LEGGETT & PLATT INC
Form DEF 14A
March 26, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Leggett & Platt, Incorporated

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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¨ Fee paid previously with preliminary materials.

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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March 26, 2009

Dear Shareholder:

I am pleased to invite you to attend the annual meeting of shareholders of Leggett & Platt, Incorporated to be held on Thursday, May 7, 2009, at 10:00 a.m. Central Time, at the Company s Wright Conference Center. Directions are included on the back inside cover of this Proxy Statement.

The Proxy Statement contains three proposals from our Board of Directors: (*i*) the election of nine directors, (*ii*) the ratification of the Audit Committee s selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for 2009, and (*iii*) the approval of the 2009 Key Officers Incentive Plan. The Board encourages you to vote ***FOR*** each of these proposals.

The Proxy Statement also contains a shareholder proposal seeking to add sexual orientation and gender identity to the Company s written non-discrimination policy. For reasons explained in the Proxy Statement, the Board encourages you to vote ***AGAINST*** this proposal.

Your vote is important. Whether or not you plan to attend the meeting, please vote as soon as possible. You may vote your shares by Internet at *www.eproxy.com/leg* or by returning the enclosed proxy or voting instruction card. Specific instructions for these voting alternatives are contained on the proxy or voting instruction card.

I appreciate your continued interest in Leggett & Platt.

Sincerely,

LEGGETT & PLATT, INCORPORATED

Richard T. Fisher
Board Chair

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Leggett & Platt, Incorporated

No. 1 Leggett Road

Carthage, Missouri 64836

NOTICE OF 2009 ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of shareholders of Leggett & Platt, Incorporated (the *Company*) will be held at the Company s Wright Conference Center, No. 1 Leggett Road, Carthage, Missouri 64836, on Thursday, May 7, 2009, at 10:00 a.m. Central Time:

1. To elect nine directors;
2. To ratify the selection of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the year ending December 31, 2009;
3. To approve the 2009 Key Officers Incentive Plan;
4. If presented at the meeting, to vote on a shareholder proposal requesting the addition of sexual orientation and gender identity to the Company s written non-discrimination policy; and
5. To transact such other business as may properly come before the meeting or any postponement or adjournment thereof.

You are entitled to vote only if you were a Leggett & Platt shareholder at the close of business on March 5, 2009.

An Annual Report to Shareholders outlining the Company s operations during 2008 accompanies this Notice of Annual Meeting and Proxy Statement.

By Order of the Board of Directors,

Ernest C. Jett
Secretary

Carthage, Missouri

March 26, 2009

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting To Be Held on May 7, 2009

The enclosed proxy materials and access to the proxy voting site are also available to you on the Internet.

You are encouraged to review all of the information contained in the proxy materials before voting.

The Company s Proxy Statement and Annual Report to Shareholders are available at:

www.leggett.com/proxy/2009/default.asp

The Company s proxy voting site can be found at:

www.eproxy.com/leg

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Leggett & Platt, Incorporated

ANNUAL MEETING MAY 7, 2009

PROXY STATEMENT

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QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING

Why did I receive these materials?

The Board of Directors (the *Board*) of Leggett & Platt, Incorporated (the *Company* or *Leggett*) is providing these materials to you in connection with its solicitation of proxies for the Company s annual meeting of shareholders on May 7, 2009. We first sent these materials to shareholders on March 26, 2009. As a Leggett shareholder, you are entitled and encouraged to vote on the proposals presented in these proxy materials. We invite you to attend the annual meeting, but you do not have to attend to be able to vote.

Where can I obtain financial information about Leggett?

Our Annual Report to Shareholders, including our Form 10-K with financial statements for 2008, is enclosed in the same mailing with this Proxy Statement. The Company s Proxy Statement and Annual Report to Shareholders (including Form 10-K) are also available at *www.leggett.com/proxy/2009/default.asp*. Information on our website does not constitute part of this Proxy Statement.

What business will be voted on at the annual meeting?

Shareholders will vote on the following proposals at the annual meeting:

- Election of nine directors
- Ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009
- Approval of the 2009 Key Officers Incentive Plan
- A shareholder proposal requesting the addition of sexual orientation and gender identity to the Company s written non-discrimination policy, if presented at the meeting
- Any other business that is properly brought before the meeting

How does the Board recommend that I vote?

The Board recommends that you vote:

- ***FOR*** each of the director nominees
- ***FOR*** ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2009
- ***FOR*** approval of the 2009 Key Officers Incentive Plan
- ***AGAINST*** the shareholder proposal requesting the addition of sexual orientation and gender identity to the Company s written non-discrimination policy

If you return a signed proxy card without marking one or more proposals, your proxy will be voted in accordance with the Board s recommendation.

What shares can I vote?

The only class of outstanding voting securities is the Company s $.01 par value common stock. Each share of common stock issued and outstanding at the close of business on March 5, 2009 (the *Record Date*) is entitled to one vote on each matter submitted to a vote at the annual meeting. On the Record Date, we had 156,594,482 shares of common stock issued and outstanding.

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You may vote all shares of Leggett common stock you owned on the Record Date. This includes (*i*) shares held directly in your name as the shareholder of record, (*ii*) shares held for you as the beneficial owner through a broker, trustee or other nominee, sometimes referred to as shares held in street name, and (*iii*) shares held for you in Company benefit plans.

Shareholder of Record

If your shares are registered directly in your name with our transfer agent, Wells Fargo, you are the shareholder of record, and these proxy materials were sent to you directly. As the shareholder of record, you have the right to grant your proxy vote directly or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner

If you hold shares in a brokerage account or through some other nominee, you are the beneficial owner of the shares held in street name, and these proxy materials were forwarded to you from the broker, trustee or nominee, together with a voting instruction card. As the beneficial owner, you have the right to direct your broker, trustee, or nominee how to vote your shares by proxy. Although you are invited to attend the annual meeting, you may not vote these shares in person unless you obtain a legal proxy from the broker, trustee, or nominee.

Benefit Plans

If you hold Company stock in the Company s Stock Bonus Plan and/or 401(k) Plan, you will receive a voting instruction form in a separate mailing. You will need to complete and return the voting instruction form to vote these shares (voting in person at the Annual Meeting or by Internet are not available). The Company must receive your completed voting instruction form by April 27, 2009; otherwise, the plan trustees will vote the shares credited to your account according to the recommendations of their respective investment committees.

How do I submit my vote?

You may vote your shares (*i*) by Internet at *www.eproxy.com/leg*, (*ii*) by signing and returning the proxy or voting instruction card, or (*iii*) in person at the meeting (except shares held in the Company s Stock Bonus Plan or 401(k) Plan must be voted by returning a voting instruction form as described above). If you vote by Internet, you do not need to return your proxy or voting instruction card, but you will need to have it in hand when you access the voting website. Specific voting instructions are found on the proxy card or voting instruction card included with this Proxy Statement.

Can I change my vote?

If you are a shareholder of record, you may change your vote or revoke your proxy any time before the annual meeting by (*i*) submitting a valid, later-dated proxy, (*ii*) submitting a valid, subsequent vote by the Internet, (*iii*) notifying the Company s Secretary that you have revoked your proxy, or (*iv*) completing a written ballot at the annual meeting.

If you hold shares as the beneficial owner, you may change your vote (*i*) by submitting new voting instructions to your broker, trustee, or other nominee or (*ii*) by voting in person at the annual meeting if you have obtained a legal proxy from your broker, trustee, or nominee.

If you hold shares in Company benefit plans, you can revoke your vote instructions by delivering a valid, later-dated voting instruction form prior to the deadline specified in the voting instructions.

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How many votes are needed to conduct business at the annual meeting?

A majority of the outstanding shares of common stock entitled to vote must be present at the annual meeting, or represented by proxy, in order to meet the quorum requirement to transact business. Both abstentions and broker non-votes (described below) are counted in determining a quorum. If a quorum is not present, the annual meeting will be adjourned for no more than 90 days to reach a quorum.

What vote is required to elect a director?

A director nominee must receive the affirmative vote of a majority of those shares present (either in person or by proxy) and entitled to vote.

As required by our Corporate Governance Guidelines, each nominee has submitted a contingent resignation to the Nominating & Corporate Governance Committee in order to be nominated for election as a director. If a nominee fails to receive a majority of the votes cast in the director election, the Committee will make a recommendation to the Board of Directors whether to accept or reject the director s resignation and whether any other action should be taken. If a director s resignation is not accepted, that director will continue to serve until the Company s next annual meeting and his or her successor is duly elected and qualified. If the Board accepts the director s resignation, it may, in its sole discretion, either fill the resulting vacancy or decrease the size of the Board to eliminate the vacancy.

What vote is required to approve the other proposals?

The affirmative vote of the holders of a majority of the shares present in person or represented by proxy and entitled to vote is required for ratification of the appointment of PwC as Leggett s independent registered public accounting firm, for approval of the 2009 Key Officers Incentive Plan, and for the shareholder proposal.

What is the effect of an abstention vote on the election of directors and other proposals?

A share voted abstain with respect to any proposal is considered as present and entitled to vote with respect to that proposal. Because each of the proposals requires a majority vote in order to pass, an abstention will have the effect of a vote against the proposal.

What is the effect of a broker non-vote ?

If you hold shares in street name through a broker or other nominee and do not vote your shares or provide voting instructions, your broker may vote for you on routine proposals but not on non-routine proposals. The election of directors, the ratification of PwC as the Company s auditor, and the approval of the 2009 Key Officers Incentive Plan are routine, but the shareholder proposal is non-routine. Therefore, if you do not vote on the shareholder proposal or provide voting instructions, your broker will not be allowed to vote your shares this will result in a *broker non-vote*. Broker non-votes are not counted as shares present and entitled to vote so they will not affect the outcome of the vote.

Who pays the cost of soliciting votes at the annual meeting?

Leggett is making this solicitation and will pay the full cost of preparing, printing, assembling, and mailing these proxy materials. Upon request, we will also reimburse brokers and other nominees for forwarding proxy and solicitation materials to shareholders. If you choose to access proxy materials or vote by Internet, you are responsible for any Internet access charges you may incur.

We have hired Georgeson Inc. to assist in the solicitation of proxies by mail, telephone, in person, or otherwise. Georgeson s fees are expected to be $10,000 plus expenses. If necessary to assure sufficient representation at the meeting, Company employees, at no additional compensation, may request the return of proxies.

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Where can I find the voting results of the annual meeting?

We will announce preliminary voting results at the annual meeting and issue a press release immediately after the meeting. We will publish the final vote count in our quarterly report on Form 10-Q for the second quarter of 2009.

What should I do if I receive more than one set of proxy materials?

You may receive multiple sets of proxy materials if you hold shares in more than one brokerage account or if you are a shareholder of record and have shares registered in more than one name. Please vote the shares on each proxy card or voting instruction card you receive.

We have adopted a procedure known as householding which allows us, unless a shareholder withholds consent, to send one Proxy Statement and Annual Report to multiple shareholders sharing the same address. Each shareholder at a given address will receive a separate proxy card. If you currently receive multiple sets of proxy materials and wish to have your accounts householded, or if you no longer want to participate in householding and wish to revoke your consent, call Wells Fargo Shareowner Services at 877-602-7615 or send written instructions to Wells Fargo Shareowner Services, Attn: Leggett & Platt, Incorporated, P.O. Box 64854, St. Paul, MN 55164-0854. You will need to provide Leggett s Company number (203) and your 10-digit Wells Fargo account number which is printed at the bottom of your proxy card.

Many brokerage firms practice householding as well. If you have a householding request for your brokerage account, please contact your broker.

How may I obtain another set of proxy materials?

If you received only one set of proxy materials for multiple shareholders of record and would like us to send you another set this year, please call 800-888-4569 or write to Leggett & Platt, Incorporated, Attn: Investor Relations, No. 1 Leggett Road, Carthage, MO 64836. You can also access a complete set of proxy materials the Notice of Meeting, Proxy Statement, and Annual Report to Shareholders including Form 10-K online at *www.leggett.com/proxy/2009/default.asp*. To ensure that you receive multiple copies in the future, please contact Wells Fargo at the number or address in the preceding answer to withhold your consent for householding.

What is the deadline to propose actions for next year s annual meeting or to nominate a director?

Shareholders may propose actions for consideration at future annual meetings either by presenting them for inclusion in the Company s Proxy Statement or by soliciting votes independent of our Proxy Statement. To be properly brought before the meeting, all shareholder actions must comply with our bylaws, as well as SEC requirements under Regulation 14A. Leggett s bylaws are posted on our website at *www.leggett-search.com/governance*. Notices specified for the types of shareholder actions set forth below must be addressed to Leggett & Platt, Incorporated, Attn: Corporate Secretary, No. 1 Leggett Road, Carthage, MO 64836.

Shareholder Proposal Included in Proxy Statement

If you intend to present a proposal at the 2010 annual meeting, the SEC requires that the Corporate Secretary receive the proposal at the address given above by November 26, 2009 for possible inclusion in the Proxy Statement. We will decide whether to include a proposal in the Proxy Statement in accordance with SEC rules governing the solicitation of proxies.

Shareholder Proposal Not Included in Proxy Statement

If you intend to present a proposal at the 2010 annual meeting by soliciting votes independent of the Company s Proxy Statement, Section 1.2 of our bylaws requires that the Company receive timely notice of the proposal no earlier than January 7, 2010 and no later than February 6, 2010. This notice must include a description of the proposed business, your name and address, the number of shares you hold, any of your material interests in the proposal, and other matters specified in the bylaws. The nature of the business also must be appropriate for shareholder action under applicable law.

The bylaw requirements also apply in determining whether notice is timely under SEC rules relating to the exercise of discretionary voting authority.

Director Nominee Included in Proxy Statement

If you wish to recommend a director candidate to the Nominating & Corporate Governance Committee for possible inclusion in the Proxy Statement, please see the requirements described under Consideration of Director Nominees on page 9.

Director Nominee Not Included in Proxy Statement

If you intend to nominate a director candidate for election outside of the Company s nomination process, our bylaws require that the Company receive timely notice of the nomination no earlier than January 7, 2010 and no later than February 6, 2010. This notice must include the information specified in Section 2.2 of the bylaws, including your name and address, the number of shares you hold, and the name, address and occupation of each proposed nominee.

CORPORATE GOVERNANCE AND BOARD MATTERS

Corporate Governance

Leggett has a long-standing commitment to sound corporate governance principles and practices. The Board has adopted Corporate Governance Guidelines that establish the roles and responsibilities of the Board and Company management. The Board has also adopted a Code of Business Conduct and Ethics applicable to all Company employees, officers and directors, as well as a separate Financial Code of Ethics applicable to the Company s CEO, CFO, principal accounting officer and corporate controller. These documents are posted on our website at *www.leggett-search.com/governance* and are available in print form to any shareholder who requests them.

Director Independence

The Board reviews director independence annually and upon learning of any change in circumstances during the year that may affect a director s independence. The Company has adopted Categorical Standards for Director Independence (the *Categorical Standards*) that meet, and in some respects exceed, the NYSE listing standards. The Categorical Standards are attached as Appendix A and posted on our website at *www.leggett-search.com/governance*. A director who meets all the Categorical Standards will be presumed to be independent.

While the Categorical Standards help the Board to determine director independence, they are not the exclusive measure for doing so. The Board also reviews the relevant facts and circumstances of any relationships between the Company and its directors during the independence assessment. When confirming director Joseph McClanathan s independence, the Board considered Company purchases from and sales to Mr. McClanathan s employer and found the transactions to be on arms-length terms and the amounts to be well below the threshold provided in the Categorical Standards.

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Based on its review, the Board has determined that all of its current non-management directors are independent. Non-management directors Harry M. Cornell, Jr. and Felix E. Wright, both former CEOs of the Company, retired from the Board in May 2008. (See the table below for a complete list of our independent directors.) The Board found no business or other relationship involving an independent director and the Company that violated the Categorical Standards or undermined independence.

Independent Board Chair

Richard Fisher, a non-management director of the Company, was elected by the Board of Directors in 2008 to serve as the independent Board Chair. In accordance with our Corporate Governance Guidelines, non-management directors regularly hold executive sessions without management present. At least one executive session per year is attended by only independent, non-management directors. Mr. Fisher presides over these meetings of the non-management directors.

Shareholders and other interested parties may e-mail Mr. Fisher at boardchair@leggett.com. They can also write to Leggett & Platt Board Chair, P.O. Box 637, Carthage, MO 64836. The Corporate Secretary s office reviews this correspondence and periodically sends Mr. Fisher all communications except items unrelated to Board functions (for example, advertisements and junk mail). In his discretion, Mr. Fisher may forward communications to the full Board or to any of the other independent directors for further consideration.

Board and Committee Composition and Meetings

The Board held five meetings in 2008, and its committees met the number of times listed in the table below. All directors attended at least 75% of the Board meetings and their respective committee meetings. Directors are expected to attend the Company s annual meeting of shareholders, and all of them attended the 2008 annual meeting.

The Board has a standing Audit Committee, Compensation Committee, Nominating & Corporate Governance Committee and Executive Committee. Except for the Executive Committee, comprised of Richard Fisher (Chair), David Haffner and Maurice Purnell, each committee consists entirely of independent directors and operates under a written charter adopted by the Board. The Audit, Compensation and Nominating & Corporate Governance Committee charters are posted on our website at *www.leggett-search.com/governance* and are available in print form to any shareholder who requests them.

	Audit	**Compensation**	**Nominating & Corporate Governance**
Independent Non-Management Directors:			
Raymond F. Bentele	Member		
Ralph W. Clark	Member		
R. Ted Enloe, III		Chair	
Richard T. Fisher	Member	Member	Member
Joseph W. McClanathan	Member		Member
Judy C. Odom	Chair	Member	Member
Maurice E. Purnell, Jr.			Chair
Phoebe A. Wood	Member	Member	
Management Directors:			
Karl G. Glassman			
David S. Haffner			
Number of Meetings in 2008	4	7	3

Audit Committee

All Audit Committee members meet the higher independence standard for audit committee service under NYSE and SEC rules and are financially literate, as defined by NYSE rules. Five members Raymond Bentele, Richard Fisher, Joseph McClanathan, Judy Odom, and Phoebe Wood possess the training, skills, and experience to meet the SEC s definition of an audit committee financial expert. None of the members serves on the audit committee of more than three public companies.

The Audit Committee assists the Board in the oversight of: (*i*) the independent registered public accounting firm s qualifications, independence, appointment, compensation, retention, and performance, (*ii*) the Company s internal controls over financial reporting, (*iii*) the guidelines and policies to govern risk assessment and management, (*iv*) the performance of the Company s internal audit function, (*v*) the integrity of the Company s financial statements and its external financial reporting, and (*vi*) the Company s legal and regulatory compliance.

We have posted on our website and corporate intranet a procedure for employees and others to confidentially inform the Audit Committee of any questionable accounting, internal control, or auditing matters. The Vice President of Internal Audit reports directly to the Audit Committee and is responsible for receiving, processing, and maintaining records of the reports. The Chair of the Audit Committee reviews all complaints and accompanying investigations and may request the full Committee s review of a complaint to determine appropriate actions.

Compensation Committee

The Compensation Committee assists management and the Board in developing and maintaining the Company s policies relating to (*i*) CEO, executive officer, and director compensation and (*ii*) Company equity and incentive compensation plans that are subject to Board approval. The Committee strives for policies that will (*i*) support the Company s business objectives, (*ii*) attract and retain high quality leadership, and (*iii*) link compensation with business objectives and performance.

The Committee may delegate its duties and responsibilities to one or more Committee members or Company officers, as it deems appropriate, but may not delegate authority to non-members for any action involving executive officers.

The Committee sets the compensation for the Company s executive officers. In connection with this responsibility, the Committee conducts a comprehensive review of executive officer compensation each year in March, before approving any salary increases. The Compensation Discussion & Analysis section on page 28 includes details of the Committee s 2008 review.

The Committee also periodically reviews cash and equity compensation for directors and recommends any director compensation changes to the full Board.

Company managers in the Human Resources and Corporate Affairs departments provide data needed for compensation decisions at the Committee s request. The Committee may hire outside compensation consultants as needed for the proper discharge of its duties, but it did not use any outside consulting services in connection with executive or director compensation decisions in 2008.

Compensation Committee Interlocks and Insider Participation

No Compensation Committee member had an interlocking relationship as described in Item 407(e)(4) of Regulation S-K.

Nominating & Corporate Governance Committee

The Nominating & Corporate Governance Committee (*i*) assists the Board in developing and maintaining the Company s corporate governance principles, policies, and procedures, (*ii*) identifies qualified candidates for

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Board membership and recommends director nominees to the Board, (*iii*) reviews director independence and related person transactions, and (*iv*) reviews and makes recommendations to the Board regarding the Board s size, composition, and policies.

Consideration of Director Nominees

The Nominating & Corporate Governance Committee (the *Committee*) is responsible for identifying and evaluating qualified candidates for election to the Board of Directors. Following its evaluation, the Committee recommends to the full Board a slate of director candidates for inclusion in the Company s Proxy Statement and proxy card. This procedure is posted on the Company s website at *www.leggett-search.com/governance*.

In the case of incumbent directors, the Committee reviews each director s overall service during his or her current term, including the number of meetings attended, level of participation, quality of performance, and any transactions between the director and the Company. In the case of new director candidates, the Committee first determines whether the nominee must be independent under NYSE rules, then identifies any special needs of the current Board. The Committee will consider individuals recommended by Board members, Company management, shareholders and, if it deems appropriate, a professional search firm. In 2008 and 2009, the Company retained DHR International to assist with identifying and evaluating potential director candidates. DHR International also arranged interviews between the candidates and the Board of Directors.

The Board of Directors may also consider candidates to fill a vacancy in the Board outside of the annual shareholder meeting process. The Committee will use the same criteria as are used to evaluate a director nominee to be elected by shareholders. In the event of a vacancy to be filled by the Board, the Committee will recommend one or more candidates for election and proxies will not be solicited.

The Committee seeks to identify and recruit the best available candidates. Qualified candidates will be considered without regard to race, color, religion, sex, ancestry, national origin or disability. The Committee believes director candidates should have the following minimum qualifications:

- Character and integrity
- A commitment to the long-term growth and profitability of the Company
- A willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including regular attendance at Board and committee meetings
- Significant business or public experience relevant and beneficial to the Board and the Company

In addition to the minimum qualifications described above, the Committee may also consider the following factors in evaluating candidates for recommendation to the Board:

- Present and anticipated needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
- Requirement for the Board to have a majority of independent directors and whether the candidate would be considered independent
- Whether the candidate would be considered an audit committee financial expert or financially literate as described in NYSE listing standards and the Audit Committee charter

Accomplishments of each candidate in his or her field

Outstanding professional and personal reputation

Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience, and familiarity with the products and processes used by the Company

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- Ability to exercise sound business judgment
- Breadth of knowledge about issues affecting the Company
- Ability and willingness to contribute special competencies to Board activities
- A willingness to assume broad fiduciary responsibility
- Fit with the Company s culture

Following the Committee s initial review of a candidate s qualifications, one or more Committee members will interview the candidate. The Committee may arrange subsequent interviews with the Board Chair and/or members of the Company s management. The Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, for candidates recommended by a shareholder. Shareholders who wish to recommend candidates for the Committee s consideration must submit a written recommendation to the Secretary of the Company at No. 1 Leggett Road, Carthage, MO 64836. Recommendations must be sent by certified or registered mail and received by December 15th for consideration at the following year s annual meeting of shareholders. Recommendations must include the following:

- Shareholder s name, number of shares owned, length of period held, and proof of ownership
- Candidate s name, address, phone number, and age
- A resume describing, at a minimum, the candidate s educational background, occupation, employment history, and material outside commitments (*e.g.*, memberships on other boards and committees, charitable foundations, etc.)
- A supporting statement which describes the candidate s reasons for seeking election to the Board of Directors and documents his or her ability to satisfy the director qualifications described above
- The candidate s consent to a background investigation
- The candidate s written consent to stand for election if nominated by the Board and to serve if elected by the shareholders
- Any other information that will assist the Committee in evaluating the candidate in accordance with this procedure

The Corporate Secretary will promptly forward these materials to the Committee Chair and the Board Chair. The Committee may contact recommended candidates to request additional information necessary for its evaluation or for disclosure under applicable SEC rules.

Separate procedures apply if a shareholder wishes to nominate a director candidate for election at a meeting of shareholders. Those procedures, contained in our bylaws, are discussed in the Question and Answer section of this Proxy Statement on page 6.

Transactions with Related Persons

According to the Company s Corporate Governance Guidelines, the Nominating & Corporate Governance Committee reviews and approves or ratifies transactions with related persons unless the transaction concerns compensation, in which case the duty falls to the Compensation Committee.

A Related Person is: (*i*) a person who has served as an executive officer, director or director nominee of the Company at any time since the beginning of the last fiscal year; (*ii*) a shareholder beneficially owning in excess of 5% of any class of the Company s voting securities; (*iii*) an immediate family member of any person described in clause (*i*) or (*ii*); or (*iv*) an entity in which any of the foregoing persons has, or will have, a direct or indirect material interest.

An Interested Transaction is any transaction, arrangement or relationship, or series of similar transactions, (*i*) involving an amount that exceeds or is expected to exceed $120,000 in the aggregate; (*ii*) in which the Company or its subsidiaries was, is, or will be a participant; (*iii*) and in which a Related Person had, has, or will have a direct or indirect material interest; and (iv) the transaction, arrangement or relationship is not specifically excluded from the disclosure requirements of Item 404(a) of Regulation S-K.

The Company s executive officers and directors are expected to notify the Company s Corporate Secretary or Deputy Corporate Secretary of any current or proposed transaction that may be an Interested Transaction. The Corporate Secretary will determine if it is an Interested Transaction and, if so, will include it for consideration at the next meeting of the appropriate Committee.

Approval should be obtained in advance of an Interested Transaction whenever practicable. If it becomes necessary to approve an Interested Transaction between meetings, the Chair of the Committee is authorized to act on behalf of the Committee. The Chair will provide a report on the matter to the full Committee at its next meeting.

Although the appropriate Committee may review any transaction with a Related Person, the following Interested Transactions are specifically pre-approved, and no further action need be taken:

Any employment by the Company of an executive officer of the Company if (*i*) the related compensation is required to be reported in the Company s Proxy Statement under Item 402 of the SEC s compensation disclosure requirements (generally applicable to named executive officers); or (*ii*) the compensation is paid to an executive officer who is not required to be named in the Summary Compensation Table if the Compensation Committee has approved the compensation arrangement.

Any compensation paid to a director if the compensation is required to be reported in the Company s Proxy Statement under Item 402(k) of the SEC s compensation disclosure requirements and is approved by the Board of Directors.

Transactions in fulfillment of contractual obligations where the contract or arrangement was previously approved by the Board or a committee of the Board.

Any transaction with another company at which a Related Person s only relationship is as an employee (other than an executive officer), director or beneficial owner of less than 10% of that company s shares, if the aggregate amount involved over any 12-month period does not exceed the greater of $1,000,000, or 2% of that company s total annual revenues.

Any charitable contribution, grant, or endowment by the Company to a charitable organization, foundation or university at which a Related Person s only relationship is as an employee (other than an executive officer) or a director, if the aggregate amount involved does not exceed the greater of $1,000,000, or 2% of the charitable organization s total annual receipts.

Transactions available to all employees generally and conducted on similar terms.

Any transaction where the Related Person s interest arises solely from the ownership of the Company s common stock and all holders of the Company s common stock received the same benefit on a pro rata basis (*e.g.*, dividends).

Any transaction involving a Related Person where the rates or charges involved are determined by competitive bids.

Any transaction with a Related Person involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority.

Any transactions with a Related Person involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services.

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Employee compensatory arrangements, other than executive officers, established in the ordinary course of business.

Any transaction, contract, or arrangement approved by the Board of Directors.

Each of the following transactions were approved in accordance with the foregoing procedures:

Prior to Leggett s divestiture of the Aluminum Segment on July 16, 2008, Daniel R. Hebert was an executive officer of the Company. Following the divestiture, Mr. Hebert continued his employment with Pace Industries, Inc. (now serving as its President), and Leggett entered into certain supply and transition services agreements with Mr. Hebert s employer.

In 2008 and through the 2009 Record Date, two of our officers purchased shares of Leggett common stock from the Company s treasury shares, as set out below. Through the third quarter of 2008, the price per share in each transaction was the average price the Company paid for shares it repurchased on the open market that day. Beginning in the fourth quarter of 2008, the price per share in each transaction was the closing price on the day of sale. The executives also paid an administrative fee of two cents per share, which reimburses the Company for the average commission paid for its open market share repurchases.

Name	Date of Purchase	Number of Shares	Market Price per Share	Administrative Fee	Total Purchase Price
Jack D. Crusa	2/18/09	4,000	$ 12.4500	$ 80	$ 49,880
David S. Haffner	3/6/08	5,000	16.0134	125	80,192
	3/11/08	10,000	15.2375	300	152,675
	3/14/08	12,000	14.9667	360	179,960
	3/17/08	10,000	14.9351	300	149,651
	7/30/08	5,000	19.4513	100	97,357
	10/27/08	25,000	14.5900	500	365,250
	11/20/08	5,000	12.2400	100	61,300
	2/9/09	5,000	13.7800	100	69,000
	2/10/09	4,000	12.9700	80	51,960
	2/12/09	6,000	12.8100	120	76,980
	2/17/09	5,000	12.5700	100	62,950
	2/18/09	3,000	12.4500	60	37,410
	2/20/09	8,000	12.2600	160	98,240
	2/23/09	10,000	11.7500	200	117,700
	3/2/09	5,000	10.7800	100	54,000
	3/5/09	5,000	10.6000	100	53,100

We buy shares of our common stock from our employees from time to time, and, in 2008, we purchased shares from two of our officers. All employees, including the officers listed below, pay a $25 administrative fee for each transaction. If the Company agrees to purchase stock before noon, the purchase price is the closing stock price on the prior business day; if the agreement is made after noon, the purchase price is the closing stock price on the day of purchase.

Name	Date of Purchase	Number of Shares	Market Price per Share	Total Purchase Price
Karl G. Glassman (son)	8/4/08	1,200	$ 19.84	$ 23,808
Dennis S. Park	8/11/08	499	21.88	10,918

The Company s previous employment agreement with Harry M. Cornell, Jr., a director of the Company for part of 2008, entitles him to certain post-retirement benefits, including life insurance coverage and certain health benefits. The Company paid $22,294 in 2008 for Mr. Cornell s Medicare, supplemental insurance, and

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prescription drug expenses. Of that amount, $17,020 was paid as a reimbursement for Medicare and prescription drug expenses from 2007. Upon retirement, Mr. Cornell also became entitled to supplemental pension payments equal to 65% of the average of his highest consecutive five-year earnings, minus an offset for social security benefits, for the longer of 15 years or life. These payments totaled $755,060 in 2008. As approved by the Compensation Committee, the Company also provides Mr. Cornell with office space and secretarial services, and he reimburses the Company for the actual costs of these benefits. In 2008, he reimbursed the Company $77,806 for secretarial services (salary and benefits) and $15,030 for office space (based on the rental cost for comparable facilities in the area).

The Company employs certain relatives of its directors and executive officers, including those listed below for Mr. Cornell and Mr. Wright who retired from the Board in May 2008. The total compensation of the employees listed below was calculated in a manner consistent with that of the Summary Compensation Table on page 38 and includes base salary, annual cash incentive, equity awards, and certain other compensation from Company benefit plans.

Director	Related Person s Name	Title	Relationship	Total Compensation
Harry M. Cornell, Jr.	Lance Beshore	VP Public Affairs & Government Relations	Son-in-law	$ 349,348
Felix E. Wright	Tom Wells, Jr.	Group VP/Director of Engineering Strategy & Technical Support	Son-in-law	174,985

Director Compensation

The Compensation Committee reviews director compensation every year and recommends any changes to the full Board for consideration at the May Board meeting. The Committee considers national survey data and trends but does not target director compensation to any specific percentage of the median.

Our standard annual compensation package for non-employee directors consists of a grant of restricted stock with a grant date market value of $100,000 on the date of each annual meeting of shareholders and the following cash compensation:

	Retainer/Fee
Board Retainer	
Non-employee Director	$ 50,000
Audit Committee	
Chair	12,000
Member	8,000
Committee Meeting Fees	1,000
Compensation Committee	
Chair	10,000
Member	6,000
Committee Meeting Fees	1,000
N&CG Committee	
Chair	7,500
Member	5,000
Committee Meeting Fees	1,000

Prior to May 2008, we paid employee directors $3,000 per year, in quarterly installments, for their service as directors. For Mr. Haffner and Mr. Glassman, this director compensation is reported in the All Other Compensation column of the Summary Compensation Table on page 38. The Board eliminated employee director compensation in 2008.

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Compensation earned by directors in 2008 is set forth in the table below. Directors may elect to defer their cash compensation into stock options or stock units under the Company s Deferred Compensation Program, described on page 48. The Company also pays for all travel expenses the directors incur to attend Board meetings.

Mr. Cornell and Mr. Wright, both former Chief Executive Officers of the Company, did not stand for re-election as directors at the May 2008 annual meeting of shareholders. Their compensation reflects a partial year of service.

Mr. Cornell was a non-employee director, and all the compensation reported in the table below was earned in connection with his service as a director. He receives other post-retirement benefits under the terms of his previous employment agreement with the Company. These are described in the Transactions with Related Persons section on page 12.

Mr. Wright was an employee director until May. He was not an executive officer at any time in 2008, but he served as an employee consultant throughout 2008. Of the compensation reported for Mr. Wright in the table below, only $1,500 relates to his services as a director. The remaining amounts relate to services as an employee. Compensation amounts reported for Mr. Wright are described in footnote 5.

Director Compensation in 2008

Director	Fees Earned or Paid in Cash (1)	Stock Awards (2)	Option Awards (3)	Non-Qualified Deferred Compensation Earnings (4)	All Other Compensation	Total
Raymond F. Bentele	$ 60,000	$ 90,005	$	$ 154	$ 5,181	$ 155,340
Ralph W. Clark	60,000	90,005		142	4,975	155,122
Harry M. Cornell, Jr.	25,000	23,339			1,314	49,653
R. Ted Enloe, III	63,000	90,005		780	5,986	159,771
Richard T. Fisher	81,500	145,594		1,889	10,419	239,402
Joseph W. McClanathan	66,500	90,005			4,564	161,069
Judy C. Odom	79,500	96,255		998	8,554	185,307
Maurice E. Purnell, Jr.	58,250	90,005		780	4,595	153,630
Phoebe A. Wood	70,250	106,317		2,116	13,028	191,711
Felix E. Wright (5)	777,230	202,764	237,512	50,547	180,088	1,448,141

(1) The following directors deferred a portion of their 2008 cash compensation into stock units under the Company s Deferred Compensation Program: Fisher $20,550; Odom $25,000; and Wood $64,000.

(2) Amounts reported in this column reflect two types of stock awards, described below: (a) an annual restricted stock award; and (b) the discount on stock units acquired in lieu of cash compensation under the Company s Deferred Compensation Program.

(a) Non-management directors are granted restricted stock awards in May each year upon their election or re-election to the Board. These shares vest one year after grant. Under FAS 123R, the Company recognizes compensation expense over the services period of the award equal to the market value of the stock on the grant date. Amounts reported in this column represent the compensation expense recognized in our 2008 financial statements related to the awards made in 2007 and 2008. The 2008 award was for 6,180 shares, having a grant date fair value of $99,992.40. These 6,180 shares were the directors only unvested restricted stock as of December 31, 2008.

(b) Under the Deferred Compensation Program, stock units are acquired at a 20% discount to the market value of the Company s stock. This column includes amounts attributable to this discount as follows: Fisher $5,588; Odom $6,250; and Wood $16,312. Under FAS 123R, the Company recognizes compensation expense equal to the 20% discount.

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(3) No stock options were granted to directors in 2008, and the Company recognized no compensation expense in 2008 for previously granted options.

The directors held outstanding stock options as of December 31, 2008 as described below. Options that were granted in lieu of cash compensation under our Deferred Compensation Program are listed separately in the DC Options column. Mr. Wright holds 1,302,203 options (563,665 general options and 738,538 Deferred Compensation Options) that relate to his prior service as an employee.

Director	Options	DC Options	Total
Raymond F. Bentele	27,194		27,194
Ralph W. Clark	11,585	4,338	15,923
Harry M. Cornell, Jr.	7,160	10,000	17,160
R. Ted Enloe, III	25,464	21,168	46,632
Richard T. Fisher	10,482		10,482
Joseph W. McClanathan	1,454		1,454
Judy C. Odom	6,007		11,083
Maurice E. Purnell, Jr.	26,833		26,833
Phoebe A. Wood	976		976

(4) Directors who elect to forego cash compensation in exchange for stock units receive dividend equivalents acquired at a 20% discount to market value. The 20% discount on those dividend equivalents is reported in this column.

Five directors currently have Deferred Compensation Program stock unit accounts. Details of the units they acquired in 2008 and their ending account balances are set forth below. Stock units are converted to shares of common stock upon distribution.

Director	Beginning Stock Unit Balance	Stock Units Credited for 2008 Compensation & Dividend Equivalents	Stock Units Credited in 2008 for Dividend Equivalents on Previous Deferrals	Stock Units Distributed in 2008	Stock Units in Account on 12/31/08
Raymond F. Bentele	2,468		49	(2,517)	
Ralph W. Clark	1,647		32	(559)	1,120
Richard T. Fisher	2,068	1,670	115	(902)	2,951
Judy C. Odom	3,200	1,859	264		5,323
Phoebe A. Wood	6,445	4,859	532		11,836

(5) Compensation reported for Mr. Wright, by column, is set forth below. Most of Mr. Wright s compensation is paid pursuant to the terms of his employment agreement, which is described in the paragraph following this footnote.

(a) Fees Earned or Paid in Cash $775,730 consulting payments (described below) and $1,500 fees for service as an employee director. Mr. Wright deferred everything except his director fees into stock units under the Company s Deferred Compensation Program described on page 48.

(b) Stock Awards attributable to the 20% discount on stock units acquired under the Deferred Compensation Program. See also footnote 2(b).

(c) Stock Options represents compensation expense the Company recognized for financial reporting purposes related to options granted in 2005 and 2006, calculated using the Black-Scholes option valuation model. For a description of assumptions used to calculate the fair value of these options, see Footnote L of the Company s Form 10-K filed on February 26, 2008.

(d) Non-Qualified Deferred Compensation Earnings represents the discount on dividend equivalents acquired under the Deferred Compensation Program (see footnote 4 above) and the Executive Stock

Unit Program (see footnote 4(b) to the Summary Compensation Table on page 38.) Mr. Wright also has a supplemental pension, described below. The present value of the supplemental pension declined by $502,623 in 2008. The reduced value is not reflected in this table.

(e) All Other Compensation includes amounts set forth below. See footnote 5 to the Summary Compensation Table on page 40 for a description of amounts related to the ESU Program and Excess Retirement K.

ESU Program matching contributions and discount on contributions	$ 93,844
Retirement K Excess payments	37,235
Life and/or disability insurance benefits	14,806
Tax gross-ups	3,143
Perquisites:	
Executive physical	623
Auto usage	3,187
Outside legal fees for financial planning	27,250
Total	$ 180,088

Mr. Wright and the Company entered into an employment agreement in 1999 in connection with his promotion to CEO. The agreement, as amended for subsequent terms, covered his term as CEO ending in 2006 and entitled Mr. Wright to a 2-year consulting term, which began June 1, 2007. During the first and second years of the consulting term, the consulting payments were equal to 75% and 60%, respectively, of the average of his highest consecutive five-year earnings (*Average Earnings*), where earnings includes only salary and incentive award. His Average Earnings were $1,164,154 at December 31, 2007, making his consulting payments $873,116 for Year 1 and $698,492 for Year 2. The consulting term is not renewable. Mr. Wright s obligation to maintain the confidentiality of Company information remains in effect after expiration of the term of the agreement.

Mr. Wright s employment agreement also provided for a supplemental pension in addition to the pension he is entitled to under the Retirement Plan. The supplemental pension begins upon the later of termination of employment or the expiration of the consulting term. The supplemental pension will be for life or 15 years, whichever is longer. Mr. Wright s annual pension payments are 55% of Average Earnings, making his annual payment $640,285.

While he receives supplemental pension payments, the Company will continue to provide health insurance and a Medicare supplement to Mr. Wright and his dependents after his retirement or disability for the longer of 15 years or life, as well as life insurance coverage equal to the coverage the Company provided to him immediately prior to termination. In addition, the Company is obligated to reimburse Mr. Wright for any income or other taxes he incurs on these benefits.

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PROPOSALS TO BE VOTED ON AT THE ANNUAL MEETING

PROPOSAL ONE

Election of Directors

At the annual meeting, nine directors will be elected to hold office until the next annual meeting of shareholders or until their successors are elected and qualified. All the director nominees have been previously elected by our shareholders. If any nominee named below is unable to serve as a director (an event the Board does not anticipate), the proxy will be voted for a substitute nominee, if any, designated by the Board. Our employment agreements with Mr. Haffner and Mr. Glassman provide that they may terminate their agreements if not re-elected as directors (see page 49 for a description of the agreements).

Ralph W. Clark, age 68, was a Vice President of International Business Machines Corporation (IBM) from 1988 until 1994. He also served as Chairman of Frontec AMT Inc., a software company, until his retirement in 1998. Mr. Clark was first elected as a director of the Company in 2000.

R. Ted Enloe, III, age 70, has been Managing General Partner of Balquita Partners, Ltd., a family securities and real estate investment partnership, since 1996. He also served as President and Chief Executive Officer of Optisoft, Inc., a manufacturer of intelligent traffic systems, from 2003 to 2005. Mr. Enloe serves as a director of Silicon Laboratories Inc., a designer of mixed-signal integrated circuits, and Live Nation, Inc., a venue operator, promoter and producer of live entertainment events. He was first elected as a director of the Company in 1969.

Richard T. Fisher, age 70, has been Senior Managing Director, Midwest Division of Oppenheimer & Co., an investment banking firm, since 2002. He served as Managing Director of CIBC World Markets Corp., an investment banking firm, from 1990 to 2002. Mr. Fisher was first elected as a director of the Company in 1972 and has served as the independent Board Chair since 2008.

Karl G. Glassman, age 50, was appointed Chief Operating Officer of the Company in 2006 and Executive Vice President in 2002. He previously served the Company as President of the Residential Furnishings Segment from 1999 to 2006, Senior Vice President from 1999 to 2002, and President of Bedding Components from 1996 through 1998. Mr. Glassman has served the Company in various capacities since 1982. He was first elected as a director of the Company in 2002.

David S. Haffner, age 56, was appointed Chief Executive Officer of the Company in 2006 and has served as President of the Company since 2002. He previously served as the Company s Chief Operating Officer from 1999 to 2006, Executive Vice President from 1995 to 2002, and in other capacities since 1983. Mr. Haffner serves as a director of Bemis Company, Inc., a manufacturer of flexible packaging and pressure sensitive materials. Mr. Haffner was first elected as a director of the Company in 1995.

Joseph W. McClanathan, age 56, has served as President and Chief Executive Officer of the Energizer Household Products Division of Energizer Holdings, Inc., a manufacturer of portable power solutions, since November 2007. Prior to his current position, he served Energizer as President and Chief Executive Officer of the Energizer Battery Division from 2004 to 2007, as President North America from 2002 to 2004, and as Vice President North America from 2000 to 2002. He was first elected as a director of the Company in 2005.

Judy C. Odom, age 56, served as Chairman of the Board and Chief Executive Officer of Software Spectrum, Inc., a computer software company, until 2002. She is a director of Harte Hanks Inc., a direct marketing company. Ms. Odom was first elected as a director of the Company in 2002.

Maurice E. Purnell, Jr., age 69, has been Of Counsel to the law firm of Locke Lord Bissell & Liddell LLP, or its predecessor firm, since 2002, where he had been a partner since 1972. Mr. Purnell was first elected as a director of the Company in 1988.

Phoebe A. Wood, age 55, served as Vice Chairman, Chief Financial Officer and in other capacities at Brown-Forman Corporation, a diversified consumer products manufacturer, from 2001 until her retirement in 2008. Ms. Wood previously held various positions at Atlantic Richfield Company, an oil and gas company, from 1976 to 2000. Ms. Wood was first elected as a director of the Company in 2005.

The Board recommends that you vote *FOR* the election of each of the director nominees.

PROPOSAL TWO

Ratification of Selection of Independent Registered Public Accounting Firm

The Audit Committee has selected PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009. PwC (or its predecessor firm) has been our independent registered public accounting firm since 1991.

We are asking our shareholders to ratify the Audit Committee s selection of PwC as our independent registered public accounting firm. Although ratification is not required by the Company s bylaws or otherwise, the Board is submitting the selection of PwC to our shareholders for ratification as a matter of good corporate practice. If our shareholders fail to ratify the selection, it will be considered a direction to the Audit Committee to consider a different firm. Even if this selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change is in the best interest of the Company and our shareholders.

PwC representatives are expected to be present at the annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

The Board recommends that you vote *FOR* the ratification of PwC as independent registered public accounting firm.

Audit and Non-Audit Fees

The fees billed or expected to be billed by PwC for professional services rendered in fiscal years 2008 and 2007 are shown below.

Type of Service	2008	2007
Audit Fees (1)	$ 2,371,964	$ 2,074,055
Audit-Related Fees (2)	0	261,455
Tax Fees (3)	505,194	578,651
All Other Fees	0	0
Totals	$ 2,877,158	$ 2,914,161

(1) Includes: rendering an opinion on the Company s consolidated financial statements and the effectiveness of internal control over financial reporting; quarterly reviews of our financial statements; statutory audits as required; comfort and debt covenant letters; and services in connection with securities regulatory filings.

(2) Includes: consulting on accounting and financial reporting issues; limited procedures reports related to agreements or arbitrations; continuing professional education; audits of employee benefit plans and subsidiaries; and due diligence and audit procedures related to acquisitions and joint ventures.

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(3) Includes: preparation and review of tax returns and tax filings; tax consulting and advice related to compliance with tax laws; tax planning strategies; and tax due diligence related to acquisitions and joint ventures. Of the tax fees listed above in 2008, $273,785 relate to compliance services and $31,409 relate to consulting and planning services.

The Audit Committee has determined that the provision of these approved non-audit services by PwC is compatible with maintaining PwC s independence.

Pre-Approval Procedures for Audit and Non-Audit Services

The Audit Committee is responsible for the appointment and compensation of the Company s independent registered public accounting firm. To fulfill this responsibility, the Audit Committee has established a procedure for pre-approving the services performed by the Company s auditors. All services provided by PwC in 2008 were approved in accordance with the adopted procedures. There were no services provided or fees paid in 2008 for which the pre-approval requirement was waived.

The procedure provides standing pre-approval for:

Audit Services rendering an opinion on the Company s financial statements and the effectiveness of internal control over financial reporting; quarterly reviews of the Company s financial statements; statutory audits as required; comfort and debt covenant letters; and services in connection with regulatory filings.

Audit-Related Services consultation on new or proposed transactions, statutory requirements, or accounting principles; reports related to contracts, agreements, arbitration, or government filings; continuing professional education; audits of employee benefit plans and subsidiaries; and due diligence and audits related to acquisitions and joint ventures.

Tax Services preparation and review of Company and related entity income, sales, payroll, property, and other tax returns and tax filings and permissible tax audit assistance; preparation or review of expatriate and similar employee tax returns and tax filings; tax consulting and advice related to compliance with applicable tax laws; tax planning strategies and implementation; and tax due diligence related to acquisitions and joint ventures.

Any other audit, audit-related, or tax services provided by the Company s auditors require specific Audit Committee pre-approval. The Audit Committee must also specifically approve in advance all permissible non-audit internal control related services to be performed by the Company s auditors. Management provides quarterly reports to the Audit Committee concerning any fees paid to the auditors for their services.

Audit Committee Report

The Audit Committee is composed of six non-management directors who are independent as required by SEC and NYSE rules. The Audit Committee operates under a written charter adopted by the Board which is posted on the Company s website at *www.leggett-search.com/governance*.

Management is responsible for the Company s financial statements and financial reporting process, including the system of internal controls. PwC, our independent registered public accounting firm is responsible for expressing an opinion on the conformity of the audited consolidated financial statements with generally accepted accounting principles. The Audit Committee is responsible for monitoring, overseeing and evaluating these processes, providing recommendations to the Board regarding the independence of and risk assessment procedures used by our independent registered public accounting firm, selecting and retaining our independent registered public accounting firm, and overseeing compliance with various laws and regulations.

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At its meetings, the Audit Committee reviewed and discussed the Company s audited financial statements with management and PwC. The Audit Committee also discussed with PwC all items required by the Statement on Auditing Standards No. 61, as amended.

The Audit Committee received the written disclosures and letter from PwC required by applicable requirements of the Public Company Accounting Oversight Board regarding PwC s communications with the Audit Committee concerning independence and has discussed the independent registered public accounting firm independence with them.

The Audit Committee has relied on management s representation that the financial statements have been prepared in conformity with generally accepted accounting principles and on the opinion of PwC included in their report on the Company s financial statements.

Based on the review and discussions with management and PwC referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company s 2008 Annual Report on Form 10-K.

Raymond F. Bentele

Ralph W. Clark

Richard T. Fisher

Joseph W. McClanathan

Judy C. Odom (Chair)

Phoebe A. Wood

PROPOSAL THREE

Approval of the 2009 Key Officers Incentive Plan

Section 162(m) of the Internal Revenue Code limits the amount of compensation that may be deducted by the Company in any year to those persons named in the Summary Compensation Table on page 38 (not including the Chief Financial Officer). However, certain performance-based compensation is not subject to this deduction limit. Compensation is performance-based if payment is conditioned on the achievement of performance goals set by a committee of outside directors. The Company s shareholders must approve the material terms of such performance goals.

In 2004, our shareholders approved the 2004 Key Officers Incentive Plan (the *2004 Incentive Plan*). Compensation paid to our most highly compensated officers under the 2004 Incentive Plan for the past three years is shown in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table on page 38. Plans providing benefits intended to qualify as performance-based compensation under Section 162(m) of the Code must be approved by shareholders every five years.

Subject to shareholder approval, the Compensation Committee (the *Committee*) adopted the 2009 Key Officers Incentive Plan (the *2009 Incentive Plan* or the *Plan*) to replace the 2004 Incentive Plan. The 2009 Incentive Plan broadens the list of potential performance objectives and requires repayment of awards paid in error if the Company is required to restate previously reported financial results. If approved by shareholders, the 2009 Incentive Plan will become effective as of January 1, 2009. If not approved by shareholders, no performance-based awards will be paid under either the 2004 or the 2009 Incentive Plans.

Set forth below is a description of the key features of the 2009 Incentive Plan. This description is subject to and qualified by the full text of the Plan attached as Appendix B, which is incorporated by reference herein.

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The purpose of the 2009 Incentive Plan is to attract, motivate and retain participants who make significant contributions to the Company s success by allowing them to share in that success. The Plan is designed to permit the Company to maximize tax deductions for performance-based compensation paid or awarded to participants under the Plan. The Company s executive officers (currently 11 persons) are eligible for participation in the Plan.

The Plan is administered by the Committee, which has sole responsibility for: selecting participants; setting target percentages; establishing performance objectives, performance periods and award formulas; and determining awards.

The Plan provides for the payment of cash awards to participants based on the attainment of certain performance objectives. Performance objectives may differ for each participant and may be based on corporate financial measures or individual measures. Performance objectives may be different for different Participants and may be based on corporate financial measures or individual measures. Performance Objectives may include, without limitation, revenue, operating income, return on equity, return on assets, cash flow, earnings, total shareholder return, share price performance, and any of the other performance measures listed in Section 2.2 of the Plan (see page B-2).

The Committee will establish the award formula and participants target percentages no later than 90 days after the beginning of the year or before 25% of a performance period has elapsed. The Committee may reduce a participant s award as calculated under the formula by up to 20% but may not increase the award. No participant who is subject to Section 162(m) of the Code will be entitled to an additional award based on another participant forfeiting all or any portion of the discretionary payment. A participant s award may not exceed two times the participant s base salary. Participants may elect to defer their awards under the Company s Deferred Compensation Program.

The Committee has not yet approved the formula for determining awards for 2009 performance under the Plan. Accordingly, 2009 incentive awards under the Plan are not determinable at this time. The table below sets forth the amounts that were payable for 2008 performance under the 2004 Key Officers Incentive Plan (which is substantially the same as the 2009 Key Officers Incentive Plan), to each of the individuals and groups listed below.

Name	**2008 Incentive Award**
David S. Haffner	$ 390,600
Matthew C. Flanigan	121,660
Karl G. Glassman	255,150
Joseph D. Downes, Jr.	210,869
Paul R. Hauser	124,393
All executive officers, as a group	1,448,403

A description of the 2008 awards, performance measures and payout decisions is contained in the Annual Incentive Awards section of the Compensation Discussion and Analysis beginning on page 31.

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The Company intends to file a Current Report on Form 8-K in late March after the Committee has approved the award formula for 2009 performance. Although not final, we expect the Committee to set the following performance measures and relative weighting of each. The individual performance goals will likely be established separately from this Plan. We further expect that the Committee will set the maximum payout at 150%.

Participant Type	Performance Measures	Relative Weight
Corporate Participants	Return on Capital Employed	60%
(Haffner, Flanigan, Glassman)	Cash Flow	20%
	Individual Performance Goals	20%
Profit Center Participants	Return on Capital Employed	40%
(Downes, Hauser)	Budgeted Earnings	40%
	Individual Performance Goals	20%

The Committee may approve certain adjustments to the GAAP definition of these measures. Any such adjustments will be explained in the Form 8-K.

If, within 24 months after an award is paid, the Company is required to restate previously reported financial results, the Committee will require all participants to repay any amounts paid in excess of the amounts that would have been paid based on the restated financial results. In addition, the Committee may require repayment of the entire award from those participants the Committee determines, in its discretion, to be personally responsible for gross misconduct or fraud that caused the need for the restatement.

The Company has a separate incentive plan for other key management employees, the Key Management Incentive Plan. The terms of the Key Management Incentive Plan are substantially the same as those of the 2009 Incentive Plan which governs our Section 16 Officers.

The Committee may amend or terminate the Plan at any time, provided that no amendment will be made without shareholder approval if such approval is required under applicable law or for bonuses to qualify as performance-based compensation.

The Board recommends that you vote *FOR* approval of the 2009 Key Officers Incentive Plan.

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PROPOSAL FOUR

Shareholder Proposal Requesting the Addition of Sexual Orientation and

Gender Identity to the Company s Written Non-Discrimination Policy

The Office of the Comptroller of New York City, as custodian and trustee of the New York City Employees Retirement System, the New York City Teachers Retirement System, the New York City Police Pension Fund and the New York City Fire Department Pension Fund, and as custodian of the New York City Board of Education Retirement System, has notified us of its intent to present the following proposal for consideration at the annual meeting. The addresses and number of shares held by such shareholders are available from the Company upon request to its Secretary.

The proposed resolution and supporting shareholder statement are followed by a statement of opposition and a recommendation from the Company s Board. The Company accepts no responsibility for the proposed shareholder resolution and supporting statement.

Proposed Shareholder Resolution and Statement

Whereas: Leggett & Platt, Inc., does not explicitly prohibit discrimination based on sexual orientation and gender identity in its written employment policy;

Over 88% of the Fortune 500 companies have adopted written nondiscrimination policies prohibiting harassment and discrimination on the basis of sexual orientation, as have more than 98% of Fortune 100 companies, according to the Human Rights Campaign; over 30% now prohibit discrimination based on gender identity;

We believe that corporations that prohibit discrimination on the basis of sexual orientation and gender identity have a competitive advantage in recruiting and retaining employees from the widest talent pool;

According to a June, 2008 survey by Harris Interactive and Witeck-Combs, 65% of gay and lesbian workers in the United States reported facing some form of job discrimination related to sexual orientation; an earlier survey found that almost one out of every 10 gay or lesbian adults also reported that they had been fired or dismissed unfairly from a previous job, or pressured to quit a job because of their sexual orientation;

Twenty states, the District of Columbia and more than 160 cities and counties, have laws prohibiting employment discrimination based on sexual orientation; 12 states and the District of Columbia have laws prohibiting employment discrimination based on sexual orientation and gender identity;

Minneapolis, San Francisco, Seattle and Los Angeles have adopted legislation restricting business with companies that do not guarantee equal treatment for gay and lesbian employees;

Our company has operations in, and makes sales to, institutions in states and cities that prohibit discrimination on the basis of sexual orientation;

National public opinion polls consistently find more than three quarters of the American people support equal rights in the workplace for gay men, lesbians and bisexuals; for example, in a Gallup poll conducted in May, 2007, 89% of respondents favored equal opportunity in employment for gays and lesbians;

Resolved: The Shareholders request that Leggett & Platt, Inc. amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity and to substantially implement the policy.

Supporting Statement: Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity. Because state and local laws are inconsistent with respect to employee discrimination, our company would benefit from a consistent, corporate-wide policy to enhance efforts

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to prevent discrimination, resolve complaints internally, and ensure a respectful and supportive atmosphere for all employees. Leggett & Platt, Inc. will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

Company s Statement in Opposition:

We believe the proposed resolution is unnecessary because Leggett is already an equal opportunity employer with a firm and long-standing commitment to preventing discrimination in the workplace. Leggett s existing anti-discrimination policy states, We are committed to equal opportunity, and strive to maintain a workplace free of discrimination based on any factors other than the skills and abilities of our applicants and employees. These principles of equal opportunity should be applied in all aspects of employment including: recruiting, hiring, promotion, training, compensation, termination and disciplinary action.

We are committed to the highest ethical standards, which include assuring equal employment and promotional opportunities *free of discrimination on any basis* other than merit and performance-related qualifications. Our policies reflect our high standards, and we implement these policies in our business operations through ongoing training.

We believe our employment record supports our commitment to nondiscrimination. In a company with more than 20,000 employees, we are not aware of a single charge of discrimination based on sexual orientation or gender identity filed with any city, state or federal agency, nor has the Company received notice from any customer or supplier that its employment policies or practices jeopardize its relationship with them. In addition, for over twenty years Leggett has provided employees with access to a national hotline for anonymous reporting of discrimination or harassment in the workplace.

We believe our written policies should specifically list only those types of discrimination prohibited by federal law. This approach furthers the Company s legal compliance efforts by highlighting categories of illegal discrimination and, thus, helps to reduce our compliance costs. We also believe the addition of sexual orientation and gender identity to the list would result in increased costs by encouraging frivolous lawsuits.

We believe singling out employees by sexual orientation or gender identity (or any other classification not mandated by federal law) would dilute our policy of prohibiting discrimination in any form and would divert attention from our primary goal of a completely non-discriminatory workplace.

We believe that adding sexual orientation to the list of prohibited forms of discrimination may lead to a more expansive agenda, including the addition of domestic partner benefits at a significant cost to the Company.

Over a two-thirds majority of Leggett s shareholders defeated similar proposals at the Company s 2006, 2007 and 2008 annual meetings. We believe this overwhelming rejection by shareholders sent a clear message to our Board that Leggett should oppose this unnecessary and costly addition to our nondiscrimination policy.

The Board of Directors recommends that you vote *AGAINST* this shareholder proposal.

)

Net income

$

166,757

$

170,751

Per share:

Basic earnings
$
0.59

$
0.59

Diluted earnings
$
0.59

$
0.59

Cash dividends declared
$
0.11

$
0.09

Number of shares used in calculation:

Basic
277,637

286,683

Effect of dilutive securities
1,003

1,343

Diluted
278,640

288,026

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	**2018**
Net income	$166,757	$170,751
Other comprehensive income, net of tax:		
Change in value of derivatives	25	21
Other comprehensive income	25	21
Comprehensive income	$166,782	$170,772

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Shares	$				
Shareholders' Equity, December 31, 2018	277,110	$2,771	$3,201,427	$ (345)	$1,613,929	$4,817,782
Stock option exercises	118	1	1,444	—	—	1,445
Share issuances, net of cancellations	1,337	12	5,792	—	—	5,804
Dividends declared	—	—	—	—	(30,831)	(30,831)
Share repurchases	(1,309)	(13)	—	—	(35,340)	(35,353)
Share-based compensation	—	—	7,810	—	—	7,810
Net income	—	—	—	—	166,757	166,757
Other comprehensive income	—	—	—	25	—	25
Shareholders' Equity, March 31, 2019	277,256	$2,771	$3,216,473	$ (320)	$1,714,515	$4,933,439
Shareholders' Equity, December 31, 2017	286,752	$2,868	$3,171,542	$ (445)	$980,061	$4,154,026
Cumulative effect of accounting change (see Note 1)	—	—	—	—	22,411	22,411
Stock option exercises	284	3	2,720	—	—	2,723
Share issuances, net of cancellations	783	8	3,477	—	—	3,485
Dividends declared	—	—	—	—	(26,051)	(26,051)
Share repurchases	(1,941)	(20)	—	—	(59,471)	(59,491)
Share-based compensation	—	—	6,782	—	—	6,782
Net income	—	—	—	—	170,751	170,751
Other comprehensive income	—	—	—	21	—	21
Shareholders' Equity, March 31, 2018	285,878	$2,859	$3,184,521	$ (424)	$1,087,701	$4,274,657

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$166,757	$170,751
Adjustments to reconcile net income to net cash from operating activities:		
Deferred income tax expense	24,690	23,479
Land-related charges	2,979	3,419
Depreciation and amortization	13,210	11,890
Share-based compensation expense	9,019	8,451
Other, net	(39)	(793)
Increase (decrease) in cash due to:		
Inventories	(259,865)	(237,169)
Residential mortgage loans available-for-sale	134,217	185,147
Other assets	64,533	(9,246)
Accounts payable, accrued and other liabilities	3,408	13,084
Net cash provided by (used in) operating activities	158,909	169,013
Cash flows from investing activities:		
Capital expenditures	(16,070)	(15,428)
Investments in unconsolidated entities	(1,289)	(1,000)
Other investing activities, net	291	452
Net cash provided by (used in) investing activities	(17,068)	(15,976)
Cash flows from financing activities:		
Repayments of debt	(3,605)	(451)
Borrowings under revolving credit facility	—	768,000
Repayments under revolving credit facility	—	(768,000)
Financial Services borrowings (repayments)	(126,273)	(190,852)
Stock option exercises	1,445	2,723
Share repurchases	(35,353)	(59,491)
Dividends paid	(30,802)	(26,347)
Net cash provided by (used in) financing activities	(194,588)	(274,418)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(52,747)	(121,381)
Cash, cash equivalents, and restricted cash at beginning of period	1,133,700	306,168
Cash, cash equivalents, and restricted cash at end of period	$1,080,953	$184,787
Supplemental Cash Flow Information:		
Interest paid (capitalized), net	$17,164	$30,109
Income taxes paid (refunded), net	$(30,850)	$631

See accompanying Notes to Condensed Consolidated Financial Statements.

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

1. Basis of presentation

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Use of estimates

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

Subsequent events

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

Other expense, net

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

	Three Months Ended March 31,	
	2019	**2018**
Write-offs of deposits and pre-acquisition costs	$(2,917)	$(2,609)
Amortization of intangible assets	(3,450)	(3,450)
Interest income	4,949	564
Interest expense	(144)	(143)
Equity in earnings of unconsolidated entities	37	961
Miscellaneous, net	552	3,369
Total other expense, net	$(973)	$(1,308)

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

Revenue recognition

Home sale revenues - Home sale revenues and related profit are generally recognized when title to and possession of the home are transferred to the buyer at the home closing date. Our performance obligation to deliver the agreed-upon home is generally satisfied in less than one year from the original contract date. Home sale contract assets consist of cash from home closings held in escrow for our benefit, typically for less than five days, which are considered deposits in-transit and classified as cash. Contract liabilities include customer deposit liabilities related to sold but undelivered homes, which totaled $294.5 million and $254.6 million at March 31, 2019 and December 31, 2018, respectively. Substantially all of our home sales are scheduled to close and be recorded to revenue within one year from the date of receiving a customer deposit. See Note 8 for information on warranties and related obligations.

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

Financial services revenues - Loan origination fees, commitment fees, and certain direct loan origination costs are recognized as incurred. Expected gains and losses from the sale of residential mortgage loans and their related servicing rights are included in the measurement of written loan commitments that are accounted for at fair value through Financial Services revenues at the time of commitment. Subsequent changes in the fair value of these loans are reflected in Financial Services revenues as they occur. Interest income is accrued from the date a mortgage loan is originated until the loan is sold. Mortgage servicing fees represent fees earned for servicing loans. Servicing fees are based on a contractual percentage of the outstanding principal balance and are credited to income when related mortgage payments are received.

Revenues associated with our title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur as each home is closed. Insurance brokerage commissions relate to commissions on homeowner and other insurance policies placed with third party carriers through various agency channels. Our performance obligations for policy renewal commissions are satisfied upon issuance of the initial policy, and related contract assets for estimated future renewal commissions are included in other assets and totaled $31.4 million at March 31, 2019.

Earnings per share

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

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

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

	Three Months Ended March 31, 2019	2018
Numerator:		
Net income	$166,757	$170,751
Less: earnings distributed to participating securities	(308)	(296)
Less: undistributed earnings allocated to participating securities	(1,410)	(1,622)
Numerator for basic earnings per share	$165,039	$168,833
Add back: undistributed earnings allocated to participating securities	1,410	1,622
Less: undistributed earnings reallocated to participating securities	(1,407)	(1,614)
Numerator for diluted earnings per share	$165,042	$168,841
Denominator:		
Basic shares outstanding	277,637	286,683
Effect of dilutive securities	1,003	1,343
Diluted shares outstanding	278,640	288,026
Earnings per share:		
Basic	$0.59	$0.59
Diluted	$0.59	$0.59

Residential mortgage loans available-for-sale

Substantially all of the loans originated by us are sold in the secondary mortgage market within a short period of time after origination, generally within 30 days. At March 31, 2019 and December 31, 2018, residential mortgage loans available-for-sale had an aggregate fair value of $327.0 million and $461.4 million, respectively, and an aggregate outstanding principal balance of $315.5 million and $444.2 million, respectively. The net gain (loss) resulting from changes in fair value of these loans totaled $(1.1) million and $(0.1) million for the three months ended March 31, 2019 and 2018, respectively. These changes in fair value were substantially offset by changes in the fair value of corresponding hedging instruments. Net gains from the sale of mortgages were $24.0 million and $27.0 million for the three months ended March 31, 2019 and 2018, respectively, and are included in Financial Services revenues.

Derivative instruments and hedging activities

We are party to interest rate lock commitments ("IRLCs") with customers resulting from our mortgage origination operations. At March 31, 2019 and December 31, 2018, we had aggregate IRLCs of $356.9 million and $285.0 million, respectively, which were originated at interest rates prevailing at the date of commitment. Since we can terminate a loan commitment if the borrower does not comply with the terms of the contract, and some loan commitments may expire without being drawn upon, these commitments do not necessarily represent future cash requirements. We evaluate the creditworthiness of these transactions through our normal credit policies.

We hedge our exposure to interest rate market risk relating to residential mortgage loans available-for-sale and IRLCs using forward contracts on mortgage-backed securities, which are commitments to either purchase or sell a specified financial instrument at a specified future date for a specified price, and whole loan investor commitments, which are obligations of an investor to buy loans at a specified price within a specified time period. Forward contracts on mortgage-backed securities are the predominant derivative financial instruments we use to minimize market risk during the period from the time we extend an interest rate lock to a loan applicant until the time the loan is sold to an investor. At March 31, 2019 and December 31, 2018, we had unexpired forward contracts of $498.0 million and $511.0 million, respectively, and whole loan investor commitments of $146.4 million and $187.8 million, respectively. Changes in the fair value of IRLCs and other derivative financial instruments are recognized in Financial Services revenues, and the fair values are reflected in other assets or other liabilities, as applicable.

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

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

	March 31, 2019		December 31, 2018	
	Other Assets	Accrued and Other Liabilities	Other Assets	Accrued and Other Liabilities
Interest rate lock commitments	$11,629	$ 297	$9,196	$ 161
Forward contracts	234	4,107	315	7,229
Whole loan commitments	329	614	393	1,111
	$12,192	$ 5,018	$9,904	$ 8,501

New accounting pronouncements

On January 1, 2019, we adopted Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”) and related amendments using a modified retrospective approach with an effective date as of January 1, 2019. Prior year financial statements were not recast under the new standard and, therefore, have not been reflected as such on our balance sheet. ASU 2016-02 requires leases with durations greater than 12 months to be recorded on the balance sheet. We elected the package of transition practical expedients, which allowed us to carryforward our historical assessment of (1) whether contracts are or contain leases, (2) lease classification, and (3) initial direct costs. The adoption of ASU 2016-02 had no impact on retained earnings. See Note 8 “Leases” for additional information about this adoption.

On January 1, 2018, we adopted ASC 606, "Revenue from Contracts with Customers", which requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We applied the modified retrospective method to contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. We recorded a net increase to opening retained earnings of $22.4 million, net of tax, as of January 1, 2018, due to the cumulative impact of adopting ASC 606, with the impact primarily related to the recognition of contract assets for insurance brokerage commission renewals. There was not a material impact to revenues as a result of applying ASC 606, and there were no significant changes to our business processes, systems, or internal controls as a result of implementing the standard.

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which changes the impairment model for most financial assets and certain other instruments from an "incurred loss" approach to a new "expected credit loss" methodology. The standard is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and requires full retrospective application on adoption. We are currently evaluating the impact the standard will have on our financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment", which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. Under the new standard, goodwill impairment will now be determined by evaluating the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The standard is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We do not expect the standard to have a material impact on our financial statements.

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

2. Inventory

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

	March 31, 2019	December 31, 2018
Homes under construction	$2,892,328	$ 2,630,158
Land under development	4,161,168	4,129,225
Raw land	453,047	493,970
	$7,506,543	$ 7,253,353

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

	Three Months Ended March 31,	
	2019	2018
Interest in inventory, beginning of period	$227,495	$226,611
Interest capitalized	42,381	43,960
Interest expensed	(34,563)	(30,558)
Interest in inventory, end of period	$235,313	$240,013

Land option agreements

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

If an entity holding the land under option is a variable interest entity ("VIE"), our deposit represents a variable interest in that entity. No VIEs required consolidation at either March 31, 2019 or December 31, 2018 because we determined that we were not the VIEs' primary beneficiary. Our maximum exposure to loss related to these VIEs is generally limited to our deposits and pre-acquisition costs under the land option agreements.

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

The following provides a summary of our interests in land option agreements as of March 31, 2019 and December 31, 2018 ($000's omitted):

	March 31, 2019		**December 31, 2018**	
	Deposits and Pre-acquisition Costs	Remaining Purchase Price	Deposits and Pre-acquisition Costs	Remaining Purchase Price
Land options with VIEs	$99,742	$1,073,520	$90,717	$1,079,507
Other land options	138,597	1,561,597	127,851	1,522,903
	$238,339	$2,635,117	$218,568	$2,602,410

3. Segment information

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

Northeast:	*Connecticut, Maryland, Massachusetts, New Jersey, Pennsylvania, Virginia*
Southeast:	*Georgia, North Carolina, South Carolina, Tennessee*
Florida:	*Florida*
Midwest:	*Illinois, Indiana, Kentucky, Michigan, Minnesota, 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 and operate generally in the same markets as the Homebuilding segments.

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

	Operating Data by Segment ($000's omitted) Three Months Ended March 31,	
	2019	**2018**
Revenues:		
Northeast	$110,492	$132,436
Southeast	375,417	374,623
Florida	396,443	348,709
Midwest	293,590	297,506
Texas	269,003	246,638
West	507,886	524,243
	1,952,831	1,924,155
Financial Services	43,862	45,938
Consolidated revenues	$1,996,693	$1,970,093
Income (loss) before income taxes:		
Northeast	$7,928	$9,312
Southeast	37,856	40,457
Florida	49,596	44,945
Midwest	26,158	28,401
Texas	30,971	30,536
West	90,182	89,205
Other homebuilding *(a)*	(38,397)	(32,498)
	204,294	210,358
Financial Services	12,409	13,833
Consolidated income before income taxes	$216,703	$224,191

(a) *Other homebuilding includes the amortization of intangible assets and capitalized interest and other items not allocated to the operating segments.*

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

	Operating Data by Segment ($000's omitted) Three Months Ended March 31,	
	2019	**2018**
Land-related charges*:		
Northeast	$324	$1,185
Southeast	572	1,042
Florida	481	183
Midwest	1,103	746
Texas	68	50
West	431	213
Other homebuilding	—	—
	$2,979	$3,419

* *Land-related charges include land impairments, net realizable value adjustments on land held for sale and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue.*

	Operating Data by Segment ($000's omitted) March 31, 2019				
	Homes Under Construction	**Land Under Development**	**Raw Land**	**Total Inventory**	**Total Assets**
Northeast	$328,021	$ 296,198	$25,513	$649,732	$738,662
Southeast	462,382	676,532	89,750	1,228,664	1,372,245
Florida	514,551	926,254	76,340	1,517,145	1,675,802
Midwest	313,244	431,144	29,151	773,539	861,452
Texas	326,344	436,409	95,942	858,695	936,709
West	896,861	1,126,206	118,589	2,141,656	2,376,073
Other homebuilding *(a)*	50,925	268,425	17,762	337,112	1,801,106
	2,892,328	4,161,168	453,047	7,506,543	9,762,049
Financial Services	—	—	—	—	445,287
	$2,892,328	$ 4,161,168	$453,047	$7,506,543	$10,207,336

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

Operating Data by Segment
($000's omitted)
December 31, 2018

	Homes Under Construction	**Land Under Development**	**Raw Land**	**Total Inventory**	**Total Assets**
Northeast	$268,900	$ 291,467	$52,245	$612,612	$704,515
Southeast	443,140	676,087	90,332	1,209,559	1,347,427
Florida	467,625	892,669	85,321	1,445,615	1,601,906
Midwest	314,442	433,056	29,908	777,406	849,596
Texas	284,405	427,124	98,415	809,944	881,629
West	805,709	1,131,841	118,579	2,056,129	2,208,092
Other homebuilding *(a)*	45,937	276,981	19,170	342,088	2,006,825
	2,630,158	4,129,225	493,970	7,253,353	9,599,990
Financial Services	—	—	—	—	572,986
	$2,630,158	$ 4,129,225	$493,970	$7,253,353	$10,172,976

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

4. Debt

Notes payable

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

	March 31, 2019	**December 31, 2018**
4.250% unsecured senior notes due March 2021 *(a)*	$700,000	$ 700,000
5.500% unsecured senior notes due March 2026 *(a)*	700,000	700,000
5.000% unsecured senior notes due January 2027 *(a)*	600,000	600,000
7.875% unsecured senior notes due June 2032 *(a)*	300,000	300,000
6.375% unsecured senior notes due May 2033 *(a)*	400,000	400,000
6.000% unsecured senior notes due February 2035 *(a)*	300,000	300,000
Net premiums, discounts, and issuance costs *(b)*	(13,295)	(13,247)
Total senior notes	2,986,705	2,986,753
Other notes payable	37,708	41,313
Notes payable	$3,024,413	$ 3,028,066
Estimated fair value	$3,091,068	$ 2,899,143

(a) *Redeemable prior to maturity; guaranteed on a senior basis by certain wholly-owned subsidiaries.*
(b) *The carrying value of senior notes reflects the impact of premiums, discounts, and issuance costs that are amortized to interest cost over the respective terms of the senior notes.*

Other notes payable include non-recourse and limited recourse collateralized notes with third parties that totaled $37.7 million and $41.3 million at March 31, 2019 and December 31, 2018, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and have no recourse to any other assets. The stated interest rates on these notes range up to 5.17%.

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Revolving credit facility

In June 2018, we entered into the Second Amended and Restated Credit Agreement ("Revolving Credit Facility") which replaced the Company's previous credit agreement. The Revolving Credit Facility contains substantially similar terms to the previous credit agreement and extended the maturity date from June 2019 to June 2023. The Revolving Credit Facility has a maximum borrowing capacity of $1.0 billion and contains an uncommitted accordion feature that could increase the capacity to $1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of $500.0 million at March 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. We had no borrowings outstanding at March 31, 2019 and December 31, 2018, and $232.9 million and $239.4 million of letters of credit issued under the Revolving Credit Facility at March 31, 2019 and December 31, 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2019, we were in compliance with all covenants. Our available and unused borrowings
under the Revolving Credit Facility, net of outstanding letters of credit, amounted to $767.1 million and $760.6 million at March 31, 2019 and December 31, 2018, respectively.

Joint venture debt

At March 31, 2019, aggregate outstanding debt of unconsolidated joint ventures was $35.2 million, of which $34.4 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 under which our maximum financial loss exposure is limited to our pro rata share of the debt outstanding. The limited guaranties include, but are not limited to: (i) completion of certain aspects of the project, (ii) an environmental indemnity provided to the lender, and (iii) an indemnification of the lender from certain "bad boy acts" of the joint venture.

Financial Services debt

Pulte Mortgage maintains a master repurchase agreement (the "Repurchase Agreement") with third party lenders that matures in August 2019. The maximum aggregate commitment was $350.0 million at March 31, 2019 and continues through maturity. 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 $222.1 million and $348.4 million outstanding under the Repurchase Agreement at March 31, 2019 and December 31, 2018, respectively, and was in compliance with all of its covenants and requirements as of such dates.

5. Shareholders' equity

During the three months ended March 31, 2019, we declared cash dividends totaling $30.8 million and repurchased 0.9 million shares under our repurchase authorization for $25.0 million. For the three months ended March 31, 2018, we declared cash dividends totaling $26.1 million and repurchased 1.7 million shares under our repurchase authorization for $52.5 million. At March 31, 2019, we had remaining authorization to repurchase $274.9 million of common shares.

Under our share-based compensation plans, we accept shares as payment under certain conditions related to stock option exercises and vesting of shares, generally related to the payment of minimum tax obligations. During the three months ended March 31, 2019 and 2018, participants surrendered shares valued at $10.4 million and $7.0 million, respectively, under these plans. Such share transactions are excluded from the above noted share repurchase authorization.

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6. Income taxes

Our effective tax rate for the three months ended March 31, 2019 was 23.0%, compared to 23.8% for the same period in 2018. Our effective tax rate differed from the federal statutory rate primarily due to state income tax expense on current year earnings, tax benefits for equity compensation, and the favorable resolution of certain state income tax matters. Our effective tax rate for the three months ended March 31, 2019 is lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

At March 31, 2019 and December 31, 2018, we had deferred tax assets, net of deferred tax liabilities and valuation allowance, of $250.9 million and $275.6 million, respectively. The accounting for deferred taxes is based upon estimates of future results. Differences between estimated and actual results could result in changes in the valuation of deferred tax assets that could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws could also affect actual tax results and the realization of deferred tax assets over time.

Unrecognized tax benefits represent the difference between tax positions taken or expected to be taken in a tax return and the benefits recognized for financial statement purposes. We had $22.4 million and $30.6 million of gross unrecognized tax benefits at March 31, 2019 and December 31, 2018, respectively. Additionally, we had accrued interest and penalties of $5.8 million at both March 31, 2019 and December 31, 2018. It is reasonably possible within the next twelve months that our gross unrecognized tax benefits may decrease by up to $8.4 million, excluding interest and penalties, primarily due to potential audit settlements.

7. Fair value disclosures

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

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

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

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Financial Instrument	Fair Value Hierarchy	Fair Value March 31, 2019	December 31, 2018
Measured at fair value on a recurring basis:			
Residential mortgage loans available-for-sale	Level 2	$326,995	$461,354
Interest rate lock commitments	Level 2	11,332	9,035
Forward contracts	Level 2	(3,873)	(6,914)
Whole loan commitments	Level 2	(285)	(718)
Measured at fair value on a non-recurring basis:			
House and land inventory	Level 3	$—	$18,253
Land held for sale	Level 2	1,330	17,813
Disclosed at fair value:			
Cash, cash equivalents, and restricted cash	Level 1	$1,080,953	$1,133,700
Financial Services debt	Level 2	222,139	348,412
Other notes payable	Level 2	37,708	41,313
Senior notes payable	Level 2	3,053,360	2,857,830

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

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

The carrying amounts of cash and equivalents, Financial Services debt, and other notes payable approximate their fair values due to their short-term nature and/or floating interest rate terms. The fair values of senior notes are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of similar issues. The carrying value of senior notes was $3.0 billion at both March 31, 2019 and December 31, 2018.

8. Commitments and contingencies

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. In addition, certain trustees and investors continue to attempt to collect damages based on losses from loans that originated prior to 2009. Some of our mortgage subsidiaries are currently defendants in litigation related to such claims. If a loan is determined to be faulty, we either indemnify the investor for potential future losses, repurchase the loan from the investor, or reimburse the investor's actual losses.

CTX Mortgage Company, LLC ("CTX Mortgage") was the mortgage subsidiary of Centex and ceased originating loans in December 2009. In the matter *Lehman Brothers Holdings, Inc. ("Lehman")* in the U.S. Bankruptcy Court in the Southern District of New York, Lehman has initiated an adversary proceeding against CTX Mortgage seeking indemnity for loans sold to

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it by CTX Mortgage prior to 2009. This claim is part of a broader action by Lehman in U.S. Bankruptcy Court against more than 100 mortgage originators and brokers. On August 13, 2018, the court denied a motion to dismiss filed by CTX Mortgage and other defendants, and on December 17, 2018, Lehman filed an amended adversary complaint against CTX Mortgage. Lehman's complaint alleges claims for indemnifiable losses of up to $261 million due from CTX Mortgage. We believe that CTX Mortgage has meritorious defenses and CTX Mortgage will continue to vigorously defend itself in this matter. We have recorded a liability for an amount that we consider to be the best estimate within a range of potential losses.

In addition, both CTX Mortgage and Pulte Mortgage sold certain loans originated prior to 2009 to financial institutions that were subsequently included in residential mortgage-backed securities or other securitizations issued by such financial institutions. In connection with such sales, CTX Mortgage and Pulte Mortgage have been put on notice of potential direct and / or third-party claims for indemnification arising out of litigation relating to certain of these residential mortgage-backed securities or other securitizations. Neither CTX Mortgage nor Pulte Mortgage is named as a defendant in these actions. We cannot yet quantify CTX Mortgage's or Pulte Mortgage's potential liability as a result of these indemnification obligations. We do not believe, however, that these matters will have a material adverse impact on the results of operations, financial position, or cash flows of the Company.

Our recorded liabilities for all such claims decreased from $50.3 million at December 31, 2018 to $25.5 million at March 31, 2019 as the result of funding previously settled claims. Determining the liabilities for anticipated losses requires a significant level of management judgment. Given the nature of these claims and the uncertainty regarding their ultimate resolution, actual costs could differ from our current estimates.

Letters of credit and surety bonds

In the normal course of business, we post letters of credit and surety bonds pursuant to certain performance-related obligations, as security for certain land option agreements, and under various insurance programs. The majority of these letters of credit and surety bonds are in support of our land development and construction obligations to various municipalities, other government agencies, and utility companies related to the construction of roads, sewers, and other infrastructure. We had outstanding letters of credit and surety bonds totaling $232.9 million and $1.3 billion, respectively, at March 31, 2019 and $239.4 million and $1.3 billion, respectively, at December 31, 2018. In the event any such letter of credit or surety bond is drawn, we would be obligated to reimburse the issuer of the letter of credit or surety bond. Our surety bonds generally do not have stated expiration dates; rather we are released from the surety bonds as the underlying contractual performance is completed. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed. We do not believe that a material amount, if any, of the letters of credit or surety bonds will be drawn.

Litigation and regulatory matters

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

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

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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 liabilities in the amount of such costs at the time product revenue is recognized. Factors that affect our warranty liabilities include the number of homes sold, historical and anticipated rates of warranty claims, and the cost per claim. We periodically assess the adequacy of the warranty liabilities for each geographic market in which we operate and adjust the amounts as necessary. Actual warranty costs in the future could differ from the current estimates. Changes to warranty liabilities were as follows ($000’s omitted):

	Three Months Ended March 31,	
	2019	**2018**
Warranty liabilities, beginning of period	$79,154	$72,709
Reserves provided	12,262	11,916
Payments	(16,130)	(14,282)
Other adjustments	4,461	643
Warranty liabilities, end of period	$79,747	$70,986

Self-insured risks

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

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

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

Our recorded reserves for all such claims totaled $729.2 million and $737.0 million at March 31, 2019 and December 31, 2018, 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 66% and 65% of the total general liability reserves at March 31, 2019 and December 31, 2018, respectively. The actuarial analyses that determine the IBNR portion of reserves consider a

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variety of factors, including the frequency and severity of losses, which are based on our historical claims experience supplemented by industry data. The actuarial analyses of the reserves also consider historical third party recovery rates and claims management expenses.

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

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

	Three Months Ended March 31,	
	2019	**2018**
Balance, beginning of period	$737,013	$758,812
Reserves provided	17,396	19,660
Adjustments to previously recorded reserves	(3,875)	2,461
Payments, net *(a)*	(21,364)	(9,829)
Balance, end of period	$729,170	$771,104

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

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. Such receivables are recorded in other assets and totaled $128.0 million and $153.0 million at March 31, 2019 and December 31, 2018, respectively. The insurance receivables relate to costs incurred to perform corrective repairs, settle claims with customers, and other costs related to the continued progression of construction defect claims that we believe are insured. Given the complexity inherent with resolving construction defect claims in the homebuilding industry as described above, there generally exists a significant lag between our payment of claims and our reimbursements from applicable insurance carriers. In addition, disputes between homebuilders and carriers over coverage positions relating to construction defect claims are common. Resolution of claims with carriers involves the exchange of significant amounts of information and frequently involves legal action. During the three months ended March 31, 2019, we wrote-off $11.6 million of insurance receivables in connection with the settlement of an arbitration with one of our carriers, pursuant to which we received the majority of the coverage under the policy.

Leases

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

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ROU assets are classified within other assets on the balance sheet, while lease liabilities are classified within accrued and other liabilities. Leases with an initial term of 12 months or less are not recorded on the balance sheet. ROU assets and lease liabilities were $73.3 million and $98.5 million at March 31, 2019, respectively. During the three months ended March 31, 2019, we obtained an additional $7.8 million of ROU assets under operating leases. Payments on lease liabilities during the three months ended March 31, 2019 totaled $5.8 million.

Lease expense includes costs for leases with terms in excess of one year as well as short-term leases with terms of less than one year. For the three months ended March 31, 2019, our total lease expense was $8.8 million, which includes variable lease costs of $1.7 million. Short-term lease costs and external sublease income are de minimis.

The future minimum lease payments required under our leases as of March 31, 2019 are as follows ($000's omitted):

Years Ending December 31,	
2019 *(a)*	$17,903
2020	20,548
2021	18,262
2022	16,690
2023	15,085
Thereafter	$30,381
Total lease payments *(b)*	118,869
Less: Interest *(c)*	20,407
Present value of lease liabilities *(d)*	$98,462

(a) *Remaining payments are for the nine-months ending December 31, 2019.*
(b) *Lease payments include options to extend lease terms that are reasonably certain of being exercised. There were no legally binding minimum lease payments for leases signed but not yet commenced at March 31, 2019.*
(c) *Our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our discount rate for such leases to determine the present value of lease payments at the lease commencement date.*
(d) *The weighted average remaining lease term and weighted average discount rate used in calculating our lease liabilities were 6.3 years and 5.8%, respectively, at March 31, 2019.*

9. Supplemental Guarantor information

All of our senior notes are guaranteed jointly and severally on a senior basis by certain of our wholly-owned Homebuilding subsidiaries and certain other wholly-owned subsidiaries (collectively, the “Guarantors”). Such guaranties are full and unconditional. Our subsidiaries comprising the Financial Services segment along with certain other subsidiaries (collectively, the "Non-Guarantor Subsidiaries") do not guarantee the senior notes. In accordance with Rule 3-10 of Regulation S-X, supplemental consolidating financial information of the Company, including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting.

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CONDENSED CONSOLIDATING BALANCE SHEET
MARCH 31, 2019
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	$—	$ 1,009,042	$ 46,415	$—	$ 1,055,457
Restricted cash	—	24,117	1,379	—	25,496
Total cash, cash equivalents, and restricted cash	—	1,033,159	47,794	—	1,080,953
House and land inventory	—	7,423,308	83,235	—	7,506,543
Land held for sale	—	38,525	906	—	39,431
Residential mortgage loans available-for-sale	—	—	326,995	—	326,995
Investments in unconsolidated entities	—	55,509	216	—	55,725
Other assets	15,985	642,824	164,257	—	823,066
Intangible assets	—	123,742	—	—	123,742
Deferred tax assets, net	258,311	—	(7,430)	—	250,881
Investments in subsidiaries and intercompany accounts, net	7,736,546	328,963	8,686,446	(16,751,955)	—
	$ 8,010,842	$ 9,646,030	$ 9,302,419	$ (16,751,955)	$ 10,207,336
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$ 72,590	$ 1,688,847	$ 247,800	$—	$ 2,009,237
Income tax liabilities	18,108	—	—	—	18,108
Financial Services debt	—	—	222,139	—	222,139
Notes payable	2,986,705	37,708	—	—	3,024,413
Total liabilities	3,077,403	1,726,555	469,939	—	5,273,897
Total shareholders' equity	4,933,439	7,919,475	8,832,480	(16,751,955)	4,933,439
	$ 8,010,842	$ 9,646,030	$ 9,302,419	$ (16,751,955)	$ 10,207,336

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CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2018
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
ASSETS					
Cash and equivalents	$—	$ 906,961	$ 203,127	$—	$ 1,110,088
Restricted cash	—	22,406	1,206	—	23,612
Total cash, cash equivalents, and restricted cash	—	929,367	204,333	—	1,133,700
House and land inventory	—	7,157,665	95,688	—	7,253,353
Land held for sale	—	36,849	—	—	36,849
Residential mortgage loans available-for-sale	—	—	461,354	—	461,354
Investments in unconsolidated entities	—	54,045	545	—	54,590
Other assets	66,154	579,452	184,753	—	830,359
Intangible assets	—	127,192	—	—	127,192
Deferred tax assets, net	282,874	—	(7,295)	—	275,579
Investments in subsidiaries and intercompany accounts, net	7,557,245	500,138	8,231,342	(16,288,725)	—
	$ 7,906,273	$ 9,384,708	$ 9,170,720	$ (16,288,725)	$ 10,172,976
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities:					
Accounts payable, customer deposits, accrued and other liabilities	$ 90,158	$ 1,598,265	$ 278,713	$—	$ 1,967,136
Income tax liabilities	11,580	—	—	—	11,580
Financial Services debt	—	—	348,412	—	348,412
Notes payable	2,986,753	40,776	537	—	3,028,066
Total liabilities	3,088,491	1,639,041	627,662	—	5,355,194
Total shareholders' equity	4,817,782	7,745,667	8,543,058	(16,288,725)	4,817,782
	$ 7,906,273	$ 9,384,708	$ 9,170,720	$ (16,288,725)	$ 10,172,976

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CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
For the three months ended March 31, 2019
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	$—	$1,907,808	$ 42,048	$—	$1,949,856
Land sale and other revenues	—	2,325	650	—	2,975
	—	1,910,133	42,698	—	1,952,831
Financial Services	—	—	43,862	—	43,862
	—	1,910,133	86,560	—	1,996,693
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(1,460,895)	(31,896)	—	(1,492,791)
Land sale cost of revenues	—	(944)	(1,106)	—	(2,050)
	—	(1,461,839)	(33,002)	—	(1,494,841)
Financial Services expenses	—	(132)	(31,317)	—	(31,449)
Selling, general, and administrative expenses	—	(234,118)	(18,609)	—	(252,727)
Other income (expense), net	(122)	(4,986)	4,135	—	(973)
Intercompany interest	(1,996)	—	1,996	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(2,118)	209,058	9,763	—	216,703
Income tax (expense) benefit	508	(47,650)	(2,804)		(49,946)
Income (loss) before equity in income (loss) of subsidiaries	(1,610)	161,408	6,959	—	166,757
Equity in income (loss) of subsidiaries	168,367	18,304	113,696	(300,367)	—
Net income (loss)	166,757	179,712	120,655	(300,367)	166,757
Other comprehensive income	25	—	—	—	25
Comprehensive income (loss)	$166,782	$179,712	$ 120,655	$(300,367)	$166,782

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

CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
For the three months ended March 31, 2018
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Revenues:					
Homebuilding					
Home sale revenues	$—	$1,885,431	$ 26,167	$—	$1,911,598
Land sale and other revenues	—	11,558	999	—	12,557
	—	1,896,989	27,166	—	1,924,155
Financial Services	—	—	45,938	—	45,938
	—	1,896,989	73,104	—	1,970,093
Homebuilding Cost of Revenues:					
Home sale cost of revenues	—	(1,438,347)	(21,593)	—	(1,459,940)
Land sale cost of revenues	—	(10,830)	(718)	—	(11,548)
	—	(1,449,177)	(22,311)	—	(1,471,488)
Financial Services expenses	—	(142)	(32,071)	—	(32,213)
Selling, general, and administrative expenses	—	(231,418)	(9,475)	—	(240,893)
Other income (expense), net	(142)	(7,601)	6,435	—	(1,308)
Intercompany interest	(1,468)	—	1,468	—	—
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(1,610)	208,651	17,150	—	224,191
Income tax (expense) benefit	387	(49,531)	(4,296)	—	(53,440)
Income before equity in income of subsidiaries	(1,223)	159,120	12,854	—	170,751
Equity in income (loss) of subsidiaries	171,974	12,564	110,671	(295,209)	—
Net income (loss)	170,751	171,684	123,525	(295,209)	170,751
Other comprehensive income	21	—	—	—	21
Comprehensive income (loss)	$170,772	$171,684	$ 123,525	$(295,209)	$170,772

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the three months ended March 31, 2019
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	$27,743	$(14,838)	$ 146,004	$ —	$ 158,909
Cash flows from investing activities:					
Capital expenditures	—	(13,216)	(2,854)	—	(16,070)
Investments in unconsolidated entities	—	(1,183)	(106)	—	(1,289)
Other investing activities, net	—	190	101	—	291
Net cash provided by (used in) investing activities	—	(14,209)	(2,859)	—	(17,068)
Cash flows from financing activities:					
Financial Services borrowing (repayments), net	—	—	(126,273)	—	(126,273)
Repayments of debt	—	(3,068)	(537)	—	(3,605)
Borrowings under revolving credit facility	—	—	—	—	—
Repayments under revolving credit facility	—	—	—	—	—
Debt issuance costs					—
Stock option exercises	1,445	—	—	—	1,445
Share repurchases	(35,353)	—	—		(35,353)
Dividends paid	(30,802)	—	—	—	(30,802)
Intercompany activities, net	36,967	135,907	(172,874)		—
Net cash provided by (used in) financing activities	(27,743)	132,839	(299,684)	—	(194,588)
Net increase (decrease) in cash, cash equivalents, and restricted cash	—	103,792	(156,539)	—	(52,747)
Cash, cash equivalents, and restricted cash at beginning of year	—	929,367	204,333	—	1,133,700
Cash, cash equivalents, and restricted cash at end of year	$—	$1,033,159	$ 47,794	$ —	$ 1,080,953

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

CONSOLIDATING STATEMENT OF CASH FLOWS
For the three months ended March 31, 2018
($000's omitted)

	Unconsolidated PulteGroup, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminating Entries	Consolidated PulteGroup, Inc.
Net cash provided by (used in) operating activities	$310,937	$(340,357)	$ 198,433	$ —	$ 169,013
Cash flows from investing activities:					
Capital expenditures	—	(13,537)	(1,891)	—	(15,428)
Investments in unconsolidated entities	—	(1,000)	—	—	(1,000)
Other investing activities, net	—	—	452	—	452
Net cash provided by (used in) investing activities	—	(14,537)	(1,439)	—	(15,976)
Cash flows from financing activities:					
Financial Services borrowings (repayments), net	—	—	(190,852)	—	(190,852)
Repayments of debt	—	—	(451)	—	(451)
Borrowings under revolving credit facility	768,000	—	—	—	768,000
Repayments under revolving credit facility	(768,000)	—	—	—	(768,000)
Stock option exercises	2,723	—	—	—	2,723
Share repurchases	(59,491)	—	—	—	(59,491)
Dividends paid	(26,347)	—	—	—	(26,347)
Intercompany activities, net	(227,822)	332,689	(104,867)	—	—
Net cash provided by (used in) financing activities	(310,937)	332,689	(296,170)	—	(274,418)
Net increase (decrease) in cash, cash equivalents, and restricted cash	—	(22,205)	(99,176)	—	(121,381)
Cash, cash equivalents, and restricted cash at beginning of year	—	157,801	148,367	—	306,168
Cash, cash equivalents, and restricted cash at end of year	$—	$135,596	$ 49,191	$ —	$ 184,787

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

Demand conditions became more challenging across the U.S. new home industry beginning in mid-2018 as affordability concerns, driven in part by the combination of increased home prices and higher mortgage rates, caused homebuyers to become more cautious. However, we have experienced increased traffic to our communities relative to the same period in 2018 as mortgage rates have declined slightly. We continue to see U.S. housing demand being supported by a number of positive market dynamics, including an expanding economy, ongoing growth in jobs and wages, low unemployment, and high consumer confidence. In addition, there is generally limited supply of new homes across the markets we serve as land and labor resources remain constrained. Accordingly, we continue to maintain a positive view on the overall housing cycle and our competitive position in the markets in which we operate. Within this environment, we will remain disciplined in our business practices while looking to capitalize on market opportunities that can help deliver long-term growth and strong financial performance.

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

	Three Months Ended March 31,	
	2019	**2018**
Income before income taxes:		
Homebuilding	$204,294	$210,358
Financial Services	12,409	13,833
Income before income taxes	216,703	224,191
Income tax expense	(49,946)	(53,440)
Net income	$166,757	$170,751
Per share data - assuming dilution:		
Net income	$0.59	$0.59

- Homebuilding income before income taxes for the three months ended March 31, 2019 decreased 3% compared to the three months ended March 31, 2018 primarily due to: lower gross margin; higher selling, general, and administrative expenses; partially offset by slightly higher revenues.
- Financial Services income before income taxes decreased 10% for the three months ended March 31, 2019 compared with the three months ended March 31, 2018 primarily as the result of the competitive pricing environment within the mortgage industry, partially offset by slightly higher production volumes.
- Our effective tax rate for the three months ended March 31, 2019 was 23.0% compared to 23.8% for the same period in 2018. Our effective tax rate for the three months ended March 31, 2019 was lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

Homebuilding Operations

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

	Three Months Ended March 31, 2019	2019 vs. 2018	2018
Home sale revenues	$1,949,856	2 %	$1,911,598
Land sale and other revenues	2,975	(76)%	12,557
Total Homebuilding revenues	1,952,831	1 %	1,924,155
Home sale cost of revenues *(a)*	(1,492,791)	2 %	(1,459,940)
Land sale cost of revenues	(2,050)	(82)%	(11,548)
Selling, general, and administrative expenses ("SG&A")	(252,727)	5 %	(240,893)
Other expense, net	(969)	(32)%	(1,416)
Income before income taxes	$204,294	(3)%	$210,358
Supplemental data:			
Gross margin from home sales	23.4 %	(20) bps	23.6 %
SG&A as a percentage of home sale revenues	13.0 %	40 bps	12.6 %
Closings (units)	4,635	— %	4,626
Average selling price	$421	2 %	$413
Net new orders *(b)*:			
Units	6,463	(6)%	6,875
Dollars	$2,735,852	(5)%	$2,893,552
Cancellation rate	12 %		12 %
Active communities at March 31	858	2 %	844
Backlog at March 31:			
Units	10,550	(6)%	11,245
Dollars	$4,622,145	(7)%	$4,961,018

(a) Includes the amortization of capitalized interest.

(b) 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 the three months ended March 31, 2019 were higher than the prior year by $38.3 million. For the three months ended March 31, 2019, the 2% increase was attributable to a slight increase in closings and a 2% increase in average selling price. The increased closings occurred primarily as the result of a higher number of active communities. The higher average selling price primarily reflects shifts in product mix throughout the country.

Home sale gross margins

Home sale gross margins were 23.4% for the three months ended March 31, 2019, respectively, compared to 23.6% three months ended March 31, 2018, respectively. Gross margins for the three months ended March 31, 2019 remain strong relative to historical levels and reflect a combination of factors, including shifts in community mix. The supportive pricing environment that exists in many of our markets is allowing us to effectively manage ongoing pressure in house and land costs and slightly higher amortized interest costs (1.8% for the three months ended March 31, 2019 compared to 1.6% for the same period in 2018), though sales discounts have increased moderately in response to the softening in demand.

Land sale and other revenues

We periodically elect to sell parcels of land to third parties in the event such assets no longer fit into our strategic operating plans or are zoned for commercial or other development. Land sale and other revenues and their related gains or losses vary between periods, depending on the timing of land sales and our strategic operating decisions. Land sales and other revenues contributed income of $0.9 million for the three months ended March 31, 2019 compared to $1.0 million for the three months ended March 31, 2018.

SG&A

SG&A as a percentage of home sale revenues was 13.0% for the three months ended March 31, 2019, compared with 12.6% for the three months ended March 31, 2018. The gross dollar amount of our SG&A increased $11.8 million, or 5%, for the three months ended March 31, 2019 compared to March 31, 2018. The increase is primarily attributable to higher variable operating costs, including insurance, compensation, and sales commissions.

Other expense, net

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

	Three Months Ended March 31,	
	2019	**2018**
Write-offs of deposits and pre-acquisition costs	$(2,917)	$(2,609)
Amortization of intangible assets	(3,450)	(3,450)
Interest income	4,949	564
Interest expense	(144)	(143)
Equity in earnings (losses) of unconsolidated entities	37	961
Miscellaneous, net	556	3,261
Total other expense, net	$(969)	$(1,416)

Net new orders

Net new orders in units decreased 6% while net new orders in dollars decreased 5% for the three months ended March 31, 2019, as compared with the prior year period. The lower order volume in 2019 resulted from the industry-wide softening that began in the second quarter of 2018. The cancellation rate (canceled orders for the period divided by gross new orders for the period) was 12% for both the three months ended March 31, 2019 and 2018. Ending backlog, which represents orders for homes that have not yet closed, decreased 6% in units at March 31, 2019 compared with March 31, 2018, primarily as a result of decreased net new order volume.

Homes in production

The following is a summary of our homes in production:

	March 31, 2019	March 31, 2018
Sold	7,152	7,473
Unsold		
Under construction	2,513	1,871
Completed	662	610
	3,175	2,481
Models	1,222	1,189
Total	11,549	11,143

The number of homes in production at March 31, 2019 was 4% higher than at March 31, 2018, The increase in homes under production resulted from an increase in the number of unsold, or "spec", homes, which is a result of a strategic decision to allow spec production to run higher than in the prior year period to ensure access to construction suppliers and to position communities ahead of the spring selling season.

Controlled lots

The following is a summary of our lots under control at March 31, 2019 and December 31, 2018:

	March 31, 2019			December 31, 2018		
	Owned	Optioned	Controlled	Owned	Optioned	Controlled
Northeast	5,726	4,223	9,949	5,813	3,694	9,507
Southeast	16,309	9,646	25,955	15,800	11,806	27,606
Florida	18,611	14,687	33,298	18,652	15,855	34,507
Midwest	10,091	10,687	20,778	10,097	11,883	21,980
Texas	15,159	12,543	27,702	14,380	11,035	25,415
West	24,679	6,337	31,016	24,788	5,774	30,562
Total	90,575	58,123	148,698	89,530	60,047	149,577
Developed (%)	39 %	19 %	31 %	39 %	21 %	32 %

Of our controlled lots, 90,575 and 89,530 were owned and 58,123 and 60,047 were controlled under land option agreements at March 31, 2019 and December 31, 2018, respectively. While competition for well-positioned land is robust, we continue to pursue land investments that we believe can achieve appropriate risk-adjusted returns on invested capital. The remaining purchase price under our land option agreements totaled $2.6 billion at March 31, 2019. 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 $238.3 million, of which $14.6 million is refundable, at March 31, 2019.

Homebuilding Segment Operations

As of March 31, 2019, we conducted our operations in 42 markets located throughout 23 states. For reporting purposes, our Homebuilding operations are aggregated into six reportable segments:

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

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

	Operating Data by Segment ($000's omitted) Three Months Ended March 31,		
	2019	**2019 vs. 2018**	**2018**
Home sale revenues:			
Northeast	$110,263	(17)%	$132,339
Southeast	374,455	— %	373,443
Florida	396,131	16 %	341,071
Midwest	292,852	(1)%	296,895
Texas	268,741	10 %	245,110
West	507,414	(3)%	522,740
	$1,949,856	2 %	$1,911,598
Income (loss) before income taxes *(a)*:			
Northeast	$7,928	(15)%	$9,312
Southeast	37,856	(6)%	40,457
Florida	49,596	10 %	44,945
Midwest	26,158	(8)%	28,401
Texas	30,971	1 %	30,536
West	90,182	1 %	89,205
Other homebuilding	(38,397)	(18)%	(32,498)
	$204,294	(3)%	$210,358

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

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	Operating Data by Segment ($000's omitted) Three Months Ended March 31,		
	2019	2019 vs. 2018	2018
Closings (units):			
Northeast	219	(13)%	251
Southeast	897	(3)%	924
Florida	1,008	14 %	887
Midwest	726	(5)%	767
Texas	849	5 %	809
West	936	(5)%	988
	4,635	— %	4,626
Average selling price:			
Northeast	$503	(5)%	$527
Southeast	417	3 %	404
Florida	393	2 %	385
Midwest	403	4 %	387
Texas	317	5 %	303
West	542	2 %	529
	$421	2 %	$413
Net new orders - units:			
Northeast	361	(19)%	448
Southeast	1,073	(15)%	1,259
Florida	1,346	(7)%	1,444
Midwest	1,024	(7)%	1,102
Texas	1,366	3 %	1,323
West	1,293	— %	1,299
	6,463	(6)%	6,875
Net new orders - dollars:			
Northeast	$196,298	(16)%	$234,650
Southeast	454,388	(13)%	523,909
Florida	550,305	(4)%	572,775
Midwest	425,642	(6)%	450,526
Texas	412,043	2 %	404,854
West	697,176	(1)%	706,838
	$2,735,852	(5)%	$2,893,552

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	Operating Data by Segment ($000's omitted) Three Months Ended March 31,		
	2019	**2019 vs. 2018**	**2018**
Cancellation rates:			
Northeast	10 %		6 %
Southeast	11 %		10 %
Florida	11 %		12 %
Midwest	11 %		10 %
Texas	13 %		16 %
West	14 %		13 %
	12 %		12 %
Unit backlog:			
Northeast	612	(14)%	709
Southeast	1,786	(13)%	2,051
Florida	2,227	— %	2,235
Midwest	1,700	(7)%	1,822
Texas	2,009	4 %	1,940
West	2,216	(11)%	2,488
	10,550	(6)%	11,245
Backlog dollars:			
Northeast	$343,847	(3)%	$355,961
Southeast	778,963	(10)%	868,632
Florida	954,226	4 %	913,293
Midwest	721,210	(3)%	742,170
Texas	629,514	3 %	609,542
West	1,194,385	(19)%	1,471,420
	$4,622,145	(7)%	$4,961,018

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	Operating Data by Segment ($000's omitted) Three Months Ended March 31,	
	2019	2018
Land-related charges*:		
Northeast	$324	$1,185
Southeast	572	1,042
Florida	481	183
Midwest	1,103	746
Texas	68	50
West	431	213
Other homebuilding	—	—
	$2,979	$3,419

* *Land-related charges include land inventory impairments, net realizable value adjustments on land held for sale, impairments of investments in unconsolidated entities, and write-offs of deposits and pre-acquisition costs for land option contracts we elected not to pursue. Other homebuilding consists primarily of write-offs of capitalized interest related to such land-related charges.*

Northeast

For the three months ended March 31, 2019, Northeast home sale revenues decreased by 17% when compared with the prior year period due to a 13% decrease in closings. The decrease in closings occurred across substantially all markets due to the softening in demand that began in mid-2018. Income before income taxes decreased 15% primarily due to the aforementioned decrease in closings. Net new orders decreased across all markets except New England, which saw a slight increase.

Southeast

For the three months ended March 31, 2019, Southeast home sale revenues increased slightly compared with the prior year as the result of a 3% increase in average selling price partially offset by a 3% decrease in closings. The increase in average selling price and decrease in closings occurred across the majority of markets. Income before income taxes decreased 6% primarily as a result of lower gross margin. Net new orders decreased across all markets.

Florida

For the three months ended March 31, 2019, Florida home sale revenues increased 16% compared with the prior year period due to a 14% increase in closings combined with a 2% increase in the average selling price. Income before income taxes increased 10% due to the higher revenues, partially offset by lower gross margin. Net new orders decreased across the majority of markets.

Midwest

For the three months ended March 31, 2019, Midwest home sale revenues decreased 1% compared with the prior year period due to a 5% decrease in closings, partially offset by a 4% increase in average selling price. The lower revenues were primarily the result of the wind down of our St. Louis operations in 2018. Results were mixed across the other local markets. Income before income taxes decreased primarily due to the decreased revenues. Net new orders decreased across the majority of markets.

Texas

For the three months ended March 31, 2019, Texas home sale revenues increased 10% compared with the prior year period due to a 5% increase in closings combined with a 5% increase in the average selling price. The higher revenues were driven by increases in all markets except Houston, which was flat. Net new orders increased primarily in Central Texas.

West

For the three months ended March 31, 2019, West home sale revenues decreased 3% compared with the prior year period due to a 5% decrease in closings, partially offset by a 2% increase in average selling price. Revenues were higher in each market except for Northern California. The decline in Northern California reflects the completion, or near completion, of several high performing communities in Northern California that have been or will be replaced with smaller communities combined with a softening in demand. Net new orders were essentially flat across the West as we continue to see variation in results, with ongoing strength in Arizona offsetting slower demand in California.

Financial Services Operations

We conduct our Financial Services operations, which include mortgage banking, title, and insurance brokerage operations, through Pulte Mortgage and other subsidiaries. In originating mortgage loans, we initially use our own funds, including funds available pursuant to credit agreements with third parties. Substantially all of the loans we originate are sold in the secondary market within a short period of time after origination, generally within 30 days. We also sell the servicing rights for the loans we originate through fixed price servicing sales contracts to reduce the risks and costs inherent in servicing loans. This strategy results in owning the loans and related servicing rights for only a short period of time. Operating as a captive business model primarily targeted to 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 tables present selected financial information for our Financial Services operations ($000's omitted):

	Three Months Ended March 31,		
	2019	**2019 vs. 2018**	**2018**
Mortgage revenues	$31,873	(9)%	$35,027
Title services revenues	9,842	10 %	8,937
Insurance brokerage commissions	2,147	9 %	1,974
Total Financial Services revenues	43,862	(5)%	45,938
Expenses	(31,449)	(2)%	(32,213)
Other income (expense), net	(4)	(104)%	108
Income before income taxes	$12,409	(10)%	$13,833
Total originations:			
Loans	2,998	— %	2,992
Principal	$914,711	1 %	$909,800

	Three Months Ended March 31,	
	2019	**2018**
Supplemental data:		
Capture rate	79.7 %	77.7 %
Average FICO score	752	750
Loan application backlog	$2,508,561	$2,765,386
Funded origination breakdown:		
Government (FHA, VA, USDA)	18 %	21 %
Other agency	71 %	67 %
Total agency	89 %	88 %
Non-agency	11 %	12 %
Total funded originations	100 %	100 %

Revenues

Total Financial Services revenues for the three months ended March 31, 2019 decreased 5%, compared with the same period in 2018. This decrease occurred primarily as the result of the competitive pricing environment within the mortgage industry, partially offset by slightly higher production volume.

Income before income taxes

Income before income taxes for the three months ended March 31, 2019 decreased 10% compared with the prior year period. The decrease versus the prior year was due primarily to the aforementioned decrease in revenues.

Income Taxes

Our effective tax rate for the three months ended March 31, 2019 was 23.0%, compared with 23.8% for the same period in 2018. Our effective tax rate for the three months ended March 31, 2019 is lower than the prior year period primarily due to the favorable resolution of certain state income tax matters.

Liquidity and Capital Resources

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

At March 31, 2019, we had unrestricted cash and equivalents of $1.1 billion, restricted cash balances of $25.5 million, and $767.1 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.

Our ratio of debt to total capitalization, excluding our Financial Services debt, was 38.0% at March 31, 2019.

Unsecured senior notes

We had $3.0 billion of unsecured senior notes outstanding at both March 31, 2019 and December 31, 2018 with no repayments due until 2021, when $700.0 million of unsecured senior notes are scheduled to mature.

Other notes payable

Other notes payable include non-recourse and limited recourse collateralized notes with third parties that totaled $37.7 million and $41.3 million at March 31, 2019 and December 31, 2018, respectively. These notes have maturities ranging up to three years, are secured by the applicable land positions to which they relate, and have no recourse to any other assets. The stated interest rates on these notes range up to 5.17%.

Revolving credit facility

In June 2018, we entered into the Revolving Credit Facility which replaced the Company's previous credit agreement. The Revolving Credit Facility contains substantially similar terms to the previous credit agreement and extended the maturity date from June 2019 to June 2023. The Revolving Credit Facility has a maximum borrowing capacity of $1.0 billion and contains an uncommitted accordion feature that could increase the capacity to $1.5 billion, subject to certain conditions and availability of additional bank commitments. The Revolving Credit Facility also provides for the issuance of letters of credit that reduce the available borrowing capacity under the Revolving Credit Facility, with a sublimit of $500.0 million at March 31, 2019. The interest rate on borrowings under the Revolving Credit Facility may be based on either the London Interbank Offered Rate ("LIBOR") or a base rate plus an applicable margin, as defined therein. We had no borrowings outstanding at March 31, 2019 and December 31, 2018, and $232.9 million and $239.4 million of letters of credit issued under the Revolving Credit Facility at March 31, 2019 and December 31, 2018, respectively.

The Revolving Credit Facility contains financial covenants that require us to maintain a minimum Tangible Net Worth, a minimum Interest Coverage Ratio, and a maximum Debt-to-Capitalization Ratio (as each term is defined in the Revolving Credit Facility). As of March 31, 2019, we were in compliance with all covenants. Outstanding balances under the Revolving Credit Facility are guaranteed by certain of our wholly-owned subsidiaries.

Financial Services debt

Pulte Mortgage maintains a master repurchase agreement with third party lenders that matures in August 2019. The maximum aggregate commitment was $350.0 million at March 31, 2019 and continues through maturity. 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 $222.1 million and $348.4 million outstanding under the Repurchase Agreement at March 31, 2019 and December 31, 2018, respectively, and was in compliance with all of its covenants and requirements as of such dates.

Dividends and share repurchase program

During the three months ended March 31, 2019, we declared cash dividends totaling $30.8 million and repurchased 0.9 million shares under our repurchase authorization totaling $25.0 million. At March 31, 2019, we had remaining authorization to repurchase $274.9 million of common shares.

Cash flows

Operating activities

Our net cash provided by operating activities for the three months ended March 31, 2019 was $158.9 million, compared with net cash provided by operating activities of $169.0 million for the three months ended March 31, 2018. Generally, the primary drivers of our cash flow from operations are profitability and changes in the levels of inventory and residential mortgage loans available-for-sale, each of which experiences seasonal fluctuations. The positive cash flow from operations for the three months ended March 31, 2019 was primarily due to our net income of $166.8 million, supplemented by $24.7 million of deferred income taxes and a seasonal $134.2 million decrease in residential mortgage loans available-for-sale. These sources of cash were partially offset by a net increase in inventories of $259.9 million resulting from ongoing land acquisition and development investment to support future growth, combined with a seasonal build of house inventory.

Our net cash provided by operating activities for the three months ended March 31, 2018 was primarily due to our net income of $170.8 million, supplemented by a seasonal reduction of $185.1 million in residential mortgage loans available-for-sale. These factors were partially offset by a net increase in inventories of $237.2 million resulting from land investments, combined with a seasonal build of house inventory.

Investing activities

Investing activities are generally not a significant source or use of cash for us. Net cash used in investing activities for the three months ended March 31, 2019 was $17.1 million, compared with net cash used in investing activities of $16.0 million for the three months ended March 31, 2018. These cash outflows primarily reflected ongoing investments in model home parks in our new communities as well as information technology applications.

Financing activities

Net cash used in financing activities for the three months ended March 31, 2019 totaled $194.6 million, compared with net cash used in financing activities of $274.4 million for the three months ended March 31, 2018. The net cash used in financing activities for the three months ended March 31, 2019 resulted primarily from the repurchase of 0.9 million common shares for $25.0 million under our share repurchase authorization, repayments of debt totaling $3.6 million, payments of $30.8 million in cash dividends, and net repayments of $126.3 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Net cash used in financing activities for the three months ended March 31, 2018 resulted primarily from the repurchase of 1.7 million common shares for $52.5 million under our repurchase authorization, payments of $26.3 million in cash dividends, and net repayments of $190.9 million for borrowings under the Repurchase Agreement related to a seasonal reduction in residential mortgage loans available-for-sale.

Inflation

We, and the homebuilding industry in general, may be adversely affected during periods of inflation because of higher land and construction costs. Inflation may also increase our financing costs. In addition, higher mortgage interest rates affect the affordability of our products to prospective homebuyers. While we attempt to pass on 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

There have been no material changes to our contractual obligations from those disclosed in our "Contractual Obligations and Commercial Commitments" contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operation*s, included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Off-Balance Sheet Arrangements

We use letters of credit and surety bonds to guarantee our performance under various contracts, principally in connection with the development of our homebuilding projects. The expiration dates of the letter of credit contracts coincide with the expected completion date of the related homebuilding projects. If the obligations related to a project are ongoing, annual extensions of the letters of credit are typically granted on a year-to-year basis. At March 31, 2019, we had outstanding letters of credit totaling $232.9 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 $1.3 billion at March 31, 2019, are typically outstanding over a period of approximately three to five years. Because significant construction and development work has been performed related to projects that have not yet received final acceptance by the respective counterparties, the aggregate amount of surety bonds outstanding is in excess of the projected cost of the remaining work to be performed.

In the ordinary course of business, we enter into land option agreements in order to procure land for the construction of houses in the future. At March 31, 2019, these agreements had an aggregate remaining purchase price of $2.6 billion. Pursuant to these land option agreements, we generally provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices.

At March 31, 2019, aggregate outstanding debt of unconsolidated joint ventures was $35.2 million of which $34.4 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.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the three months ended March 31, 2019 compared with those contained in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* included in our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative disclosure

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

The following table sets forth the principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair value of our debt obligations as of March 31, 2019 ($000's omitted):

	As of March 31, 2019 for the Years ending December 31,							
	2019	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**	**Fair Value**
Rate-sensitive liabilities:								
Fixed rate debt	$21,021	$9,968	$706,719	$ —	$ —	$2,300,000	$3,037,708	$3,091,068
Average interest rate	4.68 %	3.81 %	4.26 %	—%	—%	5.90 %	5.50 %	
Variable rate debt (a)	$222,139	$—	$—	$ —	$ —	$—	$222,139	$222,139
Average interest rate	4.55 %	— %	— %	—%	—%	— %	4.55 %	

(a) Includes the Pulte Mortgage Repurchase Agreement and amounts outstanding under our Revolving Credit Facility, under which there was no amount outstanding at March 31, 2019.

Qualitative disclosure

There have been no material changes to the qualitative disclosure found in Item 7A, *Quantitative and Qualitative Disclosures about Market Risk*, of our Annual Report on Form 10-K for the year ended December 31, 2018.

SPECIAL NOTES CONCERNING FORWARD-LOOKING STATEMENTS

As a cautionary note, except for the historical information contained herein, certain matters discussed in Item 2, *Management's Discussion and Analysis of Financial Condition and Results of Operations,* and Item 3, *Quantitative and Qualitative Disclosures About Market Risk*, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause our actual results, performance, prospects or opportunities, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or implied by, these statements. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “plan,” “project,” “may,” “can,” “could,” “might,” and similar expressions identify forward-looking statements, including statements related to any impairment charge and the impacts or effects thereof, expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future.

Such risks, uncertainties and other factors include, among other things: interest rate changes and the availability of mortgage financing; competition within the industries in which we operate; the availability and cost of land and other raw materials used by us in our homebuilding operations; the impact of any changes to our strategy in responding to the cyclical nature of the industry, including any changes regarding our land positions and the levels of our land spend; the availability and cost of insurance covering risks associated with our businesses; shortages and the cost of labor; weather related slowdowns; slow growth initiatives and/or local building moratoria; governmental regulation directed at or affecting the housing market, the homebuilding industry or construction activities; uncertainty in the mortgage lending industry, including revisions to underwriting standards and repurchase requirements associated with the sale of mortgage loans; the interpretation of or changes to tax, labor and environmental laws which could have a greater impact on our effective tax rate or the value of our deferred tax assets than we anticipate; economic changes nationally or in our local markets, including inflation, deflation, changes in consumer confidence and preferences and the state of the market for homes in general; legal or regulatory proceedings or claims; our ability to generate sufficient cash flow in order to successfully implement our capital allocation priorities; required accounting changes; terrorist acts and other acts of war; and other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See PulteGroup's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and other public filings with the Securities and Exchange Commission (the "SEC") for a further discussion of these and other risks and uncertainties applicable to our businesses. PulteGroup undertakes no duty to update any forward-looking statement, whether as a result of new information, future events or changes in PulteGroup's expectations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Management, including our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based upon, and as of the date of that evaluation, our President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of March 31, 2019.

Management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). There was no change in our internal control over financial reporting during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

Issuer Purchases of Equity Securities

	Total number of shares purchased (1)	Average price paid per share (1)	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)	
January 1, 2019 to January 31, 2019	—	$ —	—	$ 299,882	(2)
February 1, 2019 to February 28, 2019	761,554	$ 26.88	383,411	$ 289,477	(2)
March 1, 2019 through March 31, 2019	547,808	$ 27.17	537,074	$ 274,882	(2)
Total	1,309,362	$ 27.00	920,485		

(1) During the three months ended March 31, 2019, participants surrendered 0.4 million shares for payment of minimum tax obligations upon the vesting or exercise of previously granted share-based compensation awards. Such shares were not repurchased as part of our publicly-announced share repurchase programs.

(2) During the three months ended March 31, 2019, we repurchased 0.9 million shares for a total of $25.0 million under an existing share repurchase program authorized by the Company's Board of Directors. The share repurchase authorization has $274.9 million remaining as of March 31, 2019. There is no expiration date for this program.

Item 6. Exhibits

Exhibit Number and Description

3	(a)	Restated Articles of Incorporation, of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K, filed with the SEC on August 18, 2009)
	(b)	Certificate of Amendment to the Articles of Incorporation, dated March 18, 2010 (Incorporated by reference to Exhibit 3(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010)
	(c)	Certificate of Amendment to the Articles of Incorporation, dated May 21, 2010 (Incorporated by reference to Exhibit 3(c) of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2010)
	(d)	Amended and Restated By-Laws of PulteGroup, Inc. (Incorporated by reference to Exhibit 3.2 of our Current Report on Form 8-K, filed with the SEC on May 5, 2017)
	(e)	Certificate of Designation of Series A Junior Participating Preferred Shares, dated August 6, 2009 (Incorporated by reference to Exhibit 3(b) of our Registration Statement on Form 8-A, filed with the SEC on August 18, 2009)
4	(a)	Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of PulteGroup, Inc. and its subsidiaries, has not been filed. The Company agrees to furnish a copy of such instruments to the SEC upon request.
	(b)	Amended and Restated Section 382 Rights Agreement, dated as of March 18, 2010, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent, which includes the Form of Rights Certificate as Exhibit B thereto (Incorporated by reference to Exhibit 4 of PulteGroup, Inc.'s Registration Statement on Form 8-A/A, filed with the SEC on March 23, 2010)
	(c)	First Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 14, 2013, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 15, 2013)
	(d)	Second Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 10, 2016, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 10, 2016)
	(e)	Third Amendment to Amended and Restated Section 382 Rights Agreement, dated as of March 7, 2019, between PulteGroup, Inc. and Computershare Trust Company, N.A., as rights agent (Incorporated by reference to Exhibit 4.1 of PulteGroup, Inc.'s Current Report on Form 8-K, filed with the SEC on March 7, 2019)
10	(a)	PulteGroup, Inc. 2019 Senior Management Incentive Plan (Incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed with the SEC on February 8, 2019)

31	(a)	Rule 13a-14(a) Certification by Ryan R. Marshall, President and Chief Executive Officer (Filed herewith)
	(b)	Rule 13a-14(a) Certification by Robert T. O'Shaughnessy, Executive Vice President and Chief Financial Officer (Filed herewith)
32		Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) of the Securities Exchange Act of 1934 (Furnished herewith)
101.INS		XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		XBRL Taxonomy Extension Label Linkbase Document
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

PULTEGROUP, INC.

/s/ Robert T. O'Shaughnessy
Robert T. O'Shaughnessy
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and duly authorized officer)
Date: April 23, 2019

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