries					
	331,173)	31,827)	261,777)	(624,777)	—
Net income (loss)					
	329,530)	330,877)	293,900)	(624,777)	329,530)
Other comprehensive income					
	61)	—)	—)	—	61)
Comprehensive income (loss)					
	\$329,591)	\$330,877)	\$ 293,900)	\$(624,777)	\$329,591)

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

CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2017

(\$000's omitted)

	Unconsolidated			Eliminating	Consolidated
	PulteGroup	Guarantor	Non-Guarantor	Entries	PulteGroup, Inc.
	Inc.	Subsidiaries	Subsidiaries		
Net cash provided by (used in) operating activities	\$58,575	\$ 43,042	\$ 150,862	\$	—\$ 252,479
Cash flows from investing activities:					
Capital expenditures	—	(19,693)	(3,855)	—	(23,548)
Investment in unconsolidated subsidiaries	—	(22,007)	—	—	(22,007)
Other investing activities, net	—	5,728	60	—	5,788
Net cash provided by (used in) investing activities	—	(35,972)	(3,795)	—	(39,767)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	(85,797)	—	(85,797)
Proceeds from debt issuance	—	—	—	—	—
Repayments of debt	—	(6,031)	(970)	—	(7,001)
Borrowings under revolving credit facility	971,000	—	—	—	971,000
Repayments under revolving credit facility	(888,000)	—	—	—	(888,000)
Stock option exercises	22,765	—	—	—	22,765
Share repurchases	(665,812)	—	—	—	(665,812)
Dividends paid	(86,018)	—	—	—	(86,018)
Intercompany activities, net	587,490	(470,052)	(117,438)	—	—
Net cash provided by (used in) financing activities	(58,575)	(476,083)	(204,205)	—	(738,863)
Net increase (decrease)	—	(469,013)	(57,138)	—	(526,151)
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	\$—	\$ 142,172	\$ 54,925	\$	—\$ 197,097

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

CONSOLIDATING STATEMENT OF CASH FLOWS

For the nine months ended September 30, 2016

(\$000's omitted)

	Unconsolidated			Eliminating Entries	Consolidated PulteGroup, Inc.
	PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries		
Net cash provided by (used in) operating activities	\$ 159,366	\$(562,165)	\$ 96,293	\$	—\$ (306,506)
Cash flows from investing activities:					
Capital expenditures	—	(28,243)	(2,308)	—	(30,551)
Cash used for business acquisition	—	(430,458)	—	—	(430,458)
Investment in unconsolidated subsidiaries	—	(14,049)	—	—	(14,049)
Other investing activities, net	—	3,913	1,560	—	5,473
Net cash provided by (used in) investing activities	—	(468,837)	(748)	—	(469,585)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	(109,083)	—	(109,083)
Proceeds from debt issuance	1,991,961	4,000	—	—	1,995,961
Repayments of debt	(965,245)	(20,394)	(95)	—	(985,734)
Borrowings under revolving credit facility	619,000	—	—	—	619,000
Repayments under revolving credit facility	(619,000)	—	—	—	(619,000)
Stock option exercises	5,845	—	—	—	5,845
Share repurchases	(350,846)	—	—	—	(350,846)
Dividends paid	(94,298)	—	—	—	(94,298)
Intercompany activities, net	(746,783)	788,043	(41,260)	—	—
Net cash provided by (used in) financing activities	(159,366)	771,649	(150,438)	—	461,845
Net increase (decrease)	—	(259,353)	(54,893)	—	(314,246)
Cash, cash equivalents, and restricted cash at beginning of year	—	658,876	116,559	—	775,435
Cash, cash equivalents, and restricted cash at end of year	\$—	\$ 399,523	\$ 61,666	\$	—\$ 461,189

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

Demand conditions continued to improve in the overall U.S. homebuilding market in 2017. Though industry-wide new home sales continue to pace below historical averages, the ongoing recovery in demand for new homes is being supported by job creation, high consumer confidence, a supportive interest rate environment, and a limited supply of new homes. Within this environment, we remain focused on driving additional gains in construction and asset efficiency to deliver higher returns on invested capital. Consistent with our positive market view and long-term business strategy, we expect to use our capital to support future growth while consistently returning funds to shareholders through dividends and share repurchases.

The nature of the homebuilding industry results in a lag between when investments made in land acquisition and development yield new community openings and related home closings. Our focus continues to be on adding volume growth to the efficiency gains we have achieved in recent years. Our prior investments are allowing us to grow the business, as evidenced by net new order dollars increasing 20% year to date, as compared to the prior year, and our backlog increasing by 26% to \$4.7 billion as of September 30, 2017.

We expect to turn over and replace approximately one third of our communities in 2017. While we have significant experience opening new communities, starting up new communities can present a challenge in today's environment where entitlement and land development delays are common. We have grown our investment in the business in a disciplined manner by emphasizing smaller projects and working to shorten our years of land supply, including the use of land option agreements when possible and liquidating non-strategic assets when appropriate. We have also focused our land investments on closer-in locations where we think demand is more sustainable over the housing cycle.

On May 3, 2017, we committed to a plan to sell select non-core and underutilized land parcels following a strategic review of our land portfolio. We determined that we would sell certain currently inactive land parcels, representing approximately 4,600 lots, and work is underway to monetize two small communities representing an additional 400 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 that are inconsistent with our primary offerings. Actions required to complete the planned sales have been initiated, but the timing of completing the dispositions is unknown. We will seek to redeploy the proceeds and related tax benefits from these dispositions into higher returning projects. As a consequence of the change in strategy with respect to the future use of these land parcels, we recorded land-related charges totaling \$120.0 million in the nine months ended September 30, 2017. As a result of this review, we also recorded \$5.1 million of write-offs of deposits and pre-acquisition costs related to land option contracts we no longer plan to pursue. See [Note 2](#) for a breakdown of these charges by category and the Land-related charges table within the Homebuilding Segment Operations section for a breakdown of these charges by geography.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Income before income taxes:				
Homebuilding	\$250,463	\$191,063	\$479,824	\$472,042
Financial Services	17,786	21,272	50,238	48,086
Income before income taxes	268,249	212,335	530,062	520,128
Income tax expense	(90,710)	(83,865)	(160,255)	(190,598)
Net income	\$177,539	\$128,470	\$369,807	\$329,530
Per share data - assuming dilution:				
Net income	\$0.58	\$0.37	\$1.18	\$0.94

Homebuilding income before income taxes for the three and nine months ended September 30, 2017 increased compared with the prior year period, primarily as the result of higher revenues and better overhead utilization. Homebuilding income before income taxes also reflected the following significant expense (income) items (\$000's omitted):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Land inventory impairments (see Note 2)	\$—	\$—	\$31,487	\$—
Net realizable value adjustments ("NRV") - land held for sale (see Note 2)	(534)	121	82,353	189
Impairments of unconsolidated entities (see Note 2)	—	—	8,017	—
Write-offs of deposits and pre-acquisition costs (see Note 2)	2,680	2,541	9,397	12,996
Legal settlement (see Note 8)	—	15,000	—	15,000
Warranty claim (see Note 8)	222	—	12,328	—
Write-offs of insurance receivables (see Note 8)	5,326	—	20,326	—
Insurance reserve reversal (see Note 8)	—	—	(19,813)	—
	\$7,694	\$17,662	\$144,095	\$28,185

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

Financial Services income before income taxes decreased for the three months ended September 30, 2017 compared with September 30, 2016, due to lower revenues per loan and higher overhead as the mortgage origination market has become more competitive. Financial Services income before income taxes for the nine months ended September 30, 2017 increased compared with the prior year period due to an increase in origination volume resulting from higher volumes in the Homebuilding segment.

Our effective tax rate for the three and nine months ended September 30, 2017 was 33.8% and 30.2%, respectively, which includes the favorable resolution of certain state income tax matters, the domestic production activities deduction, and tax law changes for the current period, compared to 39.5% and 36.6%, respectively, for the same periods in 2016, which reflected the favorable resolution of certain state income tax matters, and tax law changes.

Homebuilding Operations

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2017 vs. 2016	2016	2017	2017 vs. 2016	2016
Home sale revenues	\$2,055,891	9	% \$1,881,718	\$5,606,953	12	% \$5,027,843
Land sale revenues	27,176	106	% 13,167	36,746	78	% 20,604
Total Homebuilding revenues	2,083,067	10	% 1,894,885	5,643,699	12	% 5,048,447
Home sale cost of revenues (a)	(1,564,605)	10	% (1,417,705)	(4,332,221)	15	% (3,766,302)
Land sale cost of revenues (b)	(25,123)	120	% (11,428)	(115,950)	549	% (17,859)
Selling, general, and administrative expenses ("SG&A") (c)	(237,495)	(5)	% (250,914)	(689,974)	(8)	% (749,502)
Other expense, net (d)	(5,381)	(77)	% (23,775)	(25,730)	(40)	% (42,742)
Income before income taxes	\$250,463	31	% \$191,063	\$479,824	2	% \$472,042

Supplemental data:

Gross margin from home sales	23.9	% (80) bps	24.7	% 22.7	% (240) bps	25.1	%
SG&A as a percentage of home sale revenues (c)	11.6	% (170) bps	13.3	% 12.3	% (260) bps	14.9	%
Closings (units)	5,151	2	% 5,037	14,420	5	% 13,754	
Average selling price	\$399	7	% \$374	\$389	6	% \$366	
Net new orders (e):							
Units	5,300	11	% 4,775	17,821	11	% 16,124	
Dollars	\$2,260,082	23	% \$1,831,339	\$7,331,311	20	% \$6,087,334	
Cancellation rate	15	%	16	% 13	%	14	%
Active communities at September 30				778	10	% 709	
Backlog at September 30:							
Units				10,823	15	% 9,417	
Dollars				\$4,665,871	26	% \$3,698,920	

Includes the amortization of capitalized interest, land inventory impairments of \$31.5 million (see [Note 2](#)), and a (a) warranty charge of \$12.3 million related to a closed-out community (see [Note 8](#)) for the nine months ended September 30, 2017.

(b) Includes net realizable value adjustments on land held for sale of \$82.4 million for the nine months ended September 30, 2017 (see [Note 2](#)).

(c) Includes write-offs of \$5.3 million and \$20.3 million of insurance receivables associated with the resolution of certain insurance matters in the three and nine months ended September 30, 2017, respectively. Also includes an insurance reserve reversal of \$19.8 million for the nine months ended September 30, 2017 (see [Note 8](#)).

(d) Includes an \$8.0 million impairment of an investment in an unconsolidated entity in the nine months ended September 30, 2017 (see [Note 2](#)).

(e) Net new orders excludes backlog acquired from Wieland in January 2016 (see [Note 1](#)). Net new order dollars represent a composite of new order dollars combined with other movements of the dollars in backlog related to cancellations and change orders.

Home sale revenues

Home sale revenues for the three and nine months ended September 30, 2017 were higher than the prior year by \$174.2 million and \$579.1 million, respectively. For the three months ended September 30, 2017, the 9% increase was attributable to a 7% increase in average selling price and a 2% increase in closings. For the nine months ended September 30, 2017, the increase was attributable to a 6% increase in average selling price and 5% increase in closings. The increase in closings reflects the significant investments we have made and the resulting increase in our active communities. These increased closings occurred despite the disruption in our operations caused by Hurricane Harvey in Houston, Texas, and Hurricane Irma in Florida, as well as permitting and other municipal approval delays in certain communities. The higher average selling price reflects an ongoing shift toward move-up buyers for both periods.

Home sale gross margins

Home sale gross margins were 23.9% and 22.7% for the three and nine months ended September 30, 2017, respectively, compared to 24.7% and 25.1% for the three and nine months ended September 30, 2016, respectively. Gross margins for the nine months ended September 30, 2017 include the aforementioned land inventory impairments totaling \$31.5 million (see [Note 2](#)). Gross margin for the nine months ended September 30, 2017 also includes a warranty charge of \$12.3 million related to a closed-out community in Florida (see [Note 8](#)). Excluding these charges, gross margins in 2017 remain strong relative to historical levels but are lower compared to 2016 due to a combination of factors, including shifts in community mix and higher house construction and land costs.

Land sales

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 gains (losses) of \$2.1 million and \$(79.2) million for the three and nine months ended September 30, 2017, respectively, compared to gains of \$1.7 million and \$2.7 million for the three and nine months ended September 30, 2016, respectively. The loss in the nine months ended September 30, 2017 resulted from the aforementioned net realizable value charges of \$82.4 million (see [Note 2](#)).

SG&A

SG&A as a percentage of home sale revenues was 11.6% and 12.3% for the three and nine months ended September 30, 2017, respectively, compared with 13.3% and 14.9% for the three and nine months ended September 30, 2016, respectively. The gross dollar amount of our SG&A decreased \$13.4 million, or 5%, for the three months ended September 30, 2017 compared to September 30, 2016, and decreased \$59.5 million, or 7.9%, for the nine months ended September 30, 2017 compared to September 30, 2016. SG&A includes the aforementioned insurance receivable write-offs of \$5.3 million and \$20.3 million in the three and nine months ended September 30, 2017, respectively. The nine months ended September 30, 2017 also includes an insurance reserve reversal of \$19.8 million (see [Note 8](#)).

The overall decrease in SG&A is primarily attributable to cost efficiencies realized in late 2016 that continued into 2017. Additionally, SG&A for the nine months ended September 30, 2016 reflects the impact of transaction and integration costs associated with the assets acquired from Wieland (see [Note 1](#)).

Other expense, net

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Write-offs of deposits and pre-acquisition costs <u>(Note 2)</u>	\$2,680	\$2,541	\$9,397	\$12,996
Lease exit and related costs	219	4,644	624	10,589
Amortization of intangible assets	3,450	3,450	10,350	10,350
Interest income	(485)	(887)	(1,917)	(2,659)
Interest expense	101	165	371	526
Equity in loss (earnings) of unconsolidated entities (a)	(415)	(485)	4,154	(4,489)
Miscellaneous, net	(169)	14,347	2,751	15,429
Total other expense, net	\$5,381	\$23,775	\$25,730	\$42,742

Lease exit and related costs for the three and nine months ended September 30, 2016, resulted from actions taken to (a) reduce overheads and the substantial completion of our corporate headquarters relocation from Michigan to Georgia, which began in 2013.

(b) Includes an \$8.0 million impairment of an investment in an unconsolidated entity in the nine months ended September 30, 2017 (see Note 2).

(c) Miscellaneous, net includes a charge of \$15.0 million related to the settlement of a disputed land transaction for the three and nine months ended September 30, 2016 (see Note 8).

Net new orders

Net new order units increased 11% for both the three and nine months ended September 30, 2017, respectively, compared with the same periods in 2016. These increases in net new orders resulted primarily from a higher number of active communities. Net new orders in dollars increased by 23% and 20% for the three and nine months ended September 30, 2017, respectively, compared to the same periods in 2016 due to the growth in units combined with a higher average selling price. The cancellation rate (canceled orders for the period divided by gross new orders for the period) was 15% and 13% for the three and nine months ended September 30, 2017, respectively, compared to 16% and 14% for the same periods in 2016. Ending backlog, which represents orders for homes that have not yet closed, increased 15% in units at September 30, 2017 compared with September 30, 2016 primarily as a result of the higher net new order volume and 26% in dollars due to the unit increase and a higher average selling price. Delayed home closings as a result of the aforementioned hurricanes and production delays also contributed to the higher backlog at September 30, 2017.

Homes in production

The following is a summary of our homes in production at September 30, 2017 and September 30, 2016:

	September 30,	September 30,
	2017	2016
Sold	8,098	7,053
Unsold		
Under construction	1,765	1,581
Completed	576	601
Models	2,341	2,182
	1,079	1,059

Total	11,518	10,294
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The number of homes in production at September 30, 2017 was 12% higher than at September 30, 2016 due primarily to the higher net new order volume and backlog. As part of our inventory management strategies, we expect to maintain reasonable inventory levels relative to demand in each of our markets.

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Controlled lots

The following is a summary of our lots under control at September 30, 2017 and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Owned	Optioned	Controlled	Owned	Optioned	Controlled
Northeast	5,149	6,030	11,179	6,296	4,019	10,315
Southeast	15,267	10,256	25,523	16,050	8,232	24,282
Florida	17,977	11,508	29,485	22,164	8,470	30,634
Midwest	11,609	7,300	18,909	11,800	8,639	20,439
Texas	13,848	9,891	23,739	13,541	9,802	23,343
West	26,548	3,831	30,379	29,428	4,817	34,245
Total	90,398	48,816	139,214	99,279	43,979	143,258

Developed (%) 37 % 23 % 32 % 31 % 19 % 28 %

Of our controlled lots, 90,398 and 99,279 were owned and 48,816 and 43,979 were controlled under land option agreements at September 30, 2017 and December 31, 2016, respectively. While competition for well-positioned land is robust, we continue to pursue land investments that we believe can achieve appropriate risk-adjusted returns on invested capital. The remaining purchase price under our land option agreements totaled \$2.3 billion at September 30, 2017. 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 \$201.8 million, of which \$9.4 million is refundable at September 30, 2017.

Homebuilding Segment Operations

As of September 30, 2017, we conducted our operations in 47 markets located throughout 25 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

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

Southeast: Georgia, North Carolina, South Carolina, Tennessee

Florida: Florida

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

Texas: Texas

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

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

	Operating Data by Segment (\$000's omitted)					
	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2017	2017	2016	2017	2017	2016
		vs.			vs.	
		2016			2016	
Home sale revenues:						
Northeast	\$168,402	9 %	\$155,076	\$425,206	— %	\$426,212
Southeast	392,133	5 %	372,639	1,098,576	4 %	1,052,689
Florida	333,726	9 %	306,323	1,007,754	18 %	856,703
Midwest	392,442	15 %	342,332	994,701	22 %	817,709
Texas	268,899	3 %	261,693	791,684	9 %	729,170
West	500,289	13 %	443,655	1,289,032	13 %	1,145,360
	\$2,055,891	9 %	\$1,881,718	\$5,606,953	12 %	\$5,027,843
Income (loss) before income taxes (a):						
Northeast (b)	\$21,046	248 %	\$6,056	\$(12,803)	(137) %	\$34,884
Southeast	45,109	24 %	36,370	117,749	22 %	96,898
Florida (c)	52,191	14 %	45,891	132,824	2 %	130,546
Midwest	59,636	62 %	36,792	115,463	68 %	68,665
Texas	42,727	10 %	38,878	122,045	18 %	103,618
West	75,753	37 %	55,347	107,987	(17) %	130,683
Other homebuilding (d)	(45,999)	(63) %	(28,271)	(103,441)	(11) %	(93,252)
	\$250,463	31 %	\$191,063	\$479,824	2 %	\$472,042
Closings (units):						
Northeast	318	— %	317	846	(5) %	889
Southeast	966	2 %	948	2,751	(2) %	2,799
Florida	897	7 %	836	2,639	12 %	2,348
Midwest	1,001	7 %	938	2,576	13 %	2,276
Texas	927	(2) %	948	2,809	6 %	2,646
West	1,042	(1) %	1,050	2,799	— %	2,796
	5,151	2 %	5,037	14,420	5 %	13,754
Average selling price:						
Northeast	\$530	8 %	\$489	\$503	5 %	\$479
Southeast	406	3 %	393	399	6 %	376
Florida	372	2 %	366	382	5 %	365
Midwest	392	7 %	365	386	7 %	359
Texas	290	5 %	276	282	2 %	276
West	480	14 %	423	461	12 %	410
	\$399	7 %	\$374	\$389	6 %	\$366

(a) Includes land-related charges of \$2.1 million and \$131.3 million for the three and nine months ended September 30, 2017, respectively (see [Note 2](#)).

(b) Northeast includes a charge of \$15.0 million related to the settlement of a disputed land transaction for the three and nine months ended September 30, 2016 (see [Note 8](#)).

(c) Includes a warranty charge of \$12.3 million for the nine months ended September 30, 2017 related to a closed-out community (see [Note 8](#)).

(d) Includes amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Also includes write-offs of \$5.3 million and \$20.3 million of insurance receivables associated with the resolution of certain insurance matters in the three and nine months ended September 30, 2017, respectively. For the nine months ended September 30, 2017, other homebuilding also includes an insurance

reserve reversal of \$19.8 million.

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Operating Data by Segment (\$000's omitted)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2017 vs. 2016	2016	2017	2017 vs. 2016	2016
Net new orders - units:						
Northeast	316	(3)%	325	1,103	5 %	1,055
Southeast	1,044	11 %	938	3,314	10 %	3,006
Florida	991	5 %	946	3,121	8 %	2,880
Midwest	868	6 %	817	3,119	9 %	2,870
Texas	881	3 %	852	3,281	9 %	3,009
West	1,200	34 %	897	3,883	18 %	3,304
	5,300	11 %	4,775	17,821	11 %	16,124
Net new orders - dollars:						
Northeast	\$170,542	10 %	\$154,551	\$581,033	12 %	\$517,282
Southeast	416,723	9 %	381,992	1,317,316	13 %	1,165,970
Florida	387,611	11 %	349,962	1,198,072	12 %	1,069,220
Midwest	341,708	12 %	304,948	1,223,169	17 %	1,048,700
Texas	265,411	10 %	241,242	961,312	15 %	834,874
West	678,087	70 %	398,644	2,050,409	41 %	1,451,288
	\$2,260,082	23 %	\$1,831,339	\$7,331,311	20 %	\$6,087,334
Cancellation rates:						
Northeast	19	%	11	%	13	%
Southeast	13	%	15	%	12	%
Florida	13	%	11	%	12	%
Midwest	13	%	15	%	11	%
Texas	19	%	20	%	16	%
West	16	%	21	%	15	%
	15	%	16	%	13	%
Unit backlog:						
Northeast				644	6 %	610
Southeast				1,934	16 %	1,669
Florida				1,900	5 %	1,806
Midwest				1,850	10 %	1,683
Texas				1,884	10 %	1,708
West				2,611	35 %	1,941
				10,823	15 %	9,417
Backlog dollars:						
Northeast				\$345,423	14 %	\$302,602
Southeast				802,500	15 %	699,710
Florida				746,544	6 %	702,801
Midwest				729,547	19 %	613,351
Texas				572,119	19 %	481,364
West				1,469,738	63 %	899,092
				\$4,665,871	26 %	\$3,698,920

Operating Data by Segment

(\$000's omitted)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Land-related charges*:				
Northeast	\$1,184	\$464	\$51,102	\$990
Southeast	889	396	1,847	2,252
Florida	109	68	8,862	597
Midwest	(393)	391	7,703	1,242
Texas	51	245	898	397
West	306	1,098	56,747	7,707
Other homebuilding	—	—	4,095	—
	\$2,146	\$2,662	\$131,254	\$13,185

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

Northeast

For the third quarter of 2017, Northeast home sale revenues increased 9% compared with the prior year period due to an 8% increase in the average selling price while closings remained flat. The higher revenues occurred primarily in the Mid-Atlantic and resulted from the timing of opening new communities. Income before income taxes increased primarily because of the aforementioned charge related to the settlement of a disputed land transaction in the third quarter of 2016. Higher revenues and lower overheads also contributed to the improvement. Net new orders decreased 3%, primarily in New England due to cancellations resulting from a fire in a building that was under construction and that must be razed and rebuilt.

For the nine months ended September 30, 2017, Northeast home sale revenues were uniform when compared with the prior year period due to a 5% decrease in closings, offset by a 5% increase in the average selling price. The decrease in closings was concentrated in New England, and the increase in average selling price was broad-based. The decreased income before income taxes resulted primarily from the aforementioned land-related charges recognized in the period (see [Note 2](#)), which was partially offset by a charge related to the settlement of a disputed land transaction in the nine months ended September 30, 2016. Net new orders increased 5%, primarily in the Northeast Corridor.

Southeast

For the third quarter of 2017, Southeast home sale revenues increased 5% compared with the prior year period due to a 2% increase in closings combined with a 3% increase in the average selling price. Income before income taxes increased as the result of the higher revenues and lower overhead costs in the current period, as the Southeast was impacted in 2016 by costs associated with the Wieland acquisition (see [Note 1](#)). Net new orders increased 11%, primarily in Georgia and Raleigh.

For the nine months ended September 30, 2017, Southeast home sale revenues increased 4% compared with the prior year as the result of a 6% increase in average selling price partially offset by a 2% decrease in closings. The decrease in closings occurred across all markets except for Georgia, while the increase in average selling price occurred

primarily in Raleigh and Charlotte. Income before income taxes increased 22% as a result of transaction and integration costs associated with the assets acquired from Wieland in 2016 (see Note 1). Net new orders increased across all markets with the exception of Charlotte.

Florida

For the third quarter of 2017, Florida home sale revenues increased 9% compared with the prior year period due to a 7% increase in closings combined with a 2% increase in the average selling price. The increase in closings occurred primarily in North Florida and Southwest Florida, and the increase in average selling price occurred across all markets except for North

Florida. Income before income taxes increased primarily due to higher revenues. Net new orders increased 5%, reflecting improved order levels across all markets except for Southwest Florida. The increased closings and new orders occurred despite the disruption in our Florida operations caused by Hurricane Irma.

For the nine months ended September 30, 2017, Florida home sale revenues increased 18% compared with the prior year period due to a 5% increase in the average selling price combined with a 12% increase in closings. Income before income taxes increased slightly due to higher revenues offset by the aforementioned land-related charges and warranty adjustment (see Note 2 and Note 8). Net new orders increased across all markets. Both closings and new orders increased despite the disruption in our operations caused by Hurricane Irma.

Midwest

For the third quarter of 2017, Midwest home sale revenues increased 15% compared with the prior year period due to a 7% increase in average selling price combined with a 7% increase in closings. The higher revenues occurred across all markets with the exception of Indianapolis-Louisville. The increased revenues led to an increase in income before income taxes. Net new orders increased across the majority of markets.

For the nine months ended September 30, 2017, Midwest home sale revenues increased 22% compared with the prior year period due to a 7% increase in average selling price combined with a 13% increase in closings. The higher revenues occurred across all markets. Net new orders increased across all markets.

Texas

For the third quarter of 2017, Texas home sale revenues increased 3% compared with the prior year period due to a 5% increase in average selling price offset by a 2% decrease in closings. The lower closings is primarily attributable to the disruption in our Houston operations caused by Hurricane Harvey. The increased average selling price occurred across all markets except for Houston, while the decrease in closings occurred primarily in Houston and San Antonio. The increased revenues and lower overhead led to an increase in income before income taxes. Net new orders increased 3% primarily in Houston and Central Texas.

For the nine months ended September 30, 2017, Texas home sale revenues increased 9% compared with the prior year period due to a 6% increase in closings combined with a 2% increase in the average selling price. The average selling price increased primarily in Central Texas and San Antonio. The increase in closings was concentrated in Dallas and Central Texas, offset by a decrease in Houston caused by Hurricane Harvey. The higher revenues and higher closings led to an increase in income before income taxes. Net new orders increased 9% and occurred across all markets except for San Antonio.

West

For the third quarter of 2017, West home sale revenues increased 13% compared with the prior year period resulting from a 14% increase in average selling price, offset by a 1% decrease in closings. The increased average selling price occurred across all markets with the exception of New Mexico, whereas the decreased closings occurred mainly in Northern California due to permitting and other municipal approval delays in certain communities. Income before income taxes increased across all markets with the exception of Northern California. Net new orders showed a 34% overall increase.

For the nine months ended September 30, 2017, West home sale revenues increased 13% compared with the prior year period primarily due to a 12% increase in average selling price, while closings remained flat as Northern California experienced lower closings due to permitting and other municipal approval delays in certain communities.

The higher average selling price occurred across all markets. Income before income taxes decreased primarily as a result of the aforementioned land-related charges recognized during the period (see [Note 2](#)), partially offset by higher revenues and lower overhead costs. Net new orders increased 18% and occurred across all markets. This increase was partially due to the increase in active communities.

Financial Services Operations

We conduct our Financial Services operations, which include mortgage and title operations, through Pulte Mortgage and other subsidiaries. In originating mortgage loans, we initially use our own funds, including funds available pursuant to credit agreements with third parties. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. We also sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the loans

and related servicing rights for only a short period of time. Operating as a captive business model primarily targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. Our Homebuilding customers continue to account for substantially all loan production. We believe that our capture rate, which represents loan originations from our Homebuilding operations as a percentage of total loan opportunities from our Homebuilding operations, excluding cash closings, is an important metric in evaluating the effectiveness of our captive mortgage business model. The following tables present selected financial information for our Financial Services operations (\$000's omitted):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	vs. 2016	2016	2017	vs. 2016	2016
Mortgage operations revenues	\$35,910	(6)%	\$38,320	\$104,582	4 %	\$100,162
Title services revenues	11,042	14 %	9,700	31,413	17 %	26,788
Total Financial Services revenues	46,952	(2)%	48,020	135,995	7 %	126,950
Expenses	(29,304)	9 %	(26,906)	(86,150)	9 %	(79,204)
Other income, net	138	(13)%	158	393	16 %	340
Income before income taxes	\$17,786	(16)%	\$21,272	\$50,238	4 %	\$48,086
Total originations:						
Loans	3,428	— %	3,417	9,631	6 %	9,123
Principal	\$1,002,108	6 %	\$945,859	\$2,778,151	12 %	\$2,481,177

	Nine Months Ended September 30,		
	2017	2016	
Supplemental data:			
Capture rate	79.5	% 80.9	%
Average FICO score	749	750	
Loan application backlog	\$2,653,466	\$2,057,460	
Funded origination breakdown:			
FHA	10	% 10	%
VA	13	% 13	%
USDA	1	% 1	%
Other agency	69	% 70	%
Total agency	93	% 94	%
Non-agency	7	% 6	%
Total funded originations	100	% 100	%

Revenues

Total Financial Services revenues for the three and nine months ended September 30, 2017 decreased 2% and increased 7%, respectively, compared to the same periods in 2016. The decrease when compared to the three months ended September 30, 2016 is due to the reduced capture rate and lower revenue per loan. The increase when compared to the nine months ended September 30, 2016 is primarily related to higher loan origination volume resulting from higher volumes in the Homebuilding segment partially offset by lower revenue per loan. Refinance activity has slowed in the mortgage industry, which has increased competition, pressured loan pricing, and resulted in lower revenue per loan for us in 2017.

Income before income taxes

Income before income taxes for the three and nine months ended September 30, 2017 decreased 16% and increased 4%, respectively, compared to the prior year periods. The decrease over the three months ended September 30, 2016 was due to lower revenues per loan and higher expenses, while the increase over the nine months ended September 30, 2016 resulted primarily from the increase in revenues combined with better expense leverage.

Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2017 was 33.8% and 30.2%, respectively, compared to 39.5% and 36.6%, respectively, for the same periods in 2016. Our effective tax rate for the current period differed from the federal statutory tax rate primarily due to state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, the domestic production activities deduction, and tax law changes. For the same period in the prior year, our effective tax rate differed from the federal statutory tax rate primarily due to state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, and tax law changes. Our effective tax rates for the three and nine months ended September 30, 2017 are lower than for the prior year periods primarily as the result of tax law changes and the domestic production activities deduction.

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 September 30, 2017, we had unrestricted cash and equivalents of \$158.2 million, restricted cash balances of \$38.9 million, and \$422.3 million available under our Revolving Credit Facility. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments.

Our ratio of debt to total capitalization, excluding our Financial Services debt and limited recourse notes payable, was 42.4% at September 30, 2017.

Unsecured senior notes

In February 2016, we issued \$1.0 billion of unsecured senior notes, consisting of \$300 million of 4.25% senior notes due March 1, 2021, and \$700 million of 5.50% senior notes due March 1, 2026. In July 2016, we issued an additional \$1.0 billion of unsecured senior notes, consisting of an additional \$400 million of the 4.25% senior notes due March 1, 2021, and \$600 million of 5.00% senior notes due January 15, 2027. During October 2017, we settled the 7.625% senior notes on their due date.

Revolving credit facility

We maintain a senior unsecured revolving credit facility (the "Revolving Credit Facility") that matures in June 2019 and provides for maximum borrowings of \$750.0 million. The Revolving Credit Facility contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to \$1.25 billion, subject to certain conditions and availability of additional bank commitments. On October 13, 2017, we exercised the accordion feature to increase the maximum borrowing capacity to \$1.0 billion. 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 \$375.0 million at September 30, 2017. 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 in the Revolving Credit Facility. At September 30, 2017, we had \$83.0 million of borrowings outstanding and \$244.7 million of letters of credit issued under the Revolving Credit Facility, respectively. At December 31, 2016, we had no borrowings outstanding and \$219.1 million of letters of credit issued under the Revolving Credit Facility, 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 September 30, 2017, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

Limited recourse notes payable

Certain of our local homebuilding operations are party to limited recourse collateralized notes payable with third parties that totaled \$24.8 million at September 30, 2017 and \$19.3 million at December 31, 2016. These notes have maturities ranging up to four years, are collateralized by the applicable land positions to which they relate, and are classified within accrued and other liabilities. The stated interest rates on these notes range up to 8.25%.

Pulte Mortgage

Pulte Mortgage maintains a master repurchase agreement with third party lenders. In August 2017, Pulte Mortgage entered into an amended and restated repurchase agreement (the "Repurchase Agreement") that extended the effective date to August 2018. The maximum aggregate commitment is \$300.0 million at September 30, 2017, and increases to \$475.0 million during the seasonally high borrowing period from December 26, 2017 through January 11, 2018. At all other times, the maximum aggregate commitment ranges from \$250.0 million to \$400.0 million. The purpose of 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 \$245.8 million and \$331.6 million outstanding under the Repurchase Agreement at September 30, 2017 and December 31, 2016, respectively, and was in compliance with all of its covenants and requirements as of such dates.

Dividends and share repurchase program

During the nine months ended September 30, 2017, we declared cash dividends totaling \$83.7 million and repurchased 27.8 million shares under our repurchase authorization totaling \$659.8 million. In July 2016, our Board of Directors approved a \$1.0 billion increase in our share repurchase authorization. At September 30, 2017, we had remaining authorization to repurchase \$345.0 million of common shares.

Cash flows

Operating activities

Our net cash provided by operating activities for the nine months ended September 30, 2017 was \$252.5 million, compared with net cash used in operating activities of \$306.5 million for the nine months ended September 30, 2016. Generally, the primary drivers of our cash flow from operations are profitability and changes in the levels of inventory and residential mortgage loans available-for-sale, each of which experiences seasonal fluctuations. The positive cash flow from operations for the nine months ended September 30, 2017 was primarily due to our pretax income of \$530.1 million supplemented by \$131.3 million in non-cash land-related charges and a seasonal reduction of \$173.1 million in residential mortgage loans available-for-sale. These sources of cash were partially offset by a net increase in inventories of \$758.0 million resulting from ongoing land acquisition and development investment to support future growth combined with a seasonal build of house inventory to support the higher backlog.

Our negative cash flow from operations for the nine months ended September 30, 2016 was primarily due to a net increase in inventories of \$1.1 billion resulting from increased land investment combined with a seasonal build of house inventory. These uses of cash were partially offset by our pretax income of \$520.1 million and a seasonal reduction of \$92.6 million in residential mortgage loans available-for-sale.

Investing activities

Investing activities are generally not a significant source or use of cash for us. Net cash used by investing activities for the nine months ended September 30, 2017 was \$39.8 million, compared with net cash used by investing activities of \$469.6 million for the nine months ended September 30, 2016. The cash used in investing activities for the nine months ended September 30, 2016 was primarily due to the acquisition of certain real estate assets from Wieland (see [Note 1](#)).

Financing activities

Net cash used in financing activities for the nine months ended September 30, 2017 totaled \$738.9 million, compared with net cash provided by financing activities of \$461.8 million for the nine months ended September 30, 2016. The net cash used in financing activities for the nine months ended September 30, 2017 resulted primarily from the repurchase of 27.8 million common shares for \$659.8 million under our repurchase authorization, payment of \$86.0 million in cash dividends, net

borrowings of \$83.0 million under the Revolving Credit Facility, and net repayments of \$85.8 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Net cash provided by financing activities for the nine months ended September 30, 2016 resulted primarily from the proceeds of the unsecured senior notes issuance for \$2.0 billion offset by net repayments of \$109.1 million under the Repurchase Agreement, the repurchase of 17.7 million common shares for \$347.7 million under our repurchase authorization, and payment of \$94.3 million in cash dividends.

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

On August 14, 2017, Pulte Mortgage entered into an amended and restated repurchase agreement. On October 13, 2017, we exercised the accordion feature under our Revolving Credit Facility to increase the maximum borrowing capacity to \$1.0 billion. There have been no other material changes to our contractual obligations from those disclosed in our "Contractual Obligations and Commercial Commitments" contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for the year ended December 31, 2016.

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 September 30, 2017, we had outstanding letters of credit totaling \$244.7 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 \$1.2 billion at September 30, 2017, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At September 30, 2017, these agreements had an aggregate remaining purchase price of \$2.3 billion. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

At September 30, 2017, aggregate outstanding debt of unconsolidated joint ventures was \$55.8 million of which \$52.5 million was related to one joint venture in which we have a 50% interest. In connection with this loan, we and our joint venture partner provided customary limited recourse guaranties in which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2017 compared with those contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative disclosure

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

The following table sets forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of September 30, 2017 (\$000's omitted):

	As of September 30, 2017 for the Years ending December 31,								
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value	
Rate-sensitive liabilities:									
Fixed rate debt	\$210,481	\$1,418	\$9,333	\$9,539	\$700,000	\$2,300,000	\$3,230,771	\$3,464,229	
Average interest rate	5.95	% 6.37	% 4.48	% 3.98	% 4.25	% 5.90	% 5.53	%	
Variable rate debt (a)	\$245,824	\$—	\$—	\$—	\$—	\$—	\$245,824	\$245,824	
Average interest rate	3.61	% —	% —	% —	% —	% —	% 3.61	%	

(a) Includes the Pulte Mortgage Repurchase Agreement and amounts outstanding under our Revolving Credit Facility, under which there was \$83 million outstanding at September 30, 2017.

Qualitative disclosure

There have been no material changes to the qualitative disclosure found in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2016.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 3, Quantitative and Qualitative Disclosures About Market Risk, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "plan," "project," "may," "can," "could," "might," and similar expressions identify forward-looking statements, including statements related to the impairment charge with respect to certain land parcels 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; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See PulteGroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and other public filings with the Securities and Exchange Commission (the "SEC") for a further discussion of these and other risks and uncertainties applicable to our businesses. We undertake no duty to update any forward-looking statement, whether as a result of new information, future events or changes in our expectations.

Item 4. Controls and Procedures

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 September 30, 2017. 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 September 30, 2017.

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). There was no change in our internal control over financial reporting during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

	Total number of shares purchased (1)	Average price paid per share (1)	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)
July 1, 2017 to July 31, 2017	3,463,941	\$ 24.53	3,463,941	\$ 519,910 (2)
August 1, 2017 to August 31, 2017	4,566,300	\$ 25.18	4,566,300	\$ 404,948 (2)
September 1, 2017 to September 30, 2017	2,322,638	\$ 25.83	2,320,300	\$ 344,952 (2)
Total	10,352,879	\$ 25.11	10,350,541	

During the third quarter of 2017, participants surrendered 2,338 shares for payment of minimum tax obligations (1) 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.

The Board of Directors approved share repurchase authorizations totaling \$1.0 billion in July 2016. During the nine months ended September 30, 2017, we repurchased 27.8 million shares for a total of \$659.8 million. The share (2) repurchase authorization has \$345.0 million remaining as of September 30, 2017. There is no expiration date for this program.

Item 6. Exhibits

Exhibit Number and Description

- 3 (a) Restated Articles of Incorporation, of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed with the SEC on August 18, 2009)
- (b) Certificate of Amendment to the Articles of Incorporation, dated March 18, 2010 (Incorporated by reference to Exhibit 3(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
- (c) Certificate of Amendment to the Articles of Incorporation, dated May 21, 2010 (Incorporated by reference to Exhibit 3(c) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)
- (d) By-laws, as amended, 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)
- 10 (a) 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)
- (b) PulteGroup, Inc. Deferred Compensation Plan For Non-Employee Directors, as amended and restated effective as of January 1, 2017 (Filed herewith)
- (c) Increase Certificate effective as of October 13, 2017, delivered pursuant to the Amended and Restated Credit Agreement dated as of June 30, 2016 among PulteGroup, Inc., as Borrower, Bank of America,

N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the other Lenders party thereto (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 XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

PULTEGROUP, INC.

/s/ Robert T.
O'Shaughnessy
Robert T.
O'Shaughnessy
Executive Vice
President and Chief
Financial Officer
(Principal Financial
Officer and duly
authorized officer)
Date: October 24, 2017