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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

Commission File Number 1-9804

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

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

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

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

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

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

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Summary of significant accounting policies

Basis of presentation

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

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

Use of estimates

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

Reclassification

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

Subsequent events

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

Cash and equivalents

Cash and equivalents include institutional money market investments and time deposits with a maturity of three months or less when acquired. Cash and equivalents at June 30, 2012 and December 31, 2011 also included $13.4 million and $13.0 million, respectively, of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit.

Restricted cash

We maintain certain cash balances that are restricted as to their use. Restricted cash consists primarily of deposits maintained with financial institutions under certain cash-collateralized letter of credit agreements (see Note 9). The remaining balances relate to certain other accounts with restrictions, including customer deposits on home sales that are temporarily restricted by regulatory requirements until title transfers to the homebuyer.

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

Other expense (income), net

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

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

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

Notes receivable

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

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

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

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

Earnings per share

Basic earnings per share is computed by dividing income (loss) available to common shareholders (the “numerator”) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (the “denominator”) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of stock options, non-vested restricted stock, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Earnings per share excludes 21.9 million and 22.2 million stock options and other potentially dilutive instruments for the three and six months ended June 30, 2012, respectively. All stock options, non-vested restricted stock, and other potentially dilutive instruments were excluded from the calculation for the three and six months ended June 30, 2011 due to the net loss recorded during the periods.

Land, not owned, under option agreements

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under ASC 810, “Consolidation” (“ASC 810”), if the entity holding the land under option is a variable interest entity (“VIE”), our deposit represents a variable interest in that entity. If we are determined to be the primary beneficiary of the VIE, then we are required to consolidate the VIE.

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

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

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

	June 30, 2012			December 31, 2011		
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Land, Not Owned, Under Option Agreements
Consolidated VIEs	$4,224	$30,914	$5,455	$2,781	$5,957	$3,837
Unconsolidated VIEs	20,428	239,178	—	21,180	240,958	—