PULTEGROUP INC/MI/
Form 10-K
February 07, 2018
UNITED STATES
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, 2017
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 Shares, 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. [X]

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

Large accelerated filer [X]	Accelerated filer [ ]	Non-accelerated filer [ ]	Smaller reporting company [ ]	Emerging growth company [ ]

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

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

YES [ ] NO [X]

The aggregate market value of the registrant's voting shares held by nonaffiliates of the registrant as of June 30, 2017, based on the closing sale price per share as reported by the New York Stock Exchange on such date, was $7,393,482,685.

As of February 1, 2018, the registrant had 286,465,036 shares of common shares outstanding.

Documents Incorporated by Reference

Applicable portions of the Proxy Statement for the 2018 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form.

PULTEGROUP, INC.
TABLE OF CONTENTS

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 shares trade on the New York Stock Exchange under the ticker symbol “PHM”. Unless the context otherwise requires, the terms "PulteGroup", the "Company", "we", "us", and "our" used herein refer to PulteGroup, Inc. and its subsidiaries. While our subsidiaries engage primarily in the homebuilding business, we also 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. We offer a broad product line to meet the needs of homebuyers in our targeted markets. Through our brands, which include Centex, Pulte Homes, Del Webb, DiVosta Homes, and John Wieland Homes and Neighborhoods, we offer a wide variety of home designs, including single-family detached, townhouses, condominiums, and duplexes at different prices and with varying levels of options and amenities to our major customer groups: first-time, move-up, and active adult. Over our history, we have delivered over 700,000 homes.

As of December 31, 2017, we conducted our operations in 47 markets located throughout 25 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

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

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

Financial information for each of our reportable business segments is included in Note 3 to our Consolidated Financial Statements.

Available information

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

Homebuilding Operations

	Years Ended December 31, ($000's omitted)				
	2017	2016	2015	2014	2013
Home sale revenues	$8,323,984	$7,451,315	$5,792,675	$5,662,171	$5,424,309
Home closings	21,052	19,951	17,127	17,196	17,766

After several years of declining sales volume, new home sales in the U.S. increased in 2012 for the first time since 2005, beginning a multi-year recovery in demand. This trend continued in 2017 as new home sales in the U.S. rose 8% over 2016 to approximately 608,000 homes, approximately double the number from 2011, the bottom of the most recent housing downturn. Additionally, mortgage interest rates remain near historic lows and the overall inventory of homes available for sale, especially new homes, remains low. Although the recovery in housing demand has been slow by historical standards, the improved demand environment and actions we have taken to improve business performance have contributed to significant increases in our income before income taxes for the period 2013 - 2017. We continue to believe that the national publicly-traded builders will have a competitive advantage over local builders through their ability to access more reliable and lower cost financing through the capital markets, control and entitle large land positions, gain better access to scarce labor resources, and achieve greater geographic and product diversification. Among our national publicly-traded peer group, we believe that builders with broad geographic and product diversity and sustainable capital positions will benefit as market conditions continue to 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:

- Invest capital consistent with our stated priorities: invest in the business, fund our dividend, and routinely return excess funds to shareholders through share repurchases;
- Growth within our existing markets by appropriately expanding share among our primary buyer groups: first time, move-up and active adult;
- Maintain disciplined business practices to maximize gross and operating margins;
- Shorten the duration of our owned land pipeline to improve returns and reduce risks;
- Focus on building-to-order while maintaining tight controls on the construction of speculative homes; and
- Drive operational gains and asset efficiency in support of high returns over the housing cycle.

Our Homebuilding operations are geographically diverse within the U.S. As of December 31, 2017, we had 790 active communities spanning 47 markets across 25 states. Sales prices of unit closings during 2017 ranged from approximately $100,000 to over $2,000,000, with 90% falling within the range of $200,000 to $750,000. The average unit selling price in 2017 was $395,000, compared with $373,000 in 2016, $338,000 in 2015, $329,000 in 2014, and $305,000 in 2013. The increase in average selling price in recent years resulted from a number of factors, including favorable market conditions, a shift in our sales mix toward move-up homebuyers, and changes in the geographical mix of homes sold. Our average unit selling price in 2016 was also impacted by our acquisition in January 2016 of substantially all of the assets of JW Homes ("Wieland), which are geared toward move-up homebuyers.

Sales of single-family detached homes, as a percentage of total unit sales, were 88% in 2017, compared with 87% in 2016, 86% in 2015, 86% in 2014, and 85% in 2013. The increase in the percentage of single-family detached homes can be attributed to a shift in our business toward move-up homebuyers, who tend to prefer detached homes.

Backlog, which represents orders for homes that have not yet closed, was $4.0 billion (8,996 units) at December 31, 2017 and $2.9 billion (7,422 units) at December 31, 2016. 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, 2017, substantially all are scheduled to be closed during 2018, 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. 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 meet the needs of consumers. 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 can serve to reduce the financial risk associated with long-term land holdings. We typically acquire land with the intent to complete sales of housing units within 24 to 36 months from the date of opening a community, except in the case of certain Del Webb active adult developments and other large master-planned projects for which the completion of community build-out requires a longer time period. While our overall supply of controlled land is in excess of our short-term needs in many of our markets, some of our controlled land consists of long-term positions that will not be converted to home sales in the near term. Accordingly, we remain active in our pursuit of new land investment. We may also periodically sell select parcels of land to third parties for commercial or other development if we determine that they do not fit into our strategic operating plans.

Land is generally purchased after it is zoned and developed, or is ready for development, for our intended use. In the normal course of business, we periodically sell land not required by our homebuilding operations. 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, when needed, local government authorities who construct sewer and water systems in some areas. At December 31, 2017, we controlled 141,409 lots, of which 89,253 were owned and 52,156 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 homebuyer 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 needs of potential homebuyers are understood, we link our home design and community development efforts to the specific lifestyle of each consumer group. Through our understanding of each consumer group, we are able to provide homes that better meet the needs and wants of each homebuyer.

Our homes targeted to first-time homebuyers tend to be smaller with product offerings geared toward lower average selling prices or higher density. Move-up homebuyers tend to place more of a premium on location and amenities. These communities typically offer larger homes at higher price points. Through our Del Webb brand, we are better able to address the needs of active adults, to whom we offer both destination communities and “in place” communities, for homebuyers 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 homebuyer to maintain an active lifestyle. In order to make the cost of these highly amenitized communities affordable to the individual homeowner, Del Webb communities tend to be larger than first-time or move-up homebuyer communities.

	First-Time	Move-Up	Active Adult

Portion of home closings:			
2017	30%	45%	25%
2013	35%	34%	31%

As illustrated in the above table, our sales mix has shifted in recent years toward the move-up homebuyer where demand has been stronger. This shift in U.S. housing demand occurred primarily due to financial challenges facing the first-time homebuyer, despite a generally recovering U.S. economy, including the overhang of consumer debt, especially student loans related to higher education, and a more restrictive mortgage lending environment. However, the first-time homebuyer has historically played a major role in new housing, and we believe that our first-time homebuyer volume has been increasing recently and will continue to increase in coming years.

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

Our sales teams, in many 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 seeks to ensure that homebuyers are comfortable at every stage of the process. Fully furnished and landscaped model homes physically located in our communities, which leverage the expertise of our interior designers, are generally used to showcase our homes and their distinctive design features. We are also introducing virtual reality walkthroughs of our house floor plans in certain communities to provide prospective homebuyers a more cost effective means to provide a realistic vision of our homes.

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 house floor plans and elevations in each community, including potential options and upgrades, such as different flooring, countertop, fixture, 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 heating, ventilation, and air conditioning systems and insulation, low-emissivity windows, solar power in certain geographies, and other energy-efficient 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 generally are priced on a fixed-price basis. Using a selective process, we have teamed up with what we believe are premier subcontractors and suppliers to deliver quality throughout all aspects of the house construction process.

Continuous improvement in our house construction process is a key area of focus. We seek to build superior quality homes while maintaining efficient construction operations by using standard materials and components from a variety of sources and by using industry and company-specific construction practices. We are improving our product offerings and production processes through the following programs:

- Common management of house plans to deliver house designs that customers value the most and that can be built at the highest quality and at an efficient cost;
- Value engineering our house plans to optimize house designs in terms of material content and ease of construction while still providing a clear value to the customer;
- Improving our usage of Pulte Construction Standards, a proprietary system of internally required construction practices, through development of new or revised standards, training of our field leadership and construction personnel, communication with our suppliers, and auditing our compliance; and

- Working with our suppliers to establish the "should cost", a data driven, collaborative effort to reduce construction costs to what the associated construction activities or materials “should cost” in the market.

The ability to consistently source qualified labor at reasonable prices remains challenging as labor supply growth has not kept pace with construction demand. Additionally, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in global commodity prices, national tariffs, and other foreign trade expenses. To protect against changes in construction costs, labor and materials costs are generally established prior to 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 costs. We are also working to establish a more integrated system that can effectively link suppliers, contractors, and the production schedule. However, we cannot determine the extent to which necessary building materials and labor will be available at reasonable prices in the future.

Competition

The housing industry in the U.S. is fragmented and highly competitive. While we are one of the largest homebuilders in the U.S., our national market share represented only approximately 3% of U.S. new home sales in 2017. In each of our local markets, there are numerous national, regional, and local homebuilders with whom we compete. Additionally, new home sales have traditionally represented less than 15% of overall U.S. home sales (new and existing homes). Therefore, we also compete with sales of existing house inventory and any provider of for sale or rental housing units, including apartment operators. We compete primarily on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences.

Seasonality

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

Regulation and environmental matters

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

Financial Services Operations

We conduct our financial services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries. Pulte Mortgage arranges financing through the origination of mortgage loans primarily for the benefit of our homebuyers. We are a lender approved by the Federal Housing Administration ("FHA") and Department of Veterans Affairs ("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 targeted to supporting our Homebuilding operations, the business levels of our Financial Services operations are highly correlated to Homebuilding. For homes sold, we originated the mortgage loans of 66% in 2017, 65% in 2016, 65% in 2015, 61% in 2014, and 64% in 2013. 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% in 2017, 81% in 2016, 83% in 2015, 80% in 2014, and 80% in 2013.

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

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

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

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

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

Financial Information About Geographic Areas

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

Organization/Employees

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

At December 31, 2017, we employed 4,810 people, of which 879 people were employed in our Financial Services operations. Except for a small group of employees, 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, which is generally 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.

The homebuilding industry is cyclical and a deterioration in industry conditions or downward changes in general economic 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 that could adversely affect our financial condition.

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. During this period, we incurred significant losses, including impairments of our land inventory and certain other assets. Since 2011, overall industry new home sales have increased, and we returned to profitability beginning in 2012. However, the recovery in housing demand has been slow by historical standards and the adjustments we have made to our operating strategy may not be successful if the current housing market were to deteriorate significantly.

If the market value of our land and homes drops significantly, our profits could decrease and result in write-downs of the carrying values of land we own.

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. At times we have been required to record significant write-downs of the carrying value of our land inventory, and we have elected not to exercise options to purchase land, even though that required us to forfeit deposits and write-off pre-acquisition costs. Although we have taken efforts to reduce our exposure to costs of that type, a certain amount of exposure is inherent in our homebuilding business. If market conditions were to deteriorate in the future, we could again be required to record significant write downs to our land inventory, which would decrease the asset values reflected on our balance sheet and adversely affect our earnings and our stockholders' equity.

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

The homebuilding industry is highly competitive for skilled labor and materials. Labor shortages in certain of our markets have become more acute in recent years as the supply chain adjusts to uneven industry growth. Additionally, the cost of certain building materials, especially lumber, steel, concrete, copper, and petroleum-based materials, is influenced by changes in local and global commodity prices as well as government regulation. During 2017, we experienced increases in the prices of some building materials and shortages of skilled labor in some areas. Increased costs or shortages of skilled labor and/or materials could cause increases in construction costs and/or construction delays. We may not be able to pass on increases in construction costs to customers and generally are unable to pass on any such increases to customers who have already entered into sales contracts as those sales contracts generally fix the price of the home at the time the contract is signed, which may be well in advance of the construction of the home. Sustained increases in construction costs may, over time, erode our margins, and pricing competition may restrict our ability to pass on any such additional costs, thereby decreasing our margins.

Products supplied to us and work done by subcontractors can expose us to risks that could adversely affect our business.

We rely on subcontractors to perform the actual construction of our homes, and, in some cases, to select and obtain building materials. Despite our detailed specifications and quality control procedures, in some cases, subcontractors may use improper construction processes or defective materials. Defective products widely used by the homebuilding industry can result in the need to perform extensive repairs to large numbers of homes. The cost of complying with our warranty obligations may be significant if we are unable to recover the cost of repairs from subcontractors, materials suppliers and insurers.

We also can suffer damage to our reputation, and may be exposed to possible liability, if subcontractors fail to comply with applicable laws, including laws involving actions or matters that are not within our control. When we learn about possibly improper practices by subcontractors, we attempt to cause the subcontractors to discontinue them and may terminate the use of such subcontractors. However, attempts at mitigation may not avoid claims against us relating to actions of or matters relating to our subcontractors.

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. We experience significant competition for suitable land as a result of land constraints in many of our markets. As competition for suitable land increases, and as available land is developed, the cost of acquiring suitable remaining land could rise, and the availability of suitable land at acceptable prices may decline. Any land shortages or any decrease in the supply of suitable land at reasonable prices could limit our ability to develop new communities or result in increased land costs. We may not be able to pass through to our customers any increased land costs, which could adversely impact our revenues, earnings, and margins.

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

Our mortgage operations may be responsible for losses associated with mortgage loans originated and sold to investors in the event of errors or omissions relating to certain representations and warranties made by us that the loans met certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in connection with the loan. To date, the significant majority of these losses relate to loans originated in 2006 and 2007, during which period inherently riskier loan products became more common in the origination market. We may also be required to indemnify underwriters that purchased and securitized loans originated by a former subsidiary of Centex Corporation ("Centex"), which we acquired in 2009, for losses incurred by investors in those securitized loans based on similar breaches of representations and warranties.

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

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

A large majority of our customers finance their home purchases through mortgage loans, many through Pulte Mortgage. Mortgage interest rates have remained 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.

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. Additionally, the availability of FHA and VA mortgage financing is an important factor in marketing some of our homes.

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. On December 22, 2017, a law commonly known as the Tax Cuts and Jobs Act (the "Tax Act") was enacted. While the Tax Act lowers the tax rates applicable to many businesses and individuals, it also, among other things, (i) limits the federal deduction for mortgage interest so that it only applies to the first $750,000 of a new mortgage (as compared to $1 million under previous tax law), (ii) introduces a $10,000 cap on the federal deduction for state and local taxes, including real estate taxes, and (iii) eliminates the federal deduction for interest on home equity loans. While the ultimate impact of the Tax Act is not known, these tax changes may raise the overall cost of home ownership in certain of our existing or future communities, lessen the perceived financial benefits of home ownership, or otherwise reduce demand for our homes. Increases in real estate taxes by local governmental authorities also increase the cost of homeownership. Any such increases to the cost of homeownership could adversely impact the demand for and sales prices of new homes.

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

The capital and credit markets can experience significant volatility. We may need credit-related liquidity for the future development of our business and other capital needs. 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, 2017, we had cash, cash equivalents, and restricted cash of $306.2 million as well as $764.5 million available under our revolving credit facility, net of outstanding letters of credit. However, our internal sources of liquidity and revolving credit facility 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 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, 2017, we had outstanding letters of credit and surety bonds totaling $235.5 million and $1.2 billion, respectively. These letters of credit are generally issued via our unsecured revolving credit facility, which contains certain financial covenants and other limitations. If we are unable to obtain letters of credit or surety bonds when required, or the conditions imposed by issuers increase significantly, our financial condition and results of operations could be adversely affected.

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

The U.S. housing industry is highly competitive. Homebuilders compete not only for homebuyers, but also for desirable land, financing, raw materials, skilled management, and labor resources. We compete in each of our markets with numerous national, regional, and local homebuilders on the basis of location, price, quality, reputation, design, community amenities, and our customers' overall sales and homeownership experiences. This competition with other homebuilders could reduce the number of homes we deliver or cause us to accept reduced margins to maintain sales volume. Competition can also affect our ability to procure suitable land, raw materials, and skilled labor at acceptable prices or other terms.

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.

The loss of the services of members of our senior management or a significant number of our operating employees could negatively affect our business.

Our success depends upon the skills, experience, and active participation of our senior management, many of whom have been with the Company for a significant number of years. If we were to lose members of our senior management, we might not be able to find appropriate replacements on a timely basis, and our operations could be negatively affected. Also, the loss of a significant number of operating employees in key roles or geographies where we are not able to hire qualified replacements could have a material adverse effect on our business.

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.

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 tax assets.

As of December 31, 2017, we had deferred tax assets, net of deferred tax liabilities, of $713.9 million, against which we provided a valuation allowance of $68.6 million. The ultimate realization of our deferred tax assets is dependent upon generating future taxable income. While we have recorded valuation allowances against certain of our deferred 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 or income tax 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 or income tax in any single year. The application of these limitations might prevent full utilization of the deferred tax assets attributable to our NOLs, BILs, and tax credit carryforwards. To preserve our ability to utilize NOLs, BILs, and other tax benefits in the future without a Section 382 limitation, we adopted a shareholder rights plan, which is triggered upon certain transfers of our securities, and amended our by-laws to prohibit certain transfers of our securities. Our shareholder rights plan, as amended, expires June 1, 2019, unless our board of directors and shareholders approve an amendment to extend the term prior thereto. Notwithstanding the foregoing measures, there can be no assurance that we will not undergo an ownership change within the meaning of Section 382.

Our ability to use certain of Centex's federal losses and credits is limited under Section 382 of the IRC. We do not believe that the Section 382 limitations will prevent us from utilizing these Centex losses and credits. We do believe that full utilization of certain state NOL carryforwards will be limited due to Section 382.

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.

The Tax Act enacted on December 22, 2017, makes broad and complex changes to the U.S. tax code, including, but not limited to, the following that impact us: (1) reducing the U.S. federal corporate income tax rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax (“AMT”) and changing how existing AMT credits can be realized; (3) creating a new limitation on deductible interest expense; (4) repealing the domestic production activities deduction; (5) limiting the deductibility of certain executive compensation; and (6) limiting certain other deductions. While we continue to evaluate the effects of the Tax Act, we have recorded a net tax expense of $172.1 million in 2017 related to the remeasurement of our deferred tax balance and other effects. We expect that the Tax Act will have a favorable impact on our financial results beginning in 2018. In the absence of guidance on various uncertainties and ambiguities in the application of certain provisions of the Tax Act, we will use what we believe are reasonable interpretations and assumptions in applying the Tax Act. However, it is possible that the IRS could issue subsequent guidance or take positions in an audit that differ from our prior interpretations and assumptions, which could have a material adverse effect on our cash tax liabilities, results of operations, or financial condition.

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

We have significant intangible assets related to business combinations. If the carrying value of intangible assets is deemed impaired, the carrying value is written down to fair value. This would result in a charge to our earnings. If management’s expectations of future results and cash flows decrease significantly, impairments of the remaining intangible assets may occur.

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

Our operations are subject to building, safety, 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.

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

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

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

Our homebuilding operations are located in many areas that are subject to natural disasters and severe weather. The occurrence of natural disasters or severe weather conditions can delay new home deliveries, increase costs by damaging inventories, reduce the availability of materials, and negatively impact the demand for new homes in affected areas. Furthermore, if our insurance does not fully cover business interruptions or losses resulting from these events, our earnings, liquidity, or capital resources could be adversely affected. In 2017, Hurricanes Harvey and Irma caused disruptions in our Texas and Florida operations, respectively, but did not result in a material impact to our 2017 results of operations.

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

Inflation can adversely affect us by increasing costs of land, materials, and labor. In addition, significant inflation is often accompanied by higher interest rates, which may have a negative impact on demand for our homes. In an inflationary environment, economic conditions and other market factors may make it difficult for us to raise home prices enough to keep up with the rate of inflation, which would reduce our profit margins. Although the rate of inflation has been historically low for the last several years, we currently are experiencing increases in the prices of labor and materials above the general inflation rate.

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 employees or cyber-attacks or errors by third-party vendors who have access to our confidential data, or that of our customers. While we are continuously working to improve our information technology systems and provide employee awareness training around phishing, malware, and other cyber risks to enhance our levels of protection, to the extent possible, against cyber risks and security breaches, and monitor to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact, there is no assurance that advances in computer capabilities, new technologies, methods or other developments will detect or prevent security breaches and safeguard access to proprietary or confidential information. If our computer systems and our back-up systems are damaged, breached, or cease to function properly, or if there are intrusions of critical infrastructure such as the power grid or communications systems, we could suffer extended interruptions in our operations or unintentionally allow misappropriation of proprietary or confidential information (including information about our employees, homebuyers and business partners). Any such disruption could damage our reputation, result in market value declines, lead to legal proceedings against us by affected third-parties resulting in penalties or fines, and require us to incur significant costs to remediate or otherwise resolve these issues.

We can be injured by improper acts of persons over whom we do not have control or by the attempt to impose liabilities or obligations of third parties on us.

Although we expect all of our employees, officers, and directors to comply at all times with all applicable laws, rules, and regulations, there may be instances in which subcontractors or others through whom we do business engage in practices that do not comply with applicable laws, regulations, or governmental guidelines. When we learn of practices that do not comply with applicable laws or regulations, including practices relating to homes, buildings, or multifamily rental properties we build or finance, we move actively to stop the non-complying practices as soon as possible, and we have taken disciplinary action regarding employees of ours who were aware of non-complying practices and did not take steps to address them, including in some instances terminating their employment. However, regardless of the steps we take after we learn of practices that do not comply with applicable laws or regulations, we can in some instances be subject to fines or other governmental penalties, and our reputation can be injured, due to the practices' having taken place.

The homes we sell are built by employees of subcontractors and other contract parties. We do not have the ability to control what these contract parties pay their employees or subcontractors or the work rules they impose on their employees or subcontractors. However, various governmental agencies are trying to hold contract parties like us responsible for violations of wage and hour laws and other work-related laws by firms whose employees are performing contracted for services. Governmental rulings or changes in state or local laws that make us responsible for labor practices by our subcontractors could create substantial exposures for us in situations that are not within our control.

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, Georgia 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 daily 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
Ryan R. Marshall	43	President and Chief Executive Officer	2012
Robert T. O'Shaughnessy	52	Executive Vice President and Chief Financial Officer	2011
James R. Ellinghausen	59	Executive Vice President, Human Resources	2005
Harmon D. Smith	54	Executive Vice President and Chief Operating Officer	2011
Todd N. Sheldon	50	Executive Vice President, General Counsel and Corporate Secretary	2017
James L. Ossowski	49	Senior Vice President, Finance	2013

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

Mr. Marshall was appointed Chief Executive Officer in September 2016. Previously, he held the position of President since February 2016 and Executive Vice President, Homebuilding Operations since May 2014. He was appointed Area President, Southeast in November 2012; Area President, Florida in May 2012; and Division President, South Florida in 2006.

Mr. O'Shaughnessy was appointed Executive Vice President and Chief Financial Officer in May 2011.

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

Mr. Smith was appointed Executive Vice President and Chief Operating Office in February 2016 and previously held the positions of Executive Vice President, Field Operations since May 2014 and Homebuilding Operations and Area President, Texas since May 2012. He served as an Area President over various geographical markets since 2006.

Mr. Sheldon was appointed Executive Vice President, General Counsel and Corporate Secretary in March 2017. Prior to joining our company, he served as Executive Vice President, General Counsel and Secretary at Americold Logistics from June 2013 to March 2017 and in various legal positions at SuperValu from February 2008 to May 2013, most recently as Executive Vice President, General Counsel and Secretary.

Mr. Ossowski was appointed Senior Vice President, Finance in February 2017 and previously held the positions of Vice President, Finance and Controller since February 2013 and Vice President, Finance - Homebuilding Operations since August 2010.

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 SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

Related Shareholder 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, 2017			December 31, 2016		
	High	Low	Declared Dividend	High	Low	Declared Dividend
1st Quarter	$24.05	$18.18	$ 0.09	$18.82	$14.61	$ 0.09
2nd Quarter	24.73	21.41	0.09	19.80	16.60	0.09
3rd Quarter	27.51	23.81	0.09	22.40	19.04	0.09
4th Quarter	34.60	26.68	0.09	20.66	17.69	0.09

At February 1, 2018, there were 2,325 shareholders of record.

Issuer Purchases of Equity Securities

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs ($000's omitted)	
October 1, 2017 to October 31, 2017	281,900	$ 29.76	281,900	$ 336,561	(1)
November 1, 2017 to November 30, 2017	2,423,700	32.23	2,423,700	$ 258,455	(1)
December 1, 2017 to December 31, 2017	4,877,262	33.71	4,865,706	$ 94,441	(1)
Total	7,582,862	$ 33.09	7,571,306		

(1) The Board of Directors approved a share repurchase authorization totaling $1.0 billion in July 2016, of which $94.4 million remained available as of December 31, 2017. During 2017, we repurchased 35.4 million shares under this program. In January 2018, the Board of Directors approved an increase of $500.0 million to our share repurchase authorization. There is no expiration date for this program.

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, 2013, 2014, 2015, 2016, and 2017, (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, 2017

	2012	2013	2014	2015	2016	2017
PULTEGROUP, INC.	$100.00	$113.15	$120.58	$101.85	$107.07	$196.37
S&P 500 Index - Total Return	100.00	132.39	150.51	152.59	170.84	208.14
Dow Jones U.S. Select Home Construction Index	100.00	118.41	124.50	131.29	134.20	214.93

* Assumes $100 invested on December 31, 2012, 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)				
	2017	2016	2015	2014	2013
OPERATING DATA:					
Homebuilding:					
Revenues	$8,381,090	$7,487,350	$5,841,211	$5,696,725	$5,538,644
Income before income taxes	$865,332	$860,766	$757,317	$635,177	$479,113
Financial Services:					
Revenues	$192,160	$181,126	$140,753	$125,638	$140,951
Income before income taxes	$73,496	$73,084	$58,706	$54,581	$48,709
Consolidated results:					
Revenues	$8,573,250	$7,668,476	$5,981,964	$5,822,363	$5,679,595
Income before income taxes	$938,828	$933,850	$816,023	$689,758	$527,822
Income tax (expense) benefit	(491,607)	(331,147)	(321,933)	(215,420)	2,092,294
Net income	$447,221	$602,703	$494,090	$474,338	$2,620,116
PER SHARE DATA:					
Net income per share:					
Basic	$1.45	$1.76	$1.38	$1.27	$6.79
Diluted	$1.44	$1.75	$1.36	$1.26	$6.72
Number of shares used in calculation:					
Basic	305,089	339,747	356,576	370,377	383,077
Effect of dilutive securities	1,725	2,376	3,217	3,725	3,789
Diluted	306,814	342,123	359,793	374,102	386,866
Shareholders' equity	$14.49	$14.60	$13.63	$13.01	$12.19
Cash dividends declared	$0.36	$0.36	$0.33	$0.23	$0.15

	December 31, ($000's omitted)				
	2017	2016	2015	2014	2013
BALANCE SHEET DATA:					
House and land inventory	$7,147,130	$6,770,655	$5,450,058	$4,392,100	$3,978,561
Total assets	9,686,649	10,178,200	9,189,406	8,560,187	8,719,886
Notes payable	3,006,967	3,129,298	2,109,841	1,831,593	2,051,431
Shareholders' equity	4,154,026	4,659,363	4,759,325	4,804,954	4,648,952

	Years Ended December 31,				
	2017	2016	2015	2014	2013
OTHER DATA:					
Markets, at year-end	47	49	50	49	48
Active communities, at year-end	790	726	620	598	577
Closings (units)	21,052	19,951	17,127	17,196	17,766
Net new orders (units)	22,626	20,326	18,008	16,652	17,080
Backlog (units), at year-end	8,996	7,422	6,731	5,850	5,772
Average selling price (per unit)	$395,000	$373,000	$338,000	$329,000	$305,000
Gross margin from home sales (a)	22.4 %	25.0 %	26.9 %	26.7 %	24.1 %

(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

Demand conditions continued to improve in the overall U.S. housing market in 2017. Although the recovery in housing demand has been slow by historical standards, the growth in demand for new homes is being supported by job creation, high consumer confidence, a supportive interest rate environment, and a limited supply of new homes. 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 through dividends and share repurchases.

The nature of the homebuilding industry results in a lag between when investments made in land acquisition and development yield new community openings and related home closings. Our focus continues to be on adding volume growth to the efficiency gains we have achieved in recent years. Our prior investments are allowing us to grow the business, as evidenced by 11% growth in net new orders and a 12% increase in home sale revenues to $8.3 billion. We achieved this growth while also maintaining our focus on gross margin performance through community location, strategic pricing, and construction efficiencies.

During 2017, we opened approximately 250 new communities across our local markets as a result of increased land investment over the last few years. This volume of new community openings can present a challenge in today's environment where entitlement and land development delays are common. We have grown our investment in the business in a disciplined manner by emphasizing smaller projects and working to shorten our years of land supply, including the use of land option agreements when possible. We have also focused our land investments on closer-in locations where we think demand is more sustainable when the market ultimately moderates. We have accepted the trade-off of having to pay more for certain land positions where we can be more confident in future performance. Leveraging our increased land investments, we expect to open a similar number of new communities in 2018 as in 2017, which we expect will help our volume grow in 2018.

Our financial position provided flexibility to increase our investments in future communities while also returning funds to shareholders through dividends and expanded share repurchases. Specifically, we accomplished the following in 2017:

- Continued land investment spending to support future growth, which contributed to a 12% increase in home sale revenues;
- Committed to a plan we announced in May 2017 to sell select non-core and underutilized land parcels following a strategic review of our land portfolio (see Note 2 to the Consolidated Financial Statements);
- Ended the year with a debt to total capitalization ratio of 42.0%, which is slightly above our targeted range of 30.0% to 40.0%, and a cash, cash equivalents, and restricted cash balance of $306.2 million with no borrowings outstanding under our unsecured revolving credit agreement;
- Maintained our quarterly dividend at $0.09 per share; and
- Repurchased $910.3 million of shares under our share repurchase plan.

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

	Years Ended December 31,		
	2017	2016	2015
Income before income taxes:			
Homebuilding	$865,332	$860,766	$757,317
Financial Services	73,496	73,084	58,706
Income before income taxes	938,828	933,850	816,023
Income tax expense	(491,607)	(331,147)	(321,933)
Net income	$447,221	$602,703	$494,090
Per share data - assuming dilution:			
Net income	$1.44	$1.75	$1.36

- Homebuilding income before income taxes improved each year from 2015 to 2017. Revenues increased each year and overhead leverage improved, which offset declines in gross margin percentage. Homebuilding income before income taxes also reflected the following significant income (expense) items ($000's omitted):

		2017	2016	2015
Land inventory impairments (see Note 2)	Home sale cost of revenues	(88,952)	(1,074)	(7,347)
Warranty claim (see Note 11)	Home sale cost of revenues	(12,389)	—	—
Net realizable value adjustments ("NRV") - land held for sale (see Note 2)	Land sale cost of revenues	(83,576)	(1,105)	901
Insurance reserve adjustments (see Note 11)	Selling, general and administrative expenses	95,120	55,243	62,183
Write-offs of insurance receivables (see Note 11)	Selling, general and administrative expenses	(29,624)	—	—
Restructuring costs from corporate office relocation and other actions	Selling, general and administrative expenses	—	(10,030)	(3,826)
	Other expense, net	—	(11,643)	(2,463)
Write-offs of deposits and pre-acquisition costs (see Note 2)	Other expense, net	(11,367)	(17,157)	(5,021)
Impairments of unconsolidated entities (see Note 2)	Other expense, net	(8,017)	—	—
Applecross matter (see Note 11)	Other expense, net	—	—	(20,000)
Settlement of disputed land transaction (see Note 11)	Other expense, net	—	(15,000)	—
		$(138,805)	$(766)	$24,427

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

- The increase in Financial Services income in 2017 compared with 2016 and 2015 was primarily due to an increase in mortgage origination volume resulting from higher volumes in the Homebuilding segment, partially offset by lower revenue per loan as the mortgage origination market has become more competitive. During 2015, we reduced our loan origination liabilities by $11.4 million, which favorably impacted Financial Services income. See Note 11.

- Our effective tax rate was 52.4%, 35.5% and 39.5% for 2017, 2016, and 2015, respectively. The effective tax rate for 2017 reflects the impact of the Tax Act, enacted on December 22, 2017. In connection with our initial analysis of the impact of the Tax Act, we have recorded a provisional amount of net tax expense of $172.1 million in the year ended December 31, 2017 related to the remeasurement of our deferred tax balance and other effects. See Note 8.

Homebuilding Operations

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

	Years Ended December 31,				
	2017	FY 2017 vs. FY 2016	2016	FY 2016 vs. FY 2015	2015
Home sale revenues	$8,323,984	12 %	$7,451,315	29 %	$5,792,675
Land sale revenues	57,106	58 %	36,035	(26)%	48,536
Total Homebuilding revenues	8,381,090	12 %	7,487,350	28 %	5,841,211
Home sale cost of revenues (a)	(6,461,152)	16 %	(5,587,974)	32 %	(4,235,945)
Land sale cost of revenues (b)	(134,449)	319 %	(32,115)	(10)%	(35,858)
Selling, general, and administrative expenses ("SG&A") (c)	(891,581)	(7)%	(957,150)	20 %	(794,728)
Other expense, net (d)	(28,576)	(42)%	(49,345)	184 %	(17,363)
Income before income taxes	$865,332	1 %	$860,766	14 %	$757,317
Supplemental data:					
Gross margin from home sales (a)	22.4 %	(260) bps	25.0 %	(190) bps	26.9 %
SG&A % of home sale revenues (c)	10.7 %	(210) bps	12.8 %	(90) bps	13.7 %
Closings (units)	21,052	6 %	19,951	16 %	17,127
Average selling price	$395	6 %	$373	10 %	$338
Net new orders (e):					
Units	22,626	11 %	20,326	13 %	18,008
Dollars	$9,361,534	21 %	$7,753,399	23 %	$6,305,380
Cancellation rate	14 %		15 %		14 %
Active communities at December 31	790	9 %	726	17 %	620
Backlog at December 31:					
Units	8,996	21 %	7,422	10 %	6,731
Dollars	$3,979,064	35 %	$2,941,512	20 %	$2,456,565

(a) Includes the amortization of capitalized interest; land inventory impairments of $89.0 million in 2017, $1.1 million in 2016, and $7.3 million in 2015 (see Note 2); and a warranty charge of $12.4 million related to a closed-out community (see Note 11) in 2017.

(b) Includes net realizable value adjustments on land held for sale of $83.6 million, $1.1 million, and $(0.9) million in 2017, 2016, and 2015, respectively (see Note 2).

(c) Includes write-offs of $29.6 million of insurance receivables associated with the resolution of certain insurance matters in 2017; general liability insurance reserve reversals of $95.1 million, $55.2 million and $62.2 million in 2017, 2016, and 2015, respectively (see Note 11); and restructuring costs from corporate office relocation and other actions of $10.0 million and $3.8 million in 2016 and 2015, respectively.

(d) Includes an $8.0 million impairment of an investment in an unconsolidated entity in 2017 (see Note 2); $15.0 million in 2016 related to the settlement of a disputed land transaction; $20.0 million in 2015 resulting from the Applecross matter (see Note 11); and restructuring costs from corporate office relocation and other actions of $11.6 million and $2.5 million in 2016 and 2015, respectively. See "Other expense, net" for a table summarizing other significant items.

(e) Net new orders excludes backlog acquired from Wieland in January 2016 (see Note 1). 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 2017 were higher than 2016 by $0.9 billion, or 12%. The increase was attributable to a 6% increase in the average selling price and a 6% increase in closings. The increase in closings reflects the significant land investments we have made and the resulting increase in our active communities. These increased closings occurred despite the disruption in our operations caused by Hurricane Harvey in Houston, Texas, and Hurricane Irma in Florida, as well as permitting and other municipal approval delays in certain communities. The higher average selling price for 2017 reflected a shift toward move-up homebuyers.

Home sale revenues for 2016 were higher than 2015 by $1.7 billion, or 29%. The increase was attributable to a 10% increase in the average selling price and a 16% increase in closings. These increases reflect the impact of communities acquired from Wieland during the period, which contributed 6% to the growth in revenue, 4% to the growth in closings and 1% to the increase in average selling price. Excluding the communities acquired from Wieland, the increase in closings reflects the significant investments we made in opening new communities combined with improved demand. The increase in average selling price reflected a shift in our revenue mix toward move-up homebuyers.

Home sale gross margins

Home sale gross margins were 22.4% in 2017, compared with 25.0% in 2016 and 26.9% in 2015. Our results in 2017 include the effect of the aforementioned land inventory impairments totaling $89.0 million (see Note 2) and a warranty charge of $12.4 million (See Note 11). Combined, these factors reduced gross margin in 2017 by 120 basis points. The assets acquired from Wieland contributed 60 basis points to the decrease in 2016, primarily as the result of required fair value adjustments associated with the acquired homes in production and related lots. Gross margins remain strong relative to historical levels and reflect a combination of factors, including shifts in community mix, relatively stable pricing conditions in 2017 following strong pricing conditions in 2016 and 2015, and lower amortized interest costs (1.7%, 1.7%, and 2.4% of home sale revenues in 2017, 2016, and 2015, respectively) combined with higher house construction and land costs as the supply chain has responded to the housing recovery.

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 contributed net gains (losses) of $(77.3) million, $3.9 million, and $12.7 million in 2017, 2016, and 2015, respectively. The loss in 2017 resulted from the aforementioned net realizable value charges of $83.6 million (see Note 2).

SG&A

SG&A as a percentage of home sale revenues was 10.7% and 12.8% in 2017 and 2016, respectively. The gross dollar amount of our SG&A decreased $65.6 million, or 7%, in 2017 compared with 2016. SG&A includes the aforementioned insurance receivable write-offs of $29.6 million in 2017 and general liability insurance reserve reversals of $95.1 million and $55.2 million in 2017 and 2016, respectively, resulting from favorable claims experience (see Note 11). Excluding these items, the improvement in our year-over-year SG&A leverage was primarily attributable to cost efficiencies realized in late 2016 that continued into 2017.

SG&A as a percentage of home sale revenues was 12.8% and 13.7% in 2016 and 2015, respectively. The gross dollar amount of our SG&A increased $162.4 million, or 20%, in 2016 compared with 2015. SG&A included general liability insurance reserve reversals of $55.2 million and $62.2 million in 2016 and 2015, respectively (see Note 11). SG&A also reflects restructuring costs of $10.0 million in 2016 associated with actions taken to reduce overheads and the substantial completion of our corporate headquarters relocation from Michigan to Georgia, which began in 2013. Excluding these items, the improvement in our year-over-year SG&A leverage was even greater. The increase in gross dollar SG&A reflects the addition of field resources and other variable costs related to increased production volumes combined with higher costs related to healthcare and professional fees. Additionally, SG&A for 2016 reflects the impact of transaction and integration costs associated with the assets acquired from Wieland in January 2016 (see Note 1).

Other expense, net

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

	2017	2016	2015
Write-offs of deposits and pre-acquisition costs (Note 2)	$11,367	$17,157	$5,021
Lease exit and related costs (a)	1,729	11,643	2,463
Amortization of intangible assets (Note 1)	13,800	13,800	12,900
Interest income	(2,537)	(3,236)	(3,107)
Interest expense	503	686	788
Equity in (earnings) loss of unconsolidated entities (Note 4) (b)	1,985	(8,337)	(7,355)
Miscellaneous, net (c)	1,729	17,632	6,653
Total other expense, net	$28,576	$49,345	$17,363

(a) Lease exit and related costs for 2016 and 2015 resulted from actions taken to reduce overheads and the substantial completion of our corporate headquarters relocation from Michigan to Georgia, which began in 2013.
(b) Includes an $8.0 million impairment of an investment in an unconsolidated entity in 2017 (see Note 2).
(c) Miscellaneous, net includes a charge of $15.0 million in 2016 related to the settlement of a disputed land transaction and a charge of $20.0 million in 2015 resulting from the Applecross matter (see Note 11).

Net new orders

Net new orders increased 11% in 2017 compared with 2016. The increase resulted primarily from the higher number of active communities, which increased 9% to 790 at December 31, 2017. Net new orders in dollars increased by 21% compared with 2016 due to the growth in units combined with the higher average selling price. The cancellation rate (canceled orders for the period divided by gross new orders for the period) decreased in 2017 from 2016 at 14% and 15%, respectively. Ending backlog units, which represent orders for homes that have not yet closed, increased 21% at December 31, 2017 compared with December 31, 2016 as measured in units and increased 35% over the prior year period as measured in dollars. The higher average sales price when compared to 2016 also contributed to the higher backlog dollars.

Net new orders increased 13% in 2016 compared with 2015. The increase resulted from improved sales per community combined with selling from a larger number of active communities, which increased 17% to 726 active communities at December 31, 2016. The communities acquired from Wieland contributed to this growth in units by 4%. Excluding the Wieland assets, our growth in net new order units resulted from the higher number of active communities combined with a small improvement in sales pace per community. The cancellation rate increased slightly in 2016 from 2015 at 15% and 14%, respectively. Ending backlog units increased 10% at December 31, 2016 compared with December 31, 2015 and increased 20% as measured in dollars due to the increase in average selling price. The higher average sales price also contributed to the higher backlog dollars.

Homes in production

The following is a summary of our homes in production at December 31, 2017 and 2016:

	2017	2016
Sold	6,246	5,138
Unsold		
Under construction	1,973	1,703
Completed	637	645
	2,610	2,348
Models	1,148	1,072

Total	10,004	8,558

The number of homes in production at December 31, 2017 was 17% higher compared to December 31, 2016. The increase in homes under production was due to a combination of factors, including a 9% increase in active communities and higher net new order volume, resulting in a 21% increase in ending backlog units. As part of our inventory management strategy, we will continue to maintain reasonable inventory levels relative to demand in each of our markets, though inventory levels tend to fluctuate throughout the year.

Controlled lots

The following is a summary of our lots under control at December 31, 2017 and 2016:

	December 31, 2017			December 31, 2016		
	Owned	Optioned	Controlled	Owned	Optioned	Controlled
Northeast	5,194	5,569	10,763	6,296	4,019	10,315
Southeast	15,404	11,085	26,489	16,050	8,232	24,282
Florida	18,458	11,887	30,345	22,164	8,470	30,634
Midwest	10,612	9,196	19,808	11,800	8,639	20,439
Texas	13,923	8,320	22,243	13,541	9,802	23,343
West	25,662	6,099	31,761	29,428	4,817	34,245
Total	89,253	52,156	141,409	99,279	43,979	143,258
Developed (%)	37 %	20 %	31 %	31 %	19 %	28 %

Of our controlled lots, 89,253 and 99,279 were owned and 52,156 and 43,979 were under land option agreements at December 31, 2017 and 2016, respectively. While competition for well-positioned land is robust, we continue to pursue strategic land positions that drive appropriate returns on invested capital. The remaining purchase price under our land option agreements totaled $2.5 billion at December 31, 2017. These land option agreements generally may be canceled at our discretion and in certain cases extend over several years. Our maximum exposure related to these land option agreements is generally limited to our deposits and pre-acquisition costs, which totaled $208.0 million, of which $11.8 million is refundable, at December 31, 2017.

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, 2017, we conducted our operations in 47 markets located throughout 25 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

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

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

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,				
	2017	FY 2017 vs. FY 2016	2016	FY 2016 vs. FY 2015	2015
Home sale revenues:					
Northeast	$693,624	— %	$696,003	2 %	$679,082
Southeast (a)	1,556,615	5 %	1,485,809	40 %	1,058,055
Florida	1,469,005	15 %	1,274,237	26 %	1,012,391
Midwest	1,435,692	16 %	1,233,110	22 %	1,012,460
Texas	1,166,843	13 %	1,033,387	23 %	840,766
West	2,002,205	16 %	1,728,769	45 %	1,189,921
	$8,323,984	12 %	$7,451,315	29 %	$5,792,675
Income before income taxes (b):					
Northeast (c)	$21,190	(74)%	$81,991	(1)%	$82,616
Southeast (a)	122,532	(16)%	145,011	(16)%	172,330
Florida (d)	208,825	2 %	205,049	4 %	196,525
Midwest	178,231	48 %	120,159	31 %	91,745
Texas	182,862	20 %	152,355	26 %	121,329
West	229,504	2 %	225,771	33 %	169,394
Other homebuilding (e)	(77,812)	(12)%	(69,570)	9 %	(76,622)
	$865,332	1 %	$860,766	14 %	$757,317
Closings (units):					
Northeast	1,335	(6)%	1,418	(5)%	1,496
Southeast (a)	3,888	— %	3,901	19 %	3,276
Florida	3,861	12 %	3,441	19 %	2,896
Midwest	3,696	8 %	3,418	15 %	2,961
Texas	4,107	10 %	3,726	11 %	3,357
West	4,165	3 %	4,047	29 %	3,141
	21,052	6 %	$19,951	16 %	17,127
Average selling price:					
Northeast	$520	6 %	$491	8 %	$454
Southeast (a)	400	5 %	381	18 %	323
Florida	380	3 %	370	6 %	350
Midwest	388	8 %	361	6 %	342
Texas	284	2 %	277	11 %	250
West	481	13 %	427	13 %	379
	$395	6 %	$373	10 %	$338

(a) Southeast includes the acquisition in January 2016 of substantially all of the assets of Wieland (see Note 1).
(b) Includes land-related charges of $191.9 million, $19.3 million, and $11.5 million in 2017, 2016, and 2015, respectively (see Note 2).
(c) Northeast includes a charge of $15.0 million in 2016 related to the settlement of a disputed land transaction and a charge of $20.0 million in 2015 resulting from the Applecross matter (see Note 11).
(d) Florida includes a warranty charge of $12.4 million in 2017 related to a closed-out community (see Note 11).
(e)

Other homebuilding includes amortization of intangible assets and capitalized interest and other items not allocated to the operating segments, including write-offs of $29.6 million of insurance receivables associated with the resolution of certain insurance matters in 2017 and general liability insurance reserve reversals of $95.1 million, $55.2 million, and $62.2 million in 2017, 2016, and 2015, respectively (see Note 11).

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,				
	2017	FY 2017 vs. FY 2016	2016	FY 2016 vs. FY 2015	2015
Net new orders - units:					
Northeast	1,460	7 %	1,361	(8)%	1,479
Southeast (a)	4,233	11 %	3,810	10 %	3,454
Florida	4,121	15 %	3,585	13 %	3,168
Midwest	3,876	7 %	3,636	27 %	2,862
Texas	4,121	9 %	3,793	11 %	3,429
West	4,815	16 %	4,141	15 %	3,616
	22,626	11 %	20,326	13 %	18,008
Net new orders - dollars:					
Northeast	$757,679	12 %	$674,066	— %	$674,637
Southeast (a)	1,691,020	14 %	1,483,139	28 %	1,160,590
Florida	1,594,367	19 %	1,340,181	16 %	1,152,705
Midwest	1,523,153	13 %	1,351,828	32 %	1,024,784
Texas	1,214,149	15 %	1,060,217	17 %	905,003
West	2,581,166	40 %	1,843,968	33 %	1,387,661
	$9,361,534	21 %	$7,753,399	23 %	$6,305,380
Cancellation rates:					
Northeast	12 %		11 %		12 %
Southeast (a)	12 %		15 %		10 %
Florida	12 %		12 %		11 %
Midwest	11 %		12 %		13 %
Texas	18 %		18 %		19 %
West	16 %		19 %		18 %
	14 %		15 %		14 %
Unit backlog:					
Northeast	512	32 %	387	(13)%	444
Southeast (a)	1,716	25 %	1,371	20 %	1,146
Florida	1,678	18 %	1,418	11 %	1,274
Midwest	1,487	14 %	1,307	20 %	1,089
Texas	1,426	1 %	1,412	5 %	1,345
West	2,177	43 %	1,527	7 %	1,433
	8,996	21 %	7,422	10 %	6,731
Backlog dollars:					
Northeast	$253,650	34 %	$189,595	(10)%	$211,532
Southeast (a)	718,166	23 %	583,760	45 %	403,568
Florida	681,589	23 %	556,226	13 %	490,282
Midwest	588,539	17 %	501,079	31 %	382,360
Texas	449,797	12 %	402,491	7 %	375,660
West	1,287,323	82 %	708,361	19 %	593,163
	$3,979,064	35 %	$2,941,512	20 %	$2,456,565

(a) Southeast includes the acquisition of substantially all of the assets of Wieland in January 2016 (see Note 1).

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

	Operating Data by Segment ($000's omitted) Years Ended December 31,		
	2017	2016	2015
Land-related charges*:			
Northeast	$51,362	$2,079	$3,301
Southeast	55,689	3,089	3,022
Florida	9,702	715	4,555
Midwest	8,917	3,383	2,319
Texas	2,521	515	295
West	56,995	8,960	(2,615)
Other homebuilding	6,726	595	590
	$191,912	$19,336	$11,467

* 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 2 and 3 to the Consolidated Financial Statements for additional discussion of these charges.

Northeast:

The length and complexity of the entitlement process in the Northeast have led to a lack of growth in volumes in recent years. For 2017, Northeast home sale revenues remained flat compared with 2016 due to a 6% decrease in closings offset by a 6% increase in average selling price. The decrease in closings occurred in the New England and Mid-Atlantic markets, while the increased average selling price occurred across all markets. The New England closings decrease was driven primarily by closings delayed as the result of a fire in an attached product building that was under construction and is in the process of being rebuilt. The decreased income before income taxes resulted from lower margins and increased overhead expense across all markets, combined with the aforementioned land-related charges recognized in the period (see Note 2). Net new orders increased across all markets.

For 2016, Northeast home sale revenues increased 2% compared with 2015 due to a 5% decrease in closings offset by an 8% increase in average selling price. The decrease in closings occurred in the Northeast Corridor and Mid-Atlantic markets while the increase in average selling price occurred across all markets. The decreased income before income taxes resulted from lower margins in Mid-Atlantic and increased overhead expense in both Mid-Atlantic and the Northeast Corridor. Net new orders decreased 8%, primarily in the Northeast Corridor and Mid-Atlantic. Northeast income before income taxes also includes a charge of $15.0 million related to the settlement of a disputed land transaction in 2016 and a charge of $20.0 million resulting from the Applecross matter in 2015 (see Note 11).

Southeast:

For 2017, Southeast home sale revenues increased 5% compared with 2016 due to a 5% increase in the average selling price. The increase in the average selling price occurred across all markets except Georgia, while closings decreased in Raleigh, Charlotte and Coastal Carolinas, offset by increases in Georgia and Tennessee. Income before income taxes decreased 16% primarily due to the aforementioned land-related charges, partially offset by lower overhead costs. Net new orders increased 11%, primarily in Georgia and Raleigh.

In 2016, the Southeast was significantly impacted by the acquisition of substantially all of the assets of Wieland in January 2016 (see Note 1). For 2016, Southeast home sale revenues increased 40% compared with 2015 due to an

18% increase in the average selling price combined with a 19% increase in closings. The increases in the average selling price and closings occurred across all markets. These increases were primarily due to contributions from the assets acquired from Wieland. Excluding those closings, revenues still increased compared with the prior year. The decreased income before income taxes resulted from lower gross margins combined with higher overhead costs, including transaction and integration costs associated with the assets acquired from Wieland. Net new orders increased 10% in 2016 primarily due to the assets acquired from Wieland. While demand conditions remained favorable, we experienced some moderation in pace.

Florida:

For 2017, Florida home sale revenues increased 15% compared with 2016 due to a 3% increase in the average selling price combined with a 12% increase in closings. The increase in average selling price occurred across all markets except for North Florida, while the increased closings occurred across all markets. The increased income before income taxes for 2017 resulted primarily from higher revenues. Net new orders increased by 15% in 2017 due primarily to an increase in active communities. Both closings and new orders increased despite the disruption in our operations caused by Hurricane Irma.

For 2016, Florida home sale revenues increased 26% compared with 2015 due to a 6% increase in the average selling price combined with a 19% increase in closings. The increase in the average selling price occurred across all markets. The increased income before income taxes for 2016 resulted from higher revenues. Net new orders increased by 13% in 2016 due primarily to an increase in active communities in North and West Florida.

Midwest:

For 2017, Midwest home sale revenues increased 16% compared with the prior year period due to an 8% increase in closings combined with an 8% increase in the average selling price. The higher revenues and increased closings occurred across all markets. The increased closing volume combined with lower overhead costs led to a 48% increase in income before income taxes. Net new orders increased across all markets except for St. Louis, where we announced our decision to exit the market.

For 2016, Midwest home sale revenues increased 22% compared with the prior year period due to a 15% increase in closings combined with a 6% increase in the average selling price. The increase in closing volumes led to increased income before income taxes. Net new orders increased by 27% in 2016 compared with 2015, and occurred across all markets.

Texas:

For 2017, Texas home sale revenues increased 13% compared with the prior year period due to a 10% increase in closings combined with a 2% increase in the average selling price. The increase in average selling price occurred primarily in Central Texas and San Antonio, while the increase in closings occurred across all markets except for San Antonio. The higher revenues and higher closings led to increased income before income taxes. Net new orders increased 9% across all markets except for San Antonio. Both closings and new orders increased despite the disruption in our Houston operations caused by Hurricane Harvey.

For 2016, Texas home sale revenues increased by 23% compared with the prior year period due to an 11% increase in closings combined with an 11% increase in the average selling price. The increase in average selling price was broad-based across all markets, while the increase in closings occurred across all markets with the exception of San Antonio. The higher revenues and closings led to increased income before income taxes for 2016. Net new orders increased across all markets.

West:

For 2017, West home sale revenues increased 16% compared with the prior year period due to a 3% increase in closings combined with a 13% increase in the average selling price. The increased closings primarily occurred in

Southern California, offset by a decrease in Northern California due to permitting and other municipal approval delays in certain communities. The increased average selling price occurred across all markets. Income before income taxes slightly increased due to the increased revenues and reduced overheads, partially offset by the aforementioned land-related charges recognized during the period (see Note 2). Net new orders increased by 16% in 2017 compared with 2016 due to higher order levels across all markets.

For 2016, West home sale revenues increased 45% compared with the prior year period due to a 29% increase in closings combined with a 13% increase in the average selling price. The increased closings and increased average selling price occurred across all markets. The increased income before income taxes resulted from higher revenues and gross margins in all markets except for Southern California. Net new orders increased by 15% in 2016 compared with 2015 due to higher order levels across all divisions except the Pacific Northwest and Southern California.

Financial Services Operations

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

	Years Ended December 31,				
	2017	FY 2017 vs. FY 2016	2016	FY 2016 vs. FY 2015	2015
Mortgage operations revenues	$146,358	3 %	$142,262	27 %	$111,810
Title services revenues	45,802	18 %	38,864	34 %	28,943
Total Financial Services revenues	192,160	6 %	181,126	29 %	140,753
Expenses (a)	(119,289)	10 %	(108,573)	32 %	(82,047)
Other income (expense), net	625	18 %	531	— %	—
Income before income taxes	$73,496	1 %	$73,084	24 %	$58,706
Total originations:					
Loans	14,152	6 %	13,373	17 %	11,435
Principal	$4,127,084	11 %	$3,706,745	27 %	$2,929,531

(a) Includes net reserve releases for loan origination reserves of $11.4 million in 2015.

	Years Ended December 31,		
	2017	2016	2015
Supplemental data:			
Capture rate	79.9 %	81.2 %	82.9 %
Average FICO score	749	750	749
Loan application backlog	$2,263,803	$1,670,160	$1,310,173
Funded origination breakdown:			
Government (FHA, VA, USDA)	22 %	23 %	25 %
Other agency	70 %	70 %	69 %
Total agency	92 %	93 %	94 %
Non-agency	8 %	7 %	6 %
Total funded originations	100 %	100 %	100 %

Revenues

Total Financial Services revenues during 2017 increased 6% compared with 2016. The increase is primarily related to higher mortgage and title volumes resulting from increased home closings in the Homebuilding segment, partially offset by lower mortgage revenue per loan. Refinance activity has slowed in the mortgage industry, which has increased competition, pressured loan pricing, and resulted in lower revenue per loan for us in 2017. Total Financial Services revenues during 2016 increased 29% compared with 2015 due to a higher loan origination volume resulting from higher volumes in the Homebuilding segment combined with higher revenues per loan, which were largely attributable to a higher average loan size combined with favorable market conditions.

Income before income taxes

The increased income before income taxes for 2017 as compared with 2016 is due to increased revenues, especially within our title operations. The increased income before income taxes for 2016 as compared with 2015 is due to higher origination volume and an increase in revenue per loan combined with better overhead leverage along with contributions from our title operations.

During 2016 and 2015, we reduced our loan origination liabilities by net reserve releases of $0.5 million and $11.4 million, respectively, based on probable settlements of various repurchase requests and existing conditions. Such adjustments are reflected in Financial Services expenses. See Note 11 to the Consolidated Financial Statements for additional discussion.

Income Taxes

Our effective tax rate was 52.4%, 35.5% and 39.5% for 2017, 2016, and 2015, respectively. The 2017 effective tax rate differs from the federal statutory rate primarily due to the impacts of the Tax Act, state income tax expense on current year earnings, the favorable resolution of certain state income tax matters, the domestic production activities deduction, and state tax law changes. The 2016 effective tax rate exceeds the federal statutory rate primarily due to state income taxes, the reversal of a portion of our valuation allowance related to a legal entity restructuring, the favorable resolution of certain state income tax matters, the impact on our net deferred tax assets due to changes in business operations and state tax laws, and recognition of energy efficient home credits. The 2015 effective tax rate exceeds the federal statutory rate primarily due to state income taxes and the impact of changes in business operations and state tax laws to our net deferred tax assets.

Liquidity and Capital Resources

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

At December 31, 2017, we had unrestricted cash and equivalents of $272.7 million, restricted cash balances of $33.5 million, and $764.5 million available under our revolving credit facility. We follow a diversified investment approach for our cash and equivalents by maintaining such funds with a broad portfolio of banks within our group of relationship banks in high quality, highly liquid, short-term deposits and investments.

We retired outstanding debt totaling $134.7 million, $986.9 million, and $239.2 million during 2017, 2016, and 2015, respectively. Our ratio of debt to total capitalization, excluding our Financial Services debt, was 42.0% at December 31, 2017.

Unsecured senior notes

In February 2016, we issued $1.0 billion of unsecured senior notes, consisting of $300.0 million of 4.25% senior notes due March 1, 2021, and $700.0 million of 5.50% senior notes due March 1, 2026. The net proceeds from this senior notes issuance were used to fund the retirement of $465.2 million of our senior notes that matured in May 2016, with the remaining net proceeds used for general corporate purposes. In July 2016 we issued an additional $1.0 billion of unsecured senior notes, consisting of an additional $400.0 million of the 4.25% senior notes due March 1, 2021, and $600.0 million of 5% senior notes due January 15, 2027. The net proceeds from the July senior notes issuance were used for general corporate purposes and to pay down approximately $500.0 million of outstanding debt, including the remainder of a then existing term loan facility. The senior notes issued in 2016 are unsecured obligations, and rank equally in right of payment with the existing and future senior unsecured indebtedness of the Company and each of the guarantors, respectively. The notes are redeemable at our option at any time up to the date of maturity.

Revolving credit facility

We maintain a senior unsecured revolving credit facility (the “Revolving Credit Facility”) that matures in June 2019. The Revolving Credit Facility contains an uncommitted accordion feature that could increase the size of the Revolving Credit Facility to $1.25 billion, subject to certain conditions and availability of additional bank commitments. In October 2017, we exercised the accordion feature to increase the maximum borrowing capacity from $750.0 million to $1.0 billion. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility with a sublimit of $500.0 million at December 31, 2017. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or Base Rate plus an applicable margin, as defined therein. We had no borrowings outstanding and $235.5 million and $219.1 million of letters of credit issued under the Revolving Credit Facility at December 31, 2017 and 2016, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of December 31, 2017, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries. Our available and unused borrowings under the Revolving Credit Facility, net of outstanding letters of credit, amounted to $764.5 million and $530.9 million as of December 31, 2017 and 2016, respectively.

Other notes payable

Certain of our local homebuilding operations are party to non-recourse and limited recourse collateralized notes payable with third parties that totaled $20.0 million at December 31, 2017. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, have no recourse to any other assets, and are classified within notes payable. The stated interest rates on these notes range up to 7.30%.

Pulte Mortgage

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

Pulte Mortgage maintains a master repurchase agreement with third party lenders. In August 2017, Pulte Mortgage entered into an amended and restated repurchase agreement (the “Repurchase Agreement”) that extended the termination date to August 2018. The maximum aggregate commitment was $475.0 million (with a $50.0 million uncommitted accordion feature to allow for a temporary increase up to $525.0 million) during the seasonally high borrowing period from December 26, 2017 through January 11, 2018. At all other times, the maximum aggregate commitment ranges from $250.0 million to $400.0 million. The purpose of the changes in capacity during the term of the agreement is to lower associated fees during seasonally lower volume periods of mortgage origination activity. Borrowings under the Repurchase Agreement are secured by residential mortgage loans available-for-sale. The Repurchase Agreement contains various affirmative and negative covenants applicable to Pulte Mortgage, including quantitative thresholds related to net worth, net income, and liquidity. Pulte Mortgage had $437.8 million and $331.6 million outstanding under the Repurchase Agreement at December 31, 2017, and 2016, respectively, and was in compliance with its covenants and requirements as of such dates.

Share repurchase programs

In previous years, our Board of Directors authorized and announced a share repurchase program. In July 2016, our Board of Directors approved an increase of $1 billion to such authorization. We repurchased 35.4 million, 30.9 million, and 21.2 million shares in 2017, 2016, and 2015, respectively, for a total of $910.3 million, $600.0 million, and $433.7 million in 2017, 2016, and 2015, respectively, under these programs. At December 31, 2017, we had remaining authorization to repurchase $94.4 million of common shares. On January 25, 2018 our Board of Directors increased our repurchase authorization by $500.0 million.

Dividends

Our declared quarterly cash dividends totaled $110.0 million, $122.2 million, and $117.9 million in 2017, 2016, and 2015, respectively.

Cash flows

Operating activities

Our net cash provided by operating activities in 2017 was $663.1 million, compared with net cash provided by operating activities of $68.3 million in 2016 and net cash used in operating activities of $337.6 million in 2015. Generally, the primary drivers of our cash flow from operations are profitability and changes in inventory levels and residential mortgage loans available-for-sale. Our positive cash flow from operations for 2017 was primarily due to income before income taxes of $938.8 million, which included $191.9 million in non-cash land-related charges. These were partially offset by a net increase in inventories of $569.0 million resulting from ongoing land acquisition and development investment to support future growth combined with additional house inventory to support the higher backlog.

Our positive cash flow from operations for 2016 was primarily due to our income before income taxes of $933.9 million, which was largely offset by a net increase in inventories of $897.1 million resulting from increased land investment combined with a net increase in residential mortgage loans available-for-sale of $99.5 million.

Our negative cash flow from operations for 2015 was primarily due to a net increase in inventories of $917.3 million resulting from increased land investment, combined with a net increase in residential mortgage loans available-for-sale of $104.6 million, partially offset by our income before income taxes of $816.0 million.

Investing activities

Net cash used in investing activities totaled $50.2 million in 2017, compared with $471.2 million in 2016 and $34.6 million in 2015. The use of cash from investing activities in 2017 was primarily due to $32.1 million of capital expenditures and $23.0 million for investments in unconsolidated subsidiaries. The use of cash from investing activities in 2016 was primarily due to the acquisition of certain real estate assets from Wieland (see Note 1). The use of cash from investing activities in 2015 was primarily due to $45.4 million of capital expenditures and an $8.6 million increase in residential mortgage loans held for investment.

Financing activities

Net cash used in financing activities was $1.0 billion in 2017, compared with net cash provided by financing activities of $350.7 million and net cash used in financing activities of $161.6 million during 2016 and 2015, respectively. The net cash used in financing activities for 2017 resulted primarily from the repurchase of 35.4 million common shares for $910.3 million under our repurchase authorization, repayments of debt of $134.7 million, and cash dividends of $112.7 million, partially offset by net borrowings of $106.2 million under the Repurchase Agreement related to a seasonal increase in residential mortgage loans available-for-sale.

Repayments of debt were $986.9 million and $239.2 million in 2016 and 2015, respectively, offset by incremental borrowings of $63.7 million and $127.6 million under the Repurchase Agreement during 2016 and 2015, respectively. Cash provided by financing activities for 2016 resulted primarily from the proceeds of the unsecured senior notes issuance for $2.0 billion, offset by the repurchase of 30.9 million common shares for $600.0 million and cash dividend of $124.7 million. Cash used in financing activities for 2015 was offset by $498.1 million of proceeds from the previously existing term loan facility executed in 2015, and also includes dividend payments of $116.0 million, and the repurchase of common shares under our share repurchase authorization for $442.7 million.

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, 2017:

	Payments Due by Period ($000's omitted)				
	Total	2018	2019-2020	2021-2022	After 2022
Contractual obligations:					
Notes payable (a)	$4,725,126	$166,783	$351,239	$986,125	$3,220,979
Operating lease obligations	118,125	25,040	40,359	21,217	31,509
Total contractual obligations (b)	$4,843,251	$191,823	$391,598	$1,007,342	$3,252,488

(a) Represents principal and interest payments related to our senior notes and limited recourse collateralized financing arrangements.
(b) 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, 2017, we had $208.0 million of deposits and pre-acquisition costs, of which $11.8 million is refundable, relating to option agreements to acquire 52,156 lots with a remaining purchase price of $2.5 billion. We expect to acquire the majority of such land within the next two years.

We are currently under examination by various taxing jurisdictions and anticipate finalizing the examinations with certain jurisdictions within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for our major tax jurisdictions remains open for examination for tax years 2005 - 2017. At December 31, 2017, we had $48.6 million of gross unrecognized tax benefits and $4.9 million of related accrued interest and penalties.

The following table summarizes our other commercial commitments as of December 31, 2017:

	Amount of Commitment Expiration by Period ($000's omitted)				
	Total	2018	2019-2020	2021-2022	After 2022
Other commercial commitments:					

Guarantor credit facilities (a)	$1,000,000	$—	$1,000,000	$ —	$ —
Non-guarantor credit facilities (b)	475,000	475,000	—	—	—
Total commercial commitments (c)	$1,475,000	$475,000	$1,000,000	$ —	$ —

(a) The $1.0 billion in 2019-2020 represents the capacity of our unsecured revolving credit facility, under which no borrowings were outstanding, and $235.5 million of letters of credit were issued at December 31, 2017.

35

(b) Represents the capacity of the Repurchase Agreement, of which $437.8 million was outstanding at December 31, 2017. The capacity of $475.0 million is effective through January 12, 2018 after which it ranges from $250.0 million to $400.0 million until its expiration in August 2018.

(c) The above table excludes an aggregate $1.2 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, 2017, we had outstanding letters of credit of $235.5 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 $1.2 billion at December 31, 2017, 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, 2017, these agreements had an aggregate remaining purchase price of $2.5 billion. Pursuant to these land option agreements, we provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

At December 31, 2017, aggregate outstanding debt of unconsolidated joint ventures was $59.5 million, of which $56.3 million was related to one joint venture in which we have a 50% interest. In connection with this loan, we and our joint venture partner provided customary limited recourse guaranties in which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding. See Note 4 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 to 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 homebuyer. In situations where the homebuyer's financing is originated by Pulte Mortgage, our wholly-owned mortgage subsidiary, and the homebuyer has not made an adequate initial or continuing investment, the profit on such sale is deferred until the sale of the related mortgage loan to a third-party investor has been completed. If there is a loss on the sale of the property, the loss on such sale is recognized at the time of closing.

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

Inventory and cost of revenues

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

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

Cost of revenues includes the construction cost, average lot cost, estimated warranty costs, and closing costs applicable to the home. Sales commissions are classified within selling, general, and administrative expenses. 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 test inventory for impairment when events and circumstances indicate that the cash flows estimated to be generated by the community are less than its carrying amount. Such indicators include gross margins or sales paces significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. Communities that demonstrate potential impairment indicators are tested for impairment by comparing the expected undiscounted cash flows for the community to its carrying value. For those communities whose carrying values exceed the expected undiscounted cash flows, we determine the fair value of the community and impairment charges are 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, 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. 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.

Residential mortgage loans available-for-sale

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

Loan origination liabilities

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

Estimating the required liability for these potential losses requires a significant level of management judgment. During 2016 and 2015, we reduced our loan origination liabilities by net reserve releases of $0.5 million and $11.4 million, respectively, based on probable settlements of various repurchase requests and existing conditions. Reserves provided (released) are reflected in Financial Services expenses. Given the ongoing volatility in the mortgage industry, changes in values of underlying collateral over time, and other uncertainties regarding the ultimate resolution of these claims, actual costs could differ from our current estimates.

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 (and in limited instances exceeding) 10 years. We estimate the costs to be incurred under these warranties and record a liability in the amount of such costs at the time revenue is recognized. Factors that affect our warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and the projected cost per claim. We periodically assess the adequacy of our recorded warranty liability for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from our estimates.

Income taxes

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. 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. While we continue to evaluate the effects of the Tax Act enacted in December 2017, including the remeasurement of our deferred tax assets and liabilities, we reduced our deferred tax assets by $172.1 million in 2017 to reflect the lower U.S. corporate income tax rate.

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 income taxes and unrecognized tax benefits are recognized as a component of income tax expense (benefit).

Self-insured risks

At any point in time, we are managing over 1,000 individual claims related to general liability, property, errors and omission, workers compensation, and other business insurance coverage. We reserve for costs associated with such claims (including expected claims management expenses) on an undiscounted basis at the time product revenue is recognized for each home closing and periodically evaluate the recorded liabilities based on actuarial analyses of our historical claims. The actuarial analyses calculate estimates of the ultimate cost of all unpaid losses, including estimates for incurred but not reported losses ("IBNR"). IBNR represents losses related to claims incurred but not yet reported plus development on reported claims.

Our recorded reserves for all such claims totaled $758.8 million and $831.1 million at December 31, 2017 and 2016, respectively, the vast majority of which relate to general liability claims. The recorded reserves include loss estimates related to both (i) existing claims and related claim expenses and (ii) IBNR and related claim expenses. Liabilities related to IBNR and related claim expenses represented approximately 65% and 70% of the total general liability reserves at December 31, 2017 and 2016, 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 $875 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.

Housing market conditions have been volatile across most of our markets over the past ten years, and we believe such conditions can affect the frequency and cost of construction defect claims. Additionally, IBNR estimates comprise the majority of our liability and are subject to a high degree of uncertainty due to a variety of factors, including changes in claims reporting and resolution patterns, third party recoveries, insurance industry practices, the regulatory environment, and legal precedent. State regulations vary, but construction defect claims are reported and resolved over an extended period often exceeding ten years. Changes in the frequency and timing of reported claims and estimates of specific claim values can impact the underlying inputs and trends utilized in the actuarial analyses, which could have a material impact on the recorded reserves. Additionally, the amount of insurance coverage available for each policy period also impacts our recorded reserves. Because of the inherent uncertainty in estimating future losses and the timing of such losses related to these claims, actual costs could differ significantly from estimated costs.

Adjustments to reserves are recorded in the period in which the change in estimate occurs. During 2017, 2016, and 2015, we reduced general liability reserves by $95.1 million, $55.2 million, and $29.6 million, respectively, as a result of changes in estimates resulting from actual claim experience observed being less than anticipated in previous actuarial projections. The changes in actuarial estimates were driven by changes in actual claims experience that, in turn, impacted actuarial estimates for potential future claims. These changes in actuarial estimates did not involve any changes in actuarial methodology but did impact the development of estimates for future periods, which resulted in adjustments to the IBNR portion of our recorded liabilities. During 2015, we also recorded a general liability reserve reversal of $32.6 million, resulting from a legal settlement relating to plumbing claims initially reported to us in 2008 and for which our recorded liabilities were adjusted over time based on changes in facts and circumstances. These claims ultimately resulted in a class action lawsuit involving a national vendor and numerous other homebuilders, homebuyers, and insurance companies. In 2015, a global settlement was reached, pursuant to which we funded our agreed upon share of settlement costs, which were significantly lower than our previously estimated exposure.

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 receivables from insurance carriers totaled $213.4 million and $307.3 million at December 31, 2017 and 2016, respectively, and we recorded write-offs of $29.6 million of insurance receivables associated with the resolution of certain insurance matters in 2017. The insurance receivables relate to costs incurred or to be incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of both known and anticipated future construction defect claims that we believe to be insured related to previously closed homes. We believe collection of these insurance receivables is probable based on the legal merits of our positions after review by legal counsel, favorable legal rulings received to date, the credit quality of our carriers, and our long history of collecting significant amounts of insurance reimbursements under similar insurance policies related to similar claims, including significant amounts funded by the above carriers under different policies. While the outcome of these matters cannot be predicted with certainty, we do not believe that the resolution of such matters will have a material adverse impact on our results of operations, financial position, or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The following tables set forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of December 31, 2017 and 2016 ($000's omitted).

	As of December 31, 2017 for the Years ending December 31,							
	2018	2019	2020	2021	2022	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed rate debt	$508	$8,423	$9,539	$700,000	$—	$2,300,000	$3,018,470	$3,262,221
Average interest rate	3.00 %	4.07 %	3.98 %	4.25 %	— %	5.90 %	5.50 %	
Variable rate debt (a)	$438,657	$701	$—	$—	$—	$—	$439,358	$439,358
Average interest rate	3.72 %	7.3 %	— %	— %	— %	— %	3.7 %	

	As of December 31, 2016 for the Years ending December 31,							
	2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Rate-sensitive liabilities:								
Fixed rate debt	$134,482	$—	$3,900	$3,900	$700,000	$2,300,000	$3,142,282	$3,131,579
Average interest rate	7.12 %	— %	5.00 %	5.00 %	4.25 %	7.19 %	5.58 %	
Variable rate debt (a)	$331,621	$—	$—	$—	$—	$—	$331,621	$331,621
Average interest rate	2.89 %	— %	— %	— %	—			