

PULTEGROUP INC/MI/

Form 10-K

February 08, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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

38-2766606

(State or other jurisdiction of
incorporation or organization)

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

3350 Peachtree Road NE, Suite 150

Atlanta, Georgia 30326

(Address of principal executive offices) (Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.01

New York Stock Exchange

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

NONE

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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). Act. YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 Act). YES ☐

☒ NO ☒

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The aggregate market value of the registrant's voting stock held by nonaffiliates of the registrant as of June 30, 2015, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was \$7,084,534,862.

As of February 1, 2016, the registrant had 349,148,351 shares of common stock outstanding.

Documents Incorporated by Reference

Applicable portions of the Proxy Statement for the 2016 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form.

PULTEGROUP, INC.
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PART I

ITEM I. BUSINESS

PulteGroup, Inc.

PulteGroup, Inc. is a Michigan corporation organized in 1956. We are one of the largest homebuilders in the United States ("U.S."), and our common 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.

Homebuilding, our core business, includes the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Homebuilding offers a broad product line to meet the needs of homebuyers in our targeted markets. Through our brands, which include Pulte Homes, Del Webb, and Centex, we offer a wide variety of home designs, including single-family detached, townhouses, condominiums, and duplexes at different prices and with varying levels of options and amenities to our major customer groups: first-time, move-up, and active adult. Over our history, we have delivered over 655,000 homes.

As of December 31, 2015, we conducted our operations in 50 markets located throughout 26 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, 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. Our Financial Services segment operates generally in the same geographic markets as our Homebuilding segments.

Financial information for each of our reportable business segments is included in Note 4 to our Consolidated Financial Statements.

Available information

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

Homebuilding Operations

	Years Ended December 31, (\$000's omitted)				
	2015	2014	2013	2012	2011
Home sale revenues	\$5,792,675	\$5,662,171	\$5,424,309	\$4,552,412	\$3,950,743
Home closings	17,127	17,196	17,766	16,505	15,275

Beginning in 2006 and continuing through 2011, the U.S. housing market experienced a significant decline in the demand for new homes as well as a sharp decline in overall residential real estate values. U.S. new home sales in 2011 were the lowest since 1962. As a result of this industry-wide downturn, we suffered net losses in each year between 2007 - 2011 from a combination of reduced operational profitability and significant asset impairments. In response to these market conditions, we restructured our operations, including making significant reductions in employee headcount and overhead costs, and managed our business to generate cash, including curtailing our investments in inventory. We used this positive cash flow to, among other things, increase our cash reserves as well as retire outstanding debt.

In 2012, new home sales in the U.S. increased for the first time since 2005. This trend continued in 2015 as new home sales in the U.S. rose 15% to approximately 501,000 homes, an approximate 64% increase from 2011. Additionally, mortgage interest rates remain near historic lows and the overall inventory of homes available for sale, especially new homes, remains low. Although current industry volume remains low compared with historical levels, the improved environment and the actions we have taken contributed to our return to profitability in 2012 and significant increases in our income before income taxes each year in the period 2013 - 2015. In the long term, we continue to believe that the national publicly-traded builders will have a competitive advantage over local builders through their ability to leverage economies of scale, access to more reliable and lower cost financing through the capital markets, ability to control and entitle large land positions, and greater geographic and product diversification. Among the national publicly-traded peer group, we believe that builders with broad geographic and product diversity, and sustainable capital positions will benefit as market conditions recover. In the short-term, we expect that overall market conditions will continue to improve but that improvements will occur unevenly across our markets. Our strategy to enhance shareholder value is centered around the following operational objectives:

- Effectively allocating the capital we invest in our business using a risk-based portfolio approach;
- Maximizing our inventory turns while maintaining an adequate supply of house and land inventory;
- Enhancing revenues by: establishing clear product offerings for each of our brands based on systematic, consumer-driven input, optimizing our pricing through the use of options and lot premiums, and limiting our reliance on speculative home sales;
- Reducing our house costs through common house plan management, value-engineering our house plans, and working with suppliers to reduce costs; and
- Maintaining an efficient overhead structure.

Our Homebuilding operations are geographically diverse within the U.S. As of December 31, 2015, we had 620 active communities spanning 50 markets across 26 states. Sales prices of unit closings during 2015 ranged from less than \$100,000 to greater than \$1,500,000, with 85% falling within the range of \$150,000 to \$500,000. The average unit selling price in 2015 was \$338,000, compared with \$329,000 in 2014, \$305,000 in 2013, \$276,000 in 2012, and \$259,000 in 2011. The increase in average selling price in recent years resulted from a number of factors, including improved market conditions and a shift in our sales mix toward move-up and active adult homebuyers.

Sales of single-family detached homes, as a percentage of total unit sales, were 86% in 2015, compared with 86% in 2014, 85% in 2013, 81% in 2012, and 79% in 2011. The increase in the percentage of single-family detached homes

can be attributed to a shift in our business toward the move-up buyer, who tends to prefer detached homes.

Ending backlog, which represents orders for homes that have not yet closed, was \$2.5 billion (6,731 units) at December 31, 2015 and \$1.9 billion (5,850 units) at December 31, 2014. For orders in backlog, we have received a signed customer contract and customer deposit, which is refundable in certain instances. Of the orders in backlog at December 31, 2015, substantially all are scheduled to be closed during 2016, though all orders are subject to potential cancellation by or final negotiations with the customer. In the event of cancellation, the majority of our sales contracts stipulate that we have the right to retain the customer's deposit, though we may choose to refund the deposit in certain instances.

Land acquisition and development

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

Land is generally purchased after it is zoned and developed, or is ready for development for our intended use. In the normal course of business, we dispose of owned land not required by our homebuilding operations through sales. Where we develop land, we engage directly in many phases of the development process, including: land and site planning; obtaining environmental and other regulatory approvals; and constructing roads, sewers, water and drainage facilities, and community amenities, such as parks, pools, and clubhouses. We use our staff and the services of independent engineers and consultants for land development activities. Land development work is performed primarily by independent contractors and local government authorities who construct sewer and water systems in some areas. At December 31, 2015, we controlled 138,079 lots, of which 95,919 were owned and 42,160 were under land option agreements.

Sales and marketing

We are dedicated to improving the quality and value of our homes through innovative architectural and community designs. Analyzing various qualitative and quantitative data obtained through extensive market research, we stratify our potential customers into well-defined buyer groups. Such stratification provides a method for understanding the business opportunities and risks across the full spectrum of consumer groups in each market. Once the demands of potential buyers are understood, we link our home design and community development efforts to the specific lifestyle of each targeted consumer group. Through our evaluation of unique consumer groups, we are able to provide a distinct experience to potential customers:

	First-Time	Move-Up	Active Adult
Portion of home closings:			
2015	32%	37%	31%
2011	40%	29%	31%

Our homes targeted to first-time buyers tend to be smaller with product offerings geared toward lower average selling prices or higher density. Move-up buyers tend to place more of a premium on location and amenities. These communities typically offer larger homes at higher price points. Through our Del Webb brand, we are better able to address the needs of active adults, to whom we offer both destination communities and “in place” communities, for buyers who prefer to remain in their current geographic area. Many of these communities are highly amenitized, offering a variety of features, including golf courses, recreational centers, and educational classes, to the age fifty-five

and over buyer to maintain an active lifestyle. In order to make the cost of these highly amenitized communities affordable to the individual homeowner, Del Webb communities tend to be larger than first-time or move-up buyer communities. As illustrated in the above table, our sales mix has shifted toward the move-up buyer in recent years. This has occurred primarily due to financial challenges facing the first-time buyer, including a recovering U.S. economy, the overhang of consumer debt, especially student loans related to higher education, and a more restrictive mortgage lending environment.

We market our homes to prospective buyers through media advertising, illustrated brochures, internet listings and link placements, mobile applications, and other advertising displays. We have made significant enhancements in our tools and business practices to adapt our selling efforts to today's mobile customers. In addition, our websites, www.pulte.com,

www.delwebb.com, and www.centex.com, provide tools to help users find a home that meets their needs, investigate financing alternatives, communicate moving plans, maintain a home, learn more about us, and communicate directly with us. There were approximately 9.6 million unique visits to our websites during 2015, compared with approximately 10.4 million in 2014.

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

Typically, our sales teams, in some cases together with outside sales brokers, are responsible for guiding the customer through the sales process. We are committed to industry-leading customer service through a variety of quality initiatives, including our customer care program, which ensures that homeowners are comfortable at every stage of the building process. Fully furnished and landscaped model homes physically located in our communities are generally used to showcase our homes and their distinctive design features.

Construction

The construction of our homes is conducted under the supervision of our on-site construction field managers. Substantially all of our construction work is performed by independent subcontractors under contracts that, in many instances, cover both labor and materials on a fixed-price basis. Using a selective process, we have teamed up with what we believe are premier subcontractors and suppliers to deliver all aspects of the house construction process.

Continuous improvement in our house construction process is a key area of focus. We seek to maintain efficient construction operations by using standard materials and components from a variety of sources and by utilizing standard construction practices. We are improving our product offerings and production processes through the following programs:

- Common management of house plans in order to focus on building those house designs that customers value the most and that can be built at the highest quality and at an efficient cost;
- Value engineering our house plans to optimize house designs in terms of material content and ease of construction while still providing a clear value to the customer (value engineering eliminates items that add cost but that have little to no value to the customer);
- Improving our usage of Pulte Construction Standards, a proprietary system of internally required construction practices, through development of new or revised standards, training of our field leadership and construction personnel, communication with our suppliers, and auditing our compliance; and
- Working with our suppliers to establish the "should cost", a data driven, collaborative effort to reduce construction costs to what the associated construction activities or materials "should cost" in the market.

The availability of labor and materials at reasonable prices has become an increased concern for certain trades in some markets as the supply chain adjusts to uneven industry growth. Additionally, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in global

commodity prices. To minimize the effects of changes in construction costs, the contracting and purchasing of building supplies and materials generally is negotiated at or near the time when related sales contracts are signed with customers. In addition, we leverage our size by actively negotiating for certain materials on a national or regional basis to minimize production component cost. We are also working to establish a more integrated system that can effectively link suppliers, contractors, and the production schedule. However, we cannot determine the extent to which necessary building materials and labor will be available at reasonable prices in the future.

Competition

The housing industry in the U.S. is fragmented and highly competitive. While we are one of the largest homebuilders in the U.S., our national market share represented only approximately 3% of U.S. new home sales in 2015. In each of our local markets, there are numerous national, regional, and local homebuilders with whom we compete. Additionally, new home sales have traditionally represented less than 15% of overall U.S. home sales (new and existing homes). Therefore, we also compete with sales of existing house inventory and any provider of for sale or rental housing units, including apartment operators. We compete primarily on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences.

Seasonality

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

Regulation and environmental matters

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

Financial Services Operations

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

Operating 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. During 2015, 2014, and 2013, we originated mortgage loans for 65%, 61%, and 64%, respectively, of the homes we sold. Such originations represented substantially all of our total originations in each of those years. Our capture rate, which we define as loan originations from our homebuilding business as a percentage of total loan opportunities from our homebuilding business excluding

cash settlements, was 82.9% in 2015, 80.2% in 2014, 80.2% in 2013, 81.9% in 2012, and 78.5% in 2011.

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

The mortgage industry in the U.S. is highly competitive. We compete with other mortgage companies and financial institutions to provide attractive mortgage financing to our homebuyers. We utilize a centralized fulfillment center for our mortgage operations that performs underwriting, processing, and closing functions. We believe centralizing both the fulfillment and origination of our loans improves the speed, efficiency, and quality of our mortgage operations, improving our profitability and allowing us to focus on providing attractive mortgage financing opportunities for our customers.

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

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

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

Financial Information About Geographic Areas

Substantially all of our operations are located within the U.S. We have some non-operating foreign subsidiaries and affiliates, which are insignificant to our consolidated financial results.

Organization/Employees

All subsidiaries and operating units operate independently with respect to daily operations. Homebuilding real estate purchases and other significant homebuilding, mortgage banking, financing activities, and similar operating decisions must be approved by the business unit's management and/or corporate senior management.

At December 31, 2015, we employed 4,542 people, of which 749 people were employed in our Financial Services operations. Except for a small group of employees in our St. Louis homebuilding division, our employees are not represented by any union. Contracted work, however, may be performed by union contractors. Our local and corporate management personnel are paid incentive compensation based on a combination of individual performance and the performance of the applicable business unit or the Company. Each business unit is given a level of autonomy regarding employment of personnel, subject to adherence to our established policies and procedures, and our senior corporate management acts in an advisory capacity in the employment of subsidiary officers. We consider our employee and contractor relations to be satisfactory.

ITEM 1A. RISK FACTORS

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

Downward changes in general economic, real estate construction, or other business conditions could adversely affect our business or our financial results.

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

The homebuilding industry experienced a significant downturn from 2006 through 2011. Although industry conditions improved beginning in 2012, the overall U.S. economy, while improving, remains challenged and consumer demand in the industry remains volatile. A deterioration in industry conditions could adversely affect our business and results of operations.

Beginning in 2006 and continuing through 2011, the U.S. housing market was unfavorably impacted by severe weakness in new home sales attributable to, among other factors, weak consumer confidence, tightened mortgage standards, significant foreclosure activity, a more challenging appraisal environment, higher than normal unemployment levels, and significant uncertainty in the global economy. These conditions contributed to sharply weakened demand for new homes and heightened pricing pressures on new and existing home sales. As a result of these factors, we experienced significant decreases in our revenues and profitability during the period 2007 - 2011. We also incurred substantial impairments of our land inventory and certain other assets during this period. Since 2011, overall industry new home sales have increased, and we returned to profitability. However, the overall demand for new homes remains below historical levels. Accordingly, we can provide no assurances that the adjustments we have made in our operating strategy will be successful.

If the market value of our land and homes drops significantly, our profits could decrease.

The market value of land, building lots, and housing inventories can fluctuate significantly as a result of changing market conditions, and the measures we employ to manage inventory risk may not be adequate to insulate our operations from a severe drop in inventory values. We acquire land for expansion into new markets and for replacement of land inventory and expansion within our current markets. If housing demand decreases below what we anticipated when we acquired our inventory, we may not be able to make profits similar to what we have made in the past, we may experience less than anticipated profits, and/or we may not be able to recover our costs when we sell and build homes. When market conditions are such that land values are not appreciating, option arrangements previously entered into may become less desirable, at which time we may elect to forego deposits and pre-acquisition costs and terminate the agreement. In the face of adverse market conditions, we may have substantial inventory carrying costs, we may have to write down our inventory to its fair value, and/or we may have to sell land or homes at a loss.

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

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

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

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

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

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

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. To date, the significant majority of these losses relate to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the origination market. We may also be required to indemnify underwriters that purchased and securitized loans originated by a former subsidiary of Centex for losses incurred by investors in those securitized loans based on similar breaches of representations and warranties.

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

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

A large majority of our customers finance their home purchases through mortgage loans, many through our mortgage bank. Interest rates have been near historical lows for several years, which has made new homes more affordable. Increases in interest rates or decreases in the availability of mortgage financing could adversely affect the market for new homes. Potential homebuyers may be less willing or able to pay the increased monthly costs or to obtain mortgage financing. Lenders may increase the qualifications needed for mortgages or adjust their terms to address any increased credit risk. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their current homes to potential buyers who need financing. These factors could adversely affect the sales or pricing of our homes and could also reduce the volume or margins in our financial services business. Our financial services business could also be impacted to the extent we are unable to

match interest rates and amounts on loans we have committed to originate through the various hedging strategies we employ. These developments have had, and may continue to have, a material adverse effect on the overall demand for new housing and thereby on the results of operations for our homebuilding business.

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

Mortgage interest expense and real estate taxes represent significant costs of homeownership, both of which are generally deductible for an individual's federal and, in some cases, state income taxes. Any changes to income tax laws by the

federal government or a state government to eliminate or substantially reduce these income tax deductions, as has been considered from time to time, would increase the after-tax cost of owning a home. Increases in real estate taxes by local governmental authorities also increase the cost of homeownership. Any such increases to the cost of homeownership could adversely impact the demand for and sales prices of new homes.

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

The capital and credit markets can experience significant volatility. We may need credit-related liquidity for the future development of our business. Without sufficient liquidity, we may not be able to purchase additional land or develop land, which could adversely affect our financial results. At December 31, 2015, we had cash and equivalents of \$754.2 million, restricted cash totaling \$21.3 million, and \$308.7 million available under our revolving credit facility, net of outstanding letters of credit. However, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on terms acceptable to us, or at all.

Another source of liquidity includes our ability to use letters of credit and surety bonds pursuant to certain performance-related obligations and 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. At December 31, 2015, we had outstanding letters of credit and surety bonds totaling \$191.3 million and \$1.0 billion, respectively. These letters of credit are issued via our unsecured revolving credit facility, which contains certain financial covenants and other limitations. If we are unable to obtain letters of credit or surety bonds when required, or the conditions imposed by issuers increase significantly, our financial condition and results of operations could be adversely affected.

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

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

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

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

Significant judgment is required in determining our provision for income taxes and our reserves for federal, state, and local taxes. In the ordinary course of business, there may be matters for which the ultimate outcome is uncertain. Our evaluation of our tax matters is based on a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits, and effective settlement of audit issues. Although we believe our approach to determining the tax treatment for such items is appropriate, no assurance can be given that the final tax authority review will not be materially different than that which is reflected in our income tax provision and related tax reserves. Such differences could have a material adverse effect on our income tax provision in the period in which such determination is made and, consequently, on our financial position, cash flows, or net income for such period.

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

We may not realize our deferred income tax assets.

As of December 31, 2015, we had deferred income tax assets, net of deferred tax liabilities, of \$1.5 billion, against which we provided a valuation allowance of \$109.1 million. The ultimate realization of our deferred income tax assets is dependent upon generating future taxable income and executing tax planning strategies. While we have recorded valuation allowances against certain of our deferred income tax assets, the valuation allowances are subject to change as facts and circumstances change.

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

An ownership change under Section 382 of the IRC would establish an annual limitation to the amount of NOLs, BILs, and tax credit carryforwards we could utilize to offset our taxable income in any single year. The application of these limitations might prevent full utilization of the deferred tax assets attributable to our NOLs, BILs, and tax credit carryforwards. To preserve our ability to utilize NOLs, BILs, and other tax benefits in the future without a Section 382 limitation, we adopted a shareholder rights plan, which is triggered upon certain transfers of our securities, and amended our by-laws to prohibit certain transfers of our securities. Our shareholder rights plan expires June 1, 2016, unless our board of directors and shareholders approve an amendment to extend the term prior thereto. Notwithstanding the foregoing measures, there can be no assurance that we will not undergo an ownership change within the meaning of Section 382.

As a result of our merger with Centex in 2009, our ability to use certain of Centex’s pre-ownership change NOLs, BILs, and deductions is limited under Section 382 of the IRC. We do not believe that the Section 382 limitation will prevent us from using Centex’s pre-ownership change federal NOLs, BILs, or deductions, however, no assurance can be given that any such limitation will not occur, which could be material.

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

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

We have significant intangible assets related to business combinations. We evaluate the recoverability of intangible assets whenever facts and circumstances indicate the carrying amount may not be recoverable. If the carrying value of intangible assets is deemed impaired, the carrying value is written down to fair value. This would result in a charge to our earnings. If management’s expectations of future results and cash flows decrease significantly, impairments of the remaining intangible assets may occur.

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

Our operations are subject to building, environmental, and other regulations imposed and enforced by various federal, state, and local governing authorities. New housing developments may also be subject to various assessments for schools, parks, streets, and other public improvements. These can cause an increase in the effective cost of our homes.

We also are subject to a variety of local, state, and federal laws and regulations concerning protection of health, safety, and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. More stringent requirements could be imposed in the future on homebuilders and developers, thereby increasing the cost of compliance.

Our financial services operations are also subject to numerous federal, state, and local laws and regulations. These include eligibility requirements for participation in federal loan programs and compliance with consumer lending and similar

requirements such as disclosure requirements, prohibitions against discrimination, and real estate settlement procedures. They also subject our operations to examination by applicable agencies, pursuant to which those agencies may limit our ability to provide mortgage financing or title services to potential purchasers of our homes. For our homes to qualify for FHA or VA mortgages, we must satisfy valuation standards and site, material, and construction requirements of those agencies.

In January 2013, the Consumer Financial Protection Bureau ("CFPB") adopted new rules regarding the origination of mortgages, including the criteria for "qualified mortgages", rules for lender practices regarding assessing borrowers' ability to repay, and limitations on certain fees and incentive arrangements. Such rules went into effect in January 2014. The CFPB also issued the TILA-RESPA Integrated Disclosure ("TRID") rules, which combined the mortgage disclosures consumers receive under the Truth in Lending Act ("TILA") and the Real Estate Settlement and Procedures Act ("RESPA"). Such rules went into effect in October 2015. While we have adjusted our operations to comply with the new rules, the impact such rules will have on our business remains unclear. Additionally, certain other rules required by the Dodd-Frank Act of 2010 have not yet been completed or implemented, which has created uncertainty in the overall U.S. financial services and mortgage industries as to their long-term impact.

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

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

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

Our homebuilding operations are located in many areas that are subject to natural disasters and severe weather. The occurrence of natural disasters or severe weather conditions can delay new home deliveries, increase costs by damaging inventories, reduce the availability of materials, and negatively impact the demand for new homes in affected areas. Furthermore, if our insurance does not fully cover business interruptions or losses resulting from these events, our earnings, liquidity, or capital resources could be adversely affected.

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

Inflation can have a long-term impact on us because increasing costs of land, materials, and labor may require us to increase the sales prices of homes in order to maintain satisfactory margins. However, we may not be able to raise home prices sufficiently to keep up with the rate of inflation and our margins could decrease. In addition, inflation is often accompanied by higher interest rates, which could have a negative impact on housing demand.

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

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (through cyberattacks from computer hackers and sophisticated organizations), catastrophic events such as fires, tornadoes and hurricanes, and usage

errors by our associates. If our computer systems and our back-up systems are damaged, breached, or cease to function properly, we could suffer interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information (including information about our homebuyers and business partners), which could require us to incur significant costs to remediate or otherwise resolve these issues.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

This Item is not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Year Became An Executive Officer
Richard J. Dugas, Jr.	50	Chairman, President and Chief Executive Officer	2002
Robert T. O'Shaughnessy	50	Executive Vice President and Chief Financial Officer	2011
James R. Ellinghausen	57	Executive Vice President, Human Resources	2005
Harmon D. Smith	52	Executive Vice President, Field Operations	2011
Ryan R. Marshall	41	Executive Vice President, Homebuilding Operations	2012
Steven M. Cook	57	Executive Vice President, Chief Legal Officer and Corporate Secretary	2006
James L. Ossowski	47	Vice President, Finance and Controller	2013

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

Mr. Dugas was appointed Chairman in August 2009 and President and Chief Executive Officer in July 2003.

Previously, he was appointed Chief Operating Officer in May 2002 and Executive Vice President in December 2002. Since joining our company in 1994, he has served in a variety of management positions.

Mr. O'Shaughnessy was appointed Executive Vice President and Chief Financial Officer in May 2011. Prior to joining our company, he held a number of financial roles at Penske Automotive Group from 1997 to 2011, most recently as Executive Vice President and Chief Financial Officer.

Mr. Ellinghausen was appointed Executive Vice President, Human Resources in December 2006.

Mr. Smith was appointed Executive Vice President, Field Operations in May 2014 and previously held the position of Executive Vice President, Homebuilding Operations and Area President, Texas since May 2012. He served as an Area President over various geographical markets since 2006.

Mr. Marshall was appointed Executive Vice President, Homebuilding Operations in May 2014. Previously he held the positions of Area President, Southeast since November 2012, Area President, Florida since May 2012, and Division President, South Florida since 2006.

Mr. Cook was appointed Executive Vice President, Chief Legal Officer and Corporate Secretary in September 2015 and previously held the positions of Senior Vice President, General Counsel and Secretary since December 2008 and Vice President, General Counsel and Secretary since February 2006.

Mr. Ossowski was appointed Vice President, Finance and Controller in February 2013 and previously held the position of Vice President, Finance - Homebuilding Operations since August 2010. Since 2002, Mr. Ossowski has held various finance positions of increasing responsibility with our company.

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

PART II

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

Our common shares are listed on the New York Stock Exchange (Symbol: PHM).

Related Stockholder Matters

The table below sets forth, for the quarterly periods indicated, the range of high and low intraday sales prices for our common shares and dividend per share information:

	December 31, 2015			December 31, 2014		
	High	Low	Declared Dividend	High	Low	Declared Dividend
1st Quarter	\$23.24	\$20.56	\$0.08	\$21.65	\$18.21	\$0.05
2nd Quarter	22.78	18.85	0.08	20.47	18.01	0.05
3rd Quarter	22.02	18.72	0.08	20.64	17.47	0.05
4th Quarter	20.21	17.18	0.09	22.03	16.56	0.08

At February 1, 2016, there were 2,617 shareholders of record.

Issuer Purchases of Equity Securities

	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs (\$000's omitted)	
October 1, 2015 to October 31, 2015	—	\$—	—	\$304,765	(1)
November 1, 2015 to November 30, 2015	—	—	—	\$304,765	(1)
December 1, 2015 to December 31, 2015	—	—	—	\$604,765	(1)
Total	—	\$—	—		

The Board of Directors approved share repurchase authorizations totaling \$750.0 million and \$300.0 million in October 2014 and December 2015, respectively, of which \$604.8 million remained available as of December 31, 2015. There are no expiration dates for these programs. During 2015, we repurchased 21.2 million shares under these programs.

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

Performance Graph

The following line graph compares for the fiscal years ended December 31, 2011, 2012, 2013, 2014, and 2015 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on PulteGroup's common shares, with (b) the cumulative total return of the Standard & Poor's 500 Stock Index, and with (c) the Dow Jones U.S. Select Home Construction Index. The Dow Jones U.S. Select Home Construction Index is a widely-recognized index comprised primarily of large national homebuilders. We believe comparison of our shareholder return to this index represents a meaningful analysis for investors.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
 AMONG PULTEGROUP, INC., S&P 500 INDEX, AND PEER INDEX
 Fiscal Year Ended December 31, 2015

	2010	2011	2012	2013	2014	2015
PULTEGROUP, INC.	100.00	83.91	241.49	272.87	290.55	245.74
S&P 500 Index - Total Return	100.00	102.11	118.45	156.82	178.28	180.75
Dow Jones U.S. Select Home Construction Index	100.00	91.50	164.40	194.66	204.68	215.83

* Assumes \$100 invested on December 31, 2010, and the reinvestment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

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

	Years Ended December 31, (000's omitted, except per share data)				
	2015	2014	2013	2012	2011
OPERATING DATA:					
Homebuilding:					
Revenues	\$5,841,211	\$5,696,725	\$5,538,644	\$4,659,110	\$4,033,596
Income (loss) before income taxes	\$757,317	\$635,177	\$479,113	\$157,991	\$(275,830)
Financial Services:					
Revenues	\$140,753	\$125,638	\$140,951	\$160,888	\$103,094
Income (loss) before income taxes	\$58,706	\$54,581	\$48,709	\$25,563	\$(34,470)
Consolidated results:					
Revenues	\$5,981,964	\$5,822,363	\$5,679,595	\$4,819,998	\$4,136,690
Income (loss) before income taxes	\$816,023	\$689,758	\$527,822	\$183,554	\$(310,300)
Income tax expense (benefit)	321,933	215,420	(2,092,294)	(22,591)	(99,912)
Net income (loss)	\$494,090	\$474,338	\$2,620,116	\$206,145	\$(210,388)
PER SHARE DATA:					
Net income (loss) per share:					
Basic	\$1.38	\$1.27	\$6.79	\$0.54	\$(0.55)
Diluted	\$1.36	\$1.26	\$6.72	\$0.54	\$(0.55)
Number of shares used in calculation:					
Basic	356,576	370,377	383,077	381,562	379,877
Effect of dilutive securities	3,217	3,725	3,789	3,002	—
Diluted	359,793	374,102	386,866	384,564	379,877
Shareholders' equity	\$13.63	\$13.01	\$12.19	\$5.66	\$5.07
Cash dividends declared	\$0.33	\$0.23	\$0.15	\$—	\$—

	December 31, (\$000's omitted)				
	2015	2014	2013	2012	2011
BALANCE SHEET DATA:					
House and land inventory	\$5,450,058	\$4,392,100	\$3,978,561	\$4,214,046	\$4,636,468
Total assets	8,967,160	8,569,410	8,734,143	6,734,409	6,885,620
Senior notes and term loan	2,084,769	1,818,561	2,058,168	2,509,613	3,088,344
Shareholders' equity	4,759,325	4,804,954	4,648,952	2,189,616	1,938,615
	Years Ended December 31,				
	2015	2014	2013	2012	2011
OTHER DATA:					
Markets, at year-end	50	49	48	58	61
Active communities, at year-end	620	598	577	670	700
Closings (units)	17,127	17,196	17,766	16,505	15,275
Net new orders (units)	18,008	16,652	17,080	19,039	15,215
Backlog (units), at year-end	6,731	5,850	5,772	6,458	3,924
Average selling price (per unit)	\$338,000	\$329,000	\$305,000	\$276,000	\$259,000
Gross margin from home sales	23.3	% 23.3	% 20.5	% 15.8	% 12.8
(a)					%

(a) Homebuilding interest expense, which represents the amortization of capitalized interest, and land impairment charges are included in home sale cost of revenues.

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

Overview

Improved demand conditions in the overall U.S. housing market continued through 2015. While heightened global economic concerns have created greater volatility in financial markets, the positive trends in the U.S. regarding jobs, demographics and household formations, low interest rates, and a generally balanced inventory of homes available for sale support our expectations that housing demand continues to move higher at a measured pace for a number of years. These conditions have helped keep monthly mortgage payments affordable relative to historical levels and the rental market. This environment contributed to our experiencing relatively stable overall demand in 2015, including 8% growth in net new orders, a 2% increase in home sale revenues to \$5.8 billion, and maintaining gross margins at 23.3%, among the highest annual gross margins reported in the Company's history.

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. During 2015, we opened approximately 200 new communities across our existing local markets, which represented a sizable increase compared with recent years as a result of increased land investment over the last few years. These new communities generally replaced older communities that closed out in 2015 as our overall active community count increased 4%. While we have experience opening new communities, this volume of new community openings presents a challenge in today's environment where entitlement and land development delays are common. The difficult weather conditions in certain parts of the U.S. in the first half of 2015 contributed to that challenge. Additionally, labor constraints in the construction industry have led to delays in home closings, which contributed to our closing volume being flat compared with the prior year. Leveraging our increased land investments, we expect to open an even higher number of new communities in 2016 than we did in 2015, which we expect will help our volume to grow in 2016. In addition, we acquired substantially all of the assets of JW Homes, including the brand John Wieland Homes and Neighborhoods, in January 2016, which will also contribute to growth in 2016.

Our financial position provided flexibility to increase our investments in future communities while also returning funds to shareholders through dividends and expanded share repurchases. Specifically, we accomplished the following in 2015:

- Increased our land investment spending by 30% to support future growth;
- Repurchased \$433.7 million of shares under our share repurchase plan and authorized an additional \$300.0 million for future repurchases;
- Raised our quarterly dividend from \$0.08 to \$0.09 per share;
- Maintained one of the lowest ratios of debt to total capitalization in the homebuilding industry at 30.5%; and
- Ended the year with a cash balance of \$754.2 million with no borrowings outstanding under our unsecured revolving credit agreement.

Industry-wide new home sales continue to pace well below historical averages, so we remain optimistic that demand can continue to increase in the coming years. We believe the positive factors of an improving economy with rising employment, continued low mortgage rates, and beneficial long-term demographic trends will continue to support a slow and sustained housing recovery. 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.

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

	Years Ended December 31,		
	2015	2014	2013
Income before income taxes:			
Homebuilding	\$757,317	\$635,177	\$479,113
Financial Services	58,706	54,581	48,709
Income before income taxes	816,023	689,758	527,822
Income tax expense (benefit)	321,933	215,420	(2,092,294)
Net income	\$494,090	\$474,338	\$2,620,116
Per share data - assuming dilution:			
Net income	\$1.36	\$1.26	\$6.72

Homebuilding income before income taxes improved each year from 2013 to 2015, primarily as the result of higher gross margins and revenues. Homebuilding income before income taxes also reflected the following significant expense (income) items (\$000's omitted):

	2015	2014	2013
Corporate office relocation (see <u>Note 2</u>)	\$4,369	\$16,344	\$15,376
Land-related charges (see <u>Note 3</u>)	11,467	11,168	9,672
Loss on debt retirements (see <u>Note 6</u>)	—	8,584	26,930
Applecross matter (see <u>Note 12</u>)	20,000	—	—
Settlement of contractual dispute at a closed-out community (see <u>Note 12</u>)	—	—	41,170
Insurance reserve adjustments (see <u>Note 12</u>)	(62,183)	69,267	—
	\$(26,347)	\$105,363	\$93,148

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

The acquisition of certain real estate assets from Dominion Homes in August 2014 (see Note 1) was not material to our results of operations or financial condition.

The increase in Financial Services income in 2015 compared with 2014 and 2013 was primarily due to an increase in mortgage originations. Additionally, we reduced loan loss reserves by \$11.4 million in 2015 versus a reduction of \$18.6 million in 2014. In 2013, loss reserves remained unchanged. See Note 12.

Our effective tax rate was 39.5%, 31.2% and (396.4)% for 2015, 2014, and 2013, respectively. Income tax expense (benefit) reflects provisions and (reversals) of deferred tax asset valuation allowances totaling \$3.1 million, \$(45.6) million, and \$(2.1) billion in 2015, 2014, and 2013, respectively. See Note 9.

Homebuilding Operations

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

	Years Ended December 31,					
	2015	FY 2015 vs. FY 2014	2014	FY 2014 vs. FY 2013	2013	
Home sale revenues	\$5,792,675	2	% \$5,662,171	4	% \$5,424,309	
Land sale revenues	48,536	40	% 34,554	(70)	)% 114,335	
Total Homebuilding revenues	5,841,211	3	% 5,696,725	3	% 5,538,644	
Home sale cost of revenues (a)	4,440,893	2	% 4,343,249	1	% 4,310,528	
Land sale cost of revenues	35,858	51	% 23,748	(77)	)% 104,426	
Selling, general, and administrative expenses ("SG&A") (b)	589,780	(12)	)% 667,815	17	% 568,500	
Other expense, net (c)	17,363	(35)	)% 26,736	(65)	)% 76,077	
Income before income taxes	\$757,317	19	% \$635,177	33	% \$479,113	
Supplemental data:						
Gross margin from home sales	23.3	% 0 bps	23.3	% 280 bps	20.5	%
SG&A as a percentage of home sale revenues	10.2	% 160 bps	11.8	% 130 bps	10.5	%
Closings (units)	17,127	—	% 17,196	(3)	)% 17,766	
Average selling price	\$338	3	% \$329	8	% \$305	
Net new orders:						
Units	18,008	8	% 16,652	(3)	)% 17,080	
Dollars (d)	\$6,305,380	13	% \$5,558,937	3	% \$5,394,566	
Cancellation rate	14	%	15	%	15	%
Active communities at December 31	620	4	% 598	4	% 577	
Backlog at December 31:						
Units	6,731	15	% 5,850	1	% 5,772	
Dollars	\$2,456,565	26	% \$1,943,861	2	% \$1,901,796	

(a) Includes the amortization of capitalized interest.

SG&A includes costs associated with the relocation of our corporate headquarters totaling \$2.0 million, \$7.6 million, and \$15.0 million in 2015, 2014, and 2013, respectively (see [Note 2](#)), and adjustments to general liability insurance reserves relating to a reversal of \$62.2 million in 2015 and a charge of \$69.3 million in 2014 (see [Note 12](#)).

Includes losses related to the redemption of debt totaling \$8.6 million and \$26.9 million in 2014 and 2013, respectively. Also includes lease exit charges of \$2.3 million and \$8.7 million in 2015 and 2014, respectively, resulting from the relocation of our corporate headquarters (see [Note 2](#)), a charge of \$20.0 million in 2015 resulting from the Applecross matter (see [Note 12](#)), and charges totaling \$41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community (see [Note 12](#)).

(d) 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 2015 were higher than 2014 by \$130.5 million, or 2%. The increase was attributable to a 3% increase in the average selling price while closings remained relatively flat. The increase in average selling price reflects an ongoing shift in our revenue mix toward move-up buyers. Closing volume was flat as higher net new orders were offset by production delays in certain communities caused by a number of factors, including tight labor resources and adverse weather conditions.

Home sale revenues for 2014 were higher than 2013 by \$237.9 million, or 4%. The increase was attributable to an 8% increase in the average selling price offset by a 3% decrease in closings. The increase in average selling price occurred in substantially all of our local markets and reflected a shift in our revenue mix toward move-up and active adult buyers along with improved market conditions that allowed for increased sale prices, including higher levels of house options and lot premiums. The decrease in closings resulted from the lower net new order volume in 2014 combined with the lower beginning of the year backlog in 2014 compared with the beginning of the year 2013.

Home sale gross margins

Home sale gross margins were 23.3% in 2015, compared with 23.3% in 2014 and 20.5% in 2013. Gross margins remain strong relative to historical levels and reflect a combination of factors, including shifts in community mix, relatively stable pricing conditions in 2015 following improved pricing conditions in 2014, and lower amortized interest costs (2.4%, 3.4%, and 4.7% of home sale revenues in 2015, 2014, and 2013, respectively), offset by higher house construction and land costs. The lower amortized interest costs resulted from the reduction in our outstanding debt in recent years. Gross margins during 2015 and 2014 were also affected by higher land impairments of \$7.3 million and \$3.9 million, respectively, compared with \$2.9 million in 2013.

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 had margin contributions of \$12.7 million, \$10.8 million, and \$9.9 million in 2015, 2014, and 2013, respectively.

SG&A

SG&A as a percentage of home sale revenues was 10.2%, 11.8%, and 10.5% in 2015, 2014, and 2013, respectively. The gross dollar amount of our SG&A decreased \$78.0 million, or 12%, in 2015 compared with 2014. SG&A included adjustments to general liability insurance reserves relating to a reversal of \$62.2 million in 2015 and a charge of \$69.3 million in 2014 (see [Note 12](#)). Additionally, we incurred \$2.0 million and \$7.6 million in 2015 and 2014, respectively, of employee severance, retention, relocation, and related costs attributable to the relocation of our corporate headquarters. Excluding each of these items, SG&A in both dollars and as a percentage of home sale revenues increased for 2015 compared with 2014. This increase in gross overhead dollars in 2015 was primarily due to investments in increased headcount and information systems along with higher costs in conjunction with the opening of approximately 200 new communities.

The gross dollar amount of our SG&A increased \$99.3 million, or 17%, in 2014 compared with 2013. SG&A included charges totaling \$69.3 million to increase general liability insurance reserves in 2014. Additionally, we incurred \$7.6 million and \$15.0 million in 2014 and 2013, respectively, of employee severance, retention, relocation, and related costs attributable to the relocation of our corporate headquarters. The remainder of the increase in gross overhead dollars in 2014 compared with 2013 were primarily due to variable costs related to the higher revenue volume.

Other expense, net

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

	2015	2014	2013
Write-offs of deposits and pre-acquisition costs <u>(Note 3)</u>	\$5,021	\$6,099	\$3,122
Loss on debt retirements <u>(Note 6)</u>	—	8,584	26,930
Lease exit and related costs	2,463	9,609	2,778
Amortization of intangible assets <u>(Note 1)</u>	12,900	13,033	13,100
Interest income	(3,107)	(4,632)	(4,395)
Interest expense	788	849	712
Equity in (earnings) loss of unconsolidated entities <u>(Note 5)</u>	(7,355)	(8,226)	(993)
Miscellaneous expense, net	6,653	1,420	34,823
	\$17,363	\$26,736	\$76,077

For additional information on each of the above, see the applicable Notes to the Consolidated Financial Statements. Miscellaneous expense, net includes a charge of \$20.0 million resulting from the Applecross matter (see Note 12) in 2015 and charges of \$41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community.

Net new orders

Net new orders increased 8% in 2015 compared with 2014. The increase resulted from improved sales per community combined with selling from a larger number of active communities, which increased 4% to 620 at December 31, 2015. The cancellation rate (canceled orders for the period divided by gross new orders for the period) decreased slightly in 2015 from 2014 at 14% and 15%, respectively. Ending backlog units, which represent orders for homes that have not yet closed, increased 15% at December 31, 2015 compared with December 31, 2014 as measured in units and increased by 26% over the prior year period as measured in dollars. The higher backlog resulted from the higher net new order volume, especially in the fourth quarter, combined with production delays in certain communities in 2015 caused by a number of factors, including tight labor resources and adverse weather conditions. The higher average sales price also contributed to the higher backlog dollars.

Net new orders decreased 3% in 2014 compared with 2013, primarily as the result of fewer active communities throughout the majority of 2014. The number of active communities increased slightly in 2014 compared with 2013 (up 4% to 598 active communities at December 31, 2014), though this was primarily due to our acquisition of certain real estate assets from Dominion Homes in August 2014 (see Note 1). Excluding such assets, our active community count actually declined in 2014 as our pace of new community openings lagged the number of community close-outs. The cancellation rate was unchanged from 2013 to 2014 at 15%. Ending backlog units increased 1% at December 31, 2014 compared with December 31, 2013 and increased 2% as measured in dollars due to the increase in our average selling price.

Homes in production

The following is a summary of our homes in production at December 31, 2015 and 2014:

	2015	2014
Sold	4,573	3,761
Unsold		
Under construction	1,450	815
Completed	471	483
	1,921	1,298

Models	1,024	981
Total	7,518	6,040

The number of homes in production at December 31, 2015 was 24% higher compared to December 31, 2014. The increase in homes under production was due to a combination of factors, including a 4% increase in active communities, a 15% increase in ending backlog units, and a conscious decision to moderately increase the number of unsold homes under construction ("spec homes") at the end of the year. The increase in spec homes reflects our intentions to achieve a more even

flow production cycle over the course of 2016 compared with 2015. As part of our inventory management strategy, we will continue to maintain reasonable inventory levels relative to demand in each of our markets. We continue to focus on maintaining a low level of completed specs ("final specs"), though inventory levels tend to fluctuate throughout the year.

Controlled lots

The following is a summary of our lots under control at December 31, 2015 and 2014:

	December 31, 2015			December 31, 2014			
	Owned	Optioned	Controlled	Owned	Optioned	Controlled	
Northeast	6,361	4,114	10,475	6,389	4,185	10,574	
Southeast	11,161	7,933	19,094	11,195	4,785	15,980	
Florida	21,230	9,636	30,866	20,511	7,119	27,630	
Midwest	13,093	6,985	20,078	14,571	5,714	20,285	
Texas	13,308	7,052	20,360	11,847	7,435	19,282	
West	30,766	6,440	37,206	31,707	5,335	37,042	
Total	95,919	42,160	138,079	96,220	34,573	130,793	
Developed (%)	28	% 12	% 23	% 25	% 23	% 25	%

Of our controlled lots, 95,919 and 96,220 were owned and 42,160 and 34,573 were under land option agreements at December 31, 2015 and 2014, respectively. While competition for well-positioned land is robust, we continue to pursue strategic land positions that drive appropriate returns on invested capital. The remaining purchase price under our land option agreements totaled \$2.0 billion at December 31, 2015. These land option agreements, which generally may be canceled at our discretion and in certain cases extend over several years, are secured by deposits and pre-acquisition costs totaling \$162.1 million, of which \$10.5 million is refundable.

Homebuilding Segment Operations

Our homebuilding operations represent our core business. Homebuilding offers a broad product line to meet the needs of homebuyers in our targeted markets. As of December 31, 2015, we conducted our operations in 50 markets located throughout 26 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments. For 2015, we realigned our organizational structure and reportable segment presentation. Accordingly, the segment information provided in this note has been reclassified to conform to the current presentation for all periods presented.

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, 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. The Financial Services segment operates generally in the same markets as the Homebuilding segments.

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

Operating Data by Segment (\$000's omitted)							
Years Ended December 31,							
	2015	FY 2015 vs. FY 2014	2014	FY 2014 vs. FY 2013		2013	
Home sale revenues:							
Northeast	\$679,082	(4	)%	\$708,465	(10	)%	\$784,087
Southeast	1,058,055	11	%	949,134	13	%	842,856
Florida	1,012,391	11	%	913,758	14	%	800,331
Midwest	1,012,460	16	%	869,271	10	%	786,930
Texas	840,766	(2	)%	856,613	6	%	804,806
West	1,189,921	(13	)%	1,364,930	(3	)%	1,405,299
	\$5,792,675	2	%	\$5,662,171	4	%	\$5,424,309
Income before income taxes:							
Northeast	\$82,616	(20	)%	\$103,865	(6	)%	\$110,246
Southeast	172,330	10	%	156,513	29	%	121,055
Florida	196,525	3	%	190,441	36	%	139,673
Midwest	91,745	16	%	78,863	(7	)%	84,551
Texas	121,329	(9	)%	133,005	19	%	111,431
West	169,394	(33	)%	254,724	(2	)%	258,960
Other homebuilding (a)	(76,622	) 73	%	(282,234	) 19	%	(346,803
	\$757,317	19	%	\$635,177	33	%	\$479,113
Closings (units):							
Northeast	1,496	(5	)%	1,568	(15	)%	1,835
Southeast	3,276	4	%	3,160	5	%	3,022
Florida	2,896	5	%	2,752	—	%	2,747
Midwest	2,961	15	%	2,581	10	%	2,352
Texas	3,357	(10	)%	3,750	—	%	3,768
West	3,141	(7	)%	3,385	(16	)%	4,042
	17,127	—	%	\$17,196	(3	)%	17,766
Average selling price:							
Northeast	\$454	—	%	\$452	6	%	\$427
Southeast	323	8	%	300	8	%	279
Florida	350	5	%	332	14	%	291
Midwest	342	2	%	337	1	%	335
Texas	250	10	%	228	7	%	214
West	379	(6	)%	403	16	%	348
	\$338	3	%	\$329	8	%	\$305

Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments, in addition to: losses on debt retirements of \$8.6 million and \$26.9 million in 2014 and 2013, respectively (see [Note 6](#)); adjustments to general liability insurance reserves relating to a (a) reversal of \$62.2 million in 2015 and a charge of \$69.3 million in 2014 (see [Note 12](#)); costs associated with the relocation of our corporate headquarters totaling \$4.4 million, \$16.3 million, and \$15.4 million in 2015, 2014, and 2013, respectively (see [Note 2](#)); and charges of \$41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community (see [Note 12](#)).

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

Operating Data by Segment (\$000's omitted)								
Years Ended December 31,								
	2015		FY 2015 vs. FY 2014	2014		FY 2014 vs. FY 2013	2013	
Net new orders - units:								
Northeast	1,479	5	%	1,408	(23	)%	1,834	
Southeast	3,454	12	%	3,075	(3	)%	3,164	
Florida	3,168	12	%	2,841	9	%	2,595	
Midwest	2,862	23	%	2,329	(1	)%	2,361	
Texas	3,429	(9	)%	3,773	6	%	3,563	
West	3,616	12	%	3,226	(9	)%	3,563	
	18,008	8	%	16,652	(3	)%	17,080	
Net new orders - dollars:								
Northeast	\$674,637	4	%	\$649,202	(17	)%	\$782,474	
Southeast	1,160,590	23	%	944,567	5	%	895,800	
Florida	1,152,705	21	%	954,892	16	%	820,032	
Midwest	1,024,784	26	%	815,968	5	%	778,485	
Texas	905,003	3	%	881,843	11	%	796,377	
West	1,387,661	6	%	1,312,465	(1	)%	1,321,398	
	\$6,305,380	13	%	\$5,558,937	3	%	\$5,394,566	
Cancellation rates:								
Northeast	12	%		12	%		13	%
Southeast	10	%		12	%		12	%
Florida	11	%		10	%		13	%
Midwest	13	%		13	%		10	%
Texas	19	%		19	%		22	%
West	18	%		18	%		17	%
	14	%		15	%		15	%
Unit backlog:								
Northeast	444	(4	)%	461	(26	)%	621	
Southeast	1,146	18	%	968	(8	)%	1,053	
Florida	1,274	27	%	1,002	10	%	913	
Midwest	1,089	(8	)%	1,188	45	%	818	
Texas	1,345	6	%	1,273	2	%	1,250	
West	1,433	50	%	958	(14	)%	1,117	
	6,731	15	%	5,850	1	%	5,772	
Backlog dollars:								
Northeast	\$211,532	(2	)%	\$215,977	(22	)%	\$275,239	
Southeast	403,568	34	%	301,033	(1	)%	305,600	
Florida	490,282	40	%	349,968	13	%	308,834	
Midwest	382,360	3	%	370,036	33	%	278,040	
Texas	375,660	21	%	311,424	9	%	286,195	
West	593,163	50	%	395,423	(12	)%	447,888	
	\$2,456,565	26	%	\$1,943,861	2	%	\$1,901,796	

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

Operating Data by Segment (\$000's omitted)						
Years Ended December 31,						
	2015	FY 2015 vs. FY 2014	2014	FY 2014 vs. FY 2013	2013	
Land-related charges*:						
Northeast	\$3,301	17	% \$2,824	407	%	\$557
Southeast	3,022	65	% 1,826	83	%	998
Florida	4,555	835	% 487	(55)	)%	1,076
Midwest	2,319	(1	)% 2,347	25	%	1,883
Texas	295	(8	)% 321	68	%	191
West	(2,615	) (254	)% 1,696	(16	)%	2,023
Other homebuilding	590	(65	)% 1,667	(43	)%	2,944
	\$11,467	3	% \$11,168	15	%	\$9,672

Land-related charges include land impairments, net realizable value adjustments for land held for sale, and write-offs of deposits and pre-acquisition costs. Other homebuilding consists primarily of write-offs of capitalized interest resulting from land-related charges. See Notes 3 and 4 to the Consolidated Financial Statements for additional discussion of these charges.

Northeast:

For 2015, Northeast home sale revenues decreased 4% compared with 2014 due to a 5% decrease in closings. Average selling price remained flat over 2014. The decrease in closings occurred in Mid-Atlantic and New England and contributed to the lower income before income taxes. However, the decreased income before income taxes resulted primarily from a charge of \$20.0 million resulting from the Applecross matter (see Note 12). Net new orders increased 5%, primarily due to increased order levels in the Northeast Corridor.

For 2014, Northeast home sale revenues decreased 10% compared with 2013 due to a 15% decrease in closings offset by a 6% increase in the average selling price. The decrease in closings occurred across all divisions. The increase in the average selling price occurred primarily in New England and the Mid-Atlantic. The decreased income before income taxes resulted from lower revenue and gross margins combined and increased overhead. Net new orders decreased 23%, reflecting lower order levels across all divisions due in part to a lower active community count.

Southeast:

For 2015, Southeast home sale revenues increased 11% compared with 2014 due to an 8% increase in the average selling price combined with a 4% increase in closings. The increase in the average selling price and closings were broad-based, though Tennessee experienced declines. The increased income before income taxes resulted primarily from higher revenues. Net new orders increased 12% in 2015 mainly due to increased order levels in Raleigh and Georgia, partially offset by a decline in Tennessee.

For 2014, Southeast home sale revenues increased 13% compared with 2013 due to an 8% increase in the average selling price combined with a 5% increase in closings. The increase in the average selling price was due to increases across all divisions. The increase in closing volumes was primarily due to increases in Georgia and the Coastal Carolinas. The increased income before income taxes resulted from higher revenues combined with improved gross margins. Net new orders decreased 3% in 2014 mainly due to lower order levels in Tennessee, Charlotte, and the Coastal Carolinas.

Florida:

For 2015, Florida home sale revenues increased 11% compared with 2014 due to a 5% increase in the average selling price combined with a 5% increase in closings. The increase in average selling price occurred in both North and South Florida. The increased income before income taxes for 2015 resulted primarily from higher revenues. Net new orders increased by 12% in 2015 due primarily to an increase in active communities in North and West Florida.

For 2014, Florida home sale revenues increased 14% compared with 2013 due to a 14% increase in the average selling price. The increase in the average selling price occurred in both North and South Florida. Closings remained flat compared with the prior year as an increase in closings in South Florida was offset by a decrease in closings in North Florida. The increased income before income taxes for 2014 resulted from higher revenues combined with improved gross margins. Net new orders increased by 9% in 2014 due to an increase in active communities in South Florida

Midwest:

For 2015, Midwest home sale revenues increased 16% compared with the prior year period due to a 15% increase in closings combined with a 2% increase in the average selling price. The increase in closing volumes was driven by our acquisition of certain real estate assets from Dominion Homes in August 2014. Partially offsetting this were lower closings in Illinois-St Louis. The increased income before income taxes was due primarily to higher revenues. Net new orders increased by 23% in 2015 compared with 2014, mainly due to the acquisition of certain real estate assets from Dominion Homes combined with higher orders in Indianapolis-Cleveland and Minnesota.

For 2014, Midwest home sale revenues increased 10% compared with the prior year period due to a 10% increase in closings and a 1% increase in the average selling price. The increase in closing volumes was primarily due to the acquisition of certain real estate assets from Dominion Homes in August 2014, combined with increases in both Michigan and Indianapolis-Cleveland. The decreased income before income taxes resulted from higher overhead. Net new orders decreased by 1% in 2014 compared with 2013, mainly due to decreases in Illinois-St. Louis and Minnesota, partially offset by an increase due to the acquisition of certain real estate assets from Dominion Homes.

Texas:

For 2015, Texas home sale revenues decreased by 2% compared with the prior year period due to a 10% decrease in closings, partially offset by a 10% increase in the average selling price. These trends were broad-based, though Houston's closings were down 16%, in part due to the impact of lower oil prices on the local economy. In other markets, the lower closings resulted primarily from tight labor resources combined with delays in opening new communities, in part due to challenging weather conditions earlier in the year. The lower revenues led to the decreased income before income taxes for 2015. Net new orders decreased by 9% for 2015 led by a 19% decline in Houston.

For 2014, Texas home sale revenues increased 6% compared with the prior year period due to a 7% increase in the average selling price. The increase in the average selling price was led by our operations in Central Texas and San Antonio. Closings were consistent with the prior year as the increases in Dallas, Houston, and San Antonio were offset by a decrease in closings in Central Texas. The increased income before income taxes for 2014 resulted from higher revenues combined with improved gross margins. Net new orders increased by 6% for 2014 while the number of active communities remained consistent with the prior year.

West:

For 2015, West home sale revenues decreased 13% compared with the prior year period due to a 7% decrease in closings combined with a 6% decrease in the average selling price. The decreased closings and decreased average selling price were driven primarily by the Pacific Northwest, Northern California, and Southern California as the result of the timing of our community openings combined with a shift in the mix of closings toward lower priced communities. The decreased income before income taxes resulted from lower revenues, lower gross margins, and higher overhead as we invested in new communities. Net new orders increased by 12% in 2015 compared with 2014 due to higher order levels across all divisions except the Pacific Northwest and Southern California.

For 2014, West home sale revenues decreased 3% compared with the prior year period due to a 16% decrease in closings, offset by a 16% increase in average selling price. Both the decrease in closings and the increase in the average selling price occurred across all divisions. The decreased income before income taxes resulted from lower revenues. Net new orders decreased by 9% in 2014 compared with 2013 primarily due to fewer active communities. Demand in Northern California in particular slowed in 2014 compared with the strong demand experienced in 2013.

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 table presents selected financial information for our Financial Services operations (\$000's omitted):

	Years Ended December 31,				
	2015	FY 2015 vs. FY 2014	2014	FY 2014 vs. FY 2013	2013
Mortgage operations revenues	\$111,810	14	% \$97,787	(14	)% \$113,552
Title services revenues	28,943	4	% 27,851	2	% 27,399
Total Financial Services revenues	140,753	12	% 125,638	(11	)% 140,951
Expenses (a)	82,047	15	% 71,057	(23	)% 92,242
Income before income taxes	\$58,706	8	% \$54,581	12	% \$48,709
Total originations:					
Loans	11,435	6	% 10,805	(9	)% 11,818
Principal	\$2,929,531	10	% \$2,656,683	(4	)% \$2,765,509

(a) Includes loan origination reserve releases of \$11.4 million and \$18.6 million in 2015 and 2014, respectively.

	Years Ended December 31,			
	2015	2014	2013	
Supplemental data:				
Capture rate	82.9	% 80.2	% 80.2	%
Average FICO score	749	749	746	
Loan application backlog	\$1,310,173	\$980,863	\$984,754	
Funded origination breakdown:				
FHA	11	% 10	% 16	%
VA	13	% 12	% 11	%
USDA	1	% 2	% 3	%
Other agency	69	% 70	% 67	%
Total agency	94	% 94	% 97	%
Non-agency	6	% 6	% 3	%
Total funded originations	100	% 100	% 100	%

Revenues

Total Financial Services revenues during 2015 increased 12% compared with 2014. The increase resulted from a higher capture rate and higher revenues per loan, which were attributable to a higher average loan size combined with a modest improvement in loan pricing. The improvement in loan pricing resulted primarily from a spike in mortgage industry refinancing volume in early 2015, which reduced competitive pricing pressures for new originations. Loan pricing came under more pressure in more recent months as industry refinancing volume receded. However, the overall pricing environment for new originations remains favorable.

Total Financial Services revenues during 2014 decreased 11% compared with 2013. The decrease was primarily attributable to lower origination volume resulting from lower home closings in our Homebuilding operations, combined with lower revenues per loan resulting from increased competitiveness in the mortgage industry that began in 2013.

Since 2007, the mortgage industry has experienced a significant overall tightening of lending standards and a shift toward agency production. Adjustable rate mortgages (“ARMs”) accounted for 6% of funded loan production in 2015 compared with 11% and 5% in 2014 and 2013, respectively. The shifts in ARM volume contributed to the higher revenue per loan in 2015 and lower revenue per loan in 2014 as ARMs generally contain lower margins. Additionally, fixed rate mortgages tend to have higher servicing values.

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 that the loans sold met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If a loan is determined to be faulty, we either repurchase the loans from the investors or reimburse the investors' losses (a “make-whole” payment).

During 2015 and 2014, we reduced our loan origination liabilities by \$11.4 million and \$18.6 million, respectively, based on probable settlements of various repurchase requests and current conditions. Non-cash changes in reserve levels are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates. See Note 12 in the Consolidated Financial Statements.

Income before income taxes

The increased income before income taxes for 2015 as compared with 2014 is due to higher origination volume and an increase in revenue per loan. The increase in expenses over the prior period is largely a result of an increase in headcount caused by the higher origination volume, combined with the impact of changes in loan loss reserves discussed above.

The increased income before income taxes for 2014 as compared with 2013 resulted from the lower loss reserves in 2014 discussed above, partially offset by less favorable loan pricing.

Income Taxes

Our effective tax rate was 39.5%, 31.2% and (396.4)% for 2015, 2014, and 2013 respectively. The 2015 effective tax rate exceeds the federal statutory rate, primarily due to state taxes including changes in valuation allowance on state deferred tax assets and revaluation of deferred tax assets due to state law changes and business operations. The 2014 effective tax rate is less than the federal statutory rate primarily due to reversal of a portion of our valuation allowance related to certain state deferred tax assets, along with the favorable resolution of certain federal and state income tax matters. The 2013 effective tax rate differed from the federal statutory rate primarily due to the reversal of substantially all of the valuation allowance related to our federal and certain state deferred tax assets.

Income tax expense (benefit) reflects provisions and (reversals) related to changes to our deferred tax asset valuation allowances totaling \$3.1 million, \$(45.6) million, and \$(2.1) billion in 2015, 2014, and 2013, respectively. The 2015 and 2014 adjustments related primarily to certain of our state deferred tax assets as the result of changes in expected future taxable income in certain jurisdictions.

In 2013, we determined that the valuation allowance against substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets was no longer required. The principal positive evidence that led to the reversal of the valuation allowance in 2013 included: (1) our emergence from a three-year cumulative loss in 2013; (2) the significant positive income we generated during 2012 and 2013, including seven consecutive quarters of pretax income as of December 31, 2013; (3) continued improvements in 2013 over recent years in other key operating metrics, including revenues, gross margin, and overhead leverage; (4) our forecasted future profitability; (5) improvement in our financial position; and (6) significant evidence that conditions in the U.S. housing industry were more favorable than in recent years and our belief that conditions would continue to be favorable in the future.

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 and may determine that modifications to our financing are appropriate.

At December 31, 2015, we had unrestricted cash and equivalents of \$754.2 million, senior notes of \$1.6 billion, and borrowings of \$500.0 million under a term loan. We also had restricted cash balances of \$21.3 million. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments. We monitor our investments with each bank and do not believe our cash and equivalents are exposed to any material risk of loss. However, there can be no assurances that losses of principal balance on our cash and equivalents will not occur.

Our ratio of debt to total capitalization, excluding our Financial Services debt, was 30.5% at December 31, 2015.

We retired \$238.0 million, \$245.7 million, and \$461.4 million of senior notes during 2015, 2014, and 2013, respectively. The 2014 and 2013 retirements occurred prior to the stated maturity dates and resulted in losses totaling \$8.6 million and \$26.9 million in 2014 and 2013, respectively.

Revolving credit facility

In July 2014, we entered into a senior unsecured revolving credit facility (the “Revolving Credit Facility”) maturing in July 2017. The Revolving Credit Facility provides for maximum borrowings of \$500.0 million and contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to \$1.0 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce available borrowing capacity under the Revolving Credit Facility and may total no more than the greater of: (i) 50% of the size of the facility or (ii) \$300.0 million in the aggregate. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate or Base Rate plus an applicable margin, as defined. At December 31, 2015, we had no borrowings outstanding and \$191.3 million of letters of credit issued under the Revolving Credit Facility.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2015, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

Term loan

On September 30, 2015, we entered into a senior unsecured \$500.0 million term loan agreement (the “Term Loan”) with an initial maturity date of January 3, 2017, which can be extended at our option up to 12 months. The interest rate on the Term Loan may be based on either LIBOR or a base rate plus an applicable margin, as defined. Borrowings are guaranteed by certain of our wholly-owned subsidiaries, and the Term Loan contains customary affirmative and negative covenants for loans of this type, including the same financial covenants as under the Revolving Credit Facility. As of December 31, 2015, we were in compliance with all covenants.

Limited recourse notes payable

Certain of our local homebuilding operations maintain limited recourse collateralized notes payable with third parties totaling \$35.3 million at December 31, 2015. These notes have maturities ranging up to six years, are collateralized by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within accrued and other liabilities. The stated interest rates on these notes range up to 5.00%.

Pulte Mortgage

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

Pulte Mortgage maintains a master repurchase agreement (the “Repurchase Agreement”) with third party lenders. In September 2015, Pulte Mortgage entered into an amendment to the Repurchase Agreement that extended the effective date to September 2016. The Repurchase Agreement was subsequently amended in December 2015 to increase the borrowing capacity to \$310.0 million. The capacity decreased to \$175.0 million on January 19, 2016, and increases to \$200.0 million on July 29, 2016. The purpose for the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$267.9 million and \$140.2 million outstanding under the Repurchase Agreement at December 31, 2015, and 2014, respectively, and was in compliance with its covenants and requirements as of such dates.

Stock repurchase programs

In previous years, our Board of Directors authorized and announced a share repurchase program. In October 2014, our Board of Directors approved an increase of \$750.0 million to such authorization, and a further increase of \$300.0 million in December 2015. We repurchased 21.2 million, 12.9 million, and 7.2 million shares in 2015, 2014, and 2013, respectively, for a total of \$433.7 million, \$245.8 million, and \$118.1 million in 2015, 2014, and 2013, respectively. At December 31, 2015, we had remaining authorization to repurchase \$604.8 million of common shares.

Dividends

We reinstated our quarterly cash dividend in July 2013 and subsequently raised the quarterly dividend in both 2014 and 2015. Our declared quarterly cash dividends totaled \$117.9 million, \$86.4 million, and \$57.5 million in 2015, 2014, and 2013, respectively.

Cash flows

Operating activities

Our net cash used in operating activities in 2015 was \$348.1 million, compared with cash provided by operating activities of \$309.2 million and \$881.1 million in 2014 and 2013, respectively. Generally, the primary drivers of our cash flow from operations are profitability and changes in inventory levels. Our negative cash flow from operations for 2015 was primarily due to an increase in inventories of \$927.8 million as the result of a significant increase in land acquisition and development investment combined with a moderate increase in house inventory due to the higher order backlog and an increase in the number of spec homes consistent with our intentions to achieve a more even flow production cycle over the course of 2016 compared with 2015. The increased inventory was offset by our income before income taxes of \$816.0 million. Additionally, residential mortgage loans available-for-sale increased \$104.6 million as the result of an increase in home closings in the month of December compared with the prior year.

Our positive cash flow from operations for 2014 was primarily due to our income before income taxes of \$689.8 million. These cash flows were partially offset in 2014 by a net increase in inventories of \$346.6 million and an increase in residential mortgage loans available-for-sale of \$53.7 million.

Our positive cash flow from operations for 2013 was primarily due to our income before income taxes of \$527.8 million, combined with a net decrease in inventories of \$265.1 million and a reduction of \$28.4 million in residential mortgage loans available-for-sale. The inventory decrease resulted from a reduction in homes in production and lower land inventory consistent with the decline in the number of active communities, while the decrease in residential mortgage loans available-for-sale resulted from a decrease in the home closings in the month of December compared with the prior year.

Investing activities

Investing activities are generally not a significant source or use of cash for us. Net cash used in investing activities totaled \$30.9 million in 2015, compared with \$67.6 million in 2014 and \$46.0 million in 2013. The use of cash from investing activities in 2015 was primarily due to capital expenditures as the result of new community openings.

The use of cash from investing activities in 2014 was primarily due to the acquisition of certain real estate assets from Dominion Homes (see Note 1) and \$48.8 million of capital expenditures related primarily to new community openings and the relocation of our corporate headquarters. These cash outflows were partially offset by a \$55.0 million reduction in the restricted cash related to letters of credit as a result of the Revolving Credit Facility entered into in July 2014.

The use of cash from investing activities in 2013 was primarily due to \$28.9 million of capital expenditures, a \$12.3 million increase in residential mortgage loans held for investment, and a \$4.2 million increase in the restricted cash we were required to maintain under our letter of credit facilities.

Financing activities

Net cash used in financing activities was \$159.7 million in 2015, compared with \$529.1 million and \$659.6 million in 2014 and 2013, respectively. The net cash used in financing activities for 2015 resulted primarily from the repurchase of 21.2 million common shares for \$433.7 million under our repurchase authorization, payment of \$239.2 million to retire senior notes at their scheduled maturity date, and payment of \$116.0 million in cash dividends. These cash outflows were offset by \$500.0 million of proceeds from the Term Loan executed in September 2015 and net borrowings of \$127.6 million under the Repurchase Agreement to fund the increase in mortgage loans

available-for-sale.

During the last three years, we significantly reduced our outstanding senior notes through a variety of transactions, including scheduled maturities, open market repurchases, early redemptions as provided within indenture agreements, and tender offers. Completion of these transactions required the use of \$239.2 million, \$250.6 million, and \$479.8 million of cash in 2015, 2014, and 2013, respectively. We borrowed an incremental \$34.6 million under the Repurchase Agreement during 2014, and repaid \$33.1 million in 2013. Cash used in financing activities for 2014 also reflects dividend payments of \$75.6 million and the repurchase of common shares under our share repurchase authorization for \$253.0 million, partially offset by funds provided by the issuance of common shares in connection with employee stock option exercises.

Inflation

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

Seasonality

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

Contractual Obligations and Commercial Commitments

The following table summarizes our payments under contractual obligations as of December 31, 2015:

	Payments Due by Period (\$000's omitted)				
	Total	2016	2017-2018	2019-2020	After 2020
Contractual obligations:					
Long-term debt (a)	\$3,317,336	\$564,392	\$767,256	\$134,250	\$1,851,438
Operating lease obligations	128,129	28,561	39,673	24,921	34,974
Other long-term liabilities (b)	38,261	23,410	6,173	8,678	—
Total contractual obligations (c)	\$3,483,726	\$616,363	\$813,102	\$167,849	\$1,886,412

(a) Represents principal and interest payments related to our senior notes and term loan.

(b) Represents limited recourse collateralized financing arrangements and related interest payments.

(c) We do not have any payments due in connection with capital lease or long-term purchase obligations.

We are subject to certain obligations associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option, which may serve to reduce our financial risks associated with long-term land holdings. At December 31, 2015, we had \$162.1 million of deposits and pre-acquisition costs, of which \$10.5 million is refundable, relating to option agreements to acquire 42,160 lots with a remaining purchase price of \$2.0 billion. We expect to acquire the majority of such land within the next two years and the remainder thereafter.

At December 31, 2015, we had \$39.0 million of gross unrecognized tax benefits and \$17.2 million of related accrued interest and penalties. We are currently under examination by various taxing jurisdictions and anticipate finalizing the examinations with certain jurisdictions within the next twelve months. However, the final outcome of these

examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2005 - 2015.

The following table summarizes our other commercial commitments as of December 31, 2015:

	Amount of Commitment Expiration by Period (\$000's omitted)				
	Total	2016	2017-2018	2019-2020	After 2020
Other commercial commitments:					
Guarantor credit facilities (a)	\$ 500,000	\$—	\$ 500,000	\$—	\$—
Non-guarantor credit facilities (b)	310,000	310,000	—	—	—
Total commercial commitments (c)	\$ 810,000	\$ 310,000	\$ 500,000	\$—	\$—

(a) The \$500.0 million in 2016-2017 represents the capacity of our unsecured revolving credit facility, under which no borrowings were outstanding and \$191.3 million of letters of credit were issued at December 31, 2015.

Represents the capacity of the Repurchase Agreement, of which \$267.9 million was outstanding at December 31, 2015, and which expires in September 2016. The capacity decreased to \$175.0 million on January 19, 2016, and increases to \$200.0 million on July 29, 2016.

(c) The above table excludes an aggregate \$1.0 billion of surety bonds, which typically do not have stated expiration dates.

Off-Balance Sheet Arrangements

We use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the development of our homebuilding projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related homebuilding projects. If the obligations related to a project are ongoing, annual extensions of the letters of credit are typically granted on a year-to-year basis. At December 31, 2015, we had outstanding letters of credit of \$191.3 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 \$1.0 billion at December 31, 2015, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At December 31, 2015, these agreements had an aggregate remaining purchase price of \$2.0 billion. Pursuant to these land option agreements, we provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

At December 31, 2015, aggregate outstanding debt of unconsolidated joint ventures was \$16.4 million, of which our proportionate share was \$7.0 million. Of this amount, we provided limited recourse guaranties for \$0.2 million at December 31, 2015. See Note 5 to the Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

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

Revenue recognition

Homebuilding – Homebuilding revenue and related profit are generally recognized when title to and possession of the property are transferred to the buyer. In situations where the buyer's financing is originated by Pulte Mortgage, our wholly-owned mortgage subsidiary, and the buyer has not made an adequate initial or continuing investment, the profit on such sale is deferred until the sale of the related mortgage loan to a third-party investor has been completed. If there is a loss on the sale of the property, the loss on such sale is recognized at the time of closing.

Financial Services – Mortgage servicing fees represent fees earned for servicing loans for various investors. Servicing fees are based on a contractual percentage of the outstanding principal balance, or a contracted set fee in the case of certain sub-servicing arrangements, and are credited to income when related mortgage payments are received or the sub-servicing fees are earned. Loan origination fees, commitment fees, and certain direct loan origination costs are recognized as incurred. Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. Interest income is accrued from the date a mortgage loan is originated until the loan is sold. Loans are placed on non-accrual status once they become greater than 90 days past due their contractual terms. Subsequent payments received are applied according to the contractual terms of the loan.

Inventory and cost of revenues

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

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

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and commissions and closing costs applicable to the home. The construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid, based on an analysis of budgeted construction costs. This accrual is reviewed for accuracy based on actual payments made after closing compared with the amount accrued, and adjustments are made if needed. Total community land acquisition and development costs are based on

an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community's remaining lots.

We record valuation adjustments on land inventory when events and circumstances indicate that they may be impaired and when the cash flows estimated to be generated by those assets are less than their carrying amounts. For communities that demonstrate indicators of impairment, we compare the expected undiscounted cash flows for these communities to their carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we calculate the fair value of the community. Impairment charges are required to be recorded if the fair value of the community's inventory is less than its carrying value.

We generally determine the fair value of each community's inventory using a combination of discounted cash flow models and market comparable transactions, where available. These estimated cash flows are significantly impacted by estimates related to expected average selling prices and sale incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. Such estimates must be made for each individual community and may vary significantly between communities. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, and the long life cycles of many communities, actual results could differ significantly from such estimates.

Residential mortgage loans available-for-sale

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

Loan origination liabilities

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

Estimating the required liability for these potential losses requires a significant level of management judgment. During 2015 and 2014, we reduced our loan origination liabilities by \$11.4 million and \$18.6 million, respectively, based on probable settlements of various repurchase requests and current conditions. Reserves provided (released) are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

Intangible assets

We have recorded intangible assets related to tradenames acquired with the Centex merger completed in 2009 and the Del Webb merger completed in 2001, which are being amortized over their estimated useful lives. The carrying values and ultimate realization of these assets are dependent upon estimates of future cash flows and benefits that we expect to generate from their use. If we determine that the carrying values of intangible assets may not be recoverable based upon the existence of one or more indicators of impairment, we use a projected undiscounted cash flow method to determine if impairment exists. If the carrying values of the intangible assets exceed the expected undiscounted cash flows, then we measure impairment as the difference between the fair value of the asset and the recorded carrying value. To date, no impairments relating to tradenames have been recorded. However, if our expectations of future results and cash flows decrease significantly, or if our strategy related to the use of the intangible assets changes, the related intangible assets may become impaired.

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 ten years. We estimate the costs to be incurred under these warranties and record a

liability in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and the cost per claim. We periodically assess the adequacy of our recorded warranty liability for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from our estimates.

Income taxes

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment

is required. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the consolidated results of operations or financial position.

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

Self-insured risks

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time product revenue is recognized for each home closing and periodically evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate an estimate 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. In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from our subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable.

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

Adjustments to reserves are recorded in the period in which the change in estimate occurs. During 2015, we recorded general liability reserve reversals of \$32.6 million resulting from a legal settlement and \$29.6 million related to changes in our actuarial estimates resulting from favorable claims experience relative to previous actuarial projections. During 2014, we increased general liability insurance reserves by \$69.3 million, which was primarily driven by estimated costs associated with siding repairs in certain previously completed communities that, in turn, impacted actuarial estimates for potential future claims.

Our recorded reserves for all such claims totaled \$692.1 million and \$710.2 million at December 31, 2015 and 2014, 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 65% and 72% of the total general liability reserves at December 31, 2015 and 2014, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on our historical

claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses. Because of the inherent uncertainty in estimating future losses related to these claims, actual costs could differ significantly from estimated costs. Based on the actuarial analyses performed, we believe the range of reasonably possible losses related to these claims is \$625 million to \$800 million. While this range represents our best estimate of our ultimate liability related to these claims, due to a variety of factors, including those factors described above, there can be no assurance that the ultimate costs realized by us will fall within this range.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to market risk on our debt instruments primarily due to fluctuations in interest rates. We utilize both fixed-rate and variable-rate debt. For fixed-rate debt, changes in interest rates generally affect the fair value of the debt instrument but not our earnings or cash flows. Conversely, for variable-rate debt, changes in interest rates generally do not affect the fair value of the debt instrument but could affect our earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay 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 tables set forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of December 31, 2015 and 2014 (\$000's omitted).

As of December 31, 2015 for the Years ending December 31,								
	2016	2017	2018	2019	2020	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed rate debt	\$487,485	\$128,296	\$—	\$3,900	\$3,900	\$1,000,000	\$1,623,581	\$1,678,987
Average interest rate	6.24	% 7.00	% —	% 5.00	% 5.00	% 6.71	% 6.57	%
Variable rate debt (a)	\$267,877	\$500,000	\$—	\$—	\$—	\$—	\$767,877	\$767,877
Average interest rate	2.65	% 1.42	% —	% —	% —	% —	% 1.85	%

As of December 31, 2014 for the Years ending December 31,								
	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed rate debt	\$239,203	\$488,610	\$129,433	\$—	\$3,900	\$1,003,900	\$1,865,046	\$1,975,029
Average interest rate	5.22	% 6.24	% 7.44	% —	% 5.00	% 6.71	% 6.44	%
Variable rate debt (a)	\$140,241	\$—	\$—	\$—	\$—	\$—	\$140,241	\$140,241
Average interest rate	2.70	% —	% —	% —	% —	% —	% 2.70	%

(a) Includes the Pulte Mortgage Repurchase Agreement and the Term Loan. Does not include our Revolving Credit Facility, under which there were no borrowings outstanding at either December 31, 2015 or 2014.

Derivative instruments and hedging activities

Pulte Mortgage is exposed to market risks from commitments to lend, movements in interest rates, and canceled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a

derivative financial instrument (interest rate is locked to the borrower). The interest rate risk continues through the loan closing and until the loan is sold to an investor. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 75 days. In periods of rising interest rates, the length of exposure will generally increase due to customers locking in an interest rate sooner as opposed to letting the interest rate float. In periods of low or decreasing interest rates, the length of exposure will also generally increase as customers desire to lock before the possibility of rising rates.

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

At December 31, 2015 and 2014, residential mortgage loans available-for-sale had an aggregate fair value of \$442.7 million and \$339.5 million, respectively. At December 31, 2015 and 2014, we had aggregate interest rate lock commitments of \$208.2 million and \$146.1 million, respectively, which were originated at interest rates prevailing at the date of commitment. Unexpired forward contracts totaled \$525.0 million and \$371.0 million at December 31, 2015 and 2014, respectively, and

whole loan investor commitments totaled \$77.6 million and \$63.5 million, respectively, at such dates. Hypothetical changes in the fair values of our financial instruments arising from immediate parallel shifts in long-term mortgage rates would not be material to our financial results due to the offsetting nature in the movements in fair value of our financial instruments.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7a, Quantitative and Qualitative Disclosures About Market Risk, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "project," "may," "can," "could," "might," "will" expressions identify forward-looking statements, including statements related to 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; continued volatility in the debt and equity markets; 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; 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 Item 1A – Risk Factors for a further discussion of these and other risks and uncertainties applicable to our businesses. We undertake no duty to update any forward-looking statement, whether as a result of new information, future events or changes in our expectations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PULTEGROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014
(\$000's omitted, except per share data)

	2015	2014
ASSETS		
Cash and equivalents	\$754,161	\$1,292,862
Restricted cash	21,274	16,358
House and land inventory	5,450,058	4,392,100
Land held for sale	81,492	101,190
Residential mortgage loans available-for-sale	442,715	339,531
Investments in unconsolidated entities	41,267	40,368
Other assets	671,099	543,218
Intangible assets	110,215	123,115
Deferred tax assets, net	1,394,879	1,720,668
	\$8,967,160	\$8,569,410
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of \$60,547 and \$32,586 in 2015 and 2014, respectively	\$327,725	\$270,516
Customer deposits	186,141	142,642
Accrued and other liabilities	1,284,273	1,343,774
Income tax liabilities	57,050	48,722
Financial Services debt	267,877	140,241
Term loan	500,000	—
Senior notes	1,584,769	1,818,561
Total liabilities	4,207,835	3,764,456
Shareholders' equity:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued	\$—	\$—
Common stock, \$0.01 par value; 500,000,000 shares authorized, 349,148,351 and 369,458,530 shares issued and outstanding at December 31, 2015 and 2014, respectively	3,491	3,695
Additional paid-in capital	3,093,802	3,072,996
Accumulated other comprehensive loss	(609)	(690)
Retained earnings	1,662,641	1,728,953
Total shareholders' equity	4,759,325	4,804,954
	\$8,967,160	\$8,569,410

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31, 2015, 2014, and 2013

(000's omitted, except per share data)

	2015	2014	2013
Revenues:			
Homebuilding			
Home sale revenues	\$5,792,675	\$5,662,171	\$5,424,309
Land sale revenues	48,536	34,554	114,335
	5,841,211	5,696,725	5,538,644
Financial Services	140,753	125,638	140,951
Total revenues	5,981,964	5,822,363	5,679,595
Homebuilding Cost of Revenues:			
Home sale cost of revenues	4,440,893	4,343,249	4,310,528
Land sale cost of revenues	35,858	23,748	104,426
	4,476,751	4,366,997	4,414,954
Financial Services expenses	82,047	71,057	92,242
Selling, general, and administrative expenses	589,780	667,815	568,500
Other expense, net	17,363	26,736	76,077
Income before income taxes	816,023	689,758	527,822
Income tax expense (benefit)	321,933	215,420	(2,092,294)
Net income	\$494,090	\$474,338	\$2,620,116
Net income per share:			
Basic	\$1.38	\$1.27	\$6.79
Diluted	\$1.36	\$1.26	\$6.72
Cash dividends declared	\$0.33	\$0.23	\$0.15
Number of shares used in calculation:			
Basic	356,576	370,377	383,077
Effect of dilutive securities	3,217	3,725	3,789
Diluted	359,793	374,102	386,866

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2015, 2014, and 2013

(000's omitted)

	2015	2014	2013
Net income	\$494,090	\$474,338	\$2,620,116
Other comprehensive income, net of tax:			
Change in value of derivatives	81	105	197
Other comprehensive income	81	105	197
Comprehensive income	\$494,171	\$474,443	\$2,620,313

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2015, 2014, and 2013

(000's omitted, except per share data)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
	Shares	\$				
Shareholders' Equity, January 1, 2013	386,608	\$3,866	\$3,030,889	\$ (992)	\$ (844,147)	\$2,189,616
Stock option exercises	1,432	14	19,397	—	—	19,411
Share issuances, net of cancellations	1,002	10	(10)	—	—	—
Dividends declared	—	—	—	—	(57,530)	(57,530)
Share repurchases	(7,742)	(77)	(3,063)	—	(124,521)	(127,661)
Share-based compensation	—	—	14,474	—	—	14,474
Excess tax benefits (deficiencies) from share-based compensation	—	—	(9,671)	—	—	(9,671)
Net income	—	—	—	—	2,620,116	2,620,116
Other comprehensive income	—	—	—	197	—	197
Shareholders' Equity, December 31, 2013	381,300	\$3,813	\$3,052,016	\$ (795)	\$ 1,593,918	\$4,648,952
Stock option exercises	1,422	14	15,613	—	—	15,627
Share issuances, net of cancellations	(43)	—	—	—	—	—
Dividends declared	—	—	72	—	(86,442)	(86,370)
Share repurchases	(13,220)	(132)	—	—	(252,887)	(253,019)
Share-based compensation	—	—	13,786	—	26	13,812
Excess tax benefits (deficiencies) from share-based compensation	—	—	(8,491)	—	—	(8,491)
Net income	—	—	—	—	474,338	474,338
Other comprehensive income	—	—	—	105	—	105
Shareholders' Equity, December 31, 2014	369,459	\$3,695	\$3,072,996	\$ (690)	\$ 1,728,953	\$4,804,954
Stock option exercises	904	9	10,525	—	—	10,534
Share issuances, net of cancellations	428	4	7,420	—	—	7,424
Dividends declared	—	—	8	—	(117,881)	(117,873)
Share repurchases	(21,642)	(217)	—	—	(442,521)	(442,738)
Share-based compensation	—	—	16,888	—	—	16,888
Excess tax benefits (deficiencies) from share-based compensation	—	—	(14,035)	—	—	(14,035)
Net income	—	—	—	—	494,090	494,090
Other comprehensive income	—	—	—	81	—	81
Shareholders' Equity, December 31, 2015	349,149	\$3,491	\$3,093,802	\$ (609)	\$ 1,662,641	\$4,759,325

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015, 2014, and 2013

(\$000's omitted)

	2015	2014	2013
Cash flows from operating activities:			
Net income	\$494,090	\$474,338	\$2,620,116
Adjustments to reconcile net income to net cash from operating activities:			
Deferred income tax expense (benefit)	311,699	223,769	(2,096,425)
Write-down of land and deposits and pre-acquisition costs	11,467	11,168	9,672
Depreciation and amortization	46,222	39,864	31,587
Share-based compensation expense	24,752	29,292	30,480
Loss on debt retirements	—	8,584	26,930
Other, net	5,605	6,091	10,294
Increase (decrease) in cash due to:			
Restricted cash	(8,626)	1,368	3,387
Inventories	(927,768)	(346,596)	265,064
Residential mortgage loans available-for-sale	(104,609)	(53,734)	28,448
Other assets	(177,063)	(46,249)	(38,190)
Accounts payable, accrued and other liabilities	(23,898)	(38,646)	(10,227)
Net cash provided by (used in) operating activities	(348,129)	309,249	881,136
Cash flows from investing activities:			
Net change in loans held for investment	8,664	335	(12,265)
Change in restricted cash related to letters of credit	3,710	54,989	(4,152)
Capital expenditures	(45,440)	(48,790)	(28,899)
Cash used for business acquisition	—	(82,419)	—
Other investing activities, net	2,212	8,261	(661)
Net cash used in investing activities	(30,854)	(67,624)	(45,977)
Cash flows from financing activities:			
Proceeds from debt issuance	500,000	—	—
Repayments of debt	(239,193)	(250,631)	(479,827)
Borrowings under revolving credit facility	125,000	—	—
Repayments under revolving credit facility	(125,000)	—	—
Financial Services borrowings (repayments)	127,636	34,577	(33,131)
Stock option exercises	10,535	15,627	19,411
Share repurchases	(442,738)	(253,019)	(127,661)
Dividends paid	(115,958)	(75,646)	(38,382)
Net cash used in financing activities	(159,718)	(529,092)	(659,590)
Net increase (decrease) in cash and equivalents	(538,701)	(287,467)	175,569
Cash and equivalents at beginning of period	1,292,862	1,580,329	1,404,760
Cash and equivalents at end of period	\$754,161	\$1,292,862	\$1,580,329
Supplemental Cash Flow Information:			
Interest paid (capitalized), net	\$(4,193)	\$(4,561)	\$(171)
Income taxes paid (refunded), net	\$(5,654)	\$1,030	\$373
See Notes to Consolidated Financial Statements.			

PULTEGROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Basis of presentation

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

Business acquisitions

We acquired certain real estate assets from Dominion Homes in August 2014 for \$82.4 million in cash and the assumption of certain payables related to such assets. The net assets acquired were located primarily in Columbus, Ohio, and Louisville, Kentucky, and included approximately 8,200 lots, including approximately 400 homes in inventory and control of approximately 900 lots through land option contracts. We also assumed a sales order backlog of 622 homes. The acquired net assets were recorded at their estimated fair values. The acquisition of these assets was not material to our results of operations or financial condition.

We acquired substantially all of the assets of JW Homes, including the brand John Wieland Homes and Neighborhoods, in a series of transactions in January 2016 for approximately \$430.0 million in cash (of which approximately \$13.0 million is expected to be paid subsequent to January 2016) and the assumption of certain payables related to such assets. The net assets acquired were located primarily in Atlanta, Charleston, Charlotte, Nashville, and Raleigh and included approximately 7,000 lots, including approximately 400 homes in inventory and control of approximately 1,300 lots through land option contracts. We also assumed a sales order backlog of approximately 300 homes. The acquired net assets will be recorded at their estimated fair values. The acquisition of these assets is not expected to have a material impact on our results of operations or financial condition.

Use of estimates

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

Reclassifications

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

Subsequent events

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

Cash and equivalents

Cash and equivalents include institutional money market investments and time deposits with a maturity of three months or less when acquired. Cash and equivalents at December 31, 2015 and 2014 also included \$27.5 million and \$5.1 million, respectively, of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restricted cash

We maintain certain cash balances that are restricted as to their use, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer.

Investments in unconsolidated entities

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

We evaluate our investments in unconsolidated entities for recoverability in accordance with Accounting Standards Codification ("ASC") 323, "Investments – Equity Method and Joint Ventures" ("ASC 323"). If we determine that a loss in the value of the investment is other than temporary, we write down the investment to its estimated fair value. Any such losses are recorded to equity in (earnings) loss of unconsolidated entities. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates. See [Note 5](#).

Intangible assets

Intangible assets consist of tradenames acquired in connection with the 2009 acquisition of Centex Corporation ("Centex") and the 2001 acquisition of Del Webb Corporation ("Del Webb"). These intangible assets were valued at the acquisition date and are being amortized over 20-year lives. The acquired cost and accumulated amortization of our intangible assets were \$259.0 million and \$148.8 million, respectively, at December 31, 2015, and \$259.0 million and \$135.9 million, respectively, at December 31, 2014. Amortization expense totaled \$12.9 million, \$13.0 million and \$13.1 million in 2015, 2014 and 2013, respectively, and is expected to be \$12.9 million in each of the next five years.

The ultimate realization of these assets is dependent upon estimates of future cash flows and benefits that we expect to generate from their use. If we determine that the carrying values of intangible assets may not be recoverable based upon the existence of one or more indicators of impairment, we use a projected undiscounted cash flow method to determine if impairment exists. If the carrying values of the intangible assets exceed the expected undiscounted cash flows, then we measure impairment as the difference between the fair value of the asset and the recorded carrying value. There were no impairments of tradenames during 2015, 2014, or 2013.

Property and equipment, net, and depreciation

Property and equipment are recorded at cost. Maintenance and repair costs are expensed as incurred. Depreciation is computed by the straight-line method based upon estimated useful lives as follows: model home furniture - two years; office furniture and equipment - three to ten years; and leasehold improvements - life of the lease. Property and equipment are included in other assets and totaled \$86.3 million net of accumulated depreciation of \$185.8 million at December 31, 2015 and \$75.2 million net of accumulated depreciation of \$192.2 million at December 31, 2014. Depreciation expense totaled \$33.3 million, \$26.8 million, and \$18.5 million in 2015, 2014, and 2013, respectively.

Advertising costs

Advertising costs are expensed to selling, general, and administrative expense as incurred and totaled \$45.3 million, \$41.8 million, and \$42.4 million, in 2015, 2014, and 2013, respectively.

Employee benefits

We maintain defined contribution retirement plans that cover substantially all of our employees. Company contributions to the plans totaled \$12.6 million, \$12.1 million, and \$11.0 million in 2015, 2014, and 2013, respectively.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other expense, net

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

	2015	2014	2013
Write-offs of deposits and pre-acquisition costs <u>(Note 3)</u>	\$5,021	\$6,099	\$3,122
Loss on debt retirements <u>(Note 6)</u>	—	8,584	26,930
Lease exit and related costs	2,463	9,609	2,778
Amortization of intangible assets <u>(Note 1)</u>	12,900	13,033	13,100
Equity in (earnings) loss of unconsolidated entities <u>(Note 5)</u>	(7,355)	) (8,226	) (993)
Interest income	(3,107)	) (4,632	) (4,395)
Interest expense	788	849	712
Miscellaneous, net (a)	6,653	1,420	34,823
	\$17,363	\$26,736	\$76,077

Miscellaneous, net includes a charge of \$20.0 million in 2015 resulting from the Applecross matter (see Note 12) (a) and charges totaling \$41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community (see Note 12).

Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders (the "Numerator") by the weighted-average number of common shares, adjusted for unvested shares, (the "Denominator") for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, unvested restricted shares and restricted share units, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price of our common shares are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Our earnings per share excluded 3.9 million, 6.6 million, and 9.6 million potentially dilutive instruments, including stock options, unvested restricted shares, and unvested restricted share units, in 2015, 2014, and 2013, respectively.

In accordance with ASC 260 "Earnings Per Share" ("ASC 260"), 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.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the earnings per common share (000's omitted, except per share data):

	December 31, 2015	December 31, 2014	December 31, 2013
Numerator:			
Net income	\$494,090	\$474,338	\$2,620,116
Less: earnings distributed to participating securities	(755)	) (583	) (407)
Less: undistributed earnings allocated to participating securities	(2,448)	) (2,668	) (19,201)
Numerator for basic earnings per share	\$490,887	\$471,087	\$2,600,508
Add back: undistributed earnings allocated to participating securities	2,448	2,668	19,201
Less: undistributed earnings reallocated to participating securities	(2,429)	) (2,643	) (18,845)
Numerator for diluted earnings per share	\$490,906	\$471,112	\$2,600,864
Denominator:			
Basic shares outstanding	356,576	370,377	383,077
Effect of dilutive securities	3,217	3,725	3,789
Diluted shares outstanding	359,793	374,102	386,866
Earnings per share:			
Basic	\$1.38	\$1.27	\$6.79
Diluted	\$1.36	\$1.26	\$6.72

Share-based compensation

We measure compensation cost for restricted shares and restricted share units at fair value on the grant date. Fair value is determined based on the quoted price of our common shares on the grant date. We recognize compensation expense for restricted shares and restricted share units, the majority of which cliff vest at the end of three years, ratably over the vesting period. For share-based awards containing performance conditions, we recognize compensation expense ratably over the vesting period when it is probable that the stated performance targets will be achieved and record cumulative adjustments in the period in which estimates change. Compensation expense related to our share-based awards is included in selling, general, and administrative expense, except for a small portion recognized in Financial Services expenses. See Note 8.

Income taxes

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

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We follow the provisions of ASC 740, "Income Taxes" ("ASC 740"), which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Significant judgment is required to evaluate uncertain tax positions. Our evaluations of tax positions consider a variety of factors, including changes in facts or circumstances, changes in law, correspondence with taxing authorities, and effective settlements of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in material increases or decreases in income tax expense (benefit) in the period in which the change is made. Interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense (benefit). See Note 9.

Homebuilding revenue recognition

Homebuilding revenue and related profit are generally recognized when title to and possession of the property are transferred to the buyer. In situations where the buyer's financing is originated by Pulte Mortgage and the buyer has not made an adequate initial or continuing investment, the profit on such sale is deferred until the sale of the related mortgage loan to a third-party investor has been completed. If there is a loss on the sale of the property, the loss on such sale is recognized at the time of closing. The amount of such deferred profits were not material at either December 31, 2015 or December 31, 2014.

Sales incentives

When sales incentives involve a discount on the selling price of the home, we record the discount as a reduction of revenue at the time of house closing. If the sales incentive requires us to provide a free product or service to the customer, the cost of the free product or service is recorded as cost of revenues at the time of house closing. This includes the cost related to optional upgrades and seller-paid financing costs, closing costs, homeowners' association fees, or merchandise.

Inventory and cost of revenues

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

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

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and commissions and closing costs applicable to the home. The construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and

estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community's remaining lots.

We record valuation adjustments on land inventory when events and circumstances indicate that the related community may be impaired and when the cash flows estimated to be generated by the community are less than its carrying amount. Such indicators include gross margins or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. Communities that demonstrate potential impairment indicators are tested for impairment by comparing the expected undiscounted cash flows for the community to its carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we estimate the fair value of the community. Impairment charges are recorded if the fair value of the community's inventory is less than its carrying value. We determine the fair value of a community's inventory using a combination of market comparable land

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

transactions, where available, and discounted cash flow models. These estimated cash flows are significantly impacted by estimates related to expected average selling prices, expected sales paces, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the discounted cash flow models are specific to each community. 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 many communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from such estimates. See Note 3.

Land held for sale

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land held for sale is recorded at the lower of cost or fair value less costs to sell. In determining the value of land held for sale, we consider recent offers received, prices for land in recent comparable sales transactions, and other factors. We record net realizable value adjustments for land held for sale within Homebuilding land sale cost of revenues. See Note 3.

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 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. See Note 3.

If an entity holding the land under option is a variable interest entity (“VIE”), our deposit represents a variable interest in that entity. No VIEs required consolidation at either December 31, 2015 or December 31, 2014 because we determined that we were not the primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the applicable land option agreements.

The following provides a summary of our interests in land option agreements (\$000’s omitted):

	December 31, 2015		December 31, 2014	
	Deposits and	Remaining	Deposits and	Remaining
	Pre-acquisition	Purchase	Pre-acquisition	Purchase
	Costs	Price	Costs	Price
Land options with VIEs	\$77,641	\$1,064,506	\$56,039	\$891,506
Other land options	84,478	981,687	71,241	999,079
	\$162,119	\$2,046,193	\$127,280	\$1,890,585

Start-up costs

Costs and expenses associated with opening new communities are expensed to selling, general, and administrative expenses as incurred.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 10 years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time revenue is recognized for each home closing.

Self-insured risks

We maintain, and require the majority of our subcontractors to maintain, general liability insurance coverage, including coverage for certain construction defects. We also maintain builders' risk, property, errors and omissions, workers compensation, and other business insurance coverage. These insurance policies protect us against a portion of the risk of loss from claims, subject to certain self-insured per occurrence and aggregate retentions, deductibles, and available policy limits. However, we retain a significant portion of the overall risk for such claims. We reserve for these costs on an undiscounted basis at the time revenue is recognized for each home closing and evaluate the recorded liabilities based on actuarial analyses of our historical claims, which include estimates of claims incurred but not yet reported. Adjustments to estimated reserves are recorded in the period in which the change in estimate occurs. In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from our subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. See Note 12.

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us and their related servicing rights are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. In accordance with ASC 825, "Financial Instruments" ("ASC 825"), we use the fair value option to record residential mortgage loans available-for-sale. Election of the fair value option for these loans allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. We do not designate any derivative instruments as hedges or apply the hedge accounting provisions of ASC 815, "Derivatives and Hedging." See Note 12 for discussion of the risks retained related to mortgage loan originations.

Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. At December 31, 2015 and 2014, residential mortgage loans available-for-sale had an aggregate fair value of \$442.7 million and \$339.5 million, respectively, and an aggregate outstanding principal balance of \$429.6 million and \$327.4 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled \$(0.3) million and \$1.7 million for the years ended December 31, 2015 and 2014, respectively. These changes in fair value were substantially offset by changes in fair value of the corresponding hedging instruments. Net gains from the sale of mortgages during 2015, 2014, and 2013 were \$80.8 million, \$67.2 million, and \$80.3 million, respectively, and have been included in Financial Services revenues.

Mortgage servicing rights

We sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the servicing rights for only a short period of time. We recognize the fair value of our rights to service a mortgage loan as revenue at the time of entering into an interest rate lock commitment with a borrower. Due to the short period of time the servicing rights are held, we do not amortize the servicing asset. The servicing sales contracts provide for the reimbursement of payments made by the purchaser if loans prepay within specified periods of time, generally within 90 to 120 days after sale. We establish reserves for this liability at the time the sale is recorded. Such reserves were immaterial at December 31, 2015 and 2014 and are included in accrued and other liabilities.

Loans held for investment

We maintain a portfolio of loans that either have been repurchased from investors or were not saleable upon closing. We have the intent and ability to hold these loans for the foreseeable future or until maturity or payoff. These loans are

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

reviewed annually for impairment, or when recoverability becomes doubtful. Loans held for investment are included in other assets and totaled \$7.6 million and \$12.5 million at December 31, 2015 and 2014, respectively.

Interest income on mortgage loans

Interest income on mortgage loans is recorded in Financial Services revenues, accrued from the date a mortgage loan is originated until the loan is sold, and totaled \$6.9 million, \$7.2 million, and \$7.5 million in 2015, 2014, and 2013, respectively. Loans are placed on non-accrual status once they become greater than 90 days past due their contractual terms. Subsequent payments received are applied according to the contractual terms of the loan. Mortgage discounts are not amortized as interest income due to the short period the loans are held until sale to third party investors.

Mortgage servicing, origination, and commitment fees

Mortgage servicing fees represent fees earned for servicing loans for various investors. Servicing fees are based on a contractual percentage of the outstanding principal balance, or a contracted set fee in the case of certain sub-servicing arrangements, and are credited to income when related mortgage payments are received or the sub-servicing fees are earned. Loan origination costs related to residential mortgage loans available-for-sale are recognized as incurred in Financial Services expenses while the associated mortgage origination fees are recognized in Financial Services revenues as earned, generally upon loan closing.

Title services

Revenues associated with our title operations are recognized within Financial Services revenues as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed.

Derivative instruments and hedging activities

We are exposed to market risks from commitments to lend, movements in interest rates, and canceled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a derivative financial instrument (interest rate is locked to the borrower). At December 31, 2015 and 2014, we had aggregate interest rate lock commitments of \$208.2 million and \$146.1 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.

In order to reduce risks associated with our loan origination activities, we use other derivative financial instruments, principally cash forward placement contracts on mortgage-backed securities and whole loan investor commitments, to economically hedge the interest rate lock commitment. We enter into these derivative financial instruments based upon our portfolio of interest rate lock commitments and closed loans. We do not enter into any derivative financial instruments for trading purposes.

Forward contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price that may be settled in cash, by offsetting the position, or through the delivery of the financial instrument. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize 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. We also use whole loan investor commitments, which are obligations of the investor to buy loans at a specified price within a specified time period. At December 31, 2015 and 2014, we had unexpired forward contracts of \$525.0 million and \$371.0 million, respectively, and whole loan investor commitments of \$77.6 million and \$63.5 million, respectively. Changes in the fair value of interest rate lock commitments and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

There are no credit-risk-related contingent features within our derivative agreements, and counterparty risk is considered minimal. Gains and losses on interest rate lock commitments are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 75 days.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	December 31, 2015		December 31, 2014	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest rate lock commitments	\$5,854	\$280	\$4,313	\$65
Forward contracts	1,178	840	79	3,653
Whole loan commitments	358	345	31	619
	\$7,390	\$1,465	\$4,423	\$4,337

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update 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. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date", which delayed the effective date by one year. As a result, the standard is effective for us for annual and interim periods beginning January 1, 2018 and allows for full retrospective or modified retrospective methods of adoption. We are currently evaluating the impact that the standard will have on our financial statements.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"), which requires management to evaluate, at each annual and interim reporting period, whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and provide related disclosures. ASU 2014-15 is effective for annual and interim reporting periods beginning January 1, 2017 and is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt, consistent with the presentation of a debt discount. The guidance is effective for us beginning January 1, 2016. We currently present deferred financing costs within Other assets. Accordingly, the adoption of the new guidance will result in the reclassification of debt issuance costs as an offset to the related debt on the balance sheet, which we do not expect to be material to our financial statements.

2. Corporate office relocation

In May 2013, we announced our plan to relocate our corporate offices to Atlanta, Georgia, from the previous location in Bloomfield Hills, Michigan. The relocation of operations is occurring in phases over time and is expected to be substantially complete in 2016. We recorded employee severance, retention, relocation, and related expenses of \$2.0 million, \$7.6 million, and \$15.0 million in 2015, 2014, and 2013, respectively. We also recorded lease exit and asset impairment expenses totaling \$2.3 million, \$8.7 million, and \$0.4 million in 2015, 2014, and 2013, respectively. Severance, retention, relocation, and related expenses are recorded within selling, general, and administrative expense, while lease exit and asset impairment expenses are included in other expense, net. We expect the remaining expenses to total less than \$10.0 million.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Inventory and land held for sale

Major components of inventory at December 31, 2015 and 2014 were (\$000's omitted):

	2015	2014
Homes under construction	\$1,408,260	\$1,084,137
Land under development	3,259,066	2,545,049
Raw land	782,732	762,914
	\$5,450,058	\$4,392,100

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

	Years Ended December 31,		
	2015	2014	2013
Interest in inventory, beginning of period	\$167,638	\$230,922	\$331,880
Interest capitalized	120,001	131,444	154,107
Interest expensed	(138,141	) (194,728	) (255,065
Interest in inventory, end of period	\$149,498	\$167,638	\$230,922

Land-related charges

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

	2015	2014	2013
Land impairments	\$7,347	\$3,911	\$2,944
Net realizable value adjustments ("NRV") - land held for sale	(901	) 1,158	3,606
Write-offs of deposits and pre-acquisition costs	5,021	6,099	3,122
Total land-related charges	\$11,467	\$11,168	\$9,672

Land held for sale

Land held for sale at December 31, 2015 and 2014 was as follows (\$000's omitted):

	2015	2014
Land held for sale, gross	\$86,913	\$108,725
Net realizable value reserves	(5,421	) (7,535
Land held for sale, net	\$81,492	\$101,190

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Home sale revenues for detached and attached homes were \$5.0 billion and \$841.5 million in 2015, \$4.8 billion and \$885.8 million in 2014, and \$4.5 billion and \$939.0 million in 2013, respectively. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments. For 2015, we realigned our organizational structure and reportable segment presentation. Accordingly, the segment information provided in this note has been reclassified to conform to the current presentation for all periods presented.

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, 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. The Financial Services segment operates generally in the same markets as the Homebuilding segments. Evaluation of segment performance is generally based on income before income taxes. Each reportable segment generally follows the same accounting policies described in Note 1.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Years Ended December 31,

2015 2014 2013

Revenues:

Northeast	\$682,112	\$710,859	\$819,709
Southeast	1,058,089	949,635	842,921
Florida	1,019,733	917,956	802,665
Midwest	1,020,691	872,241	791,537
Texas	845,772	859,165	835,473
West	1,214,814	1,386,869	1,446,339
	5,841,211	5,696,725	5,538,644
Financial Services	140,753	125,638	140,951
Consolidated revenues	\$5,981,964	\$5,822,363	\$5,679,595

Income before income taxes:

Northeast (a)	\$82,616	\$103,865	\$110,246
Southeast	172,330	156,513	121,055
Florida	196,525	190,441	139,673
Midwest	91,745	78,863	84,551
Texas	121,329	133,005	111,431
West	169,394	254,724	258,960
Other homebuilding (b)	(76,622)	) (282,234	) (346,803
	757,317	635,177	479,113
Financial Services (c)	58,706	54,581	48,709
Consolidated income before income taxes	\$816,023	\$689,758	\$527,822

(a) Northeast includes a charge of \$20.0 million in 2015 resulting from the Applecross matter (see Note 12).

Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments, in addition to: losses on debt retirements of \$8.6 million and \$26.9 million in 2014 and 2013, respectively (see Note 6); adjustments to general liability insurance reserves relating to a reversal of \$62.2 million in 2015 and a charge of \$69.3 million in 2014 (see Note 12); costs associated with the relocation of our corporate headquarters totaling \$4.4 million, \$16.3 million, and \$15.4 million in 2015, 2014, and 2013, respectively (see Note 2); and charges of \$41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community (see Note 12).

(c) Financial Services included reductions in loan origination liabilities totaling \$11.8 million and \$18.6 million in 2015 and 2014, respectively.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Operating Data by Segment (\$000's omitted)		
	Years Ended December 31,		
	2015	2014	2013
Land-related charges*:			
Northeast	\$3,301	\$2,824	\$557
Southeast	3,022	1,826	998
Florida	4,555	487	1,076
Midwest	2,319	2,347	1,883
Texas	295	321	191
West	(2,615	) 1,696	2,023
Other homebuilding	590	1,667	2,944
	\$11,467	\$11,168	\$9,672

Land-related charges include land impairments, net realizable value adjustments for land held for sale, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue. Other homebuilding consists primarily of write-offs of capitalized interest related to such land-related charges. See [Note 1](#) for additional discussion of these charges.

	Operating Data by Segment (\$000's omitted)		
	Years Ended December 31,		
	2015	2014	2013
Depreciation and amortization:			
Northeast	\$1,682	\$1,852	\$1,987
Southeast	3,492	2,666	1,647
Florida	3,536	2,150	1,334
Midwest	5,019	3,153	1,644
Texas	2,928	1,698	1,784
West	5,995	5,263	3,590
Other homebuilding (a)	20,254	19,548	16,248
	42,906	36,330	28,234
Financial Services	3,316	3,534	3,353
	\$46,222	\$39,864	\$31,587

(a) Other homebuilding includes amortization of intangible assets.

	Operating Data by Segment (\$000's omitted)		
	Years Ended December 31,		
	2015	2014	2013
Equity in (earnings) loss of unconsolidated entities:			
Northeast	\$2	\$(4,733	) \$(58
Southeast	—	—	—
Florida	2	(7	) (4
Midwest	(337	) (481	) 151
Texas	—	—	—
West	(5,107	) (2,422	) (1,437
Other homebuilding	(1,915	) (583	) 355
	(7,355	) (8,226	) (993
Financial Services	—	(182	) (137
	\$(7,355	) \$(8,408	) \$(1,130

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Operating Data by Segment

(\$000's omitted)

December 31, 2015

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$163,173	\$292,631	\$121,522	\$577,326	\$688,610
Southeast	196,456	367,577	139,246	703,279	765,933
Florida	227,910	574,092	97,185	899,187	1,013,543
Midwest	197,738	414,386	68,918	681,042	734,834
Texas	191,424	317,702	107,737	616,863	691,342
West	413,208	1,094,112	222,920	1,730,240	1,924,958
Other homebuilding (a)	18,351	198,566	25,204	242,121	2,638,951
	1,408,260	3,259,066	782,732	5,450,058	8,458,171
Financial Services	—	—	—	—	508,989
	\$1,408,260	\$3,259,066	\$782,732	\$5,450,058	\$8,967,160

December 31, 2014

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$184,974	\$266,229	\$106,077	\$557,280	\$659,224
Southeast	147,506	304,762	117,981	570,249	605,067
Florida	150,743	350,016	112,225	612,984	717,531
Midwest	176,966	326,549	70,266	573,781	624,815
Texas	134,873	250,102	91,765	476,740	528,392
West	270,060	850,629	230,199	1,350,888	1,485,685
Other homebuilding (a)	19,015	196,762	34,401	250,178	3,527,731
	1,084,137	2,545,049	762,914	4,392,100	8,148,445
Financial Services	—	—	—	—	420,965
	\$1,084,137	\$2,545,049	\$762,914	\$4,392,100	\$8,569,410

December 31, 2013

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$212,611	\$325,241	\$106,681	\$644,533	\$731,259
Southeast	139,484	274,981	146,617	561,082	599,271
Florida	140,366	295,631	104,766	540,763	618,449
Midwest	109,251	184,172	23,092	316,515	346,851
Texas	130,398	223,979	57,480	411,857	466,198
West	277,636	678,231	257,512	1,213,379	1,309,850
Other homebuilding (a)	32,401	207,152	50,879	290,432	4,334,591
	1,042,147	2,189,387	747,027	3,978,561	8,406,469
Financial Services	—	—	—	—	327,674
	\$1,042,147	\$2,189,387	\$747,027	\$3,978,561	\$8,734,143

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

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Investments in unconsolidated entities

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

	December 31,	
	2015	2014
Investments in joint ventures with debt non-recourse to PulteGroup	\$23,236	\$26,488
Investments in other active joint ventures	18,031	13,880
Total investments in unconsolidated entities	\$41,267	\$40,368
 Total joint venture debt	 \$ 16,369	 \$25,849
 PulteGroup proportionate share of joint venture debt:		
Joint venture debt with limited recourse guaranties	\$226	\$283
Joint venture debt non-recourse to PulteGroup	6,744	11,341
PulteGroup's total proportionate share of joint venture debt	\$6,970	\$11,624

In 2015, 2014, and 2013, we recognized income from unconsolidated joint ventures of \$7.4 million, \$8.4 million, and \$1.1 million, respectively (of which \$0.2 million and \$0.1 million for 2014 and 2013, respectively, related to Financial Services). We received distributions from our unconsolidated joint ventures of \$6.0 million, \$13.1 million, and \$3.1 million, in 2015, 2014, and 2013, respectively, and made no significant capital contributions during such periods.

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

6. Debt

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

	December 31,	
	2015	2014
5.25% unsecured senior notes due June 2015 (a)	\$—	\$236,452
6.50% unsecured senior notes due May 2016 (a)	464,436	462,009
7.625% unsecured senior notes due October 2017 (b)	122,841	122,752
7.875% unsecured senior notes due June 2032 (a)	299,283	299,239
6.375% unsecured senior notes due May 2033 (a)	398,714	398,640
6.00% unsecured senior notes due February 2035 (a)	299,495	299,469
Total senior notes – carrying value (c)	\$1,584,769	\$1,818,561
Estimated fair value	\$1,643,651	\$1,952,774

(a)

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

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

(c) The recorded carrying value reflects the impact of various discounts and premiums that are amortized to interest cost over the respective terms of the senior notes.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The indentures governing the senior notes impose certain restrictions on the incurrence of additional debt along with other limitations. At December 31, 2015, we were in compliance with all of the covenants and requirements under the senior notes. Our senior note principal maturities are as follows: 2016 - \$465.2 million; 2017 - \$123.0 million; 2018 through 2020 - \$0.0 million; and thereafter - \$1.0 billion. Refer to Note 13 for supplemental consolidating financial information of the Company.

Debt retirement

We retired outstanding senior notes totaling \$238.0 million, \$245.7 million, and \$461.4 million during 2015, 2014, and 2013, respectively. The 2014 and 2013 retirements occurred prior to the stated maturity dates and resulted in losses totaling \$8.6 million and \$26.9 million in 2014 and 2013, respectively. Losses on debt repurchase transactions include the write-off of unamortized discounts, premiums, and transaction fees related to the repurchased debt and are reflected in other expense (income), net.

Revolving credit facility

In July 2014, we entered into a senior unsecured revolving credit facility (the “Revolving Credit Facility”) maturing in July 2017. The Revolving Credit Facility provides for maximum borrowings of \$500.0 million and contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to \$1.0 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce available borrowing capacity under the Revolving Credit Facility and may total no more than the greater of: (i) 50% of the size of the facility or (ii) \$300.0 million in the aggregate. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate or Base Rate plus an applicable margin, as defined. At December 31, 2015, we had no borrowings outstanding and \$191.3 million of letters of credit issued under the Revolving Credit Facility.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2015, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$308.7 million and \$291.6 million as of December 31, 2015 and 2014, respectively.

Term loan

On September 30, 2015, we entered into a senior unsecured \$500.0 million term loan agreement (the “Term Loan”) with an initial maturity date of January 3, 2017, which can be extended at our option up to 12 months. The interest rate on the Term Loan may be based on either LIBOR or a base rate plus an applicable margin, as defined, and was 1.5% at December 31, 2015. Borrowings are interest only with the principal being due at the maturity date and are guaranteed by certain of our wholly-owned subsidiaries. The Term Loan contains customary affirmative and negative covenants for loans of this type, including the same financial covenants as under the Revolving Credit Facility. As of December 31, 2015, we were in compliance with all covenants.

Limited recourse notes payable

Certain of our local homebuilding operations maintain limited recourse collateralized notes payable with third parties that totaled \$35.3 million and \$22.3 million at December 31, 2015 and 2014, respectively. These notes have maturities

ranging up to six years, are collateralized by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within accrued and other liabilities. The stated interest rates on these notes range up to 5.00%.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Pulte Mortgage

Pulte Mortgage maintains a master repurchase agreement (the “Repurchase Agreement”) with third party lenders. In September 2015, Pulte Mortgage entered into an amendment to the Repurchase Agreement that extended the effective date to September 2016. The Repurchase Agreement was subsequently amended in December 2015 to increase the borrowing capacity to \$310.0 million. The capacity decreased to \$175.0 million on January 19, 2016, and increases to \$200.0 million on July 29, 2016. The purpose for the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$267.9 million and \$140.2 million outstanding under the Repurchase Agreement at December 31, 2015, and 2014, respectively, and was in compliance with its covenants and requirements as of such dates.

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

	December 31, 2015	2014	
Available credit lines	\$310,000	\$150,000	
Unused credit lines	\$42,123	\$9,759	
Weighted-average interest rate	2.65	% 2.70	%

7. Shareholders’ equity

We reinstated our quarterly cash dividend in July 2013 and subsequently raised the quarterly dividend in both 2014 and 2015. Our declared quarterly cash dividends totaled \$117.9 million, \$86.4 million, and \$57.5 million in 2015, 2014, and 2013, respectively. Under the share repurchase program authorized by our Board of Directors, we repurchased 21.2 million, 12.9 million, and \$7.2 million shares in 2015, 2014, and 2013, respectively, for a total of \$433.7 million, \$245.8 million, and \$118.1 million in 2015, 2014, and 2013, respectively. At December 31, 2015, we had remaining authorization to repurchase \$604.8 million of common shares.

Under our stock-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of restricted stock, generally related to the payment of minimum tax obligations. During 2015, 2014, and 2013, employees surrendered shares valued at \$9.0 million, \$7.2 million, and \$9.6 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Stock compensation plans

We maintain a stock award plan for both employees and non-employee directors. The plan provides for the grant of a variety of equity awards, including options (generally non-qualified options), restricted shares, performance shares, and restricted share units ("RSUs") to key employees (as determined by the Compensation and Management Development Committee of the Board of Directors) for periods not to exceed ten years. Non-employee directors are entitled to an annual distribution of stock options, common shares, or RSUs. All options granted to non-employee directors vest immediately and are exercisable for ten years from the grant date. Options granted to employees generally vest incrementally over four years and are generally exercisable for ten years from the vest date. Restricted shares and RSUs generally cliff vest after three years. Restricted share holders have voting rights during the vesting period and both restricted share and RSU holders receive cash dividends during the vesting period. Performance shares vest upon attainment of the stated performance targets and minimum service requirements and are converted into common shares upon distribution. RSUs represent the right to receive an equal number of common shares and are converted into common shares upon distribution. As of December 31, 2015, there were 25.1 million shares that remained available for grant under the plan.

Our stock compensation expense for the three years ended December 31, 2015, is presented below (\$000's omitted):

	2015	2014	2013
Stock options	\$37	\$121	\$1,056
Restricted shares (including RSUs and performance shares)	16,852	13,690	13,418
Long-term incentive plans	7,863	15,481	16,006
	\$24,752	\$29,292	\$30,480

Stock options

A summary of stock option activity for the three years ended December 31, 2015, is presented below (000's omitted except per share data):

	2015		2014		2013	
	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price
Outstanding, beginning of year	9,370	\$ 23	12,887	\$ 23	17,148	\$ 22
Granted	—	—	—	—	—	—
Exercised	(904)	) 12	(1,422)	) 11	(1,432)	) 14
Forfeited	(2,426)	) 37	(2,095)	) 29	(2,829)	) 25
Outstanding, end of year	6,040	\$ 19	9,370	\$ 23	12,887	\$ 23
Options exercisable at year end	6,040	\$ 19	9,265	\$ 23	12,402	\$ 23
Weighted-average per share fair value of options granted during the year	\$—		\$—		\$—	

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes information about the weighted-average remaining contractual lives of stock options outstanding and exercisable at December 31, 2015:

	Options Outstanding			Options Exercisable	
	Number Outstanding (000's omitted)	Weighted-Average Remaining Contract Life (in years)	Weighted-Average Per Share Exercise Price	Number Exercisable (000's omitted)	Weighted-Average Per Share Exercise Price
\$0.01 to \$10.00	326	4.8	\$8	326	\$8
\$10.01 to \$20.00	3,697	3.5	12	3,697	12
\$20.01 to \$30.00	152	1.0	28	152	28
\$30.01 to \$40.00	1,865	1.0	34	1,865	34
	6,040	2.7	\$19	6,040	\$19

We did not issue any stock options during 2015, 2014, or 2013. As a result, there is no unrecognized compensation cost related to stock option awards at December 31, 2015. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The aggregate intrinsic value of stock options that were exercised during 2015, 2014, and 2013 was \$9.4 million, \$14.1 million, and \$10.8 million, respectively. As of December 31, 2015, options outstanding had an intrinsic value of \$25.3 million, of which \$25.3 million related to options exercisable.

Restricted shares (including RSUs and performance shares)

A summary of restricted share activity, including RSUs and performance shares, for the three years ended December 31, 2015, is presented below (000's omitted, except per share data):

	2015		2014		2013	
	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value
Outstanding, beginning of year	2,890	\$15	3,211	\$11	3,822	\$9
Granted	932	\$22	974	\$19	806	\$21
Distributed	(1,090)	) \$10	(1,019)	) \$10	(1,391)	) \$11
Forfeited	(156)	) \$19	(276)	) \$15	(26)	) \$15
Outstanding, end of year	2,576	\$18	2,890	\$15	3,211	\$11
Vested, end of year	89	\$14	75	\$13	60	\$12

During 2015, 2014, and 2013, the total fair value of shares vested during the year was \$10.2 million, \$8.1 million, and \$12.7 million, respectively. Unamortized compensation cost related to restricted share awards was \$16.0 million at December 31, 2015. These costs will be expensed over a weighted-average period of approximately 2 years.

Additionally, there were 88,727 RSUs outstanding at December 31, 2015, that had vested but had not yet been paid out because the payout date had been deferred by the holder.

Long-term incentive plans

We maintain a long-term incentive plan for certain of our field employees that provides awards based on the achievement of stated performance targets over a three-year period. Awards are earned each year in the form of share units that are paid out in cash at the end of the performance period based upon the number of share units earned times the share price at the end of the performance period. Accordingly, the liability associated with the awards is adjusted each reporting period based on movements in the share price and totaled \$2.7 million and \$9.5 million at December 31, 2015 and 2014, respectively.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

We also maintain a long-term performance award plan for senior management that provides awards based on the achievement of stated performance targets over a three-year period. Awards are earned based on our cumulative performance over the performance period and are stated in dollars but settled in common shares based on the stock price at the end of the performance period. If the share price falls below a floor of \$5.00 per share at the end of the performance period or we do not have a sufficient number of shares available under our stock incentive plans at the time of settlement, then a portion of each award will be paid in cash. We recognize expense for these awards based on the probability of achievement of the stated performance targets. The liability for these awards totaled \$20.5 million and \$26.2 million at December 31, 2015 and 2014, respectively.

9. Income taxes

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

	2015	2014	2013
Current expense (benefit)			
Federal	\$8,760	\$5,619	\$5,725
State and other	1,474	(13,968)	(1,596)
	\$10,234	\$(8,349)	\$4,129
Deferred expense (benefit)			
Federal	\$277,895	\$232,969	\$(1,833,580)
State and other	33,804	(9,200)	(262,843)
	\$311,699	\$223,769	\$(2,096,423)
Income tax expense (benefit)	\$321,933	\$215,420	\$(2,092,294)

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

	2015	2014	2013
Income taxes at federal statutory rate	35.0	% 35.0	% 35.0
State and local income taxes, net of federal tax	2.8	3.0	4.0
Deferred tax asset valuation allowance	0.4	(6.6)	(438.0)
Tax contingencies	0.1	(1.4)	0.3
Other	1.2	1.2	2.3
Effective rate	39.5	% 31.2	% (396.4)

Our effective tax rate was 39.5%, 31.2% and (396.4)% for 2015, 2014, and 2013 respectively. The 2015 effective tax rate exceeds the federal statutory rate, primarily due to state taxes including changes in valuation allowance on state deferred tax assets and revaluation of deferred tax assets due to state law changes and business operations. The 2014 effective tax rate is less than the federal statutory rate primarily due to reversal of a portion of our valuation allowance related to certain state deferred tax assets, along with the favorable resolution of certain federal and state income tax matters. The 2013 effective tax rate differed from the federal statutory rate primarily due to the reversal of substantially all of the valuation allowance related to our federal and certain state deferred tax assets.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	At December 31,	
	2015	2014
Deferred tax assets:		
Accrued insurance	\$237,836	\$254,031
Non-deductible reserves and other	155,488	191,097
Inventory valuation reserves	476,673	599,763
Net operating loss ("NOL") carryforwards:		
Federal	367,302	515,568
State	274,686	257,738
Alternative minimum tax credit carryforwards	44,161	34,812
Energy and other credit carryforwards	28,669	27,858
	1,584,815	1,880,867
Deferred tax liabilities:		
Capitalized items, including real estate basis differences, deducted for tax, net	(39,220)	(31,584)
Trademarks and tradenames	(41,664)	(46,362)
	(80,884)	(77,946)
Valuation allowance	(109,052)	(82,253)
Net deferred tax asset	\$1,394,879	\$1,720,668

Our gross federal NOL carryforward is approximately \$1.0 billion and expires between 2028 and 2032. We also have significant state NOLs in various jurisdictions which may generally be carried forward from 5 to 20 years, depending on the jurisdiction. The state NOL carryforwards expire at various dates as follows: of the total state DTA, \$32.2 million from 2016 to 2020, \$46.1 million from 2021 to 2025, and \$196.4 million from 2026 to 2035. In addition, we have federal energy credit carryforwards expiring in 2026 to 2034 and alternative minimum tax credits that can be carried forward indefinitely.

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

As a result of the merger with Centex in 2009, our ability to use certain of Centex's pre-ownership change NOL carryforwards and built-in losses or deductions is limited by Section 382 of the Internal Revenue Code. We do not believe that the Section 382 limitation will prevent the Company from using Centex's pre-ownership change federal NOL carryforwards and built-in losses. We do believe that certain of our state NOL carryforwards will be limited due to Section 382.

The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time. In 2014, we recorded an income tax benefit of \$45.6 million as the result of a reversal of valuation allowance related primarily to certain of our state deferred tax assets as the result of an

increase in expected future taxable income in certain jurisdictions.

In 2013, we recorded an income tax benefit of \$2.1 billion as the result of a reversal of valuation allowance. Based on previous evaluations, we had fully reserved our net deferred tax assets due to the uncertainty of their realization. One of the primary pieces of negative evidence we considered was the significant losses we had incurred in the recent years prior to 2013, including being in a three-year cumulative pre-tax loss position, which we exited in 2013. During 2013, we

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

determined that the valuation allowance against substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets was no longer required. Accordingly, we reversed \$2.1 billion of valuation allowance.

We conduct our evaluations by considering all available positive and negative evidence. The principal positive evidence that led to the reversal of the valuation allowance in 2013 included: (1) our emergence from a three-year cumulative loss in 2013; (2) the significant positive income we generated during 2012 and 2013, including seven consecutive quarters of pretax income as of December 31, 2013; (3) continued improvements in 2013 over recent years in other key operating metrics, including revenues, gross margin, and overhead leverage; (4) our forecasted future profitability; (5) improvement in our financial position; and (6) significant evidence that conditions in the U.S. housing industry were more favorable than in recent years and our belief that conditions would continue to be favorable over the long-term. Even if industry conditions weaken from current levels, we believe we will be able to adjust our operations to sustain long-term profitability.

As a result of certain realization requirements of ASC 718, the table of deferred tax assets and liabilities does not include certain deferred tax assets as of December 31, 2015 and 2014, that arose directly from tax deductions related to equity compensation greater than compensation recognized for financial reporting. Equity will be increased by \$19.4 million if and when such deferred tax assets are ultimately realized. We use the with-and-without approach when determining when excess tax benefits have been realized.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We had \$39.0 million and \$32.9 million of gross unrecognized tax benefits at December 31, 2015 and 2014, respectively. Of these amounts, \$39.0 million and \$32.9 million, respectively, would impact the effective tax rate if recognized. Additionally, we had accrued interest and penalties of \$17.2 million and \$17.3 million at December 31, 2015 and 2014, respectively.

It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to \$35.0 million, excluding interest and penalties, primarily due to potential settlements. A reconciliation of the change in the unrecognized tax benefits is as follows (\$000's omitted):

	2015	2014	2013
Unrecognized tax benefits, beginning of period	\$32,911	\$173,310	\$170,425
Increases related to tax positions taken during a prior period	5,763	—	12,877
Decreases related to tax positions taken during a prior period	—	(133,883)	(7,502)
Increases related to tax positions taken during the current period	318	237	381
Decreases related to settlements with taxing authorities	—	(6,753)	(1,434)
Reductions as a result of a lapse of the applicable statute of limitations	—	—	(1,437)
Unrecognized tax benefits, end of period	\$38,992	\$32,911	\$173,310

We continue to participate in the Compliance Assurance Process (“CAP”) with the IRS as an alternative to the traditional IRS examination process. As a result of our participation in CAP, federal tax years 2013 and prior are closed. Tax year 2014 is expected to close by the second quarter of 2016, and tax year 2015 is expected to close by the second quarter of 2017. We are currently under examination by various state taxing jurisdictions and anticipate finalizing certain of the examinations within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2005 to 2015.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fair value disclosures

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

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

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

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

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

Financial Instrument	Fair Value Hierarchy	Fair Value December 31, 2015	December 31, 2014
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	\$442,715	\$339,531
Interest rate lock commitments	Level 2	5,574	4,248
Forward contracts	Level 2	338	(3,574)
Whole loan commitments	Level 2	13	(588)
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	\$11,052	\$13,925
Disclosed at fair value:			
Cash and equivalents (including restricted cash)	Level 1	\$775,435	\$1,309,220
Financial Services debt	Level 2	267,877	140,241
Term loan	Level 2	500,000	—
Senior notes	Level 2	1,643,651	1,952,774

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, are based on market prices for similar instruments. Forward contracts on mortgage-backed securities are valued based on market prices for similar instruments. Fair values for whole loan investor 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 value 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 1 for a more detailed discussion of the valuation methods used for inventory.

The carrying amounts of cash and equivalents, Financial Services debt, the Term Loan, 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 \$1.6 billion and \$1.8 billion, at December 31, 2015 and 2014, respectively.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Other assets and accrued and other liabilities

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

	December 31, 2015	2014
Accounts and notes receivable:		
Insurance receivables <u>(Note 12)</u>	\$130,170	\$60,598
Notes receivable	28,288	30,699
Other receivables	83,177	63,867
	241,635	155,164
Prepaid expenses	109,113	72,585
Deposits and pre-acquisition costs <u>(Note 1)</u>	162,119	127,280
Property and equipment, net <u>(Note 1)</u>	86,312	75,219
Income taxes receivable <u>(Note 9)</u>	25,080	21,330
Other	46,840	91,640
	\$671,099	\$543,218

We record receivables from various parties in the normal course of business, including amounts due from insurance companies (see Note 12), municipalities, and vendors. In certain instances, we may accept consideration for land sales or other transactions in the form of a note receivable.

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

	December 31, 2015	2014
Self-insurance liabilities <u>(Note 12)</u>	\$692,053	\$710,245
Loan origination liabilities <u>(Note 12)</u>	46,381	58,222
Compensation-related	124,798	142,586
Warranty <u>(Note 12)</u>	61,179	65,389
Community development district obligations <u>(Note 12)</u>	11,964	17,122
Accrued interest	20,541	20,446
Limited recourse notes payable	35,336	22,255
Dividends payable	31,568	29,682
Other	260,453	277,827
	\$1,284,273	\$1,343,774

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Commitments and contingencies

Leases

We lease certain property and equipment under non-cancelable operating leases. The future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2015, are as follows (\$000's omitted):

Years Ending December 31,

2016	\$28,561
2017	21,353
2018	18,320
2019	15,981
2020	8,940
Thereafter	34,974
Total minimum lease payments (a)	\$128,129

(a) Minimum payments have not been reduced by minimum sublease rentals of \$2.5 million due in the future under non-cancelable subleases.

Net rental expense for 2015, 2014, and 2013 was \$27.7 million, \$25.3 million, and \$23.0 million, respectively. Certain leases contain renewal or purchase options and generally provide that we pay for insurance, taxes, and maintenance.

Loan origination liabilities

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

Estimating the required liability for these potential losses requires a significant level of management judgment. During 2015 and 2014, we reduced our loan origination liabilities by net reserve releases of \$11.4 million and \$18.6 million, respectively, based on probable settlements of various repurchase requests and current conditions. Reserves provided (released) are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

Changes in these liabilities were as follows (\$000's omitted):

	2015	2014	2013
Liabilities, beginning of period	\$58,222	\$124,956	\$164,280
Reserves provided (released), net	(11,433)	) (18,604	) —
Payments	(408)	) (48,130	) (39,324
Liabilities, end of period	\$46,381	\$58,222	\$124,956

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Community development and other special district obligations

A community development district or similar development authority (“CDD”) is a unit of local government created under various state statutes that utilizes the proceeds from the sale of bonds to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds, including principal and interest, is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. Generally, we are only responsible for paying the special assessments for the period during which we are the landowner of the applicable parcels. However, in certain limited instances we record a liability for future assessments. At December 31, 2015 and 2014, we had \$12.0 million and \$17.1 million, respectively, in accrued liabilities for outstanding CDD obligations.

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 \$191.3 million and \$1.0 billion, respectively, at December 31, 2015, and \$212.1 million and \$1.0 billion, respectively, at December 31, 2014. In the event any such letter of credit or surety bonds is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be drawn. Our surety bonds generally do not have stated expiration dates; rather we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

Litigation and regulatory matters

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

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

In September 2012, Applecross Club Operations ("Applecross") filed a complaint for breach of contract and promissory estoppel in Applecross v. Pulte Homes of PA, et al. The complaint alleged that we induced Applecross to purchase a golf course from us in 2010 by promising to build over 1,000 residential units in a planned community located outside Philadelphia, Pennsylvania. In September 2015, the jury in the case found in favor of Applecross and awarded damages in the amount of \$20.0 million. We believe we have meritorious defenses and have filed post-trial motions seeking to, among other things, overturn the jury verdict. If unsuccessful, we plan to appeal the award. However, in light of the jury's verdict, we recorded a reserve of \$20.0 million in 2015, which is reflected in other expense, net

During 2013, we settled a number of claims related to a previously completed luxury community in a market we have since exited. The claims related to a contractual dispute with certain homeowners. As a result of these settlements, we recorded charges of \$41.2 million during 2013, which are reflected in other expense, net.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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):

	2015	2014	2013
Warranty liabilities, beginning of period	\$65,389	\$63,992	\$64,098
Reserves provided	52,684	51,348	49,399
Payments	(60,968)	) (47,968	) (44,925)
Other adjustments	4,074	(1,983	) (4,580)
Warranty liabilities, end of period	\$61,179	\$65,389	\$63,992

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 requires a per occurrence deductible up to an overall aggregate retention level. Beginning with the first dollar, amounts paid to satisfy insured claims apply to our per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by insurance up to our purchased coverage levels. Our insurance policies, including the captive insurance subsidiaries' reinsurance policies, are maintained with highly-rated underwriters for whom we believe counterparty default risk is not significant.

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time revenue is recognized

for each home closing and evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate estimates of the ultimate net cost of all unpaid losses, including estimates for incurred but not reported losses ("IBNR"). IBNR represents losses related to claims incurred but not yet reported plus development on reported claims.

Our recorded reserves for all such claims totaled \$692.1 million and \$710.2 million at December 31, 2015 and 2014, respectively, the vast majority of which relates 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 65% and 72% of the total general liability reserves at December 31, 2015 and 2014, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on our historical claims experience

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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. 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 related and the timing of such losses related to these claims, actual costs could differ significantly from estimated costs.

Adjustments to reserves are recorded in the period in which the change in estimate occurs. During 2015, we recorded general liability reserve reversals of \$32.6 million resulting from a legal settlement and \$29.6 million related to changes in our actuarial estimates resulting from favorable claims experience relative to previous actuarial projections. During 2014, we increased general liability insurance reserves by \$69.3 million, which was primarily driven by estimated costs associated with siding repairs in certain previously completed communities that, in turn, impacted actuarial estimates for potential future claims. Such adjustments are reflected in "Reserves provided, net" in the below table.

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

	2015	2014	2013
Balance, beginning of period	\$710,245	\$668,100	\$721,284
Reserves provided, net	16,085	141,790	64,737
Payments	(34,277	) (99,645	) (117,921
Balance, end of period	\$692,053	\$710,245	\$668,100

In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable. As reflected in Note 11, our receivables from insurance carriers totaled \$130.2 million and \$60.6 million at December 31, 2015 and 2014, respectively. The increase in insurance receivables resulted from the continued progression of insured construction defect claims. 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. Additionally, we are the plaintiff in litigation with certain of our insurance carriers relating to a large portion of the insurance receivables balance. We believe collection of these insurance receivables is probable based on the legal merits of our positions, favorable legal rulings received to date, 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.

13. 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.

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2015

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	\$—	\$638,602	\$115,559	\$—	\$754,161
Restricted cash	—	20,274	1,000	—	21,274
House and land inventory	—	5,450,058	—	—	5,450,058
Land held for sale	—	80,458	1,034	—	81,492
Residential mortgage loans available- for-sale	—	—	442,715	—	442,715
Investments in unconsolidated entities	93	36,499	4,675	—	41,267
Other assets	49,255	531,120	90,724	—	671,099
Intangible assets	—	110,215	—	—	110,215
Deferred tax assets, net	1,392,251	11	2,617	—	1,394,879
Investments in subsidiaries and intercompany accounts, net	5,529,606	465,644	6,293,018	(12,288,268)	—
	\$6,971,205	\$7,332,881	\$6,951,342	\$(12,288,268)	\$8,967,160
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	\$70,061	\$1,558,885	\$169,193	\$—	\$1,798,139
Income tax liabilities	57,050	—	—	—	57,050
Financial Services debt	—	—	267,877	—	267,877
Term loan	500,000	—	—	—	500,000
Senior notes	1,584,769	—	—	—	1,584,769
Total liabilities	2,211,880	1,558,885	437,070	—	4,207,835
Total shareholders' equity	4,759,325	5,773,996	6,514,272	(12,288,268)	4,759,325
	\$6,971,205	\$7,332,881	\$6,951,342	\$(12,288,268)	\$8,967,160

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2014

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	\$7,454	\$1,157,307	\$128,101	\$—	\$1,292,862
Restricted cash	3,710	1,513	11,135	—	16,358
House and land inventory	—	4,391,445	655	—	4,392,100
Land held for sale	—	100,156	1,034	—	101,190
Residential mortgage loans available-	—	—	339,531	—	339,531
for-sale					
Securities purchased under agreements to resell	22,000	—	(22,000)	—	—
Investments in unconsolidated entities	74	36,126	4,168	—	40,368
Other assets	34,214	451,331	57,673	—	543,218
Intangible assets	—	123,115	—	—	123,115
Deferred tax assets, net	1,712,853	15	7,800	—	1,720,668
Investments in subsidiaries and intercompany accounts, net	4,963,831	967,032	6,359,441	(12,290,304)	—
	\$6,744,136	\$7,228,040	\$6,887,538	\$(12,290,304)	\$8,569,410
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits,	\$71,874	\$1,514,954	\$170,104	\$—	\$1,756,932
accrued and other liabilities					
Income tax liabilities	48,747	(25)	—	—	48,722
Financial Services debt	—	—	140,241	—	140,241
Senior notes	1,818,561	—	—	—	1,818,561
Total liabilities	1,939,182	1,514,929	310,345	—	3,764,456
Total shareholders' equity	4,804,954	5,713,111	6,577,193	(12,290,304)	4,804,954
	\$6,744,136	\$7,228,040	\$6,887,538	\$(12,290,304)	\$8,569,410

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31, 2015

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$5,792,675	\$—	\$—	\$5,792,675
Land sale revenues	—	48,536	—	—	48,536
	—	5,841,211	—	—	5,841,211
Financial Services	—	1	140,752	—	140,753
	—	5,841,212	140,752	—	5,981,964
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	4,440,893	—	—	4,440,893
Land sale cost of revenues	—	35,858	—	—	35,858
	—	4,476,751	—	—	4,476,751
Financial Services expenses	313	(276)	82,010	—	82,047
Selling, general, and administrative expenses	3	585,870	3,907	—	589,780
Other expense, net	760	17,424	(821)	—	17,363
Intercompany interest	2,110	7,922	(10,032)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(3,186)	753,521	65,688	—	816,023
Income tax expense (benefit)	(1,210)	297,485	25,658	—	321,933
Income (loss) before equity in income (loss) of subsidiaries	(1,976)	456,036	40,030	—	494,090
Equity in income (loss) of subsidiaries	496,066	40,484	411,699	(948,249)	—
Net income (loss)	494,090	496,520	451,729	(948,249)	494,090
Other comprehensive income (loss)	81	—	—	—	81
Comprehensive income (loss)	\$494,171	\$496,520	\$451,729	\$(948,249)	\$494,171

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31, 2014

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$5,662,171	\$—	\$—	\$5,662,171
Land sale revenues	—	34,554	—	—	34,554
	—	5,696,725	—	—	5,696,725
Financial Services	—	889	124,749	—	125,638
	—	5,697,614	124,749	—	5,822,363
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	4,343,249	—	—	4,343,249
Land sale cost of revenues	—	23,748	—	—	23,748
	—	4,366,997	—	—	4,366,997
Financial Services expenses	784	(130)	70,403	—	71,057
Selling, general, and administrative expenses	—	661,308	6,507	—	667,815
Other expense, net	9,026	16,847	863	—	26,736
Intercompany interest	9,800	(90)	(9,710)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(19,610)	652,682	56,686	—	689,758
Income tax expense (benefit)	(7,473)	201,332	21,561	—	215,420
Income (loss) before equity in income (loss) of subsidiaries	(12,137)	451,350	35,125	—	474,338
Equity in income (loss) of subsidiaries	486,475	38,534	403,505	(928,514)	—
Net income (loss)	474,338	489,884	438,630	(928,514)	474,338
Other comprehensive income (loss)	105	—	—	—	105
Comprehensive income (loss)	\$474,443	\$489,884	\$438,630	\$(928,514)	\$474,443

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

For the year ended December 31, 2013

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	\$—	\$5,424,309	\$—	\$—	\$5,424,309
Land sale revenues	—	114,335	—	—	114,335
	—	5,538,644	—	—	5,538,644
Financial Services	—	2,353	138,598	—	140,951
	—	5,540,997	138,598	—	5,679,595
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	4,310,528	—	—	4,310,528
Land sale cost of revenues	—	104,426	—	—	104,426
	—	4,414,954	—	—	4,414,954
Financial Services expenses	832	970	90,440	—	92,242
Selling, general, and administrative expenses	—	573,904	(5,404)	—	568,500
Other expense (income), net	28,694	43,944	3,439	—	76,077
Intercompany interest	17,518	(8,260)	(9,258)	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(47,044)	515,485	59,381	—	527,822
Income tax expense (benefit)	(2,113,827)	(799)	22,332	—	(2,092,294)
Income (loss) before equity in income (loss) of subsidiaries	2,066,783	516,284	37,049	—	2,620,116
Equity in income (loss) of subsidiaries	553,333	35,086	485,400	(1,073,819)	—
Net income (loss)	2,620,116	551,370	522,449	(1,073,819)	2,620,116
Other comprehensive income (loss)	197	—	—	—	197
Comprehensive income (loss)	\$2,620,313	\$551,370	\$522,449	\$(1,073,819)	\$2,620,313

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	\$ 184,033	\$ (449,701)	\$ (82,461)	\$—	\$ (348,129)
Cash flows from investing activities:					
Net change in loans held for investment	—	—	8,664	—	8,664
Change in restricted cash related to letters of credit	3,710	—	—	—	3,710
Capital expenditures	—	(41,857)	(3,583)	—	(45,440)
Other investing activities, net	—	1,937	275	—	2,212
Net cash provided by (used in) investing activities	3,710	(39,920)	5,356	—	(30,854)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	127,636	—	127,636
Proceeds from debt issuance	500,000	—	—	—	500,000
Repayments of debt	(237,995)	(1,198)	—	—	(239,193)
Borrowings under revolving credit facility	125,000	—	—	—	125,000
Repayments under revolving credit facility	(125,000)	—	—	—	(125,000)
Stock option exercises	10,535	—	—	—	10,535
Share repurchases	(442,738)	—	—	—	(442,738)
Dividends paid	(115,958)	—	—	—	(115,958)
Intercompany activities, net	90,959	(27,886)	(63,073)	—	—
Net cash provided by (used in) financing activities	(195,197)	(29,084)	64,563	—	(159,718)
Net increase (decrease) in cash and equivalents	(7,454)	(518,705)	(12,542)	—	(538,701)
Cash and equivalents at beginning of year	7,454	1,157,307	128,101	—	1,292,862
Cash and equivalents at end of year	\$—	\$638,602	\$115,559	\$—	\$ 754,161

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2014

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	\$206,485	\$175,415	\$(72,651)	) \$—	\$309,249
Cash flows from investing activities:					
Net change in loans held for investment	—	—	335	—	335
Change in restricted cash related to letters of credit	54,989	—	—	—	54,989
Capital expenditures	—	(44,956)	) (3,834)	) —	(48,790)
Cash used for business acquisitions	—	(82,419)	) —	—	(82,419)
Other investing activities, net	—	8,274	(13)	) —	8,261
Net cash provided by (used in) investing activities	54,989	(119,101)	) (3,512)	) —	(67,624)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	34,577	—	34,577
Repayments of debt	(249,765)	) (866)	) —	—	(250,631)
Stock option exercises	15,627	—	—	—	15,627
Share repurchases	(253,019)	) —	—	—	(253,019)
Dividends paid	(75,646)	) —	—	—	(75,646)
Intercompany activities, net	46,419	(87,140)	) 40,721	—	—
Net cash provided by (used in) financing activities	(516,384)	) (88,006)	) 75,298	—	(529,092)
Net increase (decrease) in cash and equivalents	(254,910)	) (31,692)	) (865)	) —	(287,467)
Cash and equivalents at beginning of year	262,364	1,188,999	128,966	—	1,580,329
Cash and equivalents at end of year	\$7,454	\$1,157,307	\$128,101	\$—	\$1,292,862

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

CONSOLIDATING STATEMENT OF CASH FLOWS

For the year ended December 31, 2013

(\$000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	\$(41)	\$865,267	\$15,910	\$—	\$881,136
Cash flows from investing activities:					
Net change in loans held for investment	—	—	(12,265)	—	(12,265)
Change in restricted cash related to letters of credit	(4,152)	—	—	—	(4,152)
Capital expenditures	—	(26,472)	(2,427)	—	(28,899)
Other investing activities, net	—	(661)	—	—	(661)
Net cash provided by (used in) investing activities	(4,152)	(27,133)	(14,692)	—	(45,977)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	(33,131)	—	(33,131)
Repayments of debt	(485,048)	5,221	—	—	(479,827)
Stock option exercises	19,411	—	—	—	19,411
Share repurchases	(127,661)	—	—	—	(127,661)
Dividends paid	(38,382)	—	—	—	(38,382)
Intercompany activities, net	752,069	(718,299)	(33,770)	—	—
Net cash provided by (used in) financing activities	120,389	(713,078)	(66,901)	—	(659,590)
Net increase (decrease) in cash and equivalents	116,196	125,056	(65,683)	—	175,569
Cash and equivalents at beginning of year	146,168	1,063,943	194,649	—	1,404,760
Cash and equivalents at end of year	\$262,364	\$1,188,999	\$128,966	\$—	\$1,580,329

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Quarterly results (unaudited)

UNAUDITED QUARTERLY INFORMATION

(000's omitted, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total (a)
2015					
Homebuilding:					
Revenues	\$1,105,700	\$1,249,537	\$1,467,780	\$2,018,194	\$5,841,211
Cost of revenues	854,523	958,592	1,122,175	1,541,461	4,476,751
Income before income taxes (b)	90,748	157,640	164,911	344,019	757,317
Financial Services:					
Revenues	\$27,598	\$30,754	\$38,967	\$43,434	\$140,753
Income before income taxes (c)	5,057	9,987	14,365	29,297	58,706
Consolidated results:					
Revenues	\$1,133,298	\$1,280,291	\$1,506,747	\$2,061,628	\$5,981,964
Income before income taxes	95,805	167,627	179,276	373,315	816,023
Income tax expense	40,834	64,303	71,507	145,288	321,933
Net income	\$54,971	\$103,324	\$107,769	\$228,027	\$494,090
Net income per share:					
Basic	\$0.15	\$0.28	\$0.31	\$0.65	\$1.38
Diluted	\$0.15	\$0.28	\$0.30	\$0.64	\$1.36
Number of shares used in calculation:					
Basic	366,748	361,009	350,147	348,699	356,576
Effect of dilutive securities	3,362	3,232	3,225	3,047	3,217
Diluted	370,110	364,241	353,372	351,746	359,793

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

(b) Homebuilding income before income taxes includes reserve reversals resulting from a legal settlement (see Note 12) of \$26.9 million and \$5.7 million in the 2nd and 3rd Quarters, respectively; a charge of \$20.0 million in the 3rd Quarter related to the Applecross matter (see Note 12); and \$29.6 million relating to decreased general liability insurance reserves in the 4th Quarter.

(c) Financial Services expenses in the 4th Quarter includes a reduction in loan origination liabilities totaling \$11.8 million..

PULTEGROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

UNAUDITED QUARTERLY INFORMATION

(000's omitted, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total (a)
2014					
Homebuilding:					
Revenues	\$1,093,999	\$1,254,989	\$1,561,273	\$1,786,464	\$5,696,725
Cost of revenues	833,614	959,524	1,198,908	1,374,951	4,366,997
Income before income taxes (b)	108,435	58,573	214,051	254,118	635,177
Financial Services:					
Revenues	\$24,895	\$31,198	\$33,452	\$36,093	\$125,638
Income before income taxes (c)	21,594	9,108	10,877	13,002	54,581
Consolidated results:					
Revenues	\$1,118,894	\$1,286,187	\$1,594,725	\$1,822,557	\$5,822,363
Income before income taxes	130,029	67,681	224,928	267,120	689,758
Income tax expense (benefit) (d)	55,210	25,801	84,383	50,025	215,420
Net income	\$74,819	\$41,880	\$140,545	\$217,095	\$474,338
Net income per share:					
Basic	\$0.19	\$0.11	\$0.37	\$0.58	\$1.27
Diluted	\$0.19	\$0.11	\$0.37	\$0.58	\$1.26
Number of shares used in calculation:					
Basic	383,991	376,072	373,531	369,533	370,377
Effect of dilutive securities	3,815	3,592	3,761	3,734	3,725
Diluted	387,806	379,664	377,292	373,267	374,102

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

(a) Homebuilding income before income taxes includes losses on debt retirement of \$8.6 million in the 1st Quarter; charges of \$84.5 million to increase general liability insurance reserves in the 2nd Quarter; and costs associated with the relocation of our corporate headquarters of \$8.7 million, offset by favorable adjustments of \$15.2 million to decrease general liability insurance reserves in the 4th Quarter.

(b) Financial Services expenses in the 1st Quarter includes a reduction in loan origination liabilities totaling \$18.6 million.

(c) Income tax expense in the 4th Quarter includes a benefit of \$49.6 million related to the resolution of certain tax matters and the reversal of valuation allowance related to certain state deferred tax assets.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PulteGroup, Inc.

We have audited the accompanying consolidated balance sheets of PulteGroup, Inc. (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PulteGroup, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PulteGroup, Inc.’s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 8, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 8, 2016

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

This Item is not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, including our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2015. Based upon, and as of the date of that evaluation, our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2015.

Internal Control Over Financial Reporting

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

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

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

In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2015. Management's assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on this assessment, management asserts that the Company has maintained effective internal control over financial reporting as of December 31, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this annual report, has issued its report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015.

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PulteGroup, Inc.

We have audited PulteGroup, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). PulteGroup, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, PulteGroup, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PulteGroup, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 8, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 8, 2016

(c)Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

This Item is not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item with respect to our executive officers is set forth in Item 4A of this Annual Report on Form 10-K. Information required by this Item with respect to members of our Board of Directors and with respect to our audit committee will be contained in the Proxy Statement for the 2016 Annual Meeting of Shareholders (“2016 Proxy Statement”) under the captions “Election of Directors” and “Committees of the Board of Directors - Audit Committee” and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2016 Proxy Statement under the caption “Beneficial Security Ownership - Section 16(a) Beneficial Ownership Reporting Compliance,” and is incorporated herein by this reference. Information required by this Item with respect to our code of ethics will be contained in the 2016 Proxy Statement under the caption “Corporate Governance - Governance Guidelines; Code of Ethical Business Conduct; Code of Ethics” and is incorporated herein by this reference.

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

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “2015 Executive Compensation” and “2015 Director Compensation” and is incorporated herein by this reference, provided that the Compensation and Management Development Committee Report shall not be deemed to be “filed” with this Annual Report on Form 10-K.

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

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Beneficial Security Ownership” and “Equity Compensation Plan Information” and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Election of Directors - Independence” and is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Audit and Non-Audit Fees” and “Audit Committee Preapproval Policies” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

<u>Consolidated Balance Sheets at December 31, 2015 and 2014</u>	<u>42</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2015, 2014, and 2013</u>	<u>43</u>
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013</u>	<u>44</u>
<u>Consolidated Statements of Shareholders' Equity for the years ended December 31, 2015, 2014, and 2013</u>	<u>45</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013</u>	<u>46</u>
<u>Notes to Consolidated Financial Statements</u>	<u>47</u>

(2) Financial Statement Schedules

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

(3) Exhibits

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

Exhibit Number and Description

- | | | |
|-----|-----|---|
| | | Asset Purchase Agreement, dated as of December 15, 2015, by and among JW Homes, LLC, JW Land |
| (2) | (a) | Investment, LLC and PulteGroup, Inc (Incorporated by reference to Exhibit 2.1 of our Current Report on Form 8-K filed with the SEC on December 17, 2015) |
| (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 3.1 of our Current Report on Form 8-K, filed with the SEC on April 8, 2009) |
| | (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 our Current Report on Form 8-K, filed with the SEC on March 15, 2013)

(10) (a) PulteGroup, Inc. 401(k) Plan (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-115570)

- (b) PulteGroup, Inc. 2002 Stock Incentive Plan (Incorporated by reference to our Proxy Statement dated April 3, 2002 and as Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-123223)
- (c) PulteGroup, Inc. 2008 Senior Management Incentive Plan (Incorporated by reference to our Proxy Statement dated April 7, 2008)
- (d) PulteGroup, Inc. 2013 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013)
- (e) PulteGroup, Inc. Long-Term Incentive Program (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
- (f) Form of PulteGroup, Inc. Long Term Incentive Award Agreement (Incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
- (g) Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Company Performance Measures (Incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
- (h) Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Individual Performance Measures (Incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
- (i) PulteGroup, Inc. 2013 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013)
- (j) PulteGroup, Inc. 2004 Stock Incentive Plan (as Amended and Restated as of July 9, 2009) (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009)
- (k) Form of Restricted Stock Unit Award Agreement under PulteGroup, Inc. 2013 Stock Incentive Plan (Incorporated by reference to Exhibit 10(c) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014)
- (l) Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
- (m) Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(p) of our Annual Report on Form 10-K for the year ended December 31, 2013)
- (n) Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2000 Stock Incentive Plan for Key Employees (Incorporated by reference to Exhibit 10(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
- (o) Form of Stock Option Agreement under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans (Incorporated by reference to Exhibit 10(s) of our Annual Report on Form 10-K for the year ended

December 31, 2007)

- (p) Form of Stock Option Agreement (as amended) under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans (Incorporated by reference to Exhibit 10(t) of our Annual Report on Form 10-K for the year ended December 31, 2007)
- (q) Form of Performance Share Award Agreement under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(w) of our Annual Report on Form 10-K for the year ended December 31, 2011)
- (r) PulteGroup, Inc. Long Term Compensation Deferral Plan (As Amended and Restated Effective January 1, 2004) (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)
- (s) PulteGroup, Inc. Deferred Compensation Plan for Non-Employee Directors (as Amended and Restated Effective December 8, 2009) (Incorporated by reference to Exhibit 10(al) of our Annual Report on Form 10-K for the year ended December 31, 2009)
- (t) Assignment and Assumption Agreement dated as of August 18, 2009 between PulteGroup, Inc. and Centex Corporation (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on August 20, 2009)

- (u) Form of Performance Award Agreement under PulteGroup, Inc. 2008 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012)
- (v) PulteGroup, Inc. Executive Severance Policy (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 12, 2013)
- (w) PulteGroup, Inc. Amended Retirement Policy (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015)
- (x) Credit Agreement dated as of July 23, 2014 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 Hereto (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014)
- (y) Term Loan Agreement, dated as of September 30, 2015, among the Company, Bank of America, N.A., as administrative agent, and the other lenders listed therein (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on October 5, 2015)
- (z) Amended and Restated Master Repurchase Agreement dated as of September 4, 2015, among Comerica Bank, as Agent, Lead Arranger and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on September 8, 2015)
- (aa) First Amendment to Master Repurchase Agreement dated as of December 10, 2015 among Comerica Bank, as Agent and a Buyer, the other Buyers party thereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on December 14, 2015)
- (12) Ratio of Earnings to Fixed Charges at December 31, 2015 (Filed herewith)
- (21) Subsidiaries of the Registrant (Filed herewith)
- (23) Consent of Independent Registered Public Accounting Firm (Filed herewith)
- (24) Power of Attorney (filed herewith)
- (31) (a) Rule 13a-14(a) Certification by Richard J. Dugas, Jr., Chairman, 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 (Filed 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

SIGNATURES

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

PULTEGROUP, INC.

(Registrant)

February 8, 2016

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

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

February 8, 2016

/s/ Richard J. Dugas, Jr.
Richard J. Dugas, Jr.
Chairman of the Board of
Directors, President, and Chief
Executive Officer
(Principal Executive Officer)

/s/ Robert T. O'Shaughnessy
Robert T. O'Shaughnessy
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ James L. Ossowski
James L. Ossowski
Vice President, Finance and
Controller
(Principal Accounting Officer)

Brian P. Anderson	Member of Board of Directors	}	
Bryce Blair	Member of Board of Directors	}	
Richard W. Dreiling	Member of Board of Directors	}	
Thomas J. Folliard	Member of Board of Directors	}	/s/ Robert T. O'Shaughnessy
Cheryl W. Grisé	Member of Board of Directors	}	Robert T. O'Shaughnessy
James Grosfeld	Member of Board of Directors	}	Executive Vice President and Chief Financial Officer
André J. Hawaux	Member of Board of Directors	}	
Debra J. Kelly-Ennis	Member of Board of Directors	}	
Patrick J. O'Leary	Member of Board of Directors	}	
James J. Postl	Member of Board of Directors	}	