

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

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2021

or

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

Commission File Number 1-9804

PULTEGROUP, INC.

(Exact name of registrant as specified in its charter)

Michigan
(State or other jurisdiction of
incorporation or organization)

38-2766606
(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Number of common shares outstanding as of April 20, 2021: 262,966,121

PULTEGROUP, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Cash and equivalents	\$ 1,579,586	\$ 2,582,205
Restricted cash	64,468	50,030
Total cash, cash equivalents, and restricted cash	1,644,054	2,632,235
House and land inventory	7,975,211	7,721,798
Land held for sale	31,796	27,962
Residential mortgage loans available-for-sale	495,049	564,979
Investments in unconsolidated entities	39,558	35,562
Other assets	969,437	923,270
Intangible assets	158,432	163,425
Deferred tax assets, net	132,204	136,267
	<u>\$ 11,445,741</u>	<u>\$ 12,205,498</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable	\$ 404,564	\$ 511,321
Customer deposits	589,634	449,474
Deferred tax liabilities	110,884	103,548
Accrued and other liabilities	1,352,629	1,407,043
Financial Services debt	270,819	411,821
Notes payable	2,031,937	2,752,302
	4,760,467	5,635,509
Shareholders' equity	6,685,274	6,569,989
	<u>\$ 11,445,741</u>	<u>\$ 12,205,498</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2021	2020
Revenues:		
Homebuilding		
Home sale revenues	\$ 2,596,510	\$ 2,221,503
Land sale and other revenues	27,159	18,927
	<u>2,623,669</u>	<u>2,240,430</u>
Financial Services	106,122	54,550
Total revenues	<u>2,729,791</u>	<u>2,294,980</u>
Homebuilding Cost of Revenues:		
Home sale cost of revenues	(1,935,635)	(1,694,865)
Land sale and other cost of revenues	(24,636)	(15,014)
	<u>(1,960,271)</u>	<u>(1,709,879)</u>
Financial Services expenses	(39,674)	(34,949)
Selling, general, and administrative expenses	(271,686)	(263,669)
Loss on debt retirement	(61,469)	—
Goodwill impairment	—	(20,190)
Other expense, net	(2,639)	(2,524)
Income before income taxes	<u>394,052</u>	<u>263,769</u>
Income tax expense	(89,945)	(60,058)
Net income	<u>\$ 304,107</u>	<u>\$ 203,711</u>
Per share:		
Basic earnings	\$ 1.14	\$ 0.75
Diluted earnings	\$ 1.13	\$ 0.74
Cash dividends declared	\$ 0.14	\$ 0.12
Number of shares used in calculation:		
Basic	265,407	270,000
Effect of dilutive securities	605	1,218
Diluted	<u>266,012</u>	<u>271,218</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	March 31,	
	2021	2020
Net income	\$ 304,107	\$ 203,711
Other comprehensive income, net of tax:		
Change in value of derivatives	25	25
Other comprehensive income	25	25
Comprehensive income	<u>\$ 304,132</u>	<u>\$ 203,736</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>\$</u>				
Shareholders' equity, December 31, 2020	266,464	\$ 2,665	\$ 3,261,412	\$ (145)	\$ 3,306,057	\$ 6,569,989
Stock option exercises	1	—	11	—	—	11
Share issuances	505	5	4,176	—	—	4,181
Dividends declared	—	—	—	—	(37,325)	(37,325)
Share repurchases	(3,333)	(34)	—	—	(153,669)	(153,703)
Cash paid for shares withheld for taxes	—	—	—	—	(10,566)	(10,566)
Share-based compensation	—	—	8,555	—	—	8,555
Net income	—	—	—	—	304,107	304,107
Other comprehensive income	—	—	—	25	—	25
Shareholders' equity, March 31, 2021	263,637	\$ 2,636	\$ 3,274,154	\$ (120)	\$ 3,408,604	\$ 6,685,274
Shareholders' equity, December 31, 2019	270,235	\$ 2,702	\$ 3,235,149	\$ (245)	\$ 2,220,574	\$ 5,458,180
Cumulative effect of accounting change (see Note 1)	—	—	—	—	(735)	(735)
Stock option exercises	1	—	51	—	—	51
Share issuances	738	7	4,088	—	—	4,095
Dividends declared	—	—	—	—	(32,609)	(32,609)
Share repurchases	(2,825)	(28)	—	—	(95,648)	(95,676)
Cash paid for shares withheld for taxes	—	—	—	—	(14,838)	(14,838)
Share-based compensation	—	—	8,187	—	—	8,187
Net income	—	—	—	—	203,711	203,711
Other comprehensive income	—	—	—	25	—	25
Shareholders' equity, March 31, 2020	268,149	\$ 2,681	\$ 3,247,475	\$ (220)	\$ 2,280,455	\$ 5,530,391

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 304,107	\$ 203,711
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income tax expense	11,391	19,955
Land-related charges	1,368	9,729
Loss on debt retirement	61,469	—
Goodwill impairment	—	20,190
Depreciation and amortization	17,142	15,149
Share-based compensation expense	11,630	11,479
Other, net	(687)	(903)
Increase (decrease) in cash due to:		
Inventories	(243,947)	(189,364)
Residential mortgage loans available-for-sale	69,930	145,113
Other assets	(54,303)	(3,534)
Accounts payable, accrued and other liabilities	(1,352)	(26,910)
Net cash provided by (used in) operating activities	176,748	204,615
Cash flows from investing activities:		
Capital expenditures	(14,752)	(20,139)
Investments in unconsolidated entities	(8,169)	(663)
Distributions of capital from unconsolidated entities	5,000	6,500
Business acquisition	(10,400)	(83,200)
Other investing activities, net	698	1,706
Net cash provided by (used in) investing activities	(27,623)	(95,796)
Cash flows from financing activities:		
Repayments of notes payable	(794,435)	(9,245)
Borrowings under revolving credit facility	—	700,000
Financial Services borrowings (repayments), net	(141,002)	(56,573)
Stock option exercises	11	50
Share repurchases	(153,703)	(95,676)
Cash paid for shares withheld for taxes	(10,566)	(14,838)
Dividends paid	(37,611)	(32,740)
Net cash provided by (used in) financing activities	(1,137,306)	490,978
Net increase (decrease) in cash, cash equivalents, and restricted cash	(988,181)	599,797
Cash, cash equivalents, and restricted cash at beginning of period	2,632,235	1,251,456
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,644,054</u>	<u>\$ 1,851,253</u>
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	\$ 17,368	\$ 14,019
Income taxes paid (refunded), net	<u>\$ 15,574</u>	<u>\$ 5,540</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Basis of presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Use of estimates

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

Subsequent events

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

Business acquisition

On January 24, 2020, we acquired the operations of Innovative Construction Group ("ICG"), an offsite construction framing company located in Jacksonville, Florida, for \$104.0 million, of which \$83.2 million and \$10.4 million was paid in January 2020 and 2021, respectively, while an additional payment of \$10.4 million will be settled in 2022. The acquired net assets were recorded at their estimated fair values, including intangible assets of \$27.8 million associated with customer relationships and \$1.8 million associated with the ICG tradename, which are being amortized over seven- and five-year useful lives, respectively, and \$48.7 million of goodwill. The acquisition of these assets was not material to our results of operations or financial condition.

Goodwill impairment

In accordance with ASC 350, management evaluates the recoverability of goodwill by comparing the carrying value of the Company's reporting units to their fair value. Fair value is determined using accepted valuation methods, including the use of discounted cash flows supplemented by market-based assessments. As a result of the significant decline in equity market valuations that occurred during the period between our acquisition of ICG in January 2020 and March 31, 2020, we determined that an event-driven goodwill impairment test was appropriate for the ICG goodwill, which resulted in an impairment totaling \$20.2 million in the first quarter of 2020. This impairment was not the result of any unique factors specific to ICG's operations but, rather, reflected the broad-based declines in the market capitalizations of publicly-traded construction companies in the short period of time between the acquisition and the March 31, 2020 valuation date.

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

Other expense, net

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

	Three Months Ended	
	March 31,	
	2021	2020
Write-offs of deposits and pre-acquisition costs	\$ (1,368)	\$ (4,332)
Amortization of intangible assets	(4,992)	(4,557)
Interest income	631	3,807
Interest expense	(135)	(797)
Equity in earnings of unconsolidated entities	827	567
Miscellaneous, net	2,398	2,788
Total other expense, net	<u>\$ (2,639)</u>	<u>\$ (2,524)</u>

Revenue recognition

Home sale revenues - Home sale revenues and related profit are generally recognized when title to and possession of the home are transferred to the buyer, and our performance obligation to deliver the agreed-upon home is generally satisfied at the home closing date. Home sale contract assets consist of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit and classified as cash. Contract liabilities include customer deposits related to sold but undelivered homes, which totaled \$589.6 million and \$449.5 million at March 31, 2021 and December 31, 2020, respectively. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. See [Note 8](#) for information on warranties and related obligations.

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

Financial Services revenues - 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. Mortgage servicing fees represent fees earned for servicing loans. Servicing fees are based on a contractual percentage of the outstanding principal balance and are credited to income when related mortgage payments are received.

Revenues associated with our title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed. Insurance brokerage commissions relate to commissions on homeowner and other insurance policies placed with third party carriers through various agency channels. Our performance obligations for policy renewal commissions are considered satisfied upon issuance of the initial policy, and related contract assets for estimated future renewal commissions are included in other assets and totaled \$39.4 million and \$38.5 million at March 31, 2021 and December 31, 2020, respectively.

Earnings per share

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

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

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

	Three Months Ended	
	March 31,	
	2021	2020
Numerator:		
Net income	\$ 304,107	\$ 203,711
Less: earnings distributed to participating securities	(298)	(273)
Less: undistributed earnings allocated to participating securities	(2,154)	(1,537)
Numerator for basic earnings per share	<u>\$ 301,655</u>	<u>\$ 201,901</u>
Add back: undistributed earnings allocated to participating securities	2,154	1,537
Less: undistributed earnings reallocated to participating securities	(2,149)	(1,530)
Numerator for diluted earnings per share	<u>\$ 301,660</u>	<u>\$ 201,908</u>
Denominator:		
Basic shares outstanding	265,407	270,000
Effect of dilutive securities	605	1,218
Diluted shares outstanding	<u>266,012</u>	<u>271,218</u>
Earnings per share:		
Basic	\$ 1.14	\$ 0.75
Diluted	\$ 1.13	\$ 0.74

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. At March 31, 2021 and December 31, 2020, residential mortgage loans available-for-sale had an aggregate fair value of \$495.0 million and \$565.0 million, respectively, and an aggregate outstanding principal balance of \$481.5 million and \$539.1 million, respectively. Net gains from the sale of mortgages were \$77.4 million and \$30.9 million in the three months ended March 31, 2021 and 2020, respectively, and have been included in Financial Services revenues.

Derivative instruments and hedging activities

We are party to interest rate lock commitments ("IRLCs") with customers resulting from our mortgage origination operations. At March 31, 2021 and December 31, 2020, we had aggregate IRLCs of \$598.0 million and \$367.2 million, respectively, which were originated at interest rates prevailing at the date of commitment. Since we can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements. We evaluate the creditworthiness of these transactions through our normal credit policies.

We hedge our exposure to interest rate market risk relating to residential mortgage loans available-for-sale and IRLCs using forward contracts on mortgage-backed securities, which are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price, and whole loan investor commitments, which are obligations of an

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

investor to buy loans at a specified price within a specified time period. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. At March 31, 2021 and December 31, 2020, we had unexpired forward contracts of \$887.0 million and \$686.4 million, respectively, and whole loan investor commitments of \$160.5 million and \$169.6 million, respectively. Changes in the fair value of IRLCs and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

There are no credit-risk-related contingent features within our derivative agreements, and counterparty risk is considered minimal. Gains and losses on IRLCs and residential mortgage loans available-for-sale are substantially offset by corresponding gains or losses on forward contracts on mortgage-backed securities and whole loan investor commitments. We are generally not exposed to variability in cash flows of derivative instruments for more than approximately 60 days. The fair values of derivative instruments and their locations in the Condensed Consolidated Balance Sheets are summarized below (\$000's omitted):

	March 31, 2021		December 31, 2020	
	Other Assets	Accrued and Other Liabilities	Other Assets	Accrued and Other Liabilities
Interest rate lock commitments	\$ 17,374	\$ 126	\$ 16,179	\$ 18
Forward contracts	14,011	295	501	5,937
Whole loan commitments	1,499	132	168	666
	<u>\$ 32,884</u>	<u>\$ 553</u>	<u>\$ 16,848</u>	<u>\$ 6,621</u>

Credit losses

We are exposed to credit losses primarily through our vendors and insurance carriers. We assess and monitor each counterparty's ability to pay amounts owed by considering contractual terms and conditions, the counterparty's financial condition, macroeconomic factors, and business strategy.

At March 31, 2021 and December 31, 2020, we reported \$186.4 million and \$176.2 million of assets in-scope under Accounting Standards Codification 326, "Financial Instruments - Credit Losses" ("ASC 326"). These assets consist primarily of insurance receivables, contract assets related to insurance brokerage commissions, and vendor rebate receivables. Counterparties associated with these assets are generally highly rated. Allowances on the aforementioned in-scope assets were not material as of March 31, 2021.

New accounting pronouncements

On January 1, 2021, we adopted ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. Our adoption of ASU 2019-12 did not have a material impact on our financial statements.

On January 1, 2020, we adopted ASC 326, which changed the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. We adopted ASC 326 using the modified retrospective transition method. The amendment requires entities to consider a broader range of information to estimate expected credit losses, which may result in earlier recognition of losses. Our adoption of ASC 326 resulted in a \$0.7 million decrease to retained earnings as of January 1, 2020.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment", which removed the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, goodwill impairment is determined by evaluating the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. We adopted the standard for annual and interim periods beginning January 1, 2020, and the standard was followed in the previously mentioned assessment of the ICG goodwill.

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

2. Inventory

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

	March 31, 2021	December 31, 2020
Homes under construction	\$ 3,594,406	\$ 3,086,740
Land under development	3,913,349	4,137,318
Raw land	467,456	497,740
	<u>\$ 7,975,211</u>	<u>\$ 7,721,798</u>

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

	Three Months Ended March 31,	
	2021	2020
Interest in inventory, beginning of period	\$ 193,409	\$ 210,383
Interest capitalized	34,627	39,913
Interest expensed	(34,684)	(36,871)
Interest in inventory, end of period	<u>\$ 193,352</u>	<u>\$ 213,425</u>

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.

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 March 31, 2021 or December 31, 2020 because we determined that we were not the VIEs' primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the land option agreements. The following provides a summary of our interests in land option agreements as of March 31, 2021 and December 31, 2020 (\$000's omitted):

	March 31, 2021		December 31, 2020	
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Deposits and Pre-acquisition Costs	Remaining Purchase Price
Land options with VIEs	\$ 142,771	\$ 1,844,131	\$ 126,900	\$ 1,586,551
Other land options	177,049	2,460,589	164,964	2,187,017
	<u>\$ 319,820</u>	<u>\$ 4,304,720</u>	<u>\$ 291,864</u>	<u>\$ 3,773,568</u>

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

Land-related charges

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

		Three Months Ended	
		March 31,	
	Statement of Operations Classification	2021	2020
Land impairments	Home sale cost of revenues	\$ —	\$ 5,386
Net realizable value ("NRV") adjustments - land held for sale	Land sale and other cost of revenues	—	11
Write-offs of deposits and pre-acquisition costs	Other expense, net	1,368	4,332
		<u>\$ 1,368</u>	<u>\$ 9,729</u>

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

3. Segment information

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

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

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

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Operating Data by Segment (\$000's omitted)		
Three Months Ended		
March 31,		
	2021	2020
Revenues:		
Northeast	\$ 176,467	\$ 162,434
Southeast	436,779	382,394
Florida	625,241	506,689
Midwest	366,814	292,169
Texas	374,121	344,738
West	644,247	552,006
	2,623,669	2,240,430
Financial Services	106,122	54,550
Consolidated revenues	\$ 2,729,791	\$ 2,294,980
Income (loss) before income taxes:		
Northeast	\$ 25,894	\$ 18,609
Southeast	71,322	54,744
Florida (a)	101,208	55,333
Midwest	52,864	31,462
Texas	65,648	53,595
West	98,832	67,255
Other homebuilding (b)	(88,064)	(36,780)
	327,704	244,218
Financial Services	66,348	19,551
Consolidated income before income taxes	\$ 394,052	\$ 263,769

(a) Includes goodwill impairment charge totaling \$20.2 million (see [Note 1](#)) in the three months ended March 31, 2020.

(b) Other homebuilding includes the amortization of intangible assets and capitalized interest and other items not allocated to the operating segments. Other homebuilding also includes a loss on debt retirement of \$61.5 million in the three months ended March 31, 2021 (see [Note 4](#)).

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

Three Months Ended

March 31,

	2021	2020
Land-related charges (a):		
Northeast	\$ 116	\$ 4,753
Southeast	456	748
Florida	131	522
Midwest	54	777
Texas	527	656
West	84	1,529
Other homebuilding	—	744
	<u>\$ 1,368</u>	<u>\$ 9,729</u>

(a) Land-related charges include land impairments, NRV adjustments on land held for sale, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue.

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

March 31, 2021

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$ 384,606	\$ 236,846	\$ 41,641	\$ 663,093	\$ 766,691
Southeast	532,643	623,668	74,107	1,230,418	1,346,886
Florida	733,612	890,080	83,806	1,707,498	2,036,755
Midwest	421,833	389,098	16,556	827,487	949,539
Texas	413,218	417,342	114,603	945,163	1,040,459
West	1,053,317	1,123,844	122,283	2,299,444	2,582,835
Other homebuilding (a)	55,177	232,471	14,460	302,108	2,073,987
	3,594,406	3,913,349	467,456	7,975,211	10,797,152
Financial Services	—	—	—	—	648,589
	<u>\$ 3,594,406</u>	<u>\$ 3,913,349</u>	<u>\$ 467,456</u>	<u>\$ 7,975,211</u>	<u>\$ 11,445,741</u>

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Operating Data by Segment
(\$000's omitted)
December 31, 2020

	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	\$ 342,737	\$ 203,561	\$ 68,865	\$ 615,163	\$ 712,205
Southeast	465,950	645,408	69,937	1,181,295	1,296,382
Florida	638,394	921,962	116,709	1,677,065	1,967,788
Midwest	364,839	424,169	18,173	807,181	911,984
Texas	354,256	458,893	66,024	879,173	955,436
West	874,673	1,212,730	142,380	2,229,783	2,519,724
Other homebuilding (a)	45,891	270,595	15,652	332,138	3,149,871
	3,086,740	4,137,318	497,740	7,721,798	11,513,390
Financial Services	—	—	—	—	692,108
	\$ 3,086,740	\$ 4,137,318	\$ 497,740	\$ 7,721,798	\$ 12,205,498

(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.

4. Debt

Notes payable

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

	March 31, 2021	December 31, 2020
4.250% unsecured senior notes due March 2021 (a)	\$ —	\$ 425,954
5.500% unsecured senior notes due March 2026 (a)	500,000	700,000
5.000% unsecured senior notes due January 2027 (a)	500,000	600,000
7.875% unsecured senior notes due June 2032 (a)	300,000	300,000
6.375% unsecured senior notes due May 2033 (a)	400,000	400,000
6.000% unsecured senior notes due February 2035 (a)	300,000	300,000
Net premiums, discounts, and issuance costs (b)	(12,222)	(13,750)
Total senior notes	1,987,778	2,712,204
Other notes payable	44,159	40,098
Notes payable	\$ 2,031,937	\$ 2,752,302
Estimated fair value	\$ 2,507,209	\$ 3,415,662

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

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

In the three months ended March 31, 2021, we accelerated the retirement of \$200.0 million and \$100.0 million of our unsecured notes scheduled to mature in 2026 and 2027, respectively, through a cash tender offer. The retirement resulted in a loss of \$61.5 million, which includes the write-off of debt issuance costs, unamortized discounts and premiums, and transaction fees.

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Other notes payable include non-recourse and limited recourse secured notes with third parties that totaled \$44.2 million and \$40.1 million at March 31, 2021 and December 31, 2020, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and generally have no recourse to any other assets. The stated interest rates on these notes range up to 5.17%.

Revolving credit facility

We maintain a revolving credit facility (the "Revolving Credit Facility") maturing in June 2023 that has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at March 31, 2021. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. As a precautionary measure during the initial phase of the COVID-19 pandemic, we made the decision in March 2020 to draw \$700.0 million under the Revolving Credit Facility. In June 2020, we repaid the full outstanding balance of \$700.0 million. As a result, we had no borrowings outstanding at both March 31, 2021 and December 31, 2020, and \$235.7 million and \$249.7 million of letters of credit issued under the Revolving Credit Facility at March 31, 2021 and December 31, 2020, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2021, we were in compliance with all covenants. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$764.3 million and \$750.3 million at March 31, 2021 and December 31, 2020, respectively.

Financial Services debt

Pulte Mortgage maintains a master repurchase agreement with third party lenders (the "Repurchase Agreement") that matures on July 29, 2021. The maximum aggregate commitment was \$280.0 million at March 31, 2021 and increases to \$375.0 million on May 25, 2021, which continues through maturity. The purpose of the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$270.8 million and \$411.8 million outstanding under the Repurchase Agreement at March 31, 2021 and December 31, 2020, respectively, and was in compliance with all of its covenants and requirements as of such dates.

5. Shareholders' equity

In the three months ended March 31, 2021, we declared cash dividends totaling \$37.3 million and repurchased 3.3 million shares under our repurchase authorization for \$153.7 million. For the three months ended March 31, 2020, we declared cash dividends totaling \$32.6 million and repurchased 2.8 million shares under our repurchase authorization for \$95.7 million. At March 31, 2021, we had remaining authorization to repurchase \$201.2 million of common shares. On April 26, 2021, the Board of Directors approved an additional share repurchase authorization of \$1.0 billion.

Under our share-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of shares, generally related to the payment of minimum tax obligations. In the three months ended March 31, 2021 and 2020, participants surrendered shares valued at \$10.6 million and \$14.8 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

6. Income taxes

Our effective tax rate in the three months ended March 31, 2021 and March 31, 2020 was 22.8% in each period. Our effective tax rate differs from the federal statutory rate primarily due to state tax expense partially offset by benefits associated with federal energy efficient home credits and equity compensation.

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At March 31, 2021 and December 31, 2020, we had deferred tax assets, net of deferred tax liabilities and valuation allowance, of \$21.3 million and \$32.7 million, respectively. The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We had \$33.5 million and \$30.9 million of gross unrecognized tax benefits at March 31, 2021 and December 31, 2020, respectively. Additionally, we had accrued interest and penalties of \$3.2 million and \$2.8 million at March 31, 2021 and December 31, 2020, respectively.

7. Fair value disclosures

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

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

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

Financial Instrument	Fair Value Hierarchy	Fair Value	
		March 31, 2021	December 31, 2020
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	\$ 495,049	\$ 564,979
Interest rate lock commitments	Level 2	17,248	16,161
Forward contracts	Level 2	13,716	(5,436)
Whole loan commitments	Level 2	1,367	(498)
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	\$ —	\$ 582
Disclosed at fair value:			
Cash, cash equivalents, and restricted cash	Level 1	\$ 1,644,054	\$ 2,632,235
Financial Services debt	Level 2	270,819	411,821
Senior notes payable	Level 2	2,463,050	3,375,564
Other notes payable	Level 2	44,159	40,098

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

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Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair values included in the above table represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates.

The carrying amounts of cash and equivalents, Financial Services debt and other notes payable approximate their fair values due to their short-term nature and/or 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 \$2.0 billion and \$2.7 billion at March 31, 2021 and December 31, 2020, respectively.

8. Commitments and contingencies

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 \$235.7 million and \$1.6 billion, respectively, at March 31, 2021, and \$249.7 million and \$1.5 billion, respectively, at December 31, 2020. In the event any such letter of credit or surety bond is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. Our surety bonds generally do not have stated expiration dates; rather we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be drawn.

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 litigation, 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.

Product warranty

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

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	Three Months Ended	
	March 31,	
	2021	2020
Warranty liabilities, beginning of period	\$ 82,744	\$ 91,389
Reserves provided	17,344	15,039
Payments	(15,493)	(18,276)
Other adjustments	(788)	243
Warranty liabilities, end of period	\$ 83,807	\$ 88,395

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 us 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 our captive insurance subsidiaries represent self-insurance of these risks by us. A portion of 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 generally apply to our per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by insurance up to our purchased coverage levels. Our insurance policies, including the captive insurance subsidiaries' reinsurance policies, are maintained with highly-rated underwriters for whom we believe counterparty default risk is not significant.

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omissions, workers' compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time revenue is recognized for each home closing and periodically 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 \$653.1 million and \$641.8 million at March 31, 2021 and December 31, 2020, respectively. 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 67% and 68% of the total general liability reserves at March 31, 2021 and December 31, 2020, 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.

Housing market conditions can be volatile, 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 typically 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

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coverage available for each policy period also impacts our recorded reserves. Because of the inherent uncertainty in estimating future losses and the timing of such losses related to these claims, actual costs could differ significantly from estimated costs. Adjustments to reserves are recorded in the period in which the change in estimate occurs.

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

	Three Months Ended	
	March 31,	
	2021	2020
Balance, beginning of period	\$ 641,779	\$ 709,798
Reserves provided	19,542	18,449
Adjustments to previously recorded reserves	(6,082)	1,300
Payments, net (a)	(2,171)	(10,375)
Balance, end of period	<u>\$ 653,068</u>	<u>\$ 719,172</u>

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

Estimates of anticipated recoveries of our costs under various insurance policies or from subcontractors or other third parties are recorded when recovery is considered probable. Such receivables are recorded in other assets and totaled \$73.8 million and \$69.5 million at March 31, 2021 and December 31, 2020, respectively. Those receivables relate to costs incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of construction defect claims that we believe are insured. Given the complexity inherent with resolving construction defect claims in the homebuilding industry described above, there generally exists a significant lag between our payment of claims and our reimbursements from applicable insurance carriers or third parties. In addition, disputes between homebuilders and insurance carriers or third parties over coverage positions relating to construction defect claims are common. Resolution of claims involves the exchange of significant amounts of information and frequently involves legal action.

Leases

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

ROU assets are classified within other assets on the balance sheet, while lease liabilities are classified within accrued and other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets and lease liabilities were \$69.0 million and \$88.3 million at March 31, 2021, respectively, and \$71.3 million and \$91.4 million at December 31, 2020, respectively. In the three months ended March 31, 2021 and 2020, we recorded an additional \$1.1 million and \$9.6 million of lease liabilities under operating leases, respectively. Payments on lease liabilities in the three months ended March 31, 2021 and 2020, totaled \$5.3 million and \$5.9 million, respectively.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. In the three months ended March 31, 2021 and 2020, our total lease expense was \$10.2 million and \$9.9 million, respectively, inclusive of variable lease costs of \$1.9 million during both periods, as well as short-term lease costs of \$2.9 million and \$2.2 million, respectively. Sublease income was de minimis.

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The future minimum lease payments required under our leases as of March 31, 2021 were as follows (\$000's omitted):

Years Ending December 31,		
2021 (a)	\$	15,969
2022		22,646
2023		20,567
2024		14,374
2025		9,521
Thereafter		19,578
Total lease payments (b)		102,655
Less: Interest (c)		14,324
Present value of lease liabilities (d)	\$	88,331

- (a) Remaining payments are for the nine months ending December 31, 2021.
- (b) Lease payments include options to extend lease terms that are reasonably certain of being exercised. There were \$1.7 million of legally binding minimum lease payments for leases signed but not yet commenced at March 31, 2021.
- (c) Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.
- (d) The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 5.4 years and 5.6%, respectively, at March 31, 2021.

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

Overview

We continue to experience very strong demand for our products as new orders increased 31% in the first quarter of 2021 compared with the prior year period, including significant increases across each of our first-time, move-up, and active adult buyer groups and in substantially all of our geographical markets. The higher demand for new housing has been driven by mortgage interest rates near historical lows, a limited supply of new and existing home inventory, an increased appeal for homeownership and single-family living, and a desire among some buyers to exit more densely populated urban centers or to relocate from higher cost geographical regions.

While home closings increased 12% in the first quarter of 2021 compared with the prior year period, the increase continues to lag the growth in new orders in recent periods. This has combined to result in a 50% year-over-year increase in our order backlog. In part, this is the result of the normal timeline between receiving an order and delivering a home. However, we have also experienced periodic disruptions in our supply chain, including the availability of certain materials and construction labor combined with delays in municipal approvals and inspections, which has elongated the production cycle in many of our markets. We are also facing cost pressures related to labor and materials, especially lumber, although we have been and believe we will continue to be able to increase pricing to offset the majority of such cost increases due to the high consumer demand.

Despite the development of vaccines and more effective treatments for the physical impacts of COVID-19, there are no reliable estimates of how long the COVID-19 pandemic will last. Therefore, the unpredictability of the current economic and public health conditions will continue to evolve. However, all of our operations are now functioning at effectively full capacity subject to health and safety protocols, and, with expectations for a material acceleration in economic growth as the pandemic continues to recede, we remain optimistic about future housing demand and our ability to continue expanding our business.

Consolidated Operations

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

	Three Months Ended March 31,	
	2021	2020
Income before income taxes:		
Homebuilding	\$ 327,704	\$ 244,218
Financial Services	66,348	19,551
Income before income taxes	394,052	263,769
Income tax expense	(89,945)	(60,058)
Net income	\$ 304,107	\$ 203,711
Per share data - assuming dilution:		
Net income	\$ 1.13	\$ 0.74

- Homebuilding income before income taxes in the three months ended March 31, 2021 increased 34% compared with the same period in 2020 primarily due to increased closings, higher gross margins, and improved overhead leverage. This increase is partially offset by a loss on debt retirement of \$61.5 million in the three months ended March 31, 2021 (see [Note 4](#)). A goodwill impairment charge of \$20.2 million was recorded in the three months ended March 31, 2020 (see [Note 1](#)).
- Financial Services income before income taxes in the three months ended March 31, 2021 increased 239% compared with the same period in 2020 as the result of higher volumes, which largely resulted from increased homebuilding volumes combined with an improved capture rate and margin per loan.
- Our effective tax rate in the three months ended March 31, 2021 and 2020 was 22.8%.

Homebuilding Operations

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

	Three Months Ended March 31,		
	2021	2021 vs. 2020	2020
Home sale revenues	\$ 2,596,510	17 %	\$ 2,221,503
Land sale and other revenues	27,159	43 %	18,927
Total Homebuilding revenues	2,623,669	17 %	2,240,430
Home sale cost of revenues (a)	(1,935,635)	14 %	(1,694,865)
Land sale and other cost of revenues	(24,636)	64 %	(15,014)
Selling, general, and administrative expenses ("SG&A")	(271,686)	3 %	(263,669)
Loss on debt retirement	(61,469)	(b)	—
Goodwill impairment	—	(b)	(20,190)
Other expense, net	(2,539)	3 %	(2,474)
Income before income taxes	\$ 327,704	34 %	\$ 244,218
Supplemental data:			
Gross margin from home sales	25.5 %	180 bps	23.7 %
SG&A as a percentage of home sale revenues	10.5 %	(140) bps	11.9 %
Closings (units)	6,044	12 %	5,373
Average selling price	\$ 430	4 %	\$ 413
Net new orders (c):			
Units	9,852	31 %	7,495
Dollars	\$ 4,630,317	42 %	\$ 3,268,749
Cancellation rate	8 %		13 %
Average active communities	837	(4)%	873
Backlog at March 31:			
Units	18,966	50 %	12,629
Dollars	\$ 8,826,989	58 %	\$ 5,583,051

(a) Includes the amortization of capitalized interest.

(b) Percentage not meaningful.

(c) 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 in the three months ended March 31, 2021 were higher than the prior year period by \$375.0 million. This 17% increase was attributable to a 12% increase in closings combined with a 4% increase in average selling price. The increase in closings was primarily the result of favorable demand conditions. Beginning in March 2020, the COVID-19 pandemic began to unfavorably impact the demand environment. However, demand improved significantly beginning in June 2020 and has remained favorable entering 2021. The higher average selling price reflects the impact of pricing actions taken in response to the higher demand as well as increased input costs, partially offset by an increase in the mix of first-time buyer homes, which typically carry a lower sales price.

Home sale gross margins

Home sale gross margins were 25.5% in the three months ended March 31, 2021 compared to 23.7% in the three months ended March 31, 2020. Gross margins in the three months ended March 31, 2021 remained higher than recent levels and reflect a combination of factors, including: strong consumer demand, the low mortgage interest rate environment, and limited supplies of new and existing housing inventory. As a result, the pricing environment remains strong, which has allowed us to effectively manage pressure in house and land costs through pricing actions. While costs related to lumber remain at or near historical highs, and we are experiencing higher costs related to other materials, labor, and land acquisition and development, we have been able to more than offset these cost increases through price increases and improved operational efficiency.

Land sale and other revenues

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sale and other revenues and their related gains or losses vary between periods, depending on the timing of land sales and our strategic operating decisions. Land sales and other revenues contributed income of \$2.5 million in the three months ended March 31, 2021 compared to \$3.9 million in the three months ended March 31, 2020.

SG&A

SG&A as a percentage of home sale revenues was 10.5% in the three months ended March 31, 2021 compared with 11.9% in the three months ended March 31, 2020. The gross dollar amount of our SG&A increased \$8.0 million in the three months ended March 31, 2021 compared to March 31, 2020. The change in gross dollars in the three months ended March 31, 2021 resulted primarily from the higher production volume in the three months ended March 31, 2021 compared to the same period in 2020. The improvement in SG&A as a percentage of home sale revenues is primarily attributable to leverage gained from the higher revenues. We experienced lower insurance costs in the three months ended March 31, 2021 relative to the prior year period, but that was offset by higher incentive compensation accruals due to the Company's strong operating performance.

Other expense, net

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

	Three Months Ended March 31,	
	2021	2020
Write-offs of deposits and pre-acquisition costs	\$ (1,368)	\$ (4,332)
Amortization of intangible assets	(4,992)	(4,557)
Interest income	631	3,807
Interest expense	(135)	(797)
Equity in earnings of unconsolidated entities	827	567
Miscellaneous, net	2,498	2,838
Total other expense, net	<u>\$ (2,539)</u>	<u>\$ (2,474)</u>

Net new orders

Net new orders in units increased 31% while net new orders in dollars increased 42% in the three months ended March 31, 2021 as compared with the prior year period. The higher net new order volume in 2021 reflects favorable demand conditions as discussed above. The cancellation rate (canceled orders for the period divided by gross new orders for the period) was 8% in the three months ended March 31, 2021, compared to 13% for the same period in 2020. Ending backlog, which represents orders for homes that have not yet closed, increased 58% at March 31, 2021 compared with March 31, 2020. As discussed above, the higher backlog is primarily attributable to increased new orders, but we have also experienced production delays that have contributed to longer cycle times.

Homes in production

The following is a summary of our homes in production:

	March 31, 2021	March 31, 2020
Sold	12,930	8,955
Unsold		
Under construction	1,675	2,491
Completed	123	642
	1,798	3,133
Models	1,248	1,357
Total	15,976	13,445

The number of homes in production at March 31, 2021 was 19% higher than at March 31, 2020. The increase in homes under production is the result of the significant increase in demand and the resulting increase in the backlog of sold homes, coupled with slightly elongated cycle times due to supply chain delays for certain materials and labor and obtaining necessary approvals, permits, and inspections from local municipalities. Lower unsold inventory reflects the strong demand environment.

Controlled lots

The following is a summary of our lots under control at March 31, 2021 and December 31, 2020:

	March 31, 2021			December 31, 2020		
	Ow ned	Optioned	Controlled	Ow ned	Optioned	Controlled
Northeast	5,074	3,969	9,043	4,956	4,001	8,957
Southeast	15,298	22,130	37,428	15,051	18,248	33,299
Florida	19,824	28,717	48,541	20,737	24,396	45,133
Midwest	9,915	17,389	27,304	9,728	14,734	24,462
Texas	17,913	16,066	33,979	15,923	17,841	33,764
West	25,930	11,468	37,398	24,968	9,769	34,737
Total	93,954	99,739	193,693	91,363	88,989	180,352
Developed (%)	42 %	16 %	29 %	43 %	16 %	30 %

While competition for well-positioned land is robust, we continue to pursue land investments that we believe can achieve appropriate risk-adjusted returns on invested capital. Additionally, we continue to increase the percentage of our lots that are controlled via land option agreement. 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. The remaining purchase price under our land option agreements totaled \$4.3 billion at March 31, 2021. These land option agreements generally may be canceled at our discretion and in certain cases extend over several years. Our maximum exposure related to these land option agreements is generally limited to our deposits and pre-acquisition costs, which totaled \$319.8 million, of which \$15.6 million is refundable at March 31, 2021.

Homebuilding Segment Operations

As of March 31, 2021, we conducted our operations in 40 markets located throughout 23 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

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

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

Operating Data by Segment (\$000's omitted)			
Three Months Ended			
March 31,			
	2021	2021 vs. 2020	2020
Home sale revenues:			
Northeast	\$ 176,417	9 %	\$ 162,380
Southeast	436,267	14 %	382,141
Florida	600,942	23 %	490,028
Midwest	365,778	26 %	290,933
Texas	373,261	8 %	344,508
West	643,845	17 %	551,513
	<u>\$ 2,596,510</u>	<u>17 %</u>	<u>\$ 2,221,503</u>
Income (loss) before income taxes (a):			
Northeast	\$ 25,894	39 %	\$ 18,609
Southeast	71,322	30 %	54,744
Florida (b)	101,208	83 %	55,333
Midwest	52,864	68 %	31,462
Texas	65,648	22 %	53,595
West	98,832	47 %	67,255
Other homebuilding (c)	(88,064)	(139)%	(36,780)
	<u>\$ 327,704</u>	<u>34 %</u>	<u>\$ 244,218</u>

(a) Includes land-related charges as summarized in the below table.

(b) Includes goodwill impairment charge totaling \$20.2 million in the three months ended March 31, 2020.

(c) Other homebuilding includes the amortization of intangible assets and capitalized interest and other items not allocated to the operating segments. Other homebuilding also includes a loss on debt retirement of \$61.5 million in the three months ended March 31, 2021 (see [Note 4](#)).

Operating Data by Segment (\$000's omitted)
Three Months Ended
March 31,

	2021	2021 vs. 2020	2020
Closings (units):			
Northeast	317	2 %	310
Southeast	1,054	14 %	928
Florida	1,420	17 %	1,210
Midwest	839	19 %	708
Texas	1,225	9 %	1,128
West	1,189	9 %	1,089
	6,044	12 %	5,373
Average selling price:			
Northeast	\$ 557	6 %	\$ 524
Southeast	414	1 %	412
Florida	423	4 %	405
Midwest	436	6 %	411
Texas	305	— %	305
West	542	7 %	506
	\$ 430	4 %	\$ 413
Net new orders - units:			
Northeast	608	36 %	448
Southeast	1,561	37 %	1,141
Florida	2,404	43 %	1,685
Midwest	1,561	53 %	1,019
Texas	1,892	25 %	1,509
West	1,826	8 %	1,693
	9,852	31 %	7,495
Net new orders - dollars:			
Northeast	\$ 351,240	37 %	\$ 256,013
Southeast	708,295	49 %	473,880
Florida	1,134,296	64 %	692,717
Midwest	706,430	58 %	446,357
Texas	630,291	38 %	455,789
West	1,099,765	17 %	943,993
	\$ 4,630,317	42 %	\$ 3,268,749

Operating Data by Segment (\$000's omitted)
Three Months Ended
March 31,

	2021	2021 vs. 2020	2020	
Cancellation rates:				
Northeast	5	%	13	%
Southeast	6	%	11	%
Florida	9	%	12	%
Midwest	5	%	11	%
Texas	11	%	17	%
West	10	%	14	%
	<u>8</u>	<u>%</u>	<u>13</u>	<u>%</u>

Unit backlog:				
Northeast	1,244	71 %	727	
Southeast	2,847	37 %	2,078	
Florida	4,638	67 %	2,781	
Midwest	2,921	58 %	1,851	
Texas	3,720	67 %	2,231	
West	3,596	21 %	2,961	
	<u>18,966</u>	<u>50 %</u>	<u>12,629</u>	

Backlog dollars:				
Northeast	\$ 736,146	67 %	\$ 441,330	
Southeast	1,302,937	49 %	875,208	
Florida	2,161,220	83 %	1,180,950	
Midwest	1,331,288	65 %	807,401	
Texas	1,238,121	76 %	702,149	
West	2,057,277	31 %	1,576,013	
	<u>\$ 8,826,989</u>	<u>58 %</u>	<u>\$ 5,583,051</u>	

Operating Data by Segment (\$000's omitted)			
Three Months Ended			
March 31,			
	2021		2020
Land-related charges (a):			
Northeast	\$ 116	\$	4,753
Southeast	456		748
Florida	131		522
Midwest	54		777
Texas	527		656
West	84		1,529
Other homebuilding	—		744
	<u>\$ 1,368</u>	<u>\$</u>	<u>9,729</u>

(a) Land-related charges include land inventory impairments, net realizable value adjustments on 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.

Northeast

For the first quarter of 2021, Northeast home sale revenues increased by 9% when compared with the prior year period due to a 2% increase in closings combined with a 6% increase in average selling price. The increase in closings and average selling price was mixed among markets. Income before income taxes increased 39% primarily as a result of the increased revenues, as well as improved gross margins and overhead management which occurred across the majority of markets. Net new orders increased across all markets.

Southeast

For the first quarter of 2021, Southeast home sale revenues increased 14% compared with the prior year period as the result of a 14% increase in closings combined with a 1% increase in average selling price. The increase in closings and average selling price occurred across the majority of markets. Income before income taxes increased 30% primarily due to the increased revenues, as well as improved gross margins and improved overhead management which occurred across the majority of markets. Net new orders increased across all markets.

Florida

For the first quarter of 2021, Florida home sale revenues increased 23% compared with the prior year period due to a 17% increase in closings combined with a 4% increase in the average selling price. The increased closings occurred across all markets while the increase in average selling price occurred across the majority of markets. Income before income taxes increased 83% due to the increased revenues, as well as improved margins. Net new orders increased across all markets.

Midwest

For the first quarter of 2021, Midwest home sale revenues increased 26% compared with the prior year period due to a 19% increase in closings combined with a 6% increase in average selling price. The increase in closings and average selling price occurred across substantially all markets. Income before income taxes increased 68% primarily due to the increased revenues, as well as improved overhead management and gross margins across all markets. Net new orders increased across all markets.

Texas

For the first quarter of 2021, Texas home sale revenues increased 8% compared with the prior year period due to a 9% increase in closings partially offset by a slight decrease in average selling price. The increase in closings occurred across all markets except Austin due to timing issues. Our Texas operations were unfavorably impacted in March 2021 by power outages resulting from severe weather conditions, but the impact primarily represented delayed activity and was not material. Income before

income taxes increased 22% primarily due to the increased revenues, as well as price improved overhead management and gross margins. Net new orders increased across all markets.

West

For the first quarter of 2021, West home sale revenues increased 17% compared with the prior year period due to a 9% increase in closings combined with a 7% increase in average selling price. The increase in closings and average selling prices was mixed among markets. Income before income taxes increased 47% primarily due to the increased revenues, as well as improved overhead management and gross margins across all markets. Net new orders increased across the majority of markets.

Financial Services Operations

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

Three Months Ended March 31,			
	2021	2021 vs. 2020	2020
Mortgage revenues	\$ 89,040	119 %	\$ 40,734
Title services revenues	14,333	17 %	12,202
Insurance brokerage commissions	2,749	70 %	1,614
Total Financial Services revenues	106,122	95 %	54,550
Expenses	(39,674)	14 %	(34,949)
Other income (expense), net	(100)	(a)	(50)
Income before income taxes	\$ 66,348	239 %	\$ 19,551
<u>Total originations:</u>			
Loans	4,708	22 %	3,870
Principal	\$ 1,564,668	29 %	\$ 1,213,266

(a) Percentage not meaningful

	Three Months Ended March 31,	
	2021	2020
Supplemental data:		
Capture rate	88.3 %	86.8 %
Average FICO score	751	751
Funded origination breakdown:		
Government (FHA, VA, USDA)	21 %	21 %
Other agency	74 %	71 %
Total agency	95 %	92 %
Non-agency	5 %	8 %
Total funded originations	100 %	100 %

Revenues

Total Financial Services revenues in the three months ended March 31, 2021 increased 95% compared with the comparable prior year period as the result of increased homebuilding volumes combined with an improved capture rate and improved margin per loan. Mortgage interest rates continued at or near historically low levels in the three months ended March 31, 2021, which contributed to the higher margin per loan as continued demand for refinancing production within the mortgage industry resulted in a favorable pricing environment for new originations.

Income before income taxes

Income before income taxes in the three months ended March 31, 2021 increased 239% compared with the same period in 2020 as the result of higher revenues and margins and improved expense leverage.

Income Taxes

Our effective tax rate in the three months ended March 31, 2021 and 2020 was 22.8% in each period. The 2021 tax rate includes a larger benefit for federal energy efficient home credits compared to a higher equity compensation benefit in the 2020 tax rate.

Liquidity and Capital Resources

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

At March 31, 2021, we had unrestricted cash and equivalents of \$1.6 billion, restricted cash balances of \$64.5 million, and \$764.3 million available under our Revolving Credit Facility. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments. Given the financial resources available to us, we believe that we have adequate liquidity to continue funding our operations for the foreseeable future.

Our ratio of debt to total capitalization, excluding our Financial Services debt, was 23.3% at March 31, 2021, as compared with 29.5% at December 31, 2020.

Unsecured senior notes

We had \$2.0 billion and \$2.7 billion of unsecured senior notes outstanding at March 31, 2021 and December 31, 2020, respectively, with no repayments due until March 2026, when \$500.0 million of unsecured senior notes are scheduled to mature.

In the three months ended March 31, 2021, we retired \$200.0 million and \$100.0 million of our unsecured notes maturing in 2026 and 2027, respectively, through a previously announced cash tender offer. The retirement resulted in a loss of \$61.5 million, which includes the write-off of debt issuance costs, unamortized discounts and premiums, and transaction fees related to the repurchased debt. We also retired \$426.0 million of senior notes scheduled to mature in March 2021.

Other notes payable

Other notes payable include non-recourse and limited recourse secured notes with third parties that totaled \$44.2 million and \$40.1 million at March 31, 2021 and December 31, 2020, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and generally do not have recourse to other assets. The stated interest rates on these notes range up to 5.17%.

Revolving credit facility

We maintain a revolving credit facility (the "Revolving Credit Facility") maturing in June 2023 that has a maximum borrowing capacity of \$1.0 billion and contains an uncommitted accordion feature that could increase the capacity to \$1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of \$500.0 million at March 31, 2021. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. As a precautionary measure during the initial phase of the COVID-19 pandemic, we made the decision in March 2020 to draw \$700.0 million under the Revolving Credit Facility. In June 2020, we repaid the full outstanding balance of \$700.0 million. As a result, we had no borrowings outstanding at either March 31, 2021 or December 31, 2020, and \$235.7 million and \$249.7 million of letters of credit issued under the Revolving Credit Facility at March 31, 2021 and December 31, 2020, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2021, we were in compliance with all covenants. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to \$764.3 million and \$750.3 million at March 31, 2021 and December 31, 2020, respectively.

Financial Services debt

Pulte Mortgage maintains a master repurchase agreement with third party lenders (the "Repurchase Agreement") that matures on July 29, 2021. The maximum aggregate commitment was \$280.0 million at March 31, 2021 and increases to \$375.0 million on May 25, 2021, which continues through maturity. The purpose of the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had \$270.8 million and \$411.8 million outstanding under the Repurchase Agreement at March 31, 2021 and December 31, 2020, respectively, and was in compliance with all of its covenants and requirements as of such dates.

Dividends and share repurchase program

In the three months ended March 31, 2021, we declared cash dividends totaling \$37.3 million and repurchased 3.3 million shares under our repurchase authorization totaling \$153.7 million. At March 31, 2021, we had remaining authorization to repurchase \$201.2 million of common shares. On April 26, 2021, the Board of Directors approved an increase to our share repurchase authorization to \$1.0 billion.

Cash flows

Operating activities

Net cash provided by operating activities in the three months ended March 31, 2021 was \$176.7 million, compared with net cash provided by operating activities of \$204.6 million in the three months ended March 31, 2020. Generally, the primary drivers of our cash flow from operations are profitability and changes in the levels of inventory and residential mortgage loans available-for-sale, each of which experiences seasonal fluctuations. The positive cash flow from operations in the three months ended March 31, 2021 was primarily due to our net income of \$304.1 million, which included various non-cash items including a loss on debt retirement of \$61.5 million, and a seasonal \$69.9 million decrease in residential mortgage loans available-for-sale, partially offset by a net increase in inventories of \$243.9 million, which was primarily attributable to higher house inventory in production resulting from the higher order backlog.

Net cash provided by operating activities in the three months ended March 31, 2020 was \$204.6 million. The positive cash flow from operations in the three months ended March 31, 2020 was primarily due to our net income of \$203.7 million, which included various non-cash items, and a seasonal \$145.1 million reduction in residential mortgage loans available-for-sale, partially offset by a net increase in inventories of \$189.4 million resulting from a seasonal build of house inventory.

Investing activities

Net cash used in investing activities in the three months ended March 31, 2021 was \$27.6 million, compared with net cash used in investing activities of \$95.8 million in the three months ended March 31, 2020. Cash outflows in 2021 primarily reflected a \$10.4 million deferred payment related to the acquisition of ICG, as well as capital expenditures of \$14.8 million related to our ongoing investments in new communities and information technology applications.

Net cash used in investing activities in the three months ended March 31, 2020 was \$95.8 million. These cash outflows primarily reflected our acquisition of ICG in January 2020 for \$83.2 million, as well as capital expenditures of \$20.1 million related to our ongoing investments in new communities and information technology applications.

Financing activities

Net cash used in financing activities in the three months ended March 31, 2021 totaled \$1.1 billion, compared with net cash provided by financing activities of \$491.0 million in the three months ended March 31, 2020. The net cash used in financing activities in the three months ended March 31, 2021 resulted primarily from the repurchase of 3.3 million common shares for \$153.7 million under our share repurchase authorization, repayments of debt totaling \$794.4 million, payments of \$37.6 million in cash dividends, and net repayments of \$141.0 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Net cash provided by financing activities in the three months ended March 31, 2020 resulted primarily from borrowings of \$700.0 million on our Revolving Credit Facility, partially offset by the repurchase of 2.8 million common shares for \$95.7 million under our repurchase authorization, repayments of debt totaling \$9.2 million, payments of \$32.7 million in cash dividends, and net repayments of \$56.6 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Inflation

We, and the homebuilding industry in general, may be adversely affected during periods of inflation because of higher land and construction costs. Inflation may also increase our financing costs. In addition, higher mortgage interest rates affect the affordability of our products to prospective homebuyers. While we attempt to pass on 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 in 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. Additionally, given the disruption in economic activity caused by the COVID-19 pandemic, our results in the three months ended March 31, 2021 are not necessarily indicative of results that may be achieved in the future.

Contractual Obligations and Commercial Commitments

There have been no material changes to our contractual obligations from those disclosed in our "Contractual Obligations and Commercial Commitments" contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our Annual Report on Form 10-K for the year ended December 31, 2020, with the exception of the retirement of \$426 million, \$200 million, and \$100 million of unsecured senior notes scheduled to mature in March 2021, March 2026, and January 2027, respectively.

Supplemental Guarantor Financial Information

As of March 31, 2021, PulteGroup, Inc. had outstanding \$2.0 billion principal amount of unsecured senior notes due at dates from March 2026 through February 2035 and no amounts outstanding on its Revolving Credit Facility.

All of our unsecured senior notes and the Revolving Credit Facility are fully and unconditionally guaranteed, on a joint and several basis, by certain subsidiaries of PulteGroup, Inc. ("Guarantors" or "Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by PulteGroup, Inc. Our subsidiaries associated with our financial services operations and certain other subsidiaries do not guarantee the unsecured senior notes or the Revolving Credit Facility (collectively, "Non-Guarantor Subsidiaries"). The guarantees are senior unsecured obligations of each Guarantor and rank equal with all existing and future senior debt of such Guarantor and senior to all subordinated debt of such Guarantor. The guarantees are effectively subordinated to any secured debt of such Guarantor to the extent of the value of the assets securing such debt.

A court could void or subordinate any Guarantor's guarantee under the fraudulent conveyance laws if existing or future creditors of any such Guarantor were successful in establishing that such Guarantor:

(a) incurred the guarantee with the intent of hindering, delaying or defrauding creditors; or

(b) received less than reasonably equivalent value or fair consideration in return for incurring the guarantee and, in the case of any one of the following is also true at the time thereof:

- such Guarantor was insolvent or rendered insolvent by reason of the issuance of the incurrence of the guarantee;
- the incurrence of the guarantee left such Guarantor with an unreasonably small amount of capital or assets to carry on its business;
- such Guarantor intended to, or believed that it would, incur debts beyond its ability to pay as they mature;
- such Guarantor was a defendant in an action for money damages, or had a judgment for money damages docketed against it, if the judgment is unsatisfied after final judgment.

The measures of insolvency for purposes of determining whether a fraudulent conveyance occurred would vary depending upon the laws of the relevant jurisdiction and upon the valuation assumptions and methodology applied by the court. However, in general, a court would deem a company insolvent if:

- the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

The guarantees of the senior notes contain a provision to limit each Guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer. However, under recent case law, this provision may not be effective to protect such guarantee from being voided under fraudulent transfer law or otherwise determined to be unenforceable. If a court were to find that the incurrence of a guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under that guarantee, could subordinate that guarantee to presently existing and future indebtedness of the Guarantor or could require the holders of the senior notes to repay any amounts received with respect to that guarantee. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the senior notes.

Finally, as a court of equity, a bankruptcy court may subordinate the claims in respect of the guarantees to other claims against us under the principle of equitable subordination if the court determines that (1) the holder of senior notes engaged in some type of inequitable conduct, (2) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of senior notes and (3) equitable subordination is not inconsistent with the provisions of the bankruptcy code.

On the basis of historical financial information, operating history and other factors, we believe that each of the Guarantors, after giving effect to the issuance of the guarantees when such guarantees were issued, was not insolvent, did not have unreasonably small capital for the business in which it engaged and did not and has not incurred debts beyond its ability to pay such debts as they mature. We cannot assure you, however, as to what standard a court would apply in making these determinations or that a court would agree with our conclusions in this regard.

The following tables present summarized financial information for PulteGroup, Inc. and the Guarantor Subsidiaries on a combined basis after intercompany transactions and balances have been eliminated among PulteGroup, Inc. and the Guarantor Subsidiaries, as well as their investment in and equity in earnings from the Non-Guarantor Subsidiaries (\$000's omitted):

PulteGroup, Inc. and Guarantor Subsidiaries	
Summarized Balance Sheet Data	
ASSETS	March 31, 2021
Cash, cash equivalents, and restricted cash	\$1,576,132
House and land inventory	7,853,155
Total assets	10,457,595
LIABILITIES	
Accounts payable, customer deposits, accrued and other liabilities	\$2,101,041
Notes payable	2,031,937
Amount due to Non-Guarantor Subsidiaries	61,227
Total liabilities	4,246,464

Three Months Ended	
Summarized Statement of Operations Data	March 31, 2021
Revenues	\$2,536,892
Cost of revenues	1,889,395
Selling, general, and administrative expenses	264,252
Income before income taxes	315,600

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 March 31, 2021, we had outstanding letters of credit totaling \$235.7 million. Our surety bonds generally do not have stated expiration dates; rather, we are released from the bonds as the

contractual performance is completed. These bonds, which approximated \$1.6 billion at March 31, 2021, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At March 31, 2021, these agreements had an aggregate remaining purchase price of \$4.3 billion. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates in the three months ended March 31, 2021 compared with those contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative disclosure

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

The following table sets forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of March 31, 2021 (\$000's omitted):

	As of March 31, 2021 for the Years ending December 31,							Fair Value
	2021	2022	2023	2024	2025	Thereafter	Total	
Rate-sensitive liabilities:								
<i>Fixed rate debt</i>	\$ 29,154	\$ 14,655	\$ 350	\$ —	\$ —	\$ 2,000,000	\$ 2,044,159	\$ 2,507,209
Average interest rate	0.56 %	0.28 %	— %	— %	— %	5.98 %	5.86 %	
<i>Variable rate debt (a)</i>	\$ 270,819	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 270,819	\$ 270,819
Average interest rate	2.50 %	— %	— %	— %	— %	— %	2.50 %	

(a) Includes the Pulte Mortgage Repurchase Agreement and amounts outstanding under our Revolving Credit facility, under which there was no amount outstanding at March 31, 2021.

Qualitative disclosure

There have been no material changes to the qualitative disclosure found in Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2020.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and Item 3, *Quantitative and Qualitative Disclosures About Market Risk*, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or

other expectations regarding future events. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “plan,” “project,” “may,” “can,” “could,” “might,” “should”, “will” and similar expressions identify forward-looking statements, including statements related to any potential impairment charges and the impacts or effects thereof, expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; competition within the industries in which we operate; the availability and cost of land and other raw materials used by us in our homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions and the levels of our land spend; the availability and cost of insurance covering risks associated with our businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws which could have a greater impact on our effective tax rate or the value of our deferred tax assets than we anticipate; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; the negative impact of the COVID-19 pandemic on our financial position and ability to continue our Homebuilding or Financial Services activities at normal levels or at all in impacted areas; the duration, effect and severity of the COVID-19 pandemic; the measures that governmental authorities take to address the COVID-19 pandemic which may precipitate or exacerbate one or more of the above-mentioned and/or other risks and significantly disrupt or prevent us from operating our business in the ordinary course for an extended period of time; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See PulteGroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and other public filings with the Securities and Exchange Commission (the "SEC") for a further discussion of these and other risks and uncertainties applicable to our businesses. PulteGroup undertakes no duty to update any forward-looking statement, whether as a result of new information, future events or changes in PulteGroup's expectations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2021. Based upon, and as of the date of that evaluation, our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2021.

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). There was no change in our internal control over financial reporting in the quarter ended March 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

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

Issuer Purchases of Equity Securities

	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (\$000's omitted) (2)
January 1, 2021 to January 31, 2021	966,694	\$ 43.33	966,694	\$ 312,983
February 1, 2021 to February 28, 2021	935,919	\$ 46.36	935,919	\$ 269,597
March 1, 2021 to March 31, 2021	1,430,486	\$ 47.84	1,430,486	\$ 201,170
Total	3,333,099	\$ 46.11	3,333,099	

- (1) In the three months ended March 31, 2021, participants surrendered 0.2 million shares for payment of minimum tax obligations upon the vesting or exercise of previously granted share-based compensation awards. Such shares were not repurchased as part of our publicly-announced share repurchase programs and are excluded from the table above.
- (2) The Board of Directors approved a share repurchase authorization totaling \$500.0 million in May 2019. In the three months ended March 31, 2021, we repurchased 3.3 million shares for a total of \$153.7 million under the share repurchase program authorized by our Board of Directors. There is no expiration date for this program, under which \$201.2 million remained as of March 31, 2021. On April 26, 2021, the Board of Directors approved an additional share repurchase authorization of \$1.0 billion under the program.

Item 6. Exhibits

Exhibit Number and Description

- | | |
|---|---|
| 3 | <p>(a) <u>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)</u></p> <p>(b) <u>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)</u></p> <p>(c) <u>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)</u></p> <p>(d) <u>Amended and Restated By-Laws of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K, filed with the SEC on May 11, 2020)</u></p> <p>(e) <u>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)</u></p> |
|---|---|

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)	<u>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)</u>
	(c)	<u>First Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 14, 2013, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 15, 2013)</u>
	(d)	<u>Second Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 10, 2016, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 10, 2016)</u>
	(e)	<u>Third Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 7, 2019, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 7, 2019)</u>
	(f)	<u>Fourth Amendment to Amended and Restated Section 382 Rights Agreement, dated as of May 11, 2020, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on May 11, 2020)</u>
31	(a)	<u>Rule 13a-14(a) Certification by Ryan R. Marshall, President and Chief Executive Officer (Filed herewith)</u>
	(b)	<u>Rule 13a-14(a) Certification by Robert T. O'Shaughnessy, Executive Vice President and Chief Financial Officer (Filed herewith)</u>
32		<u>Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (Furnished herewith)</u>
101.INS		Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH		Inline XBRL Taxonomy Extension Schema Document
101.CAL		Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE		Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		The cover page from this Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in Inline XBRL

SIGNATURES

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

PULTEGROUP, INC.

/s/ Robert T. O'Shaughnessy

Robert T. O'Shaughnessy

Executive Vice President and Chief Financial Officer

(Principal Financial Officer and duly authorized officer)

Date: April 27, 2021

CHIEF EXECUTIVE OFFICER'S CERTIFICATION

I, Ryan R. Marshall, certify that:

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

Date: April 27, 2021

/s/ Ryan R. Marshall

Ryan R. Marshall

President and Chief Executive Officer

CHIEF FINANCIAL OFFICER'S CERTIFICATION

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

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

Date: April 27, 2021

/s/ Robert T. O'Shaughnessy

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

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

In connection with the Quarterly Report of PulteGroup, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certifies that to his knowledge:

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

Date: April 27, 2021

/s/ Ryan R. Marshall

Ryan R. Marshall
President and Chief Executive Officer

/s/ Robert T. O'Shaughnessy

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