

PULTEGROUP INC/MI/  
Form 10-Q  
July 23, 2015

---

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 June 30, 2015

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

(State or other jurisdiction of  
incorporation or organization)

38-2766606

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

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

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

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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Number of shares of common stock outstanding as of July 17, 2015: 352,790,013

---

1

---

PULTEGROUP, INC.  
INDEX

	Page No.
PART I <u>FINANCIAL INFORMATION</u>	
Item 1 <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets at June 30, 2015 and December 31, 2014</u>	<u>3</u>
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014</u>	<u>5</u>
<u>Consolidated Statements of Shareholders' Equity for the six months ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>32</u>
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
Item 4 <u>Controls and Procedures</u>	<u>47</u>
PART II <u>OTHER INFORMATION</u>	<u>47</u>
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>47</u>
Item 6 <u>Exhibits</u>	<u>48</u>
<u>Signatures</u>	<u>49</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Note)
<b>ASSETS</b>		
Cash and equivalents	\$460,361	\$1,292,862
Restricted cash	17,174	16,358
House and land inventory	4,888,560	4,392,100
Land held for sale	88,513	101,190
Land, not owned, under option agreements	98,264	30,186
Residential mortgage loans available-for-sale	269,544	339,531
Investments in unconsolidated entities	40,232	40,368
Other assets	561,034	513,032
Intangible assets	116,665	123,115
Deferred tax assets, net	1,617,609	1,720,668
	<b>\$8,157,956</b>	<b>\$8,569,410</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable, including book overdrafts of \$40,935 and \$32,586 in 2015 and 2014, respectively	\$290,436	\$270,516
Customer deposits	217,315	142,642
Accrued and other liabilities	1,292,321	1,343,774
Income tax liabilities	48,774	48,722
Financial Services debt	119,271	140,241
Senior notes	1,583,580	1,818,561
	<b>3,551,697</b>	<b>3,764,456</b>
Shareholders' equity	4,606,259	4,804,954
	<b>\$8,157,956</b>	<b>\$8,569,410</b>

Note: The Condensed Consolidated Balance Sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.



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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Homebuilding				
Home sale revenues	\$1,243,077	\$1,246,462	\$2,331,235	\$2,334,477
Land sale revenues	6,460	8,527	24,002	14,511
	1,249,537	1,254,989	2,355,237	2,348,988
Financial Services	30,754	31,198	58,352	56,093
Total revenues	1,280,291	1,286,187	2,413,589	2,405,081
Homebuilding Cost of Revenues:				
Home sale cost of revenues	953,280	952,692	1,794,425	1,781,295
Land sale cost of revenues	5,312	6,832	18,691	11,843
	958,592	959,524	1,813,116	1,793,138
Financial Services expenses	20,767	22,114	43,308	25,436
Selling, general and administrative expenses	130,119	229,767	291,431	374,655
Other expense, net	4,998	9,324	6,134	23,155
Interest income	(856)	(1,115)	(1,955)	(2,226)
Interest expense	208	203	395	416
Equity in earnings of unconsolidated entities	(1,164)	(1,311)	(2,271)	(7,202)
Income before income taxes	167,627	67,681	263,431	197,709
Income tax expense	64,303	25,801	105,136	81,010
Net income	\$103,324	\$41,880	\$158,295	\$116,699
Per share:				
Basic earnings	\$0.28	\$0.11	\$0.43	\$0.31
Diluted earnings	\$0.28	\$0.11	\$0.43	\$0.30
Cash dividends declared	\$0.08	\$0.05	\$0.16	\$0.10
Number of shares used in calculation:				
Basic	361,009	376,072	363,863	377,410
Effect of dilutive securities	3,232	3,592	3,297	3,703
Diluted	364,241	379,664	367,160	381,113

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 103,324	\$ 41,880	\$ 158,295	\$ 116,699
Other comprehensive income, net of tax:				
Change in value of derivatives	21	21	42	61
Other comprehensive income	21	21	42	61
Comprehensive income	\$ 103,345	\$ 41,901	\$ 158,337	\$ 116,760

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, 2015	369,459	\$3,695	\$3,072,996	\$ (690 )	\$1,728,953	\$4,804,954
Stock option exercises	620	6	7,216	—	—	7,222
Stock issuances, net of cancellations	442	4	7,419	—	—	7,423
Dividends declared	—	—	8	—	(58,235 )	(58,227 )
Share repurchases	(15,702 )	(157 )	—	—	(321,909 )	(322,066 )
Share-based compensation	—	—	10,233	—	—	10,233
Excess tax benefits (deficiencies) from share-based awards	—	—	(1,617 )	—	—	(1,617 )
Net income	—	—	—	—	158,295	158,295
Other comprehensive income	—	—	—	42	—	42
Shareholders' Equity, June 30, 2015	354,819	\$3,548	\$3,096,255	\$ (648 )	\$1,507,104	\$4,606,259
Shareholders' Equity, January 1, 2014	381,300	\$3,813	\$3,052,016	\$ (795 )	\$1,593,918	\$4,648,952
Stock option exercises	532	5	5,784	—	—	5,789
Stock issuances, net of cancellations	(68 )	(1 )	1	—	—	—
Dividends declared	—	—	—	—	(37,979 )	(37,979 )
Share repurchases	(5,311 )	(53 )	—	—	(103,658 )	(103,711 )
Share-based compensation	—	—	8,874	—	19	8,893
Excess tax benefits (deficiencies) from share-based awards	—	—	(660 )	—	—	(660 )
Net income	—	—	—	—	116,699	116,699
Other comprehensive income	—	—	—	61	—	61
Shareholders' Equity, June 30, 2014	376,453	\$3,764	\$3,066,015	\$ (734 )	\$1,568,999	\$4,638,044

See accompanying Notes to Condensed Consolidated Financial Statements.



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

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$158,295	\$116,699
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Deferred income tax expense	103,059	85,028
Depreciation and amortization	21,853	18,904
Share-based compensation expense	14,654	16,797
Equity in earnings of unconsolidated entities	(2,271)	(7,202)
Distributions of earnings from unconsolidated entities	1,500	4,777
Loss on debt retirements	—	8,584
Other non-cash, net	10,090	6,649
Increase (decrease) in cash due to:		
Restricted cash	(4,526)	(726)
Inventories	(485,676)	(249,861)
Residential mortgage loans available-for-sale	70,123	64,672
Other assets	(57,054)	(15,709)
Accounts payable, accrued and other liabilities	(21,202)	38,539
Income tax liabilities	52	(12,869)
Net cash provided by (used in) operating activities	(191,103)	74,282
Cash flows from investing activities:		
Distributions from unconsolidated entities	906	7,577
Investments in unconsolidated entities	—	(9)
Net change in loans held for investment	9,634	(6,791)
Change in restricted cash related to letters of credit	3,710	(28,166)
Proceeds from the sale of property and equipment	400	98
Capital expenditures	(23,115)	(33,021)
Net cash provided by (used in) investing activities	(8,465)	(60,312)
Cash flows from financing activities:		
Financial Services borrowings (repayments)	(20,970)	(47,158)
Other borrowings (repayments)	(237,994)	(240,133)
Stock option exercises	7,222	5,789
Share repurchases	(322,066)	(103,711)
Dividends paid	(59,125)	(38,152)
Net cash provided by (used in) financing activities	(632,933)	(423,365)
Net increase (decrease) in cash and equivalents	(832,501)	(409,395)
Cash and equivalents at beginning of period	1,292,862	1,580,329
Cash and equivalents at end of period	\$460,361	\$1,170,934
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	\$(1,911)	\$(328)
Income taxes paid (refunded), net	\$(1,685)	\$(2,487)
See accompanying Notes to Condensed Consolidated Financial Statements.		



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

## 1. Summary of significant accounting policies

### Basis of presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

### Use of estimates

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

### Subsequent events

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

### Other expense, net

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Write-off of deposits and pre-acquisition costs	\$1,241	\$1,688	\$3,110	\$3,152
Loss on debt retirements (Note 5)	—	—	—	8,584
Amortization of intangible assets	3,225	3,275	6,450	6,550
Miscellaneous, net	532	4,361	(3,426)	4,869
	\$4,998	\$9,324	\$6,134	\$23,155

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 and 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 earnings per share excluded 4.3 million and 4.5 million potentially dilutive instruments, including stock options, unvested

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

restricted shares and restricted share units for the three and six months ended June 30, 2015, respectively, and 7.1 million and 7.3 million potentially dilutive instruments, including stock options, unvested restricted shares, and unvested restricted share units for the three and six months ended June 30, 2014, respectively.

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):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$103,324	\$41,880	\$158,295	\$116,699