PULTEGROUP INC/MI/
Form 10-K
February 04, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-9804

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

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

3350 Peachtree Road NE, Suite 150
Atlanta, Georgia 30326
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (404) 978-6400
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [X] NO [ ]
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]
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). Act. YES [X] NO [ ]
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [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]

The aggregate market value of the registrant's voting stock held by nonaffiliates of the registrant as of June 30, 2014, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was $7,529,488,415.

As of February 2, 2015, the registrant had 368,198,659 shares of common stock outstanding.

Documents Incorporated by Reference

Applicable portions of the Proxy Statement for the 2015 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form.

PULTEGROUP, INC.
TABLE OF CONTENTS

Item No.		Page No.
	Part I	
1	Business	3
1A	Risk Factors	9
1B	Unresolved Staff Comments	15
2	Properties	15
3	Legal Proceedings	15
4	Mine Safety Disclosures	15
4A	Executive Officers of the Registrant	16
	Part II	
5	Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
6	Selected Financial Data	19
7	Management’s Discussion and Analysis of Financial Condition and Results of Operations	21
7A	Quantitative and Qualitative Disclosures About Market Risk	41
8	Financial Statements and Supplementary Data	43
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	87
9A	Controls and Procedures	87
9B	Other Information	89
	Part III	
10	Directors, Executive Officers and Corporate Governance	89
11	Executive Compensation	89
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	89
13	Certain Relationships and Related Transactions and Director Independence	89

14	Principal Accountant Fees and Services	89
	Part IV	
15	Exhibits and Financial Statement Schedules	90
	Signatures	94

PART I

ITEM I. BUSINESS

PulteGroup, Inc.

PulteGroup, Inc. is a Michigan corporation organized in 1956. We are one of the largest homebuilders in the United States ("U.S."), and our common stock trades on the New York Stock Exchange under the ticker symbol “PHM”. Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also have mortgage banking operations, conducted principally through Pulte Mortgage LLC (“Pulte Mortgage”), and title operations.

Homebuilding, our core business, includes the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Homebuilding offers a broad product line to meet the needs of home buyers in our targeted markets. Through our brands, which include Pulte Homes, Del Webb, and Centex, we offer a wide variety of home designs, including single-family detached, townhouses, condominiums, and duplexes at different prices and with varying levels of options and amenities to our major customer groups: entry-level, move-up, and active adult. Over our history, we have delivered over 640,000 homes.

As of December 31, 2014, we conducted our operations in 49 markets located throughout 26 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
Southeast:	Georgia, North Carolina, South Carolina, Tennessee
Florida:	Florida
Texas:	Texas
North:	Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, Northern California, Ohio, Washington
Southwest:	Arizona, Nevada, New Mexico, Southern California

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

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

Available information

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

3

Homebuilding Operations

	Years Ended December 31, ($000's omitted)				
	2014	2013	2012	2011	2010
Home sale revenues	$5,662,171	$5,424,309	$4,552,412	$3,950,743	$4,419,812
Home closings	17,196	17,766	16,505	15,275	17,095

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

In 2012, new home sales in the U.S. increased for the first time since 2005. This trend continued in 2014 as new home sales in the U.S. rose 2% to approximately 435,000 homes, an approximate 42% increase from 2011. Additionally, mortgage interest rates remain near historic lows and the overall inventory of homes available for sale, especially new homes, remains low. Although current industry volume remains low compared with historical levels, the improved environment and the actions we have taken contributed to our return to profitability in 2012 and significant increases in our profitability in 2013 and 2014. In the long term, we continue to believe that the national publicly-traded builders will have a competitive advantage over local builders through their ability to leverage economies of scale, access to more reliable and lower cost financing through the capital markets, ability to control and entitle large land positions, and greater geographic and product diversification. Among the national publicly-traded peer group, we believe that builders with broad geographic and product diversity, and sustainable capital positions will benefit as market conditions recover. In the short-term, we expect that overall market conditions will continue to improve but that improvements will occur unevenly across our markets. Our strategy to enhance shareholder value is centered around the following operational objectives:

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

Our Homebuilding operations are geographically diverse within the U.S. As of December 31, 2014, we had 598 active communities. Sales prices of unit closings during 2014 ranged from less than $100,000 to greater than $1,500,000, with 84% falling within the range of $150,000 to $500,000. The average unit selling price in 2014 was $329,000, compared with $305,000 in 2013, $276,000 in 2012, $259,000 in 2011, and $259,000 in 2010. The increase in average selling price in recent years resulted from a number of factors, including improved market conditions and a shift in our sales mix toward move-up and active adult homebuyers.

Sales of single-family detached homes, as a percentage of total unit sales, were 86% in 2014, compared with 85% in 2013, 81% in 2012, 79% in 2011, and 79% in 2010. The increase in the percentage of single-family detached homes can be attributed to a weakened demand for townhouses, condominiums, and other attached housing.

Ending backlog, which represents orders for homes that have not yet closed, was $1.9 billion (5,850 units) at December 31, 2014 and $1.9 billion (5,772 units) at December 31, 2013. For orders in backlog, we have received a signed customer contract and customer deposit, which is refundable in certain instances. Of the orders in backlog at December 31, 2014, substantially all are scheduled to be closed during 2015, though all orders are subject to potential cancellation by or final negotiations with the customer. In the event of cancellation, the majority of our sales contracts stipulate that we have the right to retain the customer's deposit, though we may choose to refund the deposit in certain instances.

Land acquisition and development

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

Land is generally purchased after it is properly zoned and developed or is ready for development. In the normal course of business, we dispose of owned land not required by our homebuilding operations through sales to appropriate end users. Where we develop land, we engage directly in many phases of the development process, including: land and site planning; obtaining environmental and other regulatory approvals; and constructing roads, sewers, water and drainage facilities, and community amenities, such as parks, pools, and clubhouses. We use our staff and the services of independent engineers and consultants for land development activities. Land development work is performed primarily by independent contractors and local government authorities who construct sewer and water systems in some areas. At December 31, 2014, we controlled 130,793 lots, of which 96,220 were owned and 34,573 were under land option agreements.

Sales and marketing

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

	Centex	Pulte Homes	Del Webb
Targeted consumer group	Entry-level buyers	Move-up buyers	Active adults
Portion of 2014 home closings	25%	44%	31%

The move-up buyers in our Pulte Homes communities tend to place more of a premium on location and amenities. These communities typically offer larger homes at higher price points. Our Centex brand is targeted to entry-level buyers, so these homes tend to be smaller with product offerings geared toward lower average selling prices. Through our Del Webb brand, we are better able to address the needs of active adults. Our Del Webb brand offers both destination communities and “in place” communities, for those buyers who prefer to remain in their current geographic area. Many of these communities are highly amenitized, offering a variety of features, including golf courses, recreational centers, and educational classes, to the age fifty-five and over buyer to maintain an active lifestyle. In order to make the cost of these highly amenitized communities affordable to the individual homeowner, Del Webb communities tend to be larger than entry-level or move-up communities.

We market our homes to prospective buyers through media advertising, illustrated brochures, internet listings and link placements, mobile applications, and other advertising displays. We have made significant enhancements in our tools and business practices to adapt our selling efforts to today's mobile customers. In addition, our websites, www.pulte.com, www.delwebb.com, and www.centex.com, provide tools to help users find a home that meets their needs, investigate financing alternatives, communicate moving plans, maintain a home, learn more about us, and communicate directly with us. There were approximately 10.4 million unique visits to our websites during 2014, compared with approximately 9.2 million in 2013.

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

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

Construction

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

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

- Common management of house plans in order to focus on building those house designs that customers value the most and that can be built at the highest quality and an efficient cost;
- Value engineering our house plans to optimize house designs in terms of material content and ease of construction while still providing a clear value to the customer (value engineering eliminates items that add cost but that have little to no value to the customer); and
- Working with our suppliers to establish the "should cost", a data driven, collaborative effort to reduce construction costs to what the associated construction activities or materials “should cost” in the market.

The availability of labor and materials at reasonable prices is becoming an increasing concern for certain trades and building materials in some markets as the supply chain responds to uneven industry growth. Additionally, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in global commodity prices. To minimize the effects of changes in construction costs, the contracting and purchasing of building supplies and materials generally is negotiated at or near the time when related sales contracts are signed with customers. In addition, we leverage our size by actively negotiating for certain materials on a national or regional basis to minimize production component cost. We are also working to establish a more integrated system that can effectively link suppliers, contractors, and the production schedule. However, we cannot determine the extent to which necessary building materials and labor will be available at reasonable prices in the future.

Competition

The housing industry in the U.S. is fragmented and highly competitive. While we are one of the largest homebuilders in the U.S., our national market share represented only approximately 4% of U.S. new home sales in 2014. In each of our local markets, there are numerous national, regional, and local homebuilders with whom we compete. Additionally, new home sales have traditionally represented less than 15% of overall U.S. home sales (new and existing homes). Therefore, we also compete with sales of existing house inventory and any provider of for sale or rent housing units, including apartment operators. We compete primarily on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences.

Seasonality

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

Regulation and environmental matters

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

Financial Services Operations

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

Operating as a captive business model primarily targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. During 2014, 2013, and 2012, we originated mortgage loans for 61%, 64%, and 67%, respectively, of the homes we sold. Such originations represented substantially all of our total originations in each of those years. Our capture rate, which we define as loan originations from our homebuilding business as a percentage of total loan opportunities from our homebuilding business excluding cash settlements, was 80.2% in 2014, 80.2% in 2013, and 81.9% in 2012.

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

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

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

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. If a loan is determined to be faulty, we either repurchase the loan from the investors or reimburse the investors' losses (a "make-whole" payment). Historically, our overall losses related to this risk were not significant. Beginning in 2009, however, we experienced a significant increase in losses as a result of the high level of loan defaults and related losses in the mortgage industry and increasing aggressiveness by investors in presenting such claims to us. To date, the significant majority of these losses relates to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the mortgage origination market. Given the volatility in the mortgage industry and the uncertainty regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

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

Financial Information About Geographic Areas

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

Organization/Employees

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

At December 31, 2014, we employed 4,149 people, of which 689 people were employed in our Financial Services operations. Except for a small group of employees in our St. Louis homebuilding division, our employees are not represented by any union. Contracted work, however, may be performed by union contractors. Our local and corporate management personnel are paid incentive compensation based on a combination of individual performance and the performance of the applicable business unit or the Company. Each business unit is given a level of autonomy regarding employment of personnel, subject to adherence to our established policies and procedures, and our senior corporate management acts in an advisory capacity in the employment of subsidiary officers. We consider our employee and contractor relations to be satisfactory.

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. We may also be required to indemnify underwriters that purchased and securitized loans originated by a former subsidiary of Centex for losses incurred by investors in those securitized loans based on similar breaches of representations and warranties.

To date, the significant majority of these losses relate to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the origination market. In addition, we entered into an agreement in conjunction with the wind down of Centex's mortgage operations, which ceased loan origination activities in December 2009, that provides a guaranty for one major investor of loans originated by Centex. This guaranty provides that we will honor the potential repurchase obligations of Centex's mortgage operations related to breaches of similar representations in the origination of a certain pool of loans.

The resolution of claims related to alleged breaches of these representations and warranties and repurchase claims could have a material adverse effect on our financial condition, cash flows and results of operations, and could exceed existing estimates and accruals. The repurchase liability we have recorded is estimated based on several factors, including the level of current unresolved repurchase requests, the volume of estimated probable future repurchase requests, our ability to cure the defects identified in the repurchase requests, and the severity of the estimated loss upon repurchase. The factors referred to above are subject to change in light of market developments, the economic environment, and other circumstances, some of which are beyond our control. Accordingly, there can be no assurance that such reserves will not need to be increased in the future.

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

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

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

Mortgage interest expense and real estate taxes represent significant costs of homeownership, both of which are generally deductible for an individual’s federal and, in some cases, state income taxes. Any changes to income tax laws by the federal government or a state government to eliminate or substantially reduce these income tax deductions, as has been considered from time to time, would increase the after-tax cost of owning a home. Increases in real estate taxes by local governmental authorities also increase the cost of homeownership. Any such increases to the cost of homeownership could adversely impact the demand for and sales prices of new homes.

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

The capital and credit markets can experience significant volatility. We may need credit-related liquidity for future growth and development of our business. Without sufficient liquidity, we may not be able to purchase additional land or develop land, which could adversely affect our financial results. At December 31, 2014, we had cash and equivalents of $1.3 billion as well as restricted cash totaling $16.4 million. However, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on terms acceptable to us, or at all.

Another source of liquidity includes our ability to use letters of credit and surety bonds pursuant to certain performance-related obligations and as security for certain land option agreements and under various insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. At December 31, 2014, we had outstanding letters of credit and surety bonds totaling $212.1 million and $1.0 billion, respectively. Of these amounts outstanding, $3.7 million of the letters of credit were subject to cash-collateralized agreements while the remaining letters of credit and surety bonds were unsecured. The majority of these letters of credit are issued via our unsecured revolving credit facility, which contains certain financial covenants and other limitations. If we are unable to obtain letters of credit or surety bonds when required, or the conditions imposed by issuers increase significantly, our financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

We may not realize our deferred income tax assets.

As of December 31, 2014, we had deferred income tax assets, net of deferred tax liabilities, of $1.8 billion, against which we provided a valuation allowance of $82.3 million. The ultimate realization of our deferred income tax assets is dependent upon generating future taxable income and executing tax planning strategies. While we have recorded valuation allowances against certain of our deferred income tax assets, the valuation allowances are subject to change as facts and circumstances change.

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

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

As a result of our merger with Centex in August 2009, our ability to use certain of Centex’s pre-ownership change NOLs, BILs, and deductions is limited under Section 382 of the Internal Revenue Code. The applicable Section 382 limitation is approximately $67.4 million per year for NOLs, losses realized on built-in loss assets that were sold within 60 months of the ownership change, and certain deductions. We do not believe that the Section 382 limitation will prevent the Company from using Centex's pre-ownership change NOL carryforwards and built-in losses or deductions.

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

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

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

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

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

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

Our financial services operations are also subject to numerous federal, state, and local laws and regulations. These include eligibility requirements for participation in federal loan programs and compliance with consumer lending and similar requirements such as disclosure requirements, prohibitions against discrimination, and real estate settlement procedures. They also subject our operations to examination by applicable agencies, pursuant to which those agencies may limit our ability to provide mortgage financing or title services to potential purchasers of our homes. For our homes to qualify for FHA or VA mortgages, we must satisfy valuation standards and site, material, and construction requirements of those agencies.

In January 2013, the Consumer Financial Protection Bureau adopted new rules regarding the origination of mortgages, including the criteria for “qualified mortgages”, rules for lender practices regarding assessing borrowers’ ability to repay, and limitations on certain fees and incentive arrangements. Such rules went into effect in January 2014. While we have adjusted our operations to comply with the new rules, the impact such rules will have on our business remains unclear. Additionally, many other rules required by the Dodd-Frank Act of 2010 have not yet been completed or implemented, which has created uncertainty in the overall U.S. financial services and mortgage industries as to their long-term impact.

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

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

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

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

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

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

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

We use information technology and other computer resources to carry out important operational activities and to maintain our business records. Our computer systems, including our back-up systems, are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches (through cyberattacks from computer hackers and sophisticated organizations), catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our associates. If our computer systems and our back-up systems are damaged, breached, or cease to function properly, we could suffer interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information (including information about our homebuyers and business partners), which could require us to incur significant costs to remediate or otherwise resolve these issues.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

This Item is not applicable.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Year Became An Executive Officer
Richard J. Dugas, Jr.	49	Chairman, President and Chief Executive Officer	2002
Robert T. O'Shaughnessy	49	Executive Vice President and Chief Financial Officer	2011
James R. Ellinghausen	56	Executive Vice President, Human Resources	2005
Harmon D. Smith	51	Executive Vice President, Field Operations	2011
Ryan R. Marshall	40	Executive Vice President, Homebuilding Operations	2012
Steven M. Cook	56	Senior Vice President, General Counsel and Secretary	2006
James L. Ossowski	46	Vice President, Finance and Controller	2013

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

Mr. Dugas was appointed Chairman in August 2009 and President and Chief Executive Officer in July 2003. Previously, he was appointed Chief Operating Officer in May 2002 and Executive Vice President in December 2002. Since joining our company in 1994, he has served in a variety of management positions.

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

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

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

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

Mr. Cook was appointed Senior Vice President, General Counsel and Secretary in December 2008 and previously held the position of Vice President, General Counsel and Secretary since February 2006.

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

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

PART II

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

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

Related Stockholder Matters

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

	December 31, 2014			December 31, 2013		
	High	Low	Declared Dividend	High	Low	Declared Dividend
1st Quarter	$21.65	$18.21	$0.05	$21.97	$17.98	$—
2nd Quarter	20.47	18.01	0.05	24.47	17.46	—
3rd Quarter	20.64	17.47	0.05	20.57	14.23	0.10
4th Quarter	22.03	16.56	0.08	20.49	15.28	0.05

At February 2, 2015, there were 2,717 shareholders of record.

Issuer Purchases of Equity Securities

	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs ($000's omitted)	
October 1, 2014 to October 31, 2014	3,010,175	$17.30	3,010,175	$784,290	(1)
November 1, 2014 to November 30, 2014	725,088	21.07	725,088	$769,010	(1)
December 1, 2014 to December 31, 2014	1,449,647	21.08	1,449,647	$738,456	(1)
Total	5,184,910	$18.89	5,184,910		

(1) In July 2013, our Board of Directors authorized a share repurchase program totaling $250 million. We have fully utilized the July 2013 authorization and will no longer conduct share repurchases under this program. In October 2014, the Board of Directors approved a share repurchase authorization totaling $750 million, of which $738.5 million remained available as of December 31, 2014. There is no expiration date for this program. During 2014, we repurchased 12.9 million shares under these programs.

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

Performance Graph

The following line graph compares for the fiscal years ended December 31, 2010, 2011, 2012, 2013, and 2014 (a) the yearly cumulative total shareholder return (i.e., the change in share price plus the cumulative amount of dividends, assuming dividend reinvestment, divided by the initial share price, expressed as a percentage) on PulteGroup's common shares, with (b) the cumulative total return of the Standard & Poor's 500 Stock Index, and with (c) the Dow Jones U.S. Select Home Construction Index. The Dow Jones U.S. Select Home Construction Index is a widely-recognized index comprised primarily of large national homebuilders. We believe comparison of our shareholder return to this index represents a meaningful analysis for investors.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN*
AMONG PULTEGROUP, INC., S&P 500 INDEX, AND PEER INDEX
Fiscal Year Ended December 31, 2014

	2009	2010	2011	2012	2013	2014
PULTEGROUP, INC.	100.00	75.20	63.10	181.60	205.20	218.50
S&P 500 Index - Total Return	100.00	115.06	117.49	136.30	180.44	205.14
Dow Jones U.S. Select Home Construction Index	100.00	111.03	95.67	194.40	215.76	202.92

* Assumes $100 invested on December 31, 2009, and the reinvestment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

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

	Years Ended December 31, (000's omitted, except per share data)				
	2014	2013	2012	2011	2010
OPERATING DATA:					
Homebuilding:					
Revenues	$5,696,725	$5,538,644	$4,659,110	$4,033,596	$4,447,627
Income (loss) before income taxes	$635,177	$479,113	$157,991	$(275,830)	$(1,240,155)
Financial Services:					
Revenues	$125,638	$140,951	$160,888	$103,094	$121,663
Income (loss) before income taxes	$54,581	$48,709	$25,563	$(34,470)	$5,609
Consolidated results:					
Revenues	$5,822,363	$5,679,595	$4,819,998	$4,136,690	$4,569,290
Income (loss) before income taxes	$689,758	$527,822	$183,554	$(310,300)	$(1,234,546)
Income tax expense (benefit)	215,420	(2,092,294)	(22,591)	(99,912)	(137,817)
Net income (loss)	$474,338	$2,620,116	$206,145	$(210,388)	$(1,096,729)
PER SHARE DATA:					
Net income (loss) per share:					
Basic	$1.27	$6.79	$0.54	$(0.55)	$(2.90)
Diluted	$1.26	$6.72	$0.54	$(0.55)	$(2.90)
Number of shares used in calculation:					
Basic	370,377	383,077	381,562	379,877	378,585
Effect of dilutive securities	3,725	3,789	3,002	—	—
Diluted	374,102	386,866	384,564	379,877	378,585
Shareholders' equity	$13.01	$12.19	$5.66	$5.07	$5.59
Cash dividends declared	$0.23	$0.15	$—	$—	$—

	December 31, ($000's omitted) 2014	2013	2012	2011	2010
BALANCE SHEET DATA:					
House and land inventory	$4,392,100	$3,978,561	$4,214,046	$4,636,468	$4,781,813
Total assets	8,569,410	8,734,143	6,734,409	6,885,620	7,699,376
Senior notes	1,818,561	2,058,168	2,509,613	3,088,344	3,391,668
Shareholders' equity	4,804,954	4,648,952	2,189,616	1,938,615	2,135,167

	Years Ended December 31, 2014	2013	2012	2011	2010
OTHER DATA:					
Markets, at year-end	49	48	58	61	67
Active communities, at year-end	598	577	670	700	786
Closings (units)	17,196	17,766	16,505	15,275	17,095
Net new orders (units)	16,652	17,080	19,039	15,215	15,148
Backlog (units), at year-end	5,850	5,772	6,458	3,924	3,984
Average selling price (per unit)	$329,000	$305,000	$276,000	$259,000	$259,000
Gross margin from home sales (a)	23.3 %	20.5 %	15.8 %	12.8 %	9.4 %

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

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

Overview

The overall U.S. housing market continues to be influenced by a combination of low interest rates and affordable home prices that have kept monthly mortgage payments affordable relative to historical levels and the rental market. This environment has contributed to our experiencing relatively stable overall demand in 2014. On slightly lower unit volumes, we generated a 4% increase in home sale revenues to $5.7 billion. We leveraged this growth into a 33% increase in reported pretax income of $635 million for our homebuilding operations by improving gross margins by 280 basis points to 23.3%, amongst the highest annual gross margins reported in the Company's history. Including our Financial Services operations, we realized pretax income growth of 31% to $690 million.

We generated positive cash flow from operations in 2014 due primarily to improved profitability. Our improved financial position provided additional flexibility to retire debt early and increase our investments in future communities, while also returning funds to shareholders through dividends and expanded share repurchases. Specifically, we accomplished the following during 2014:

- Proactively reduced our outstanding debt by $245.7 million;
- Increased our existing share repurchase authorization by $750.0 million and retired $245.8 million of shares;
- Raised our quarterly dividend by 60% to $0.08 per share;
- Increased our land investment spending by almost 40% to support future growth;
- Lowered our ratio of debt to total capitalization to 27.5%; and
- Ended the year with a total cash balance of $1.3 billion.

Assuming market conditions remain consistent with our expectations, we also expect to continue to invest increasing amounts into our land portfolio following our disciplined capital allocation process. Our first priority in allocating capital is to invest responsibly in our business and then to return excess funds to shareholders in the form of dividends and share repurchases on a routine and systematic basis. By intelligently investing in our business while routinely returning funds to shareholders, we are aligning our capital allocation decisions with our value creation strategy and our fundamental goal of increasing long-term total shareholder returns.

We are optimistic heading into 2015. We believe the positive factors of an improving economy with declining energy costs, rising employment, lower mortgage rates and related fees, beneficial long-term demographic trends, and a generally healthy supply of inventory will continue to support a slow and sustained housing recovery. Within this environment, we remain focused on driving additional gains in construction and asset efficiency to deliver higher returns on invested capital. Consistent with our positive market view and long-term business strategy, we expect to use our capital to support future growth, while consistently returning funds to shareholders.

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

	Years Ended December 31,		
	2014	2013	2012
Income before income taxes:			
Homebuilding	$635,177	$479,113	$157,991
Financial Services	54,581	48,709	25,563
Income before income taxes	689,758	527,822	183,554
Income tax expense (benefit)	215,420	(2,092,294)	(22,591)
Net income	$474,338	$2,620,116	$206,145
Per share data - assuming dilution:			
Net income	$1.26	$6.72	$0.54

- Homebuilding income before income taxes improved each year from 2012 to 2014, primarily as the result of higher gross margins and revenues. Homebuilding income before income taxes also reflected the following significant items ($000's omitted):

	2014	2013	2012
Land-related charges (see Note 3)	$11,168	$9,672	$17,195
Loss on debt retirements (see Note 6)	8,584	26,930	32,071
Settlement of contractual dispute at a closed-out community (see Note 12)	—	41,170	—
Corporate office relocation (see Note 2)	16,344	15,376	—
Insurance reserve adjustments (see Note 12)	69,267	—	—
	$105,363	$93,148	$49,266

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

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

- The increase in Financial Services income in 2014 compared with 2013 and 2012 was primarily due to lower provisions for loan losses. We reduced loss reserves by $18.6 million in 2014 while there were no adjustments to the reserve in 2013. In 2012, loss reserves increased by $49.0 million. See Note 12 to the Consolidated Financial Statements. Excluding these loss reserve adjustments, Financial Services income has been declining since 2012 due to margin compression caused by heightened competition in the mortgage industry.

- Our effective tax rate is affected by a number of factors, the most significant of which are the valuation allowance related to our deferred tax assets, changes in tax laws or other circumstances that impact the value of our deferred tax assets, and changes in our unrecognized tax benefits. Due to the effects of these factors, our effective tax rates in 2014, 2013, and 2012 are not correlated to the amount of our income before income taxes. Income tax expense (benefit) reflects reversals of deferred tax asset valuation allowances totaling $45.6 million in 2014 and $2.1 billion in 2013. The income tax benefit in 2012 was attributable primarily to the favorable resolution of certain federal and state income tax matters. See Note 9 to the Consolidated Financial Statements for additional information.

Homebuilding Operations

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

	Years Ended December 31,											
	2014		FY 2014 vs. FY 2013		2013		FY 2013 vs. FY 2012		2012	
Home sale revenues	$5,662,171		4	%	$5,424,309		19	%	$4,552,412	
Land sale revenues	34,554		(70	)%	114,335		7	%	106,698	
Total Homebuilding revenues	5,696,725		3	%	5,538,644		19	%	4,659,110	
Home sale cost of revenues (a)	4,343,249		1	%	4,310,528		12	%	3,833,451	
Land sale cost of revenues	23,748		(77	)%	104,426		10	%	94,880	
Selling, general, and administrative expenses ("SG&A") (b)	667,815		17	%	568,500		11	%	514,457	
Equity in earnings of unconsolidated entities	(8,226	)	728	%	(993	)	(74	)%	(3,873	)
Other expense, net (c)	38,745		(52	)%	80,753		22	%	66,298	
Interest income, net	(3,783	)	3	%	(3,683	)	(10	)%	(4,094	)
Income before income taxes	$635,177		33	%	$479,113		(203	)%	$157,991	
Supplemental data:										
Gross margin from home sales	23.3	%	280 bps		20.5	%	470 bps		15.8	%
SG&A as a percentage of home sale revenues	11.8	%	130 bps		10.5	%	(80) bps		11.3	%
Closings (units)	17,196		(3	)%	17,766		8	%	16,505	
Average selling price	$329		8	%	$305		11	%	$276	
Net new orders:										
Units	16,652		(3	)%	17,080		(10	)%	19,039	
Dollars (d)	$5,558,937		3	%	$5,394,566		(1	)%	$5,424,300	
Cancellation rate	15	%			15	%			15	%
Active communities at December 31	598		4	%	577		(14	)%	670	
Backlog at December 31:										
Units	5,850		1	%	5,772		(11	)%	6,458	
Dollars	$1,943,861		2	%	$1,901,796		(2	)%	$1,931,538	

(a) Includes the amortization of capitalized interest. Home sale cost of revenues also includes land impairments of $3.9 million, $2.9 million, and $13.4 million for 2014, 2013, and 2012, respectively.

(b) SG&A includes costs associated with the relocation of our corporate headquarters totaling $7.6 million and $15.0 million in 2014 and 2013, respectively, and charges totaling $69.3 million to increase general liability insurance reserves in 2014.

(c) Includes the write-off of deposits and pre-acquisition costs for land option contracts we elected not to pursue of $6.1 million, $3.1 million, and $2.3 million in 2014, 2013, and 2012, respectively, and net losses related to the redemption of debt totaling $8.6 million, $26.9 million, and $32.1 million in 2014, 2013, and 2012, respectively. Also includes lease exit charges of $8.7 million in 2014 resulting from the relocation of our corporate headquarters and charges totaling $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community.

(d) Net new order dollars represent a composite of new order dollars combined with other movements of the dollars in backlog related to cancellations and change orders.

Home sale revenues

Home sale revenues for 2014 were higher than 2013 by $237.9 million, or 4%. The increase was attributable to an 8% increase in the average selling price partially offset by a 3% decrease in closings. The increase in average selling price occurred in substantially all of our local markets and reflects an ongoing shift in our revenue mix toward move-up and active adult buyers along with improved market conditions that have allowed for increased sale prices, including higher levels of house options and lot premiums. The decrease in closings resulted from the lower net new order volume in 2014 combined with the lower beginning of the year backlog in 2014 compared with the beginning of the year 2013. The nature of the homebuilding industry results in a lag between when the significant investments we have made in land acquisition and development the last two years yields new community openings and related home closings.

Home sale revenues for 2013 were higher than 2012 by $871.9 million, or 19%. The increase was attributable to an 11% increase in the average selling price combined with an 8% increase in closings. The increase in average selling price occurred in substantially all of our local markets and reflects an ongoing shift in our revenue mix toward move-up and active adult buyers and improved market conditions that have allowed for increased sale prices, including higher levels of house options and lot premiums. The increase in closings reflected improved consumer demand for new homes in the majority of our local markets.

Home sale gross margins

Home sale gross margins were 23.3% in 2014, compared with 20.5% in 2013 and 15.8% in 2012. The gross margin improvement was broad-based as substantially all of our operating divisions experienced higher gross margins in 2014 compared with the prior year periods. These improved gross margins reflect a combination of factors, including an improved pricing environment, contributions from our strategic pricing and house cost reduction initiatives, and lower amortized interest costs (3.4%, 4.7%, and 4.9% in 2014, 2013, and 2012, respectively). The lower amortized interest costs resulted from a significant reduction in our outstanding debt in recent years. Gross margins during 2014 and 2013 also benefited from lower land impairments of $3.9 million and $2.9 million, respectively, compared with $13.4 million in 2012.

Land sales

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sale revenues and their related gains or losses vary between periods, depending on the timing of land sales and our strategic operating decisions. Land sales had margin contributions of $10.8 million, $9.9 million, and $11.8 million in 2014, 2013, and 2012, respectively.

SG&A

SG&A as a percentage of home sale revenues was 11.8% in 2014 compared with 10.5% in 2013 and 11.3% in 2012. The gross dollar amount of our SG&A increased $99.3 million, or 17%, in 2014 compared with 2013. SG&A includes charges totaling $69.3 million to increase general liability insurance reserves in 2014. Additionally, we incurred $7.6 million and $15.0 million in 2014 and 2013, respectively, of employee severance, retention, relocation, and related costs attributable to the relocation of our corporate headquarters. The remaining increases in gross overhead dollars in 2014 compared with 2013 were primarily due to variable costs related to the higher revenue volume.

The gross dollar amount of our SG&A increased $54.0 million, or 11%, in 2013 compared with 2012. In 2013, SG&A includes costs associated with the relocation of our corporate headquarters totaling $15.0 million. The remainder of the increase is due to variable costs related to the higher revenue volume combined with higher incentive compensation accruals resulting from our improved operating results.

Equity in earnings of unconsolidated entities

Equity in earnings of unconsolidated entities was $8.2 million, $1.0 million, and $3.9 million for 2014, 2013, and 2012, respectively. The majority of our unconsolidated entities represent land development joint ventures. Consequently, their results vary between periods depending on the timing of transactions and circumstances specific to each entity.

Other expense, net

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

	2014	2013	2012
Write-offs of deposits and pre-acquisition costs (Note 3)	$6,099	$3,122	$2,278
Loss on debt retirements (Note 6)	8,584	26,930	32,071
Lease exit and related costs	9,609	2,778	7,306
Amortization of intangible assets (Note 1)	13,033	13,100	13,100
Miscellaneous expense, net	1,420	34,823	11,543
	$38,745	$80,753	$66,298

For additional information on each of the above, see the applicable Notes to the Consolidated Financial Statements. Miscellaneous expense, net includes charges of $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community and $5.1 million in 2012 related to the write-down of notes receivable.

Interest income, net

Interest income, net was similar in 2014, 2013, and 2012 based on our invested cash balances and low returns on invested cash available in the current interest rate environment.

Net new orders

Net new orders decreased 3% in 2014 compared with 2013. The number of active communities increased slightly (up 4% to 598 at December 31, 2014) in 2014 versus 2013, though this was primarily due to our acquisition of certain real estate assets from Dominion Homes in August 2014 (see Note 1 to the Consolidated Financial Statements). Excluding such assets, our active community count actually declined in 2014 as our pace of new community openings lagged the number of community close-outs. The cancellation rate (canceled orders for the period divided by gross new orders for the period) was unchanged from 2013 to 2014 at 15%. Ending backlog units, which represent orders for homes that have not yet closed, increased 1% at December 31, 2014 compared with December 31, 2013 as measured in units and increased by 2% over the prior year period as measured in dollars due to the increase in our average selling price.

Net new order levels decreased 10% in 2013 compared with 2012 primarily due to selling from 14% fewer active communities in 2013 (577 active communities at December 31, 2013). The cancellation rate was unchanged from 2012 to 2013 at 15%. Ending backlog units decreased 11% at December 31, 2013 compared with December 31, 2012 due to the decrease in net new orders but only decreased by 2% over the prior period as measured in dollars due to the increase in our average selling price.

Homes in production

The following is a summary of our homes in production at December 31, 2014 and 2013:

	2014	2013
Sold	3,761	3,723
Unsold		
Under construction	815	813
Completed	483	338
	1,298	1,151
Models	981	1,034
Total	6,040	5,908

The number of homes in production at December 31, 2014 was essentially flat (2% higher) compared to December 31, 2013. As part of our inventory management strategies, we will continue to maintain reasonable inventory levels relative to demand in each of our markets. Aggressively controlling the start of construction homes unsold to customers ("spec homes") is a component of our strategic pricing and inventory turns objectives. We continue to focus on maintaining a low level of spec home inventory, especially our completed specs ("final specs"), though inventory levels tend to fluctuate throughout the year.

Controlled lots

The following is a summary of our lots under control at December 31, 2014 and 2013:

	December 31, 2014			December 31, 2013		
	Owned	Optioned	Controlled	Owned	Optioned	Controlled
Northeast	6,389	4,185	10,574	7,423	2,762	10,185
Southeast	11,195	4,785	15,980	12,702	4,296	16,998
Florida	20,511	7,119	27,630	21,805	6,956	28,761
Texas	11,847	7,435	19,282	12,038	3,860	15,898
North	17,865	8,358	26,223	11,785	7,952	19,737
Southwest	28,413	2,691	31,104	29,459	2,440	31,899
Total	96,220	34,573	130,793	95,212	28,266	123,478
Developed (%)	25 %	23 %	25 %	24 %	18 %	23 %

Of our controlled lots, 96,220 and 95,212 were owned and 34,573 and 28,266 were under land option agreements at December 31, 2014 and 2013, respectively. While competition for well-positioned land is robust, we continue to pursue strategic land positions that meet our underwriting requirements. The remaining purchase price under our land option agreements totaled $1.9 billion at December 31, 2014. These land option agreements, which generally may be canceled at our discretion and in certain cases extend over several years, are secured by deposits and pre-acquisition costs totaling $127.3 million, of which only $7.7 million is refundable.

Homebuilding Segment Operations

Our homebuilding operations represent our core business. Homebuilding offers a broad product line to meet the needs of homebuyers in our targeted markets. As of December 31, 2014, we conducted our operations in 49 markets located throughout 26 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
Southeast:	Georgia, North Carolina, South Carolina, Tennessee
Florida:	Florida
Texas:	Texas
North:	Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, Northern California, Ohio, Washington
Southwest:	Arizona, Nevada, New Mexico, Southern California

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

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,				
	2014	FY 2014 vs. FY 2013	2013	FY 2013 vs. FY 2012	2012
Home sale revenues:					
Northeast	$708,465	(10)%	$784,087	8%	$722,691
Southeast	949,134	13%	842,856	22%	689,163
Florida	913,758	14%	800,331	29%	620,156
Texas	856,613	6%	804,806	21%	666,759
North	1,428,461	18%	1,214,332	23%	989,510
Southwest	805,740	(18)%	977,898	13%	864,133
	$5,662,171	4%	$5,424,309	19%	$4,552,412
Income before income taxes:					
Northeast	$103,865	(6)%	$110,246	50%	$73,345
Southeast	156,513	29%	121,055	87%	64,678
Florida	190,441	36%	139,673	90%	73,472
Texas	133,005	19%	111,431	83%	60,979
North	197,230	20%	164,348	94%	84,597
Southwest	136,357	(24)%	179,163	124%	79,887
Other homebuilding (a)	(282,234)	19%	(346,803)	(24)%	(278,967)
	$635,177	33%	$479,113	203%	$157,991
Closings (units):					
Northeast	1,568	(15)%	1,835	2%	1,800
Southeast	3,160	5%	3,022	10%	2,757
Florida	2,752	—%	2,747	17%	2,340
Texas	3,750	—%	3,768	8%	3,487
North	3,684	8%	3,401	10%	3,103
Southwest	2,282	(24)%	2,993	(1)%	3,018
	17,196	(3)%	$17,766	8%	16,505
Average selling price:					
Northeast	$452	6%	$427	6%	$401
Southeast	300	8%	279	12%	250
Florida	332	14%	291	10%	265
Texas	228	7%	214	12%	191
North	388	9%	357	12%	319
Southwest	353	8%	327	14%	286
	$329	8%	$305	11%	$276

(a) Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Other homebuilding also included the following: losses on debt retirements of $8.6 million, $26.9 million, and $32.1 million, for 2014, 2013, and 2012, respectively; charges totaling $69.3 million to increase general liability insurance reserves in 2014; costs associated with the relocation of our corporate headquarters totaling $16.3 million and $15.4 million in 2014 and 2013, respectively; and charges of $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community.

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,							
	2014	FY 2014 vs. FY 2013		2013	FY 2013 vs. FY 2012		2012	
Net new orders - units:								
Northeast	1,408	(23	)%	1,834	(8	)%	1,997	
Southeast	3,075	(3	)%	3,164	3	%	3,066	
Florida	2,841	9	%	2,595	(6	)%	2,747	
Texas	3,773	6	%	3,563	(13	)%	4,117	
North	3,311	(1	)%	3,347	(9	)%	3,661	
Southwest	2,244	(13	)%	2,577	(25	)%	3,451	
	16,652	(3	)%	17,080	(10	)%	19,039	
Net new orders - dollars:								
Northeast	$649,202	(17	)%	$782,474	(5	)%	$820,609	
Southeast	944,567	5	%	895,800	14	%	787,286	
Florida	954,892	16	%	820,032	12	%	735,250	
Texas	881,843	11	%	796,377	(1	)%	807,455	
North	1,336,114	8	%	1,233,071	—	%	1,228,743	
Southwest	792,319	(9	)%	866,812	(17	)%	1,044,957	
	$5,558,937	3	%	$5,394,566	(1	)%	$5,424,300	
Cancellation rates:								
Northeast	12	%		13	%		12	%
Southeast	12	%		12	%		13	%
Florida	10	%		13	%		12	%
Texas	19	%		22	%		22	%
North	13	%		11	%		13	%
Southwest	20	%		19	%		15	%
	15	%		15	%		15	%
Unit backlog:								
Northeast	461	(26	)%	621	—	%	622	
Southeast	968	(8	)%	1,053	16	%	911	
Florida	1,002	10	%	913	(14	)%	1,065	
Texas	1,273	2	%	1,250	(14	)%	1,455	
North	1,462	21	%	1,213	(4	)%	1,267	
Southwest	684	(5	)%	722	(37	)%	1,138	
	5,850	1	%	5,772	(11	)%	6,458	
Backlog dollars:								
Northeast	$215,977	(22	)%	$275,239	(1	)%	$276,851	
Southeast	301,033	(1	)%	305,600	21	%	252,656	
Florida	349,968	13	%	308,834	7	%	289,133	
Texas	311,424	9	%	286,195	(3	)%	294,623	
North	518,431	11	%	465,480	4	%	446,741	
Southwest	247,028	(5	)%	260,448	(30	)%	371,534	
	$1,943,861	2	%	$1,901,796	(2	)%	$1,931,538	

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

	Operating Data by Segment ($000's omitted)				
	Years Ended December 31,				
	2014	FY 2014 vs. FY 2013	2013	FY 2013 vs. FY 2012	2012
Land-related charges*:					
Northeast	$2,824	407 %	$557	(69)%	$1,794
Southeast	1,826	83 %	998	(27)%	1,363
Florida	487	(55)%	1,076	403 %	214
Texas	321	68 %	191	(66)%	556
North	3,227	(6)%	3,434	(24)%	4,546
Southwest	816	73 %	472	(79)%	2,254
Other homebuilding	1,667	(43)%	2,944	(54)%	6,468
	$11,168	15 %	$9,672	(44)%	$17,195

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

Northeast:

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

For 2013, Northeast home sale revenues increased 8% compared with 2012 due to a 6% increase in the average selling price, combined with a 2% increase in closings. The increase in average selling price occurred primarily in New England and Mid-Atlantic. The increased income before income taxes was due to higher revenues and improved gross margins and overhead leverage. Net new orders decreased 8%, mainly due to lower order levels in the Mid-Atlantic due to fewer active communities, offset in part by an increase in orders in New England.

Southeast:

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

For 2013, Southeast home sale revenues increased 22% compared with 2012 due to a 12% increase in the average selling price, combined with a 10% increase in closings. The increase in average selling price was concentrated in Raleigh and Tennessee. The increase in closing volumes was primarily due to increases in Charlotte and Raleigh. The increased income before income taxes was due to the higher revenues and moderately improved gross margins. Net new orders increased 3% in 2013 led by our operations in Raleigh.

Florida:

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

For 2013, Florida home sale revenues increased 29% compared with 2012 due to a 10% increase in the average selling price and a 17% increase in closings. The increase in closings was concentrated in North Florida while the increase in average selling price occurred in both North and South Florida. The increased income before income taxes for 2013 resulted from the higher revenues combined with improved gross margins and overhead leverage. Net new orders decreased by 6% in 2013 due to fewer active communities in North Florida.

Texas:

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

For 2013, Texas home sale revenues increased 21% compared with the prior year period due to an 8% increase in closings combined with a 12% increase in average selling price. The increase in closings was most significant in Houston and Central Texas, while the increase in average selling price was led by our operations in Central Texas and Dallas. The increased income before income taxes for 2013 resulted from the higher revenues combined with improved gross margins and overhead leverage. Net new orders decreased by 13% for 2013 driven mainly by fewer active communities.

North:

For 2014, North home sale revenues increased 18% compared with the prior year period due to an 8% increase in closings and a 9% increase in average selling price. The increase in average selling price was due to increases across all divisions. The increase in closing volumes was primarily due to significant increases in the Midwest, including a small increase from the acquisition of certain real estate assets from Dominion Homes in August 2014, but offset by decreases in other North divisions. Demand in Northern California in particular has slowed in 2014 compared to 2013. The increase in income before income taxes resulted from the higher revenues combined with improved gross margins in the majority of divisions. Net new orders decreased by 1% in 2014 compared with 2013, mainly due to decreases in Illinois, St. Louis, Minnesota, and the Pacific Northwest, partially offset by increases in other North divisions.

For 2013, North home sale revenues increased 23% compared with the prior year period due to a 10% increase in closings and a 12% increase in average selling price. The increase in closing volumes was primarily due to significant increases in Michigan and Northern California. The increase in average selling price was due to increases across all divisions. The increase in income before income taxes resulted from the higher revenues combined with improved gross margins in every division. Net new orders decreased by 9% in 2013 compared with 2012, mainly due to a decrease in Northern California, as we purposely slowed sales pace in a number of communities by raising prices and limiting lot releases.

Southwest:

For 2014, Southwest home sale revenues decreased 18% compared with the prior year period due to a 24% decrease in closings offset in part by an 8% increase in average selling price. Both the decrease in closings and the increase in average selling price occurred across all divisions. The decrease in income before income taxes resulted from lower revenues combined with lower gross margins. Net new orders decreased by 13% in 2014 compared with 2013 primarily due to fewer active communities.

For 2013, Southwest home sale revenues increased 13% compared with the prior year period due to a 14% increase in average selling price offset by a 1% decrease in closings. The increase in average selling price occurred across all divisions. The decrease in closings was mainly due to decreases in Southern California and Las Vegas. The significant increase in income before income taxes was due to higher revenues and gross margins. Net new orders decreased by 25% in 2013 compared with 2012 primarily due to fewer active communities.

Financial Services Operations

We conduct our Financial Services operations, which include mortgage and title operations, through Pulte Mortgage and other subsidiaries. In originating mortgage loans, we initially use our own funds, including funds available pursuant to credit agreements with either third parties or with the Company. 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 servicing rights for only a short period of time. Operating as a captive business model primarily targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. Our Homebuilding customers continue to account for substantially all loan production. We believe that our capture rate, which represents loan originations from our Homebuilding operations as a percentage of total loan opportunities from our Homebuilding operations, excluding cash closings, is an important metric in evaluating the effectiveness of our captive mortgage business model. The following table presents selected financial information for our Financial Services operations ($000's omitted):

	Years Ended December 31,				
	2014	FY 2014 vs. FY 2013	2013	FY 2013 vs. FY 2012	2012
Mortgage operations revenues	$97,787	(14)%	$113,552	(17)%	$137,443
Title services revenues	27,851	2 %	27,399	17 %	23,445
Total Financial Services revenues	125,638	(11)%	140,951	(12)%	160,888
Expenses	71,239	(23)%	92,379	(32)%	135,511
Equity in earnings of unconsolidated entities	(182)	33 %	(137)	(26)%	(186)
Income before income taxes	$54,581	12 %	$48,709	91 %	$25,563
Total originations:					
Loans	10,805	(9)%	11,818	4 %	11,322
Principal	$2,656,683	(4)%	$2,765,509	10 %	$2,509,928

	Years Ended December 31,		
	2014	2013	2012
Supplemental data:			
Capture rate	80.2 %	80.2 %	81.9 %
Average FICO score	749	746	743
Loan application backlog	$980,863	$984,754	$1,178,321
Funded origination breakdown:			
FHA	10 %	16 %	22 %
VA	12 %	11 %	12 %
USDA	2 %	3 %	3 %
Other agency	70 %	67 %	61 %
Total agency	94 %	97 %	98 %
Non-agency	6 %	3 %	2 %
Total funded originations	100 %	100 %	100 %

Revenues

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

Total Financial Services revenues during 2013 decreased 12% compared with 2012. The decrease was primarily due to lower revenues per loan resulting from the increased competitiveness in the mortgage industry that occurred in 2013. The decline in revenues per loan more than offset the higher origination volume. Interest income, which is included in mortgage operations revenues, was moderately higher in 2013 than in 2012 due to the increase in loan originations.

In recent years, the mortgage industry has experienced a significant overall tightening of lending standards and a shift toward agency production. Adjustable rate mortgages (“ARMs”) accounted for 11% of funded loan production in 2014 compared with 5% and 3% in 2013 and 2012, respectively. The shift toward ARMs has contributed to lower profitability as ARMs generally contain lower margins. Additionally, fixed rate mortgages tend to have higher servicing values. Beginning in 2013, competition increased in the industry, partially as the result of the mortgage industry's lower refinancing volume. We expect this increased level of competition, and more challenging pricing environment, to continue for the foreseeable future.

Loan origination liabilities

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

During 2014, we reduced our loan origination liabilities by $18.6 million based on settlements of various pending repurchase requests and current conditions. During 2012, we recorded $49.0 million of provisions for losses as a change in estimate primarily to reflect projected claim volumes in excess of previous estimates. Reserves provided and related adjustments are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates. See Note 12 in the Consolidated Financial Statements.

The mortgage subsidiary of Centex also sold loans to a bank for inclusion in residential mortgage-backed securities (“RMBSs”) issued by the bank. In connection with these sales, Centex's mortgage subsidiary entered into agreements pursuant to which it may be required to indemnify the bank for losses incurred by investors in the RMBSs arising out of material errors or omissions in certain information provided by the mortgage subsidiary relating to the loans and loan origination process. In 2011, the bank notified us that it has been named defendant in two lawsuits alleging various violations of federal and state securities laws asserting that untrue statements of material fact were included in the registration statements used to market the sale of two RMBS transactions. See Note 12 in the Consolidated Financial Statements.

Income before income taxes

The increased income before income taxes for 2014 as compared with 2013 resulted from lower loss reserves related to loans originated in previous years, partially offset by less favorable loan pricing.

The increased income before income taxes for 2013 as compared with 2012 was due to higher origination volumes and lower loss reserves related to loans originated in previous years, partially offset by less favorable loan pricing.

Income Taxes

Our effective tax rate is affected by a number of factors, the most significant of which are the valuation allowance related to our deferred tax assets, changes in tax laws or other circumstances that impact the value of our deferred tax assets, and changes in our unrecognized tax benefits. Due to the effects of these factors, our effective tax rates in 2014, 2013, and 2012 are not correlated to the amount of our income before income taxes. Income tax expense for 2014 reflects a reversal of a portion of our valuation allowance, primarily related to certain of our state deferred tax assets, along with the favorable resolution of certain federal and state income tax matters. The income tax benefit for 2013 resulted from the reversal of substantially all of the valuation allowance related to our federal deferred tax assets and certain of our state deferred tax assets, while the income tax benefit for 2012 resulted primarily from the favorable resolution of certain federal and state income tax matters.

We evaluate our deferred tax assets each period to determine if a valuation allowance is required based on whether it is "more likely than not" that some portion of the deferred tax assets would not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of sufficient taxable income during future periods. We conduct our evaluation by considering all available positive and negative evidence.

Our income tax expense (benefit) for 2014 and 2013 included benefits of $45.6 million and $2.1 billion, respectively, related to reversals of valuation allowance previously recorded against our deferred tax assets. The 2014 reversal related primarily to certain of our state deferred tax assets as the result of an increase in expected future taxable income in certain jurisdictions. In 2013, we determined that the valuation allowance against substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets was no longer required. The principal positive evidence that led to the reversal of the valuation allowance in 2013 included: (1) our emergence from a three-year cumulative loss in 2013; (2) the significant positive income we generated during 2012 and 2013, including seven consecutive quarters of pretax income as of December 31, 2013; (3) continued improvements in 2013 over recent years in other key operating metrics, including revenues, gross margin, and overhead leverage; (4) our forecasted future profitability; (5) improvement in our financial position; and (6) significant evidence that conditions in the U.S. housing industry are more favorable than in recent years and our belief that conditions will continue to be favorable over the long-term.

After careful evaluation of all available positive and negative evidence, and giving more weight to objectively verifiable evidence over more subjective evidence, we concluded as of December 31, 2014 and December 31, 2013, that it was "more likely than not" that substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets would be realized. Even if industry conditions weaken from current levels, we believe we will be able to adjust our operations to sustain long-term profitability.

Liquidity and Capital Resources

We finance our land acquisition, development, and construction activities and financial services operations by 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. Based on our current financial condition and credit relationships, we believe that our operations and borrowing resources are sufficient to provide for our current and foreseeable capital requirements. However, we continue to evaluate the impact of market conditions on our liquidity and may determine that modifications are appropriate.

At December 31, 2014, we had unrestricted cash and equivalents of $1.3 billion and senior notes of $1.8 billion. We also had restricted cash balances of $16.4 million. Other financing sources include an unsecured revolving credit facility, a separate letter of credit agreement, and surety bond arrangements.

We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a diversified portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term investments, including money market funds and federal government or agency securities. We monitor our investments with each bank and do not believe our cash and equivalents are exposed to any material risk of loss. However, there can be no assurances that losses of principal balance on our cash and equivalents will not occur.

Our ratio of debt to total capitalization, excluding our Financial Services debt, was 27.5% at December 31, 2014.

During 2014, we retired prior to their scheduled maturity dates $245.7 million of senior notes. We recorded losses related to these transactions totaling $8.6 million. Losses on these transactions included the write-off of unamortized discounts, premiums, and transaction fees and are reflected in other expense, net. During 2013 and 2012, we retired senior notes totaling $461.4 million and $592.4 million, respectively.

Revolving credit facility

In July 2014, we entered into a senior unsecured revolving credit facility (the “Revolving Credit Facility”) maturing in July 2017. The Revolving Credit Facility provides for maximum borrowings of $500 million and contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to $1.0 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce available borrowing capacity under the Revolving Credit Facility and may total no more than the greater of: (i) 50% of the size of the facility or (ii) $300 million in the aggregate. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate or Base Rate plus an applicable margin, as defined. At December 31, 2014, we had no borrowings outstanding and $208.4 million of letters of credit issued under the Revolving Credit Facility.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2014, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

Limited recourse notes payable

We maintain limited recourse collateralized notes payable with third parties totaling $22.3 million and $7.5 million at December 31, 2014 and 2013, respectively. These notes have maturities ranging up to 6 years, are collateralized by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within Accrued and other liabilities.

Pulte Mortgage

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

Pulte Mortgage maintains a master repurchase agreement (the “Repurchase Agreement”) with third party lenders. In September 2014, Pulte Mortgage entered into an amendment to the Repurchase Agreement that extended the effective date to September 2015 and established a borrowing capacity of $150.0 million. The capacity will reduce to $99.8 million in February 2015, and will increase again to $150.0 million in June 2015. The purpose for the change in capacity during the term of the agreement is to lower associated fees during seasonally low volume periods when the additional capacity is unnecessary. 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 $140.2 million and $105.7 million outstanding under the Repurchase Agreement at December 31, 2014, and 2013, respectively, and was in compliance with all of its covenants and requirements.

Stock repurchase programs

In previous years, our Board of Directors authorized and announced a share repurchase program. In October 2014, our Board of Directors approved an increase of $750.0 million to such authorization. We repurchased 12.9 million and 7.2 million shares under the repurchase authorization for a total of $245.8 million and $118.1 million in 2014 and 2013, respectively. There were no repurchases under these programs during 2012. At December 31, 2014, we had remaining authorization to repurchase $738.5 million of common shares.

Dividends

We reinstated our quarterly cash dividend in July 2013. During 2013, we declared three cash dividends of $0.05 per common share each. During 2014, we declared cash dividends of $0.05 per common share in each of the first three quarters and $0.08 per common share in the fourth quarter for a total of $86.4 million.

Cash flows

Operating activities

Our net cash provided by operating activities in 2014 was $309.2 million, compared with $881.1 million and $760.1 million in 2013 and 2012, respectively. Generally, the primary drivers of our cash flow from operations are profitability and changes in inventory levels. Our positive cash flow from operations for 2014 was primarily due to our income before income taxes of $689.8 million. These cash flows were partially offset in 2014 by a net increase in inventories of $346.6 million as the result of an almost 40% increase in investment spending over the prior year to support future operations. Additionally, residential mortgage loans available-for-sale increased $53.7 million as the result of an increase in home closings in the month of December compared with the prior year.

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

Our positive cash flow from operations for 2012 was primarily due to our net income of $206.1 million combined with a net decrease in inventories of $455.2 million. The inventory decrease resulted from lower reinvestment in land inventory combined with a significant reduction in spec homes in production, partially offset by an increase in sold homes in production.

Investing activities

Investing activities are generally not a significant source or use of cash for us. Net cash used in investing activities totaled $67.6 million in 2014, compared with $46.0 million in 2013 and net cash provided by investing activities of $9.7 million in 2012. The use of cash from investing activities in 2014 was primarily due to the acquisition of certain real estate assets from Dominion Homes (see Note 1). Additionally, capital expenditures increased in 2014 as the result of new community openings and the relocation of our corporate headquarters. These cash outflows were partially offset by a $55.0 million reduction in restricted cash related to letters of credit as a result of the Revolving Credit Facility entered into in July 2014.

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

The positive cash flow from investing activities in 2012 was primarily due to a $28.7 million decrease in the restricted cash we are required to maintain under our letter of credit facilities, which resulted from a reduction in letters of credit outstanding, offset by capital expenditures and investments in unconsolidated entities.

Financing activities

Net cash used in financing activities was $529.1 million in 2014, compared with net cash used of $659.6 million and $448.2 million in 2013 and 2012, respectively. During the last three years, we significantly reduced our outstanding senior notes through a variety of transactions, including scheduled maturities, open market repurchases, early redemptions as provided within indenture agreements, and tender offers. Completion of these transactions required the use of $250.6 million, $479.8 million, and $618.8 million of cash in 2014, 2013, and 2012, respectively. We borrowed an incremental $34.6 million under the Repurchase Agreement during 2014, repaid $33.1 million of borrowings in 2013, and borrowed $138.8 million in 2012, the year in which it was put in place. Cash used in financing activities for 2014 also reflects dividend payments of $75.6 million and the repurchase of common shares for $253.0 million, partially offset by funds provided by the issuance of common shares in connection with employee stock option exercises.

Inflation

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

Seasonality

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

Contractual Obligations and Commercial Commitments

The following table summarizes our payments under contractual obligations as of December 31, 2014:

	Payments Due by Period ($000's omitted)				
	Total	2015	2016-2017	2018-2019	After 2019
Contractual obligations:					
Long-term debt (a)	$3,160,188	$350,986	$756,375	$134,252	$1,918,575
Operating lease obligations	143,723	28,744	44,530	27,716	42,733
Other long-term liabilities (b)	26,844	1,210	15,518	5,046	5,070
Total contractual obligations (c)	$3,330,755	$380,940	$816,423	$167,014	$1,966,378

(a) Represents principal and interest payments related to our senior notes.
(b) Represents limited recourse collateralized financing arrangements and related interest payments.
(c) We do not have any payments due in connection with capital lease or long-term purchase obligations.

We are subject to certain obligations associated with entering into contracts (including land option contracts) for the purchase, development, and sale of real estate in the routine conduct of our business. Option contracts for the purchase of land enable us to defer acquiring portions of properties owned by third parties and unconsolidated entities until we have determined whether to exercise our option, which may serve to reduce our financial risks associated with long-term land holdings. At December 31, 2014, we had $127.3 million of deposits and pre-acquisition costs relating to option agreements to acquire 34,573 lots with a remaining purchase price of $1.9 billion. We expect to acquire the majority of such land within the next two years and the remainder thereafter.

At December 31, 2014, we had $32.9 million of gross unrecognized tax benefits and $17.3 million of related accrued interest and penalties. We are currently under examination by various taxing jurisdictions and anticipate finalizing the examinations with certain jurisdictions within the next twelve months. However, the final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2004 - 2014.

The following table summarizes our other commercial commitments as of December 31, 2014:

	Amount of Commitment Expiration by Period ($000's omitted)				
	Total	2015	2016-2017	2018-2019	After 2019
Other commercial commitments:					
Guarantor credit facilities (a)	$500,000	$—	$500,000	$—	$—
Non-guarantor credit facilities (b)	150,000	150,000	—	—	—
Total commercial commitments (c)	$650,000	$150,000	$500,000	$—	$—

(a) The $500.0 million in 2016-2017 represents the capacity of our unsecured revolving credit facility, under which no borrowings were outstanding and $208.4 million of letters of credit were issued at December 31, 2014.

(b) Represents the capacity of the Repurchase Agreement, of which $140.2 million was outstanding at December 31, 2014, and which expires in September 2015. Effective September 2014, the borrowing capacity under the agreement was set at $150.0 million. The capacity will reduce to $99.8 million in February 2015, and will increase again to $150.0 million in June 2015.

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

Off-Balance Sheet Arrangements

We use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the development of our homebuilding projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related homebuilding projects. If the obligations related to a project are ongoing, annual extensions of the letters of credit are typically granted on a year-to-year basis. At December 31, 2014, we had outstanding letters of credit of $212.1 million. Our surety bonds generally do not have stated expiration dates; rather, we are released from the bonds as the contractual performance is completed. These bonds, which approximated $1.0 billion at December 31, 2014, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At December 31, 2014, these agreements had an aggregate remaining purchase price of $1.9 billion. Pursuant to these land option agreements, we provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. In certain instances, we are required to record the land under option as if we own it. At December 31, 2014, we recorded assets of $30.2 million as land, not owned, under option agreements.

At December 31, 2014, aggregate outstanding debt of unconsolidated joint ventures was $25.8 million, of which our proportionate share was $11.6 million. Of this amount, we provided limited recourse guaranties for $0.3 million at December 31, 2014. See Note 5 to the Consolidated Financial Statements for additional information.

Critical Accounting Policies and Estimates

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

Revenue recognition

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

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

Inventory

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

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

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and commissions and closing costs applicable to the home. The construction cost of the home includes amounts paid through the closing date of the home, plus an accrual for costs incurred but not yet paid, based on an analysis of budgeted construction costs. This accrual is reviewed for accuracy based on actual payments made after closing compared with the amount accrued, and adjustments are made if needed. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community’s remaining lots.

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

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

Residential mortgage loans available-for-sale

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

Loan origination liabilities

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

Because we generally do not retain the servicing rights to the loans we originate, information regarding the current and historical performance, credit quality, and outstanding balances of such loans is limited. Estimating these loan origination liabilities is further complicated by uncertainties surrounding numerous external factors, such as various macroeconomic factors (including unemployment rates and changes in home prices), actions taken by third parties, including the parties servicing the loans, and the U.S. federal government in its dual capacity as regulator of the U.S. mortgage industry and conservator of the government-sponsored enterprises commonly known as Fannie Mae and Freddie Mac, which own or guarantee the majority of mortgage loans in the U.S. Most requests received to date relate to make-whole payments on loans that have been foreclosed. Requests undergo extensive analysis to confirm the exposure, attempt to cure the identified defect, and, when necessary, determine our liability. We establish liabilities for such anticipated losses based upon, among other things, the level of current unresolved repurchase requests, the volume of estimated probable future repurchase requests, our ability to cure the defects identified in the repurchase requests, and the severity of the estimated loss upon repurchase. Determining these estimates and the resulting liability requires a significant level of management judgment.

During 2014, we reduced our loan origination liabilities by $18.6 million based on settlements of various pending repurchase requests and current conditions. During 2012, we recorded $49.0 million of provisions for losses as a change in estimate primarily to reflect projected claim volumes in excess of previous estimates. Reserves provided and related adjustments are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

Intangible assets

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

Allowance for warranties

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

Self-insured risks

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time product revenue is recognized for each home closing and periodically evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate an estimate of the ultimate net cost of all unpaid losses, including estimates for incurred but not reported losses ("IBNR"). IBNR represents losses related to claims incurred but not yet reported plus development on reported claims. These estimates are subject to a high degree of uncertainty due to a variety of factors, including changes in claims reporting and resolution patterns, third party recoveries, insurance industry practices, the regulatory environment, and legal precedent. State regulations vary, but construction defect claims are reported and resolved over an extended period often exceeding ten years. In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from our subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable.

During 2014, we recorded a change in estimate increasing general liability insurance reserves by $69.3 million. Such additional reserves were primarily driven by estimated costs associated with siding repairs in certain previously completed communities that, in turn, impacted actuarial estimates for potential future claims. Adjustments to reserves are recorded in the period in which the change in estimate occurs. Changes in the frequency and timing of reported claims and estimates of specific claim values can impact the underlying inputs and trends utilized in the actuarial analyses, which could have a material impact on the recorded reserves. Additionally, the amount of insurance coverage available for each policy period also impacts our recorded reserves. Costs associated with our insurance programs are classified within selling, general, and administrative expenses.

Our recorded reserves for all such claims totaled $710.2 million and $668.1 million at December 31, 2014 and 2013, respectively, the vast majority of which relate to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 72% and 78% of the total general liability reserves at December 31, 2014 and 2013, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a variety of factors, including the frequency and severity of losses, which are based on our historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses. Because of the inherent uncertainty in estimating future losses related to these claims, actual costs could differ significantly from estimated costs. Based on the actuarial analyses performed, we believe the range of reasonably possible losses related to these claims is $650 million to $825 million. While this range represents our best estimate of our ultimate liability related to these claims, due to a variety of factors, including those factors described above, there can be no assurance that the ultimate costs realized by us will fall within this range.

Income taxes

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment is required. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the consolidated results of operations or financial position.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our rate-sensitive financings to the extent long-term rates decline. The following tables set forth, as of December 31, 2014 and 2013, our rate-sensitive financing obligations, principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value ($000's omitted).

	As of December 31, 2014 for the Years ending December 31,							
	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed interest rate debt:								
Senior notes	$237,994	$465,245	$123,000	$—	$—	$1,000,000	$1,826,239	$1,952,774
Average interest rate	5.25 %	6.50 %	7.63 %	— %	— %	6.71 %	6.53 %	

	As of December 31, 2013 for the Years ending December 31,							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed interest rate debt:								
Senior notes	$—	$333,647	$465,245	$123,000	$—	$1,150,000	$2,071,892	$2,070,744
Average interest rate	— %	5.24 %	6.50 %	7.63 %	— %	6.80 %	6.53 %	

Derivative instruments and hedging activities

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

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

Hypothetical changes in the fair values of our financial instruments arising from immediate parallel shifts in long-term mortgage rates of 50, 100, and 150 basis points would not be material to our financial results due to the offsetting nature in the movements in fair value of our financial instruments.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 7a, Quantitative and Qualitative Disclosures About Market Risk, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “may,” “can,” “could,” “might,” “will” expressions identify forward-looking statements, including statements related to expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; continued volatility in the debt and equity markets; competition within the industries in which we operate; the availability and cost of land and other raw materials used by us in our homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions; the availability and cost of insurance covering risks associated with our businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See Item 1A – Risk Factors for a further discussion of these and other risks and uncertainties applicable to our businesses. We undertake no duty to update any forward-looking statement, whether as a result of new information, future events or changes in our expectations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PULTEGROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013
($000's omitted, except per share data)

	2014	2013
ASSETS		
Cash and equivalents	$1,292,862	$1,580,329
Restricted cash	16,358	72,715
House and land inventory	4,392,100	3,978,561
Land held for sale	101,190	61,735
Land, not owned, under option agreements	30,186	24,024
Residential mortgage loans available-for-sale	339,531	287,933
Investments in unconsolidated entities	40,368	45,323
Other assets	513,032	460,621
Intangible assets	123,115	136,148
Deferred tax assets, net	1,720,668	2,086,754
	$8,569,410	$8,734,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable, including book overdrafts of $32,586 and $35,827 in 2014 and 2013, respectively	$270,516	$202,736
Customer deposits	142,642	134,858
Accrued and other liabilities	1,343,774	1,377,750
Income tax liabilities	48,722	206,015
Financial Services debt	140,241	105,664
Senior notes	1,818,561	2,058,168
Total liabilities	3,764,456	4,085,191
Shareholders' equity:		
Preferred stock, $0.01 par value; 25,000,000 shares authorized, none issued	$—	$—
Common stock, $0.01 par value; 500,000,000 shares authorized, 369,458,530 and 381,299,600 shares issued and outstanding at December 31, 2014 and 2013, respectively	3,695	3,813
Additional paid-in capital	3,072,996	3,052,016
Accumulated other comprehensive loss	(690)	(795)
Retained earnings	1,728,953	1,593,918
Total shareholders' equity	4,804,954	4,648,952
	$8,569,410	$8,734,143

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2014, 2013, and 2012
(000's omitted, except per share data)

	2014	2013	2012
Revenues:			
Homebuilding			
Home sale revenues	$5,662,171	$5,424,309	$4,552,412
Land sale revenues	34,554	114,335	106,698
	5,696,725	5,538,644	4,659,110
Financial Services	125,638	140,951	160,888
Total revenues	5,822,363	5,679,595	4,819,998
Homebuilding Cost of Revenues:			
Home sale cost of revenues	4,343,249	4,310,528	3,833,451
Land sale cost of revenues	23,748	104,426	94,880
	4,366,997	4,414,954	3,928,331
Financial Services expenses	71,239	92,379	135,511
Selling, general, and administrative expenses	667,815	568,500	514,457
Other expense, net	38,745	80,753	66,298
Interest income	(4,632)	(4,395)	(4,913)
Interest expense	849	712	819
Equity in earnings of unconsolidated entities	(8,408)	(1,130)	(4,059)
Income before income taxes	689,758	527,822	183,554
Income tax expense (benefit)	215,420	(2,092,294)	(22,591)
Net income	$474,338	$2,620,116	$206,145
Net income per share:			
Basic	$1.27	$6.79	$0.54
Diluted	$1.26	$6.72	$0.54
Cash dividends declared	$0.23	$0.15	$—
Number of shares used in calculation:			
Basic	370,377	383,077	381,562
Effect of dilutive securities	3,725	3,789	3,002
Diluted	374,102	386,866	384,564

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2014, 2013, and 2012
(000's omitted)

	2014	2013	2012
Net income	$474,338	$2,620,116	$206,145
Other comprehensive income, net of tax:			
Change in value of derivatives	105	197	314
Other comprehensive income	105	197	314
Comprehensive income	$474,443	$2,620,313	$206,459

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended December 31, 2014, 2013, and 2012
(000's omitted, except per share data)

	Common Stock					
	Shares	$	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Accumulated Deficit)	Total
Shareholders' Equity, January 1, 2012	382,608	$3,826	$2,986,240	$ (1,306)	$ (1,050,145)	$1,938,615
Stock option exercises	2,877	29	32,780	—	—	32,809
Stock awards, net of cancellations	1,228	12	(12)	—	—	—
Stock repurchases	(105)	(1)	(813)	—	(147)	(961)
Stock-based compensation	—	—	12,694	—	—	12,694
Net income	—	—	—	—	206,145	206,145
Other comprehensive income	—	—	—	314	—	314
Shareholders' Equity, December 31, 2012	386,608	$3,866	$3,030,889	$ (992)	$ (844,147)	$2,189,616
Stock option exercises	1,432	14	19,397	—	—	19,411
Stock awards, net of cancellations	1,002	10	(10)	—	—	—
Dividends declared	—	—	—	—	(57,530)	(57,530)
Stock repurchases	(7,742)	(77)	(3,063)	—	(124,521)	(127,661)
Stock-based compensation	—	—	14,474	—	—	14,474
Excess tax benefits (deficiencies) from stock-based compensation	—	—	(9,671)	—	—	(9,671)
Net income	—	—	—	—	2,620,116	2,620,116
Other comprehensive income	—	—	—	197	—	197
Shareholders' Equity, December 31, 2013	381,300	$3,813	$3,052,016	$ (795)	$ 1,593,918	$4,648,952
Stock option exercises	1,422	14	15,613	—	—	15,627
Stock awards, net of cancellations	(43)	—	—	—	—	—
Dividends declared	—	—	72	—	(86,442)	(86,370)
Stock repurchases	(13,220)	(132)	—	—	(252,887)	(253,019)
Stock-based compensation	—	—	13,786	—	26	13,812
Excess tax benefits (deficiencies) from stock-based compensation	—	—	(8,491)	—	—	(8,491)
Net income	—	—	—	—	474,338	474,338
Other comprehensive income	—	—	—	105	—	105
Shareholders' Equity, December 31, 2014	369,459	$3,695	$3,072,996	$ (690)	$ 1,728,953	$4,804,954

See Notes to Consolidated Financial Statements.

46

PULTEGROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2014, 2013, and 2012
($000's omitted)

	2014	2013	2012
Cash flows from operating activities:			
Net income	$474,338	$2,620,116	$206,145
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:			
Deferred income tax expense	223,769	(2,096,425)	—
Write-down of land and deposits and pre-acquisition costs	11,168	9,672	17,195
Depreciation and amortization	39,864	31,587	30,027
Stock-based compensation expense	29,292	30,480	22,897
Loss on debt retirements	8,584	26,930	32,071
Equity in earnings of unconsolidated entities	(8,408)	(1,130)	(4,059)
Distributions of earnings from unconsolidated entities	4,932	2,049	7,488
Other non-cash, net	9,567	9,375	10,356
Increase (decrease) in cash due to:			
Restricted cash	1,368	3,387	1,257
Inventories	(346,596)	265,064	455,223
Residential mortgage loans available-for-sale	(53,734)	28,448	(60,828)
Other assets	(46,249)	(38,190)	26,014
Accounts payable, accrued and other liabilities	(23,671)	(17,377)	20,802
Income tax liabilities	(14,975)	7,150	(4,448)
Net cash provided by operating activities	309,249	881,136	760,140
Cash flows from investing activities:			
Distributions from unconsolidated entities	8,157	1,001	3,029
Investments in unconsolidated entities	(9)	(1,677)	(16,456)
Net change in loans held for investment	335	(12,265)	836
Change in restricted cash related to letters of credit	54,989	(4,152)	28,653
Proceeds from the sale of property and equipment	113	15	7,586
Capital expenditures	(48,790)	(28,899)	(13,942)
Cash used for business acquisition	(82,419)	—	—
Net cash provided by (used in) investing activities	(67,624)	(45,977)	9,706
Cash flows from financing activities:			
Financial Services borrowings (repayments)	34,577	(33,131)	138,795
Other borrowings (repayments)	(250,631)	(479,827)	(618,800)
Stock option exercises	15,627	19,411	32,809
Stock repurchases	(253,019)	(127,661)	(961)
Dividends paid	(75,646)	(38,382)	—
Net cash used in financing activities	(529,092)	(659,590)	(448,157)
Net increase (decrease) in cash and equivalents	(287,467)	175,569	321,689
Cash and equivalents at beginning of period	1,580,329	1,404,760	1,083,071
Cash and equivalents at end of period	$1,292,862	$1,580,329	$1,404,760
Supplemental Cash Flow Information:			
Interest paid (capitalized), net	$(4,561)	$(171)	$(1,470)
Income taxes paid (refunded), net	$1,030	$373	$(13,322)

See Notes to Consolidated Financial Statements.

PULTEGROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of significant accounting policies

Basis of presentation

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

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

Business acquisition

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

Use of estimates

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

Subsequent events

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

Cash and equivalents

Cash and equivalents include institutional money market investments and time deposits with a maturity of three months or less when acquired. Cash and equivalents at December 31, 2014 and 2013 also included $5.1 million and $3.7 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 includes deposits maintained with financial institutions under cash-collateralized letter of credit agreements (see Note 6) as well as 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 CONSOLIDATED FINANCIAL STATEMENTS (continued)

Investments in unconsolidated entities

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

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

Intangible assets

Intangible assets consist of tradenames acquired in connection with the 2009 acquisition of Centex Corporation ("Centex") and the 2001 acquisition of Del Webb Corporation ("Del Webb"). These intangible assets were valued at the acquisition date and are being amortized over 20-year lives. The acquired cost and accumulated amortization of our intangible assets were $259.0 million and $135.9 million, respectively, at December 31, 2014, and $259.0 million and $122.9 million, respectively, at December 31, 2013. Amortization expense totaled $13.0 million in 2014, and $13.1 million in 2013 and 2012, and is expected to be $12.9 million in each of the next five years.

The ultimate realization of these assets is dependent upon estimates of future earnings and benefits that we expect to generate from their use. If we determine that the carrying values of intangible assets may not be recoverable based upon the existence of one or more indicators of impairment, we use a projected undiscounted cash flow method to determine if impairment exists. If the carrying values of the intangible assets exceed the expected undiscounted cash flows, then we measure impairment as the difference between the fair value of the asset and the recorded carrying value. There were no impairments of tradenames during 2014, 2013, or 2012.

Property and equipment, net, and depreciation

Property and equipment are recorded at cost. Maintenance and repair costs are expensed as incurred. Depreciation is computed by the straight-line method based upon estimated useful lives as follows: model home furniture - two years; office furniture and equipment - three to ten years; and leasehold improvements - life of the lease. Property and equipment are included in other assets and totaled $75.2 million net of accumulated depreciation of $192.2 million at December 31, 2014 and $53.1 million net of accumulated depreciation of $182.0 million at December 31, 2013. Depreciation expense totaled $26.8 million, $18.5 million, and $16.9 million in 2014, 2013, and 2012, respectively.

Advertising costs

Advertising costs are expensed as incurred and totaled $41.8 million, $42.4 million, and $45.8 million, in 2014, 2013, and 2012, respectively.

Employee benefits

We maintain defined contribution retirement plans that cover substantially all of our employees. Company contributions to the plans totaled $12.1 million, $11.0 million, and $9.4 million in 2014, 2013, and 2012, respectively.

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

Other expense, net

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

	2014	2013	2012
Write-offs of deposits and pre-acquisition costs (Note 3)	$6,099	$3,122	$2,278
Loss on debt retirements (Note 6)	8,584	26,930	32,071
Lease exit and related costs	9,609	2,778	7,306
Amortization of intangible assets (Note 1)	13,033	13,100	13,100
Miscellaneous, net (a)	1,420	34,823	11,543
	$38,745	$80,753	$66,298

(a) Includes charges of $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community (see Note 12) and $5.1 million in 2012 related to the write-down of notes receivable.

Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders (the “Numerator”) by the weighted-average number of common shares, adjusted for unvested shares, (the “Denominator”) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the Denominator is increased to include the dilutive effects of stock options, unvested restricted stock and restricted stock units, and other potentially dilutive instruments. Any stock options that have an exercise price greater than the average market price are considered to be anti-dilutive and are excluded from the diluted earnings per share calculation. Our earnings per share excluded 6.6 million, 9.6 million, and 16.6 million stock options, unvested restricted stock and restricted stock units, and other potentially dilutive instruments in 2014, 2013, and 2012, respectively.

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

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

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

	December 31, 2014	December 31, 2013	December 31, 2012
Numerator:			
Net income	$474,338	$2,620,116	$206,145
Less: earnings distributed to participating securities	(583)	(407)	—
Less: undistributed earnings allocated to participating securities	(2,668)	(19,201)	—
Numerator for basic earnings per share	$471,087	$2,600,508	$206,145
Add back: undistributed earnings allocated to participating securities	2,668	19,201	—
Less: undistributed earnings reallocated to participating securities	(2,643)	(18,845)	—
Numerator for diluted earnings per share	$471,112	$2,600,864	$206,145
Denominator:			
Basic shares outstanding	370,377	383,077	381,562
Effect of dilutive securities	3,725	3,789	3,002
Diluted shares outstanding	374,102	386,866	384,564
Earnings per share:			
Basic	$1.27	$6.79	$0.54
Diluted	$1.26	$6.72	$0.54

Stock-based compensation

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

Income taxes

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

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

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

Homebuilding revenue recognition

Homebuilding revenue and related profit are generally recognized when title to and possession of the property are transferred to the buyer. In situations where the buyer’s financing is originated by Pulte Mortgage and the buyer has not made an adequate initial or continuing investment, the profit on such sale is deferred until the sale of the related mortgage loan to a third-party investor has been completed. If there is a loss on the sale of the property, the loss on such sale is recognized at the time of closing. The amount of such deferred profits were not material at either December 31, 2014 or December 31, 2013.

Sales incentives

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

Inventory

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

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

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and commissions and closing costs applicable to the home. The construction cost of the home includes amounts paid through the closing date of the home, plus an appropriate accrual for costs incurred but not yet paid, based on an analysis of budgeted construction costs. This accrual is reviewed for accuracy based on actual payments made after closing compared with the amount accrued, and adjustments are made if needed. Total community land acquisition and development costs are based on an analysis of budgeted costs compared with actual costs incurred to date and estimates to complete. The development cycles for our communities range from under one year to in excess of ten years for certain master planned communities. Adjustments to estimated total land acquisition and development costs for the community affect the amounts costed for the community’s remaining lots.

We record valuation adjustments on land inventory when events and circumstances indicate that the related community may be impaired and when the cash flows estimated to be generated by the community are less than its carrying amount. Such indicators include gross margin or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. Communities that demonstrate potential impairment indicators are tested for impairment by comparing the expected undiscounted cash flows for the community to its carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we estimate the fair value of the community. Impairment charges are recorded if the fair value of the community's inventory is less than its carrying value. We determine the fair value of a community's inventory using a combination of market comparable land transactions, where available, and discounted cash flow models. These estimated cash flows are significantly impacted by estimates related to expected average selling prices, expected sales paces, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. The assumptions used in the discounted cash flow models are specific to each community. Our evaluations for impairments are based on our best estimates of the future cash flows for our communities. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, the long life cycles of many communities, and potential changes in our strategy related to certain communities, actual results could differ significantly from such estimates. See Note 3.

Land held for sale

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

Land option agreements

We enter into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Such contracts enable us to defer acquiring portions of properties owned by third parties or unconsolidated entities until we have determined whether and when to exercise our option, which reduces our financial risks associated with long-term land holdings. Option deposits and pre-acquisition costs (such as environmental testing, surveys, engineering, and entitlement costs) are capitalized if the costs are directly identifiable with the land under option, the costs would be capitalized if we owned the land, and acquisition of the property is probable. Such costs are reflected in other assets and are reclassified to inventory upon taking title to the land. We write off deposits and pre-acquisition costs when it becomes probable that we will not go forward with the project or recover the capitalized costs. Such decisions take into consideration changes in local market conditions, the timing of required land purchases, the availability and best use of necessary incremental capital, and other factors. We record any such write-offs of deposits and pre-acquisition costs within other expense, net. See Note 3.

If an entity holding the land under option is a variable interest entity ("VIE"), our deposit represents a variable interest in that entity. No VIEs required consolidation at either December 31, 2014 or December 31, 2013 because we determined that we were not the primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the applicable land option agreements. Separately, certain land option agreements represent financing arrangements due to the remaining purchase price under the land option agreements, in the event we exercise the purchase rights under the agreements, even though we generally have no obligation to pay these future amounts. As a result, we recorded $30.2 million and $24.0 million at December 31, 2014 and December 31, 2013, respectively, to land, not owned, under option agreements with a corresponding increase to accrued and other liabilities. The following provides a summary of our interests in land option agreements ($000's omitted):

December 31, 2014	December 31, 2013

	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
Land options with VIEs	$56,039	$891,506	$12,533	$40,486	$661,158	$8,167
Other land options	71,241	999,079	17,653	50,548	729,128	15,857
	$127,280	$1,890,585	$30,186	$91,034	$1,390,286	$24,024

53

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

Start-up costs

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

Allowance for warranties

Home purchasers are provided with a limited warranty against certain building defects, including a one-year comprehensive limited warranty and coverage for certain other aspects of the home's construction and operating systems for periods of up to 10 years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time the product revenue is recognized.

Self-insured risks

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

Residential mortgage loans available-for-sale

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

Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. At December 31, 2014 and 2013, residential mortgage loans available-for-sale had an aggregate fair value of $339.5 million and $287.9 million, respectively, and an aggregate outstanding principal balance of $327.4 million and $278.1 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled $1.7 million and $(1.2) million for the years ended December 31, 2014 and 2013, respectively. These changes in fair value were substantially offset by changes in fair value of the corresponding hedging instruments. Net gains from the sale of mortgages during 2014, 2013, and 2012 were $67.2 million, $80.3 million, and $109.2 million, respectively, and have been included in Financial Services revenues.

Mortgage servicing rights

We sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the servicing rights for only a short period of time. We recognize the fair value of our rights to service a mortgage loan as revenue at the time of entering into an interest rate lock commitment with a borrower. Due to the short period of time the servicing rights are held, we do not amortize the servicing asset. The servicing sales contracts provide for the reimbursement of payments made by the purchaser if loans prepay within specified periods of time, generally within 90 to 120 days after sale. We establish reserves for this liability at the time the sale is recorded. Such reserves were immaterial at December 31, 2014 and 2013 and are included in accrued and other liabilities.

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

Loans held for investment

We maintain a portfolio of loans that either have been repurchased from investors or were not saleable upon closing. We have the intent and ability to hold these loans for the foreseeable future or until maturity or payoff. These loans are carried at cost and are reviewed for impairment when recoverability becomes doubtful. Loans held for investment are included in other assets and totaled $12.5 million and $11.0 million at December 31, 2014 and 2013, respectively.

Interest income on mortgage loans

Interest income on mortgage loans is recorded in Financial Services revenues, accrued from the date a mortgage loan is originated until the loan is sold, and totaled $7.2 million, $7.5 million, and $6.0 million in 2014, 2013, and 2012, respectively. Loans are placed on non-accrual status once they become greater than 90 days past due their contractual terms. Subsequent payments received are applied according to the contractual terms of the loan. Mortgage discounts are not amortized as interest income due to the short period the loans are held until sale to third party investors.

Mortgage servicing, origination, and commitment fees

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

Title services

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

Derivative instruments and hedging activities

We are exposed to market risks from commitments to lend, movements in interest rates, and canceled or modified commitments to lend. A commitment to lend at a specific interest rate (an interest rate lock commitment) is a derivative financial instrument (interest rate is locked to the borrower). In order to reduce these risks, we use other derivative financial instruments, principally cash forward placement contracts on mortgage-backed securities and whole loan investor commitments, to economically hedge the interest rate lock commitment. We enter into these derivative financial instruments based upon our portfolio of interest rate lock commitments and closed loans. We do not enter into any derivative financial instruments for trading purposes.

At December 31, 2014 and 2013, we had aggregate interest rate lock commitments of $146.1 million and $175.7 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.

Forward contracts on mortgage-backed securities are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price that may be settled in cash, by offsetting the position, or through the delivery of the financial instrument. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. We also use whole loan investor commitments, which are obligations of the investor to buy loans at a specified price within a specified time period. At December 31, 2014 and 2013, we had unexpired forward contracts of $371.0 million and $381.5 million, respectively, and whole loan investor commitments of $63.5 million and $31.7 million, respectively. Changes in the fair value of interest rate lock commitments and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

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

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

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

	December 31, 2014		December 31, 2013	
	Other Assets	Other Liabilities	Other Assets	Other Liabilities
Interest rate lock commitments	$4,313	$65	$3,628	$489
Forward contracts	79	3,653	4,374	34
Whole loan commitments	31	619	189	84
	$4,423	$4,337	$8,191	$607

New accounting pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-04, "Receivables - Troubled Debt Restructurings by Creditors," which clarifies when an in substance repossession or foreclosure of residential real estate property collateralizing a consumer mortgage loan has occurred. By doing so, this guidance helps determine when the creditor should derecognize the loan receivable and recognize the real estate property. The guidance is effective for us beginning January 1, 2015 and is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.
In May 2014, the FASB issued Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for us for fiscal and interim periods beginning January 1, 2017 and allows for full retrospective or modified retrospective methods of adoption. We are currently evaluating the impact that the standard will have on our financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-11, "Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures" ("ASU 2014-11"), which makes limited amendments to ASC 860, "Transfers and Servicing." The ASU requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates accounting guidance on linked repurchase financing transactions, and expands disclosure requirements related to certain transfers of financial assets. ASU 2014-11 is effective for us for fiscal periods beginning January 1, 2015 and interim periods beginning April 1, 2015 and is not expected to have a material impact on our consolidated financial position, results of operations, or cash flows.

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

2. Corporate office relocation

In May 2013, we announced our plan to relocate our corporate offices to Atlanta, Georgia, from the previous location in Bloomfield Hills, Michigan. The relocation of operations is occurring in phases over time and is expected to be substantially complete in 2015. We recorded employee severance, retention, relocation, and related costs of $7.6 million and $15.0 million in 2014 and 2013, respectively. We also recorded lease exit and asset impairment costs totaling $8.7 million and $0.4 million in 2014 and 2013, respectively. Severance, retention, relocation, and related costs are recorded within selling, general, and administrative expense, while lease exit and asset impairments are included in other expense, net. We expect the remaining costs to total less than $15.0 million. We have also incurred costs at the new location related to the recruitment and onboarding of new employees and certain redundant operating costs, the amount of which has not been material.

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

3. Inventory and land held for sale

Major components of inventory at December 31, 2014 and 2013 were ($000’s omitted):

	2014	2013
Homes under construction	$1,084,137	$1,042,147
Land under development	2,545,049	2,189,387
Raw land	762,914	747,027
	$4,392,100	$3,978,561

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

	Years Ended December 31,		
	2014	2013	2012
Interest in inventory, beginning of period	$230,922	$331,880	$355,068
Interest capitalized	131,444	154,107	201,103
Interest expensed (a)	(194,728)	(255,065)	(224,291)
Interest in inventory, end of period	167,638	230,922	331,880

(a) Interest expensed to Home sale cost of revenues for 2014, 2013, and 2012 included $1.3 million, $2.9 million, and $6.5 million, respectively, of capitalized interest write-offs resulting from land-related charges and sales.

Land-related charges

We recorded the following land-related charges:

	2014	2013	2012
Land impairments	$3,911	$2,944	$13,437
Net realizable value adjustments ("NRV") - land held for sale	1,158	3,606	1,480
Write-off of deposits and pre-acquisition costs	6,099	3,122	2,278
Total land-related charges	$11,168	$9,672	$17,195

Land held for sale

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land held for sale at December 31, 2014 and 2013 was as follows ($000’s omitted):

	2014	2013
Land held for sale, gross	$108,725	$70,003
Net realizable value reserves	(7,535)	(8,268)
Land held for sale, net	$101,190	$61,735

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

4. Segment information

Our Homebuilding operations are engaged in the acquisition and development of land primarily for residential purposes within the U.S. and the construction of housing on such land. Home sale revenues for detached and attached homes were $4.8 billion and $885.8 million in 2014, $4.5 billion and $939.0 million in 2013, and $3.6 billion and $925.4 million in 2012, respectively. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

Northeast:	Connecticut, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
Southeast:	Georgia, North Carolina, South Carolina, Tennessee
Florida:	Florida
Texas:	Texas
North:	Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, Northern California, Ohio, Washington
Southwest:	Arizona, Nevada, New Mexico, Southern California

We also have a reportable segment for our Financial Services operations, which consist principally of mortgage banking and title operations. The Financial Services segment operates generally in the same markets as the Homebuilding segments. Evaluation of segment performance is generally based on income before income taxes. Each reportable segment generally follows the same accounting policies described in Note 1 "Summary of Significant Accounting Policies" to the consolidated financial statements.

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2014	2013	2012
Revenues:			
Northeast	$710,859	$819,709	$755,148
Southeast	949,635	842,921	691,113
Florida	917,956	802,665	628,997
Texas	859,165	835,473	682,929
North	1,436,500	1,232,814	1,022,633
Southwest	822,610	1,005,062	878,290
	5,696,725	5,538,644	4,659,110
Financial Services	125,638	140,951	160,888
Consolidated revenues	$5,822,363	$5,679,595	$4,819,998
Income before income taxes:			
Northeast	$103,865	$110,246	$73,345
Southeast	156,513	121,055	64,678
Florida	190,441	139,673	73,472
Texas	133,005	111,431	60,979
North	197,230	164,348	84,597
Southwest	136,357	179,163	79,887
Other homebuilding (a)	(282,234)	(346,803)	(278,967)
	635,177	479,113	157,991
Financial Services	54,581	48,709	25,563
Consolidated income before income taxes	$689,758	$527,822	$183,554

(a) Other homebuilding includes the amortization of intangible assets, amortization of capitalized interest, and other items not allocated to the operating segments. Other homebuilding also included the following: losses on debt retirements of $8.6 million, $26.9 million, and $32.1 million for 2014, 2013, and 2012, respectively; charges totaling $69.3 million to increase general liability insurance reserves in 2014; costs associated with the relocation of our corporate headquarters totaling $16.3 million and $15.4 million in 2014 and 2013, respectively; and charges of $41.2 million in 2013 resulting from a contractual dispute related to a previously completed luxury community.

59

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

	Operating Data by Segment ($000's omitted)		
	Years Ended December 31,		
	2014	2013	2012
Land-related charges*:			
Northeast	$2,824	$557	$1,794
Southeast	1,826	998	1,363
Florida	487	1,076	214
Texas	321	191	556
North	3,227	3,434	4,546
Southwest	816	472	2,254
Other homebuilding	1,667	2,944	6,468
	$11,168	$9,672	$17,195

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

	Operating Data by Segment ($000's omitted)		
	Years Ended December 31,		
	2014	2013	2012
Depreciation and amortization:			
Northeast	$1,852	$1,987	$1,790
Southeast	2,666	1,647	1,028
Florida	2,150	1,334	1,640
Texas	1,698	1,784	1,619
North	4,414	2,265	1,709
Southwest	4,002	2,969	3,143
Other homebuilding (a)	19,548	16,248	16,168
	36,330	28,234	27,097
Financial Services	3,534	3,353	2,930
	$39,864	$31,587	$30,027

(a) Other homebuilding includes amortization of intangible assets.

	Operating Data by Segment ($000's omitted)		
	Years Ended December 31,		
	2014	2013	2012
Equity in (earnings) loss of unconsolidated entities:			
Northeast	$(4,733)	$(58)	$(4)
Southeast	—	—	—
Florida	(7)	(4)	—
Texas	—	—	—
North	(2,417)	(608)	(1,497)
Southwest	(486)	(678)	(1,137)
Other homebuilding	(583)	355	(1,235)
	(8,226)	(993)	(3,873)
Financial Services	(182)	(137)	(186)
	$(8,408)	$(1,130)	$(4,059)

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

Operating Data by Segment
($000's omitted)

	December 31, 2014				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$184,974	$266,229	$106,077	$557,280	$659,224
Southeast	147,506	304,762	117,981	570,249	605,067
Florida	150,743	350,016	112,225	612,984	717,531
Texas	134,873	250,102	91,765	476,740	528,392
North	280,970	478,665	137,044	896,679	996,908
Southwest	166,056	698,513	163,421	1,027,990	1,113,592
Other homebuilding (a)	19,015	196,762	34,401	250,178	3,527,731
	1,084,137	2,545,049	762,914	4,392,100	8,148,445
Financial Services	—	—	—	—	420,965
	$1,084,137	$2,545,049	$762,914	$4,392,100	$8,569,410

	December 31, 2013				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$212,611	$325,241	$106,681	$644,533	$731,259
Southeast	139,484	274,981	146,617	561,082	599,271
Florida	140,366	295,631	104,766	540,763	618,449
Texas	130,398	223,979	57,480	411,857	466,198
North	227,537	350,239	78,945	656,721	716,239
Southwest	159,350	512,164	201,659	873,173	940,462
Other homebuilding (a)	32,401	207,152	50,879	290,432	4,334,591
	1,042,147	2,189,387	747,027	3,978,561	8,406,469
Financial Services	—	—	—	—	327,674
	$1,042,147	$2,189,387	$747,027	$3,978,561	$8,734,143

	December 31, 2012				
	Homes Under Construction	Land Under Development	Raw Land	Total Inventory	Total Assets
Northeast	$198,549	$445,436	$109,136	$753,121	$866,024
Southeast	147,227	286,210	120,193	553,630	590,650
Florida	130,276	310,625	100,633	541,534	620,220
Texas	145,594	256,704	54,556	456,854	523,843
North	219,172	369,144	46,414	634,730	680,447
Southwest	226,204	496,488	167,295	889,987	963,540
Other homebuilding (a)	49,162	270,771	64,257	384,190	2,140,739
	1,116,184	2,435,378	662,484	4,214,046	6,385,463
Financial Services	—	—	—	—	348,946
	$1,116,184	$2,435,378	$662,484	$4,214,046	$6,734,409

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

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

5. Investments in unconsolidated entities

We participate in a number of joint ventures with independent third parties. Many of these joint ventures purchase, develop, and/or sell land and homes. A summary of our joint ventures is presented below ($000's omitted):

	December 31,	
	2014	2013
Investments in joint ventures with debt non-recourse to PulteGroup	$26,488	$26,532
Investments in other active joint ventures	13,880	18,791
Total investments in unconsolidated entities	$40,368	$45,323
Total joint venture debt	$25,849	$12,408
PulteGroup proportionate share of joint venture debt:		
Joint venture debt with limited recourse guaranties	$283	$750
Joint venture debt non-recourse to PulteGroup	11,341	3,654
PulteGroup's total proportionate share of joint venture debt	$11,624	$4,404

In 2014, 2013, and 2012, we recognized income from unconsolidated joint ventures of $8.4 million, $1.1 million, and $4.1 million, respectively. During 2014, 2013, and 2012, we made capital contributions of $0.0 million, $1.7 million, and $16.5 million, respectively, and received distributions of $13.1 million, $3.1 million, and $10.5 million, respectively.

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

6. Debt

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

	December 31,	
	2014	2013
5.20% unsecured senior notes due February 2015 (a)	$—	$95,633
5.25% unsecured senior notes due June 2015 (a)	236,452	233,085
6.50% unsecured senior notes due May 2016 (a)	462,009	459,581
7.625% unsecured senior notes due October 2017 (b)	122,752	122,663
7.875% unsecured senior notes due June 2032 (a)	299,239	299,196
6.375% unsecured senior notes due May 2033 (a)	398,640	398,567
6.00% unsecured senior notes due February 2035 (a)	299,469	299,443
7.375% unsecured senior notes due June 2046 (a)	—	150,000
Total senior notes – carrying value (c)	$1,818,561	$2,058,168
Estimated fair value	$1,952,774	$2,070,744

(a)

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

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

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

The indentures governing the senior notes impose certain restrictions on the incurrence of additional debt along with other limitations. At December 31, 2014, we were in compliance with all of the covenants and requirements under the senior notes. Total senior note principal maturities of $1.8 billion during the five years following 2014 and thereafter are as follows: 2015 - $238.0 million; 2016 - $465.2 million; 2017 - $123.0 million; 2018 - $0.0 million; 2019 - $0.0 million; and thereafter - $1.0 billion. Refer to Note 13 for supplemental consolidating financial information of the Company.

Debt retirement

During the last three years, we significantly reduced our outstanding senior notes through a variety of transactions. As a result of these transactions, we reduced our outstanding senior notes by $245.7 million, $461.4 million, and $592.4 million during 2014, 2013, and 2012, respectively, and recorded losses totaling $8.6 million, $26.9 million, and $32.1 million in 2014, 2013 and 2012, respectively. Losses on debt repurchase transactions include the write-off of unamortized discounts, premiums, and transaction fees and are reflected in other expense (income), net.

Revolving credit facility

In July 2014, we entered into a senior unsecured revolving credit facility (the “Revolving Credit Facility”) maturing in July 2017. The Revolving Credit Facility provides for maximum borrowings of $500 million and contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to $1.0 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce available borrowing capacity under the Revolving Credit Facility and may total no more than the greater of: (i) 50% of the size of the facility or (ii) $300 million in the aggregate. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate or Base Rate plus an applicable margin, as defined. At December 31, 2014, we had no borrowings outstanding and $208.4 million of letters of credit issued under the Revolving Credit Facility.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2014, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

Other letter of credit facilities

We maintain a separate cash-collateralized letter of credit agreement with a bank. Letters of credit totaling $3.7 million and $58.7 million were outstanding under this agreement (or similar previous agreements with different financial institutions) at December 31, 2014 and 2013, respectively. Under this agreement, we are required to maintain deposits with the financial institution in amounts approximating the letters of credit outstanding. Such deposits are included in restricted cash. An unsecured letter of credit facility we previously maintained with a bank expired in September 2014.

Limited recourse notes payable

Certain of our local homebuilding operations maintain limited recourse collateralized notes payable with third parties totaling $22.3 million and $7.5 million at December 31, 2014 and 2013, respectively. These notes have maturities ranging up to 6 years, are collateralized by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within accrued and other liabilities. The stated interest rates on these notes range up to 5.00%.

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

Pulte Mortgage

Pulte Mortgage maintains a master repurchase agreement (the "Repurchase Agreement") with third party lenders. In September 2014, Pulte Mortgage entered into an amendment to the Repurchase Agreement that extended the effective date to September 2015 and established a borrowing capacity of $150.0 million. The capacity will reduce to $99.8 million in February 2015, and will increase again to $150.0 million in June 2015. The purpose for the change in capacity during the term of the agreement is to lower associated fees during seasonally low volume periods when the additional capacity is unnecessary. 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 $140.2 million and $105.7 million outstanding under the Repurchase Agreement at December 31, 2014, and 2013, respectively, and was in compliance with all of its covenants and requirements as of such dates.

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

	December 31,					
	2014		2013		2012	
Available credit lines	$150,000		$150,000		$150,000	
Unused credit lines	$9,759		$44,336		$11,205	
Weighted-average interest rate	2.70	%	2.90	%	3.00	%

7. Shareholders' equity

We reinstated our quarterly cash dividend in July 2013. During 2013, we declared three cash dividends of $0.05 per common share each. During 2014, we declared cash dividends of $0.05 per common share in each of the first three quarters and $0.08 per common share in the fourth quarter for a total of $86.4 million.

In previous years, our Board of Directors authorized a share repurchase program. In October 2014, our Board of Directors approved an increase of $750.0 million to such authorization. We repurchased 12.9 million and 7.2 million shares under the repurchase authorizations for a total of $245.8 million and $118.1 million in 2014 and 2013, respectively. There were no repurchases under these programs during 2012. At December 31, 2014, we had remaining authorization to repurchase $738.5 million of common shares.

Under our stock-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of restricted stock, generally related to the payment of minimum tax obligations. During 2014, 2013, and 2012, employees surrendered shares valued at $7.2 million, $9.6 million, and $1.0 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

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

8. Stock compensation plans

We maintain a stock award plan for both employees and non-employee directors. The plan provides for the grant of a variety of equity awards, including options (generally non-qualified options), restricted stock, performance shares, and restricted stock units ("RSUs") to key employees (as determined by the Compensation and Management Development Committee of the Board of Directors) for periods not exceeding ten years. Non-employee directors are entitled to an annual distribution of stock options, common stock, or restricted stock units. All options granted to non-employee directors vest immediately and are exercisable on the grant date for ten years. Options granted to employees generally vest incrementally over four years. Restricted stock and RSUs generally cliff vest after three years. Restricted stock holders have voting rights during the vesting period and both restricted stock and RSU holders receive cash dividends during the vesting period. Performance shares vest upon attainment of the stated performance targets and minimum service requirements and are converted into shares of common stock upon distribution. RSUs represent the right to receive an equal number of shares of common stock and are converted into shares of common stock upon distribution. As of December 31, 2014, there were 23.5 million shares that remained available for grant under the plan.

Our stock compensation expense for the three years ended December 31, 2014 is presented below ($000's omitted):

	2014	2013	2012
Stock options	$121	$1,056	$2,617
Restricted stock (including RSUs and performance shares)	13,690	13,418	10,077
Long-term incentive plans	15,481	16,006	10,203
	$29,292	$30,480	$22,897

Stock options

A summary of stock option activity for the three years ended December 31, 2014 is presented below (000’s omitted except per share data):

	2014		2013		2012	
	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price	Shares	Weighted-Average Per Share Exercise Price
Outstanding, beginning of year	12,887	$ 23	17,148	$ 22	21,641	$ 21
Granted	—	—	—	—	—	—
Exercised	(1,422)	11	(1,432)	14	(2,877)	11
Forfeited	(2,095)	29	(2,829)	25	(1,616)	27
Outstanding, end of year	9,370	$ 23	12,887	$ 23	17,148	$ 22
Options exercisable at year end	9,265	$ 23	12,402	$ 23	15,719	$ 23
Weighted-average per share fair value of options granted during the year	$—		$—		$—	

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

The following table summarizes information about the weighted-average remaining contractual lives of stock options outstanding and exercisable at December 31, 2014:

	Options Outstanding			Options Exercisable	
	Number Outstanding (000's omitted)	Weighted-Average Remaining Contract Life (in years)	Weighted-Average Per Share Exercise Price	Number Exercisable (000's omitted)	Weighted-Average Per Share Exercise Price
$0.01 to $11.00	907	4.0	$10	802	$10
$11.01 to $18.00	4,003	4.6	12	4,003	12
$18.01 to $25.00	417	0.3	23	417	23
$25.01 to $35.00	1,997	1.9	34	1,997	34
$35.01 to $45.00	2,046	0.9	40	2,046	40
	9,370	3.0	$23	9,265	$23

We did not issue any stock options during 2014, 2013, or 2012. As a result, there is no unrecognized compensation cost related to stock option awards at December 31, 2014. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The aggregate intrinsic value of stock options that were exercised during 2014, 2013, and 2012 was $14.1 million, $10.8 million, and $8.6 million, respectively. As of December 31, 2014, options outstanding had an intrinsic value of $48.8 million, of which $47.3 million related to options exercisable.

Restricted stock (including RSUs and performance shares)

A summary of restricted stock activity, including RSUs and performance shares, for the three years ended December 31, 2014 is presented below (000’s omitted, except per share data):

	2014		2013		2012	
	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value	Shares	Weighted-Average Per Share Grant Date Fair Value
Outstanding, beginning of year	3,211	$11	3,822	$9	3,042	$9
Granted	974	$19	806	$21	1,461	$10
Distributed	(1,019)	$10	(1,391)	$11	(544)	$11
Forfeited	(276)	$15	(26)	$15	(137)	$10
Outstanding, end of year	2,890	$15	3,211	$11	3,822	$9
Vested, end of year	75	$13	60	$12	51	$10

During 2014, 2013, and 2012, the total fair value of shares vested during the year was $8.1 million, $12.7 million, and $3.7 million, respectively. Unamortized compensation cost related to restricted stock awards was $13.9 million at December 31, 2014. These costs will be expensed over a weighted-average period of approximately 2 years.

Certain individuals have received grants of performance shares. The fair value of each performance share was calculated using the stock price on the grant date. We recognize expense when it becomes probable that the stated performance targets will be achieved. Unamortized compensation cost related to performance shares considered probable was $0.2 million at December 31, 2014 and will be expensed over a weighted-average period of less than one year. Additionally, there were 75,080 RSUs outstanding at December 31, 2014 that had vested but had not yet been paid out because the payout date had been deferred by the holder.

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

Long-term incentive plans

We maintain a long-term incentive plan for certain of our field employees that provides awards based on the achievement of stated performance targets over a three-year period. Awards are earned each year in the form of share units that are paid out in cash at the end of the performance period based upon the number of share units earned times the stock price at the end of the performance period. Accordingly, the liability associated with the awards is adjusted each reporting period based on movements in the stock price and totaled $9.5 million and $12.6 million at December 31, 2014 and 2013, respectively.

We also maintain a long-term performance award plan for senior management that provides awards based on the achievement of stated performance targets over a three-year period. Awards are earned based on our cumulative performance over the performance period and are stated in dollars but settled in common shares based on the stock price at the end of the performance period. If the stock price falls below a floor of $5.00 per share at the end of the performance period or we do not have a sufficient number of shares available under our stock incentive plans at the time of settlement, then a portion of each award will be paid in cash. We recognize expense for these awards based on the probability of achievement of the stated performance targets. The liability for these awards totaled $26.2 million and $14.3 million at December 31, 2014 and 2013, respectively.

9. Income taxes

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

	2014		2013		2012	
Current provision (benefit)						
Federal	$5,619		$5,725		$(8,523	)
State and other	(13,968	)	(1,596	)	(14,068	)
	$(8,349	)	$4,129		$(22,591	)
Deferred provision (benefit)						
Federal	$232,969		$(1,833,580	)	$—	
State and other	(9,200	)	(262,843	)	—	
	$223,769		$(2,096,423	)	$—	
Income tax expense (benefit)	$215,420		$(2,092,294	)	$(22,591	)

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

	2014		2013		2012	
Income taxes at federal statutory rate	35.0	%	35.0	%	35.0	%
Effect of state and local income taxes, net of federal tax	3.0		4.0		3.0	
Deferred tax asset valuation allowance	(6.6	)	(438.0	)	(37.7	)
Tax contingencies	(1.4	)	0.3		(10.6	)
Other	1.2		2.3		(2.0	)
Effective rate	31.2	%	(396.4	)%	(12.3	)%

Our effective tax rate is affected by a number of factors, the most significant of which are the valuation allowance related to our deferred tax assets, changes in tax laws or other circumstances that impact the value of our deferred tax assets, and changes in our unrecognized tax benefits. Due to the effects of these factors, our effective tax rates in 2014, 2013, and 2012 are not correlated to the amount of our income before income taxes. The income tax expense for 2014 reflects a reversal of a portion of our valuation allowance, primarily related to certain of our state deferred tax assets, along with the favorable resolution of certain federal and state income tax matters. The income tax benefit for 2013 resulted from the reversal of substantially all of the valuation allowance related to our federal deferred tax assets and certain of our state deferred tax assets, while the income tax benefit for 2012 resulted primarily from the favorable resolution of certain federal and state income tax matters.

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

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

	At December 31, 2014	2013
Deferred tax assets:		
Non-deductible reserves and other	$445,128	$475,730
Inventory valuation reserves	599,763	770,566
Net operating loss ("NOL") carryforwards:		
Federal	515,568	726,398
State	257,738	292,195
Alternative minimum tax credits	34,812	28,683
Energy credit and charitable contribution carryforward	27,858	39,978
	1,880,867	2,333,550
Deferred tax liabilities:		
Capitalized items, including real estate basis differences, deducted for tax, net	(31,584)	(39,449)
Trademarks and tradenames	(46,362)	(50,047)
	(77,946)	(89,496)
Valuation allowance	(82,253)	(157,300)
Net deferred tax asset	$1,720,668	$2,086,754

Our gross federal NOL carryforward is approximately $1.5 billion and expires between 2028 and 2032. A portion of the federal NOL is subject to the provisions of Internal Revenue Code Section 382. We also have significant state NOLs in various jurisdictions. These state NOLs may generally be carried forward from 5 to 20 years, depending on the jurisdiction, and expire between 2014 and 2034. In addition, we have energy credit carryforwards expiring in 2026 to 2034 and alternative minimum tax credits, which can be carried forward indefinitely.

As a result of our merger with Centex in 2009, our ability to use certain of Centex's pre-ownership change NOL carryforwards and built-in losses or deductions is limited by Section 382 of the Internal Revenue Code. Our Section 382 limitation is approximately $67.4 million per year for NOLs, losses realized on built-in loss assets that are sold within 60 months of the ownership change, and certain deductions. We do not believe that the Section 382 limitation will prevent the Company from using Centex's pre-ownership change federal NOL carryforwards and built-in losses or deductions.

We evaluate our deferred tax assets each period to determine if a valuation allowance is required based on whether it is "more likely than not" that some portion of the deferred tax assets would not be realized. The ultimate realization of these deferred tax assets is dependent upon the generation of sufficient taxable income during future periods. We conduct our evaluation by considering all available positive and negative evidence. This evaluation considers, among other factors, historical operating results, forecasts of future profitability, the duration of statutory carryforward periods, and the outlooks for the U.S. housing industry and broader economy.
In 2014, we recorded an income tax benefit of $45.6 million as the result of a reversal of valuation allowance related primarily to certain of our state deferred tax assets as the result of an increase in expected future taxable income in certain jurisdictions. At December 31, 2014, our remaining valuation allowance relates primarily to state net operating loss carryforwards that have not met the "more likely than not" realization threshold, primarily due to state related section 382 limitations. The accounting for deferred taxes is based upon estimates of future results. Differences

between estimated and actual results could result in changes in the valuation of our deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

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

In 2013, we recorded an income tax benefit of $2.1 billion as the result of a reversal of valuation allowance. Based on our evaluation through June 30, 2013, we had fully reserved our net deferred tax assets due to the uncertainty of their realization. One of the primary pieces of negative evidence we considered was the significant losses we incurred in recent years, including being in a three-year cumulative pre-tax loss position, which we exited in 2013. In the third quarter of 2013, we determined that the valuation allowance against substantially all of our federal deferred tax assets and a significant portion of our state deferred tax assets was no longer required. Accordingly, we reversed $2.1 billion of valuation allowance in the third quarter. When a change in valuation allowance is recognized in an interim period, a portion of the valuation allowance to be reversed must be allocated to the remaining interim periods. Accordingly, an additional $73.7 million of the remaining valuation allowance reversed in the fourth quarter of 2013, which was offset by income tax expense based on fourth quarter earnings.

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

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. At December 31, 2014, we had $32.9 million of gross unrecognized tax benefits, of which $21.4 million (net of federal benefit) would impact the effective tax rate if recognized. At December 31, 2013, we had $173.3 million of gross unrecognized tax benefits, of which $21.5 million would impact the effective rate if recognized. Income tax liabilities decreased from $206.0 million at December 31, 2013 to $48.7 million at December 31, 2014, primarily as the result of the resolution of certain income tax matters. It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to $4.1 million, excluding interest and penalties, primarily due to potential settlements. Additionally, we had accrued interest and penalties of $17.3 million and $33.1 million at December 31, 2014 and 2013, respectively. Our net tax-related interest and penalties totaled a benefit of $15.8 million and an expense of $3.0 million in 2014 and 2013, respectively. A reconciliation of the change in the unrecognized tax benefits is as follows ($000’s omitted):

	2014	2013	2012
Unrecognized tax benefits, beginning of period	$173,310	$170,425	$171,863
Increases related to tax positions taken during a prior period	—	12,877	8,782
Decreases related to tax positions taken during a prior period	(133,883)	(7,502)	(9,373)
Increases related to tax positions taken during the current period	237	381	11,797
Decreases related to settlements with taxing authorities	(6,753)	(1,434)	—
Reductions as a result of a lapse of the applicable statute of limitations	—	(1,437)	(12,644)
Unrecognized tax benefits, end of period	$32,911	$173,310	$170,425

We are currently under examination by the IRS and various state taxing jurisdictions and anticipate finalizing certain of the examinations within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2004 to 2014.

10. Fair value disclosures

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

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

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

Financial Instrument	Fair Value Hierarchy	Fair Value December 31, 2014	December 31, 2013
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	$339,531	$287,933
Interest rate lock commitments	Level 2	4,248	3,139
Forward contracts	Level 2	(3,574)	4,340
Whole loan commitments	Level 2	(588)	105
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	$13,925	$—
Disclosed at fair value:			
Cash and equivalents (including restricted cash)	Level 1	$1,309,220	$1,653,044
Financial Services debt	Level 2	140,241	105,664
Senior notes	Level 2	1,952,774	2,070,744

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

Certain assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recoverable. The non-recurring fair value included in the above table represent only those assets whose carrying values were adjusted to fair value as of the respective balance sheet dates. See Note 1 for a more detailed discussion of the valuation methods used for inventory.

The carrying amounts of cash and equivalents, Financial Services debt, and the Revolving Credit Facility approximate their fair values due to their short-term nature and floating interest rate terms. The fair values of senior notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues. The carrying value of senior notes was $1.8 billion and $2.1 billion, at December 31, 2014 and 2013, respectively.

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

11. Other assets and accrued and other liabilities

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

	December 31, 2014	2013
Accounts and notes receivable:		
Insurance receivables	$60,598	$51,764
Notes receivable	30,699	32,944
Other receivables	63,867	52,720
	$155,164	$137,428
Prepaid expenses	72,585	65,965
Deposits and pre-acquisition costs (Note 1)	127,280	91,034
Property and equipment, net (Note 1)	75,219	53,051
Income taxes receivable (Note 9)	21,330	35,437
Other	61,454	77,706
	$513,032	$460,621

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

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

	December 31, 2014	2013
Self-insurance liabilities (Note 12)	$710,245	$668,100
Loan origination liabilities (Note 12)	58,222	124,956
Compensation-related	142,586	171,686
Warranty (Note 12)	65,389	63,992
Community development district obligations (Note 12)	17,122	26,124
Liability for land, not owned, under option agreements (Note 1)	30,186	24,024
Accrued interest	20,446	22,283
Limited recourse notes payable	22,255	7,521
Other	277,323	269,064
	$1,343,774	$1,377,750

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

12. Commitments and contingencies

Leases

We lease certain property and equipment under non-cancelable operating leases. The future minimum lease payments required under operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2014 are as follows ($000's omitted):

Years Ending December 31,	
2015	$28,744
2016	25,713
2017	18,817
2018	14,870
2019	12,846
Thereafter	42,733
Total minimum lease payments (a)	$143,723

(a) Minimum payments have not been reduced by minimum sublease rentals of $5.3 million due in the future under non-cancelable subleases.

Net rental expense for 2014, 2013, and 2012 was $25.3 million, $23.0 million, and $24.2 million, respectively. Certain leases contain renewal or purchase options and generally provide that we pay for insurance, taxes, and maintenance.

Loan origination liabilities

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

Because we generally do not retain the servicing rights to the loans we originate, information regarding the current and historical performance, credit quality, and outstanding balances of such loans is limited. Estimating these loan origination liabilities is further complicated by uncertainties surrounding numerous external factors, such as various macroeconomic factors (including unemployment rates and changes in home prices), actions taken by third parties, including the parties servicing the loans, and the U.S. federal government in its dual capacity as regulator of the U.S. mortgage industry and conservator of the government-sponsored enterprises commonly known as Fannie Mae and Freddie Mac, which own or guarantee the majority of mortgage loans in the U.S. Most requests received to date relate to make-whole payments on loans that have been foreclosed. Requests undergo extensive analysis to confirm the exposure, attempt to cure the identified defect, and, when necessary, determine our liability. We establish liabilities for such anticipated losses based upon, among other things, the level of current unresolved repurchase requests, the volume of estimated probable future repurchase requests, our ability to cure the defects identified in the repurchase requests, and the severity of the estimated loss upon repurchase. Determining these estimates and the resulting liability requires a significant level of management judgment.

During 2014, we reduced our loan origination liabilities by $18.6 million based on settlements of various pending repurchase requests and current conditions. During 2012, we recorded $49.0 million of provisions for losses as a change in estimate primarily to reflect projected claim volumes in excess of previous estimates. Reserves provided and related adjustments are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

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

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

	2014	2013	2012
Liabilities, beginning of period	$124,956	$164,280	$128,330
Reserves provided (released)	(18,604)	—	49,025
Payments	(48,130)	(39,324)	(13,075)
Liabilities, end of period	$58,222	$124,956	$164,280

The mortgage subsidiary of Centex also sold loans to a bank for inclusion in residential mortgage-backed securities ("RMBSs") issued by the bank. In connection with these sales, Centex's mortgage subsidiary entered into agreements pursuant to which it may be required to indemnify the bank for losses incurred by investors in the RMBSs arising out of material errors or omissions in certain information provided by the mortgage subsidiary relating to the loans and loan origination process. In 2011, the bank notified us that it had been named defendant in two lawsuits alleging various violations of federal and state securities laws asserting that untrue statements of material fact were included in the registration statements used to market the sale of two RMBS transactions which included $162 million of loans originated by Centex's mortgage subsidiary. The plaintiffs seek unspecified compensatory and/or rescissory damages on behalf of persons who purchased the securities. Neither Centex's mortgage subsidiary nor the Company is named as a defendant in these actions. We cannot yet quantify Centex's mortgage subsidiary's potential liability as a result of these indemnification obligations. We do not believe, however, that these matters will have a material adverse impact on the results of operations, financial position, or cash flows of the Company. We are aware of six other RMBS transactions with similar indemnity provisions that include an aggregate $116 million of loans originated by Centex's mortgage subsidiary, and we are not aware of any current or threatened legal proceedings regarding those transactions.

Community development and other special district obligations

A community development district or similar development authority ("CDD") is a unit of local government created under various state statutes that utilizes the proceeds from the sale of bonds to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds, including principal and interest, is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. Generally, we are only responsible for paying the special assessments for the period during which we are the landowner of the applicable parcels. However, in certain limited instances we record a liability for future assessments. At December 31, 2014 and 2013, we had $17.1 million and $26.1 million, respectively, in accrued liabilities for outstanding CDD obligations.

Letters of credit and surety bonds

In the normal course of business, we post letters of credit and surety bonds pursuant to certain performance-related obligations, as security for certain land option agreements, and under various insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. We had outstanding letters of credit and surety bonds totaling $212.1 million and $1.0 billion, respectively, at December 31, 2014, and $183.1 million and $958.3 million, respectively, at December 31, 2013. In the event any such letter of credit or surety bonds are called, we would be obligated to reimburse the issuer of the letter of credit or surety bond. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be called. Our surety bonds generally do not have stated expiration dates; rather we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to the applicable projects but has not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

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

Litigation and regulatory matters

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

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

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

Allowance for warranties

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

	2014	2013	2012
Warranty liabilities, beginning of period	$63,992	$64,098	$68,025
Reserves provided	51,348	49,399	45,705
Payments	(47,968)	(44,925)	(45,365)
Other adjustments	(1,983)	(4,580)	(4,267)
Warranty liabilities, end of period	$65,389	$63,992	$64,098

Self-insured risks

We maintain, and require our subcontractors to maintain, general liability insurance coverage. We also maintain builders' risk, property, errors and omissions, workers compensation, and other business insurance coverage. These insurance policies protect us against a portion of the risk of loss from claims. However, we retain a significant portion of the overall risk for such claims either through policies issued by our captive insurance subsidiaries or through our own self-insured per occurrence and aggregate retentions, deductibles, and claims in excess of available insurance policy limits.

Our general liability insurance includes coverage for certain construction defects. While construction defect claims can relate to a variety of circumstances, the majority of our claims relate to alleged problems with siding, plumbing, foundations and other concrete work, windows, roofing, and heating, ventilation and air conditioning systems. The availability of general liability insurance for the homebuilding industry and its subcontractors has become increasingly limited, and the insurance policies available require companies to maintain significant per occurrence and aggregate retention levels. In certain instances, we may offer our subcontractors the opportunity to purchase insurance through one of our captive insurance subsidiaries or participate in a project-specific insurance program provided by the Company. Policies issued by the captive insurance subsidiaries represent self-insurance of these risks by the Company. This self-insured exposure is limited by reinsurance policies that we purchase. General liability coverage for the homebuilding industry is complex, and our coverage varies from policy year to policy year. Our insurance coverage requires a per occurrence deductible up to an overall aggregate retention level. Beginning with the first dollar, amounts paid to satisfy insured claims apply to our per occurrence and aggregate retention obligations. Any amounts incurred in excess of the occurrence or aggregate retention levels are covered by insurance up to our purchased coverage levels. Our insurance policies, including the captive insurance subsidiaries' reinsurance policies, are maintained with highly-rated underwriters for whom we believe counterparty default risk is not significant.

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time revenue is recognized for each home closing and evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate estimates of the ultimate net cost of all unpaid losses, including estimates for incurred but not reported losses ("IBNR"). IBNR represents losses related to claims incurred but not yet reported plus development on reported claims. These estimates comprise a significant portion of our liability and are subject to a high degree of uncertainty due to a variety of factors, including changes in claims reporting and resolution patterns, third party recoveries, insurance industry practices, the regulatory environment, and legal precedent. State regulations vary, but construction defect claims are reported and resolved over an extended period often exceeding ten years. In certain instances, we have the ability to recover a portion of our costs under various insurance policies or from subcontractors or other third parties. Estimates of such amounts are recorded when recovery is considered probable.

Our recorded reserves for all such claims totaled $710.2 million and $668.1 million at December 31, 2014 and 2013, respectively, the vast majority of which relates to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 72% and 78% of the total general liability reserves at December 31, 2014 and 2013, 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.

During 2014, we recorded a change in estimate increasing general liability insurance reserves by $69.3 million, which is reflected in "Reserves provided" in the below table. Such additional reserves were primarily driven by estimated costs associated with siding repairs in certain previously completed communities that, in turn, impacted actuarial estimates for potential future claims. Adjustments to reserves are recorded in the period in which the change in estimate occurs. Changes in the frequency and timing of reported claims and estimates of specific claim values can impact the underlying inputs and trends utilized in the actuarial analyses, which could have a material impact on the recorded reserves. Additionally, the amount of insurance coverage available for each policy period also impacts our recorded reserves. Because of the inherent uncertainty in estimating future losses related and the timing of such losses related to these claims, actual costs could differ significantly from estimated costs. Costs associated with our insurance programs are classified within selling, general, and administrative expenses. Changes in these liabilities were as follows ($000's omitted):

	2014	2013	2012
Balance, beginning of period	$668,100	$721,284	$739,029
Reserves provided	141,790	64,737	54,262
Payments	(99,645)	(117,921)	(72,007)
Balance, end of period	$710,245	$668,100	$721,284

13. Supplemental Guarantor information

All of our senior notes are guaranteed jointly and severally on a senior basis by each of the Company's wholly-owned Homebuilding subsidiaries and certain other wholly-owned subsidiaries (collectively, the “Guarantors”). Such guaranties are full and unconditional. Supplemental consolidating financial information of the Company, including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the nature of the assets held by, and the operations of, the combined groups.

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

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2014
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	$7,454	$1,157,307	$128,101	$—	$1,292,862
Restricted cash	3,710	1,513	11,135	—	16,358
House and land inventory	—	4,391,445	655	—	4,392,100
Land held for sale	—	100,156	1,034	—	101,190
Land, not owned, under option agreements	—	30,186	—	—	30,186
Residential mortgage loans available-for-sale	—	—	339,531	—	339,531
Securities purchased under agreements to resell	22,000	—	(22,000)	—	—
Investments in unconsolidated entities	74	36,126	4,168	—	40,368
Other assets	34,214	421,145	57,673	—	513,032
Intangible assets	—	123,115	—	—	123,115
Deferred tax assets, net	1,712,853	15	7,800	—	1,720,668
Investments in subsidiaries and intercompany accounts, net	4,963,831	967,032	6,359,441	(12,290,304)	—
	$6,744,136	$7,228,040	$6,887,538	$(12,290,304)	$8,569,410
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$71,874	$1,514,954	$170,104	$—	$1,756,932
Income tax liabilities	48,747	(25)	—	—	48,722
Financial Services debt	—	—	140,241	—	140,241
Senior notes	1,818,561	—	—	—	1,818,561
Total liabilities	1,939,182	1,514,929	310,345	—	3,764,456
Total shareholders' equity	4,804,954	5,713,111	6,577,193	(12,290,304)	4,804,954
	$6,744,136	$7,228,040	$6,887,538	$(12,290,304)	$8,569,410

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

CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2013
($000’s omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	$262,364	$1,188,999	$128,966	$—	$1,580,329
Restricted cash	58,699	2,635	11,381	—	72,715
House and land inventory	—	3,977,851	710	—	3,978,561
Land held for sale	—	60,701	1,034	—	61,735
Land, not owned, under option agreements	—	24,024	—	—	24,024
Residential mortgage loans available-for-sale	—	—	287,933	—	287,933
Investments in unconsolidated entities	68	41,319	3,936	—	45,323
Other assets	50,251	359,228	51,142	—	460,621
Intangible assets	—	136,148	—	—	136,148
Deferred tax assets, net	2,074,137	17	12,600	—	2,086,754
Investments in subsidiaries and intercompany accounts, net	4,532,950	(16,513)	5,939,784	(10,456,221)	—
	$6,978,469	$5,774,409	$6,437,486	$(10,456,221)	$8,734,143
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$65,334	$1,413,752	$236,258	$—	$1,715,344
Income tax liabilities	206,015	—	—	—	206,015
Financial Services debt	—	—	105,664	—	105,664
Senior notes	2,058,168	—	—	—	2,058,168
Total liabilities	2,329,517	1,413,752	341,922	—	4,085,191
Total shareholders’ equity	4,648,952	4,360,657	6,095,564	(10,456,221)	4,648,952
	$6,978,469	$5,774,409	$6,437,486	$(10,456,221)	$8,734,143

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2014
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	$—	$5,662,171	$—	$—	$5,662,171
Land sale revenues	—	34,554	—	—	34,554
	—	5,696,725	—	—	5,696,725
Financial Services	—	889	124,749	—	125,638
	—	5,697,614	124,749	—	5,822,363
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	4,343,249	—	—	4,343,249
Land sale cost of revenues	—	23,748	—	—	23,748
	—	4,366,997	—	—	4,366,997
Financial Services expenses	784	(130)	70,585	—	71,239
Selling, general, and administrative expenses	—	661,308	6,507	—	667,815
Other expense, net	8,521	29,273	951	—	38,745
Interest income	(337)	(4,244)	(51)	—	(4,632)
Interest expense	849	—	—	—	849
Intercompany interest	9,800	(90)	(9,710)	—	—
Equity in (earnings) loss of unconsolidated entities	(7)	(8,182)	(219)	—	(8,408)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(19,610)	652,682	56,686	—	689,758
Income tax expense (benefit)	(7,473)	201,332	21,561	—	215,420
Income (loss) before equity in income (loss) of subsidiaries	(12,137)	451,350	35,125	—	474,338
Equity in income (loss) of subsidiaries	486,475	38,534	403,505	(928,514)	—
Net income (loss)	474,338	489,884	438,630	(928,514)	474,338
Other comprehensive income (loss)	105	—	—	—	105
Comprehensive income (loss)	$474,443	$489,884	$438,630	$(928,514)	$474,443

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2013
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	$—	$5,424,309	$—	$—	$5,424,309
Land sale revenues	—	114,335	—	—	114,335
	—	5,538,644	—	—	5,538,644
Financial Services	—	2,353	138,598	—	140,951
	—	5,540,997	138,598	—	5,679,595
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	4,310,528	—	—	4,310,528
Land sale cost of revenues	—	104,426	—	—	104,426
	—	4,414,954	—	—	4,414,954
Financial Services expenses	832	970	90,577	—	92,379
Selling, general, and administrative expenses	—	573,904	(5,404)	—	568,500
Other expense, net	26,870	49,681	4,202	—	80,753
Interest income	(349)	(3,954)	(92)	—	(4,395)
Interest expense	712	—	—	—	712
Intercompany interest	17,518	(8,260)	(9,258)	—	—
Equity in (earnings) loss of unconsolidated entities	1,461	(1,783)	(808)	—	(1,130)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(47,044)	515,485	59,381	—	527,822
Income tax expense (benefit)	(2,113,827)	(799)	22,332	—	(2,092,294)
Income (loss) before equity in income (loss) of subsidiaries	2,066,783	516,284	37,049	—	2,620,116
Equity in income (loss) of subsidiaries	553,333	35,086	485,400	(1,073,819)	—
Net income (loss)	2,620,116	551,370	522,449	(1,073,819)	2,620,116
Other comprehensive income (loss)	197	—	—	—	197
Comprehensive income (loss)	$2,620,313	$551,370	$522,449	$(1,073,819)	$2,620,313

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the year ended December 31, 2012
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	$—	$4,552,412	$—	$—	$4,552,412
Land sale revenues	—	106,698	—	—	106,698
	—	4,659,110	—	—	4,659,110
Financial Services	—	2,082	158,806	—	160,888
	—	4,661,192	158,806	—	4,819,998
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	3,833,451	—	—	3,833,451
Land sale cost of revenues	—	94,880	—	—	94,880
	—	3,928,331	—	—	3,928,331
Financial Services expenses	379	567	134,565	—	135,511
Selling, general, and administrative expenses	—	515,283	(826)	—	514,457
Other expense (income), net	32,027	33,506	765	—	66,298
Interest income	(229)	(4,597)	(87)	—	(4,913)
Interest expense	819	—	—	—	819
Intercompany interest	587,281	(573,852)	(13,429)	—	—
Equity in (earnings) loss of unconsolidated entities	(1)	(3,555)	(503)	—	(4,059)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(620,276)	765,509	38,321	—	183,554
Income tax expense (benefit)	426	(22,299)	(718)	—	(22,591)
Income (loss) before equity in income (loss) of subsidiaries	(620,702)	787,808	39,039	—	206,145
Equity in income (loss) of subsidiaries	826,847	34,596	476,806	(1,338,249)	—
Net income (loss)	206,145	822,404	515,845	(1,338,249)	206,145
Other comprehensive income (loss)	314	—	—	—	314
Comprehensive income (loss)	$206,459	$822,404	$515,845	$(1,338,249)	$206,459

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended December 31, 2014
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	$206,485	$175,415	$(72,651)	$—	$ 309,249
Cash flows from investing activities:					
Distributions from unconsolidated entities	—	8,161	(4)	—	8,157
Investments in unconsolidated entities	—	—	(9)	—	(9)
Net change in loans held for investment	—	—	335	—	335
Change in restricted cash related to letters of credit	54,989	—	—	—	54,989
Proceeds from the sale of property and equipment	—	113	—	—	113
Capital expenditures	—	(44,956)	(3,834)	—	(48,790)
Cash used for business acquisition	—	(82,419)	—	—	(82,419)
Net cash provided by (used in) investing activities	54,989	(119,101)	(3,512)	—	(67,624)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	34,577	—	34,577
Other borrowings (repayments)	(249,765)	(866)	—	—	(250,631)
Stock option exercises	15,627	—	—	—	15,627
Stock repurchases	(253,019)	—	—	—	(253,019)
Dividends paid	(75,646)	—	—	—	(75,646)
Intercompany activities, net	46,419	(87,140)	40,721	—	—
Net cash provided by (used in) financing activities	(516,384)	(88,006)	75,298	—	(529,092)
Net increase (decrease) in cash and equivalents	(254,910)	(31,692)	(865)	—	(287,467)
Cash and equivalents at beginning of year	262,364	1,188,999	128,966	—	1,580,329
Cash and equivalents at end of year	$7,454	$1,157,307	$128,101	$—	$ 1,292,862

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	$(41)	$865,267	$15,910	$—	$ 881,136
Cash flows from investing activities:					
Distributions from unconsolidated entities	—	1,001	—	—	1,001
Investments in unconsolidated entities	—	(1,677)	—	—	(1,677)
Net change in loans held for investment	—	—	(12,265)	—	(12,265)
Change in restricted cash related to letters of credit	(4,152)	—	—	—	(4,152)
Proceeds from the sale of property and equipment	—	15	—	—	15
Capital expenditures	—	(26,472)	(2,427)	—	(28,899)
Net cash provided by (used in) investing activities	(4,152)	(27,133)	(14,692)	—	(45,977)
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	(33,131)		(33,131)
Other borrowings (repayments)	(485,048)	5,221			(479,827)
Stock option exercises	19,411	—	—	—	19,411
Stock repurchases	(127,661)	—	—	—	(127,661)
Dividends paid	(38,382)	—	—	—	(38,382)
Intercompany activities, net	752,069	(718,299)	(33,770)	—	—
Net cash provided by (used in) financing activities	120,389	(713,078)	(66,901)	—	(659,590)
Net increase (decrease) in cash and equivalents	116,196	125,056	(65,683)	—	175,569
Cash and equivalents at beginning of year	146,168	1,063,943	194,649	—	1,404,760
Cash and equivalents at end of year	$262,364	$1,188,999	$128,966	$—	$ 1,580,329

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the year ended December 31, 2012
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	$(582,762)	$1,332,342	$10,560	$—	$760,140
Cash flows from investing activities:					
Distributions from unconsolidated entities	—	3,029	—	—	3,029
Investments in unconsolidated entities	—	(16,456)	—	—	(16,456)
Net change in loans held for investment	—	—	836	—	836
Change in restricted cash related to letters of credit	28,653	—	—	—	28,653
Proceeds from the sale of property and equipment	—	7,586	—	—	7,586
Capital expenditures	—	(10,831)	(3,111)	—	(13,942)
Net cash provided by (used in) investing activities	28,653	(16,672)	(2,275)	—	9,706
Cash flows from financing activities:					
Financial Services borrowings (repayments)	—	—	138,795	—	138,795
Other borrowings (repayments)	(620,700)	1,900	—	—	(618,800)
Stock option exercises	32,809	—	—	—	32,809
Stock repurchases	(961)	—	—	—	(961)
Intercompany activities, net	1,169,842	(1,129,188)	(40,654)	—	—
Net cash provided by (used in) financing activities	580,990	(1,127,288)	98,141	—	(448,157)
Net increase (decrease) in cash and equivalents	26,881	188,382	106,426	—	321,689
Cash and equivalents at beginning of year	119,287	875,561	88,223	—	1,083,071
Cash and equivalents at end of year	$146,168	$1,063,943	$194,649	$—	$1,404,760

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

14. Quarterly results (unaudited)
UNAUDITED QUARTERLY INFORMATION
(000's omitted, except per share data)

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

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

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

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

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

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

UNAUDITED QUARTERLY INFORMATION
(000's omitted, except per share data)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total (a)
2013					
Homebuilding:					
Revenues	$1,125,883	$1,240,060	$1,547,742	$1,624,959	$5,538,644
Cost of revenues	923,488	1,011,528	1,230,070	1,249,868	4,414,954
Income before income taxes (b)	68,037	21,971	163,594	225,511	479,113
Financial Services:					
Revenues	$36,873	$39,362	$34,336	$30,380	$140,951
Income before income taxes	14,313	16,359	11,128	6,909	48,709
Consolidated results:					
Revenues	$1,162,756	$1,279,422	$1,582,078	$1,655,339	$5,679,595
Income before income taxes	82,350	38,330	174,722	232,420	527,822
Income tax expense (benefit) (c)	588	1,913	(2,107,162)	12,367	(2,092,294)
Net income	$81,762	$36,417	$2,281,884	$220,053	$2,620,116
Net income per share:					
Basic	$0.21	$0.09	$5.92	$0.58	$6.79
Diluted	$0.21	$0.09	$5.87	$0.57	$6.72
Number of shares used in calculation:					
Basic	384,228	385,389	382,883	379,879	383,077
Effect of dilutive securities	6,093	5,791	3,220	3,845	3,789
Diluted	390,321	391,180	386,103	383,724	386,866

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

(b) Homebuilding income before income taxes in the 2nd Quarter includes charges totaling $66.6 million consisting of losses on debt retirements, costs associated with the relocation of our corporate headquarters, and a contractual dispute related to a previously completed luxury community.

(c) Income tax expense (benefit) includes a benefit of $2.1 billion and $73.7 million in the 3rd Quarter and 4th Quarter, respectively, related to the reversal of substantially all of the valuation allowance previously recorded against our deferred tax assets.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PulteGroup, Inc.

We have audited the accompanying consolidated balance sheets of PulteGroup, Inc. (the “Company”) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PulteGroup, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PulteGroup, Inc.’s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 4, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 4, 2015

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

This Item is not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management, including our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based upon, and as of the date of that evaluation, our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2014.

Internal Control Over Financial Reporting

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

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

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

In order to ensure that the Company’s internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2014. Management’s assessment was based on criteria for effective internal control over financial reporting described in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). On August 22, 2014, the Company completed the acquisition of certain real estate assets from Dominion Homes. As permitted by the Securities and Exchange Commission, management excluded the operations related to such assets from its assessment of internal control over financial reporting as of December 31, 2014. Such operations constituted approximately $105 million of consolidated total assets as of December 31, 2014, and $74 million of consolidated total revenues for the year then ended. Based on this assessment, management asserts that the Company has maintained effective internal control over financial reporting as of December 31, 2014.

Ernst & Young LLP, the independent registered public accounting firm that audited the Company’s consolidated financial statements included in this annual report, has issued its report on the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014.

(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of PulteGroup, Inc.

We have audited PulteGroup, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). PulteGroup, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of certain real estate assets acquired from Dominion Homes on August 22, 2014, which are included in the 2014 consolidated financial statements of PulteGroup, Inc. and constituted $105 million of consolidated total assets as of December 31, 2014, and $74 million of consolidated total revenues for the year then ended. Our audit of internal control over financial reporting of PulteGroup, Inc. also did not include an evaluation of the internal control over financial reporting of the operations of certain real estate assets acquired from Dominion Homes.

In our opinion, PulteGroup, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of PulteGroup, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 4, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
February 4, 2015

(c) Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

This Item is not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item with respect to our executive officers is set forth in Item 4A of this Annual Report on Form 10-K. Information required by this Item with respect to members of our Board of Directors and with respect to our audit committee will be contained in the Proxy Statement for the 2015 Annual Meeting of Shareholders (“2015 Proxy Statement”) under the captions “Election of Directors” and “Committees of the Board of Directors - Audit Committee” and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2015 Proxy Statement under the caption “Beneficial Security Ownership - Section 16(a) Beneficial Ownership Reporting Compliance,” and is incorporated herein by this reference. Information required by this Item with respect to our code of ethics will be contained in the 2015 Proxy Statement under the caption “Corporate Governance - Governance Guidelines; Code of Ethical Business Conduct; Code of Ethics” and is incorporated herein by this reference.

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

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item will be contained in the 2015 Proxy Statement under the captions “2014 Executive Compensation” and “2014 Director Compensation” and is incorporated herein by this reference, provided that the Compensation and Management Development Committee Report shall not be deemed to be “filed” with this Annual Report on Form 10-K.

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

Information required by this Item will be contained in the 2015 Proxy Statement under the captions “Beneficial Security Ownership” and “Equity Compensation Plan Information” and is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this Item will be contained in the 2015 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Election of Directors - Independence” and is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item will be contained in the 2015 Proxy Statement under the captions “Audit and Non-Audit Fees” and “Audit Committee Preapproval Policies” and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

Consolidated Balance Sheets at December 31, 2014 and 2013	43
Consolidated Statements of Operations for the years ended December 31, 2014, 2013, and 2012	44
Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012	45
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2014, 2013, and 2012	46
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013, and 2012	47
Notes to Consolidated Financial Statements	48

(2) Financial Statement Schedules

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

(3) Exhibits

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

Exhibit Number and Description

(3)	(a)	Restated Articles of Incorporation, of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed with the SEC on August 18, 2009)
	(b)	Certificate of Amendment to the Articles of Incorporation, dated March 18, 2010 (Incorporated by reference to Exhibit 3(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
	(c)	Certificate of Amendment to the Articles of Incorporation, dated May 21, 2010 (Incorporated by reference to Exhibit 3(c) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)
	(d)	By-laws, as amended, of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed with the SEC on April 8, 2009)
	(e)	Certificate of Designation of Series A Junior Participating Preferred Shares, dated August 6, 2009 (Incorporated by reference to Exhibit 3(b) of our Registration Statement on Form 8-A, filed with the SEC on August 18, 2009)
(4)	(a)	Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of PulteGroup, Inc. and its subsidiaries, has not been filed. The Company agrees to furnish a copy of such instruments to the SEC upon request.
	(b)	Amended and Restated Section 382 Rights Agreement, dated as of March 18, 2010, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent, which includes the Form of Rights Certificate as Exhibit B thereto (Incorporated by reference to Exhibit 4 of PulteGroup, Inc.'s Registration Statement on Form 8-A/A filed with the SEC on March 23, 2010)
	(c)	First Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 14, 2013, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4-1 of our Current Report on Form 8-K, filed with the SEC on

		March 15, 2013)
(10)	(a)	1995 Stock Incentive Plan for Key Employees (Incorporated by reference to our Proxy Statement dated March 31, 1995, and as Exhibit 4.1 of our Registration Statement on Form S-8, Registration No. 33-99218)
	(b)	PulteGroup, Inc. 401(k) Plan (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-115570)

(c)	PulteGroup, Inc. 2000 Stock Incentive Plan for Key Employees (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-66284)
(d)	PulteGroup, Inc. 2000 Stock Plan for Nonemployee Directors (Incorporated by reference to Exhibit 4.3 of our Registration Statement on Form S-8, Registration No. 333-66284)
(e)	PulteGroup, Inc. 2002 Stock Incentive Plan (Incorporated by reference to our Proxy Statement dated April 3, 2002 and as Exhibit 4.3 of our Registration Statement on Form S-8, No. 333-123223)
(f)	PulteGroup, Inc. 2008 Senior Management Incentive Plan (Incorporated by reference to our Proxy Statement dated April 7, 2008)
(g)	PulteGroup, Inc. 2013 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013)
(h)	PulteGroup, Inc. Long-Term Incentive Program (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
(i)	Form of PulteGroup, Inc. Long Term Incentive Award Agreement (Incorporated by reference to Exhibit 10.3 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
(j)	Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Company Performance Measures (Incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
(k)	Form of PulteGroup, Inc. 2008-2010 Grant Acceptance Agreement - Individual Performance Measures (Incorporated by reference to Exhibit 10.5 of our Current Report on Form 8-K, filed with the SEC on May 20, 2008)
(l)	PulteGroup, Inc. 2013 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on May 13, 2013)
(m)	PulteGroup, Inc. 2004 Stock Incentive Plan (as Amended and Restated as of July 9, 2009) (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2009)
(n)	Form of Restricted Stock Unit Award Agreement under PulteGroup, Inc. 2013 Stock Incentive Plan (Incorporated by reference to Exhibit 10(c) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014)
(o)	Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
(p)	Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(p) of our Annual Report on Form 10-K for the year ended December 31, 2013)
(q)	

	Form of Restricted Stock Award Agreement (as amended) under PulteGroup, Inc. 2000 Stock Incentive Plan for Key Employees (Incorporated by reference to Exhibit 10(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
(r)	Form of Stock Option Agreement under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans (Incorporated by reference to Exhibit 10(s) of our Annual Report on Form 10-K for the year ended December 31, 2007)
(s)	Form of Stock Option Agreement (as amended) under PulteGroup, Inc. 2002 and 2004 Stock Incentive Plans (Incorporated by reference to Exhibit 10(t) of our Annual Report on Form 10-K for the year ended December 31, 2007)
(t)	Form of Performance Share Award Agreement under PulteGroup, Inc. 2004 Stock Incentive Plan (Incorporated by reference to Exhibit 10(w) of our Annual Report on Form 10-K for the year ended December 31, 2011)
(u)	Centex Corporation Amended and Restated 1987 Stock Option Plan (Amended and Restated Effective February 11, 2009) (Incorporated by reference to Exhibit 10.4 of Centex's Current Report on Form 8-K, filed with the SEC on February 13, 2009)

(v)	Amended and Restated Centex Corporation 2001 Stock Plan (Amended and Restated Effective February 11, 2009) (Incorporated by reference to Exhibit 10.2 of Centex's Current Report on Form 8-K, filed with the SEC on February 13, 2009)
(w)	Form of stock option agreement for the Amended and Restated Centex Corporation 2001 Stock Plan (Incorporated by reference to Exhibit 10.5 of Centex's Current Report on Form 8-K, filed with the SEC on May 13, 2008)
(x)	Centex Corporation 2003 Equity Incentive Plan (Amended and Restated Effective February 11, 2009) (Incorporated by reference to Exhibit 10.1 of Centex's Current Report on Form 8-K, filed with the SEC on February 13, 2009)
(y)	Form of stock option agreement for the Centex Corporation 2003 Equity Incentive Plan (Incorporated by reference to Exhibit 10.6 of Centex's Current Report on Form 8-K, filed with the SEC on May 13, 2008)
(z)	PulteGroup, Inc. Long Term Compensation Deferral Plan (As Amended and Restated Effective January 1, 2004) (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)
(aa)	PulteGroup, Inc. Deferred Compensation Plan for Non-Employee Directors (as Amended and Restated Effective December 8, 2009) (Incorporated by reference to Exhibit 10(al) of our Annual Report on Form 10-K for the year ended December 31, 2009)
(ab)	Assignment and Assumption Agreement dated as of August 18, 2009 between PulteGroup, Inc. and Centex Corporation (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on August 20, 2009)
(ac)	Form of Performance Award Agreement under PulteGroup, Inc. 2008 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012)
(ad)	PulteGroup, Inc. Executive Severance Policy (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 12, 2013)
(ae)	PulteGroup, Inc. Retirement Policy (Incorporated by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed with the SEC on February 12, 2013)
(af)	Master Repurchase Agreement dated as of September 28, 2012 among Comerica Bank, as Agent and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on October 2, 2012)
(ag)	First Amendment to Master Repurchase Agreement dated as of September 13, 2013 among Comerica Bank, as Agent and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on September 18, 2013)
(ah)	

		Second Amendment to Master Repurchase Agreement dated as of January 9, 2014 among Comerica Bank, as Agent and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on January 13, 2014)
	(ai)	Third Amendment to Master Repurchase Agreement dated as of January 24, 2014 among Comerica Bank, as Agent and a Buyer, the other Buyers party hereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10(ai) of our Annual Report on Form 10-K for the year ended December 31, 2013)
	(aj)	Fourth Amendment to Master Repurchase Agreement dated as of September 8, 2014 among Comerica Bank, as Agent and a Buyer, the other Buyers party thereto and Pulte Mortgage LLC, as Seller (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K filed with the SEC on September 10, 2014)
	(ak)	Credit Agreement dated as of July 23, 2014 among PulteGroup, Inc., as Borrower, Bank of America, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer, and the Other Lenders Party Hereto (Incorporated by reference to Exhibit 10(a) of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2014)
(12)		Ratio of Earnings to Fixed Charges at December 31, 2014 (Filed herewith)
(21)		Subsidiaries of the Registrant (Filed herewith)
(23)		Consent of Independent Registered Public Accounting Firm (Filed herewith)

(24)		Power of Attorney (filed herewith)
(31)	(a)	Rule 13a-14(a) Certification by Richard J. Dugas, Jr., Chairman, President, and Chief Executive Officer (Filed herewith)
	(b)	Rule 13a-14(a) Certification by Robert T. O'Shaughnessy, Executive Vice President and Chief Financial Officer (Filed herewith)
(32)		Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (Filed herewith)
101.INS		XBRL Instance Document
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		XBRL Taxonomy Extension Label Linkbase Document
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

PULTEGROUP, INC.
(Registrant)

February 4, 2015	By:	/s/ Robert T. O'Shaughnessy Robert T. O'Shaughnessy Executive Vice President and Chief Financial Officer

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

February 4, 2015

/s/ Richard J. Dugas, Jr. Richard J. Dugas, Jr. Chairman of the Board of Directors, President, and Chief Executive Officer (Principal Executive Officer)	/s/ Robert T. O'Shaughnessy Robert T. O'Shaughnessy Executive Vice President and Chief Financial Officer (Principal Financial Officer)	/s/ James L. Ossowski James L. Ossowski Vice President, Finance and Controller (Principal Accounting Officer)

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