

PULTE HOMES INC/MI/
Form 10-Q
November 06, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

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

Commission File Number 1-9804

PULTE HOMES, INC.

(Exact name of registrant as specified in its charter)

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MICHIGAN
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

Number of shares of common stock outstanding as of October 31, 2008: 257,482,669

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PULTE HOMES, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(\$000 s omitted)

| | September 30, 2008 (Unaudited) | December 31, 2007 (Note) |
|---|--------------------------------------|--------------------------------|
| ASSETS | | |
| Cash and equivalents | \$ 1,173,892 | \$ 1,060,311 |
| Unfunded settlements | 15,228 | 38,714 |
| House and land inventory | 5,230,066 | 7,027,511 |
| Land held for sale | 285,951 | 252,563 |
| Land, not owned, under option agreements | 17,254 | 20,838 |
| Residential mortgage loans available-for-sale | 236,648 | 447,089 |
| Investments in unconsolidated entities | 144,950 | 105,479 |
| Other assets | 830,838 | 1,167,292 |
| Deferred income tax assets | 248,204 | 105,906 |
| | \$ 8,183,031 | \$ 10,225,703 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Liabilities: | | |
| Accounts payable, including book overdrafts of \$145,040 and \$185,701 in 2008 and 2007, respectively | \$ 334,568 | \$ 418,637 |
| Customer deposits | 107,489 | 132,720 |
| Accrued and other liabilities | 1,039,489 | 1,308,554 |
| Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets | 192,407 | 440,611 |
| Income tax liabilities | 159,721 | 126,758 |
| Senior notes | 3,165,998 | 3,478,230 |
| Total liabilities | 4,999,672 | 5,905,510 |
| Shareholders equity | 3,183,359 | 4,320,193 |
| | \$ 8,183,031 | \$ 10,225,703 |

Note: The condensed consolidated balance sheet at December 31, 2007, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**PULTE HOMES, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(000 s omitted, except per share data)****(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---------------------|--|-----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| Homebuilding | \$ 1,521,789 | \$ 2,438,556 | \$ 4,500,366 | \$ 6,261,962 |
| Financial Services | 36,438 | 32,743 | 118,871 | 99,686 |
| Other non-operating | 6,362 | 499 | 19,936 | 2,829 |
| Total revenues | 1,564,589 | 2,471,798 | 4,639,173 | 6,364,477 |
| Expenses | | | | |
| Homebuilding, principally cost of sales | 1,821,066 | 3,485,540 | 5,728,023 | 8,204,260 |
| Financial Services | 26,348 | 19,967 | 82,980 | 67,283 |
| Other non-operating, net | 9,079 | 8,629 | 30,331 | 28,302 |
| Total expenses | 1,856,493 | 3,514,136 | 5,841,334 | 8,299,845 |
| Other income: | | | | |
| Equity income (loss) | (2,687) | (51,575) | (713) | (107,702) |
| Loss before income taxes | (294,591) | (1,093,913) | (1,202,874) | (2,043,070) |
| Income taxes (benefit) | (14,204) | (306,042) | (67,926) | (661,976) |
| Net loss | \$ (280,387) | \$ (787,871) | \$ (1,134,948) | \$ (1,381,094) |
| Per share data: | | | | |
| Net loss: | | | | |
| Basic | \$ (1.11) | \$ (3.12) | \$ (4.48) | \$ (5.48) |
| Assuming dilution | \$ (1.11) | \$ (3.12) | \$ (4.48) | \$ (5.48) |
| Cash dividends declared | \$ 0.04 | \$ 0.04 | \$ 0.12 | \$ 0.12 |
| Number of shares used in calculation: | | | | |
| Basic: | | | | |
| Weighted-average common shares outstanding | 253,582 | 252,264 | 253,401 | 252,093 |
| Assuming dilution: | | | | |
| Effect of dilutive securities-stock options and restricted stock grants | | | | |
| Adjusted weighted-average common shares and effect of dilutive securities | 253,582 | 252,264 | 253,401 | 252,093 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**PULTE HOMES, INC.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(\$000 s omitted, except per share data)

(Unaudited)

| | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total |
|--|-----------------|----------------------------------|---|----------------------|--------------|
| Shareholders Equity, December 31, 2007 | \$ 2,571 | \$ 1,362,504 | \$ (4,883) | \$ 2,960,001 | \$ 4,320,193 |
| Stock option exercises | 2 | 1,865 | | | 1,867 |
| Excess tax benefits (deficiencies) from stock-based compensation | | (6,305) | | | (6,305) |
| Stock awards | 4 | (4) | | | |
| Cash dividends declared-\$0.12 per share | | | | (30,851) | (30,851) |
| Stock repurchases | (2) | (1,348) | | (2,674) | (4,024) |
| Stock-based compensation | | 35,562 | | | 35,562 |
| Comprehensive income (loss): | | | | | |
| Net loss | | | | (1,134,948) | (1,134,948) |
| Change in fair value of derivatives | | | 1,325 | | 1,325 |
| Foreign currency translation adjustments | | | 540 | | 540 |
| Total comprehensive income (loss) | | | | | (1,133,083) |
| Shareholders Equity, September 30, 2008 | \$ 2,575 | \$ 1,392,274 | \$ (3,018) | \$ 1,791,528 | \$ 3,183,359 |
| Shareholders Equity, December 31, 2006 | \$ 2,553 | \$ 1,284,687 | \$ (2,986) | \$ 5,293,107 | \$ 6,577,361 |
| Adoption of FASB Interpretation No. 48 (FIN 48) | | | | \$ (31,354) | \$ (31,354) |
| Stock option exercises | 5 | 5,875 | | | 5,880 |
| Excess tax benefits (deficiencies) from stock-based compensation | | 2,997 | | | 2,997 |
| Stock awards | 3 | (3) | | | |
| Cash dividends declared-\$0.12 per share | | | | (30,712) | (30,712) |
| Stock repurchases | (2) | (780) | | (4,443) | (5,225) |
| Stock-based compensation | | 52,031 | | | 52,031 |
| Comprehensive income (loss): | | | | | |
| Net loss | | | | (1,381,094) | (1,381,094) |
| Change in fair value of derivatives | | | (906) | | (906) |
| Foreign currency translation adjustments | | | (129) | | (129) |
| Total comprehensive income (loss) | | | | | (1,382,129) |
| Shareholders Equity, September 30, 2007 | \$ 2,559 | \$ 1,344,807 | \$ (4,021) | \$ 3,845,504 | \$ 5,188,849 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**PULTE HOMES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(\$000 s omitted)

(Unaudited)

| | For The Nine Months Ended September 30, | |
|--|--|------------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,134,948) | \$ (1,381,094) |
| Adjustments to reconcile net loss to net cash flows provided by operating activities: | | |
| Write-down of land and deposits and pre-acquisition costs | 1,147,190 | 1,618,350 |
| Goodwill impairments | | 335,609 |
| Amortization and depreciation | 57,541 | 64,109 |
| Stock-based compensation expense | 35,562 | 52,031 |
| Deferred income taxes | (142,298) | (523,137) |
| Equity loss (income) from unconsolidated entities | 713 | 107,702 |
| Distributions of earnings from unconsolidated entities | 2,561 | 4,291 |
| Other, net | (689) | 3,676 |
| Increase (decrease) in cash due to: | | |
| Inventories | 567,525 | (300,184) |
| Residential mortgage loans available-for-sale | 228,279 | 533,409 |
| Other assets | 304,576 | 30,504 |
| Accounts payable, accrued and other liabilities | (329,357) | (242,466) |
| Income tax liabilities | 32,963 | 21,868 |
| Net cash provided by operating activities | 769,618 | 324,668 |
| Cash flows from investing activities: | | |
| Distributions from unconsolidated entities | 6,038 | 29,071 |
| Investments in unconsolidated entities | (49,554) | (155,606) |
| Proceeds from the sale of fixed assets | 4,903 | 9,685 |
| Increase in loans held for investment | 2,085 | |
| Capital expenditures | (14,507) | (54,395) |
| Net cash used in investing activities | (51,035) | (171,245) |
| Cash flows from financing activities: | | |
| Net repayments under Financial Services credit arrangements | (248,204) | (528,627) |
| Net borrowings under revolving credit facility | | 25,000 |
| Repayment of other borrowings | (317,997) | (72,082) |
| Excess tax benefits (deficiencies) from stock-based compensation | (6,305) | 2,997 |
| Issuance of common stock | 1,867 | 5,880 |
| Stock repurchases | (4,024) | (5,225) |
| Dividends paid | (30,851) | (30,712) |
| Net cash used in financing activities | (605,514) | (602,769) |
| Effect of exchange rate changes on cash and equivalents | 512 | (160) |
| Net increase (decrease) in cash and equivalents | 113,581 | (449,506) |

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| | | |
|---|--------------|------------|
| Cash and equivalents at beginning of period | 1,060,311 | 551,292 |
| Cash and equivalents at end of period | \$ 1,173,892 | \$ 101,786 |
| Supplemental Cash Flow Information: | | |
| Interest paid, net of amounts capitalized | \$ 28,884 | \$ 33,418 |
| Income taxes paid (refunded), net | \$ (183,704) | \$ 7,441 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of presentation and significant accounting policies***Basis of presentation*

The consolidated financial statements include the accounts of Pulte Homes, Inc. and all of its direct and indirect subsidiaries (the Company) and variable interest entities in which the Company is deemed to be the primary beneficiary. The direct subsidiaries of Pulte Homes, Inc. include Pulte Diversified Companies, Inc., Del Webb Corporation (Del Webb) and other subsidiaries that are engaged in the homebuilding business. Pulte Diversified Companies, Inc.'s operating subsidiaries include Pulte Home Corporation and other subsidiaries that are engaged in the homebuilding business. The Company also has a mortgage banking company, Pulte Mortgage LLC (Pulte Mortgage), which is a subsidiary of Pulte Home Corporation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the Company's consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Earnings per share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares, adjusted for non-vested shares of restricted stock (the denominator) for the period. Computing diluted earnings per share is similar to computing basic earnings per share, except that the denominator is increased to include the dilutive effects of options and non-vested shares of restricted stock. Any 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. For the three and nine months ended September 30, 2008 and 2007, all stock options and non-vested restricted stock were excluded from the calculation as they were anti-dilutive due to the net loss recorded during the periods. As a result, the calculation of diluted earnings per share excludes 23.1 million and 23.4 million stock options and shares of restricted stock for the three and nine months ended September 30, 2008, respectively. For the three and nine months ended September 30, 2007, 21.1 million and 21.4 million, respectively, stock options and shares of restricted stock were excluded from the calculation of diluted earnings per share.

Restructuring

In response to the challenging operating environment, the Company has taken actions designed to reduce ongoing operating costs and improve operating efficiencies. In May 2007, the Company initiated a restructuring plan that included reductions in employee headcount, the closure of selected divisional offices, and the disposal of related property and equipment. These actions resulted in charges of \$7.9 million and \$47 million for the three and nine months ended September 30, 2007, the majority of which represented employee severance benefits. In addition to the May 2007 restructuring plan, the Company has also made additional reductions in employee headcount and overhead costs. As a result of these actions, the Company incurred charges of \$3.5 million and \$15.9 million, respectively, for the three and nine months ended September 30, 2008, the majority of which represented employee severance benefits.

Land, not owned, under option agreements

In the ordinary course of business, the Company enters into land option agreements in order to procure land for the construction of homes in the future. Pursuant to these land option agreements, the Company will provide a deposit to the seller as consideration for the right to purchase land at different times in the future, usually at predetermined prices. Under FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as amended by FIN 46-R (collectively referred to as FIN 46), if the entity holding the land under option is a variable interest entity, the Company's deposit represents a variable interest in that entity. Creditors of the variable interest entities have no recourse against the Company.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of presentation and significant accounting policies (continued)***Land, not owned, under option agreements (continued)*

In applying the provisions of FIN 46, the Company evaluated all land option agreements and determined that the Company was subject to a majority of the expected losses or entitled to receive a majority of the expected residual returns under a limited number of these agreements. As the primary beneficiary under these agreements, the Company is required to consolidate variable interest entities at fair value, however, the creditors of these variable interest entities have no recourse to the general credit of the Company. At September 30, 2008 and December 31, 2007, the Company classified \$17.3 million and \$20.8 million, respectively, as land, not owned, under option agreements on the balance sheet, representing the fair value of land under contract, including deposits of \$318 thousand and \$169 thousand, respectively. The corresponding liability has been classified within accrued and other liabilities on the balance sheet.

Land option agreements that did not require consolidation under FIN 46 at September 30, 2008 and December 31, 2007 had a total purchase price of \$1.2 billion and \$1.6 billion, respectively. In connection with these agreements, the Company had deposits and other related costs of \$236.2 million and \$226 million included in other assets at September 30, 2008 and December 31, 2007, respectively.

Goodwill

Goodwill, which represents the cost of acquired companies in excess of the fair value of the net assets at the acquisition date, has been recorded in prior years in connection with various acquisitions. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, annually in the fourth quarter and when events or changes in circumstances indicate the carrying amount may not be recoverable, management evaluates the recoverability of goodwill by comparing the carrying value of the Company's reporting units to their fair value.

Due to a significant deterioration in market conditions, a continuation of significant impairments and land-related charges, and a steep decline in the market price of the Company's common stock to a level significantly below its book value, the Company performed a detailed evaluation of goodwill as of September 30, 2007. Management evaluated the recoverability of goodwill by comparing the carrying value of the Company's reporting units to their fair value. Fair value was determined based on discounted future cash flows supplemented by a market-based assessment of fair value for each reporting unit. These cash flows are significantly impacted by estimates related to current market valuations, current and future economic conditions in each of the Company's geographical markets, and the Company's strategic plans within each of its markets. Due to uncertainties in the estimation process and the significant volatility in demand for new housing, actual results could differ significantly from such estimates. Additionally, future changes in any of these factors could result in future impairments of the remaining goodwill. The evaluation as of September 30, 2007 resulted in an impairment charge of \$335.6 million related to the following reportable segments (\$000's omitted):

| | Three and Nine Months Ended September 30, 2007 |
|---------------------------|---|
| Northeast | \$ (2,729) |
| Midwest | (18,316) |
| Central | (4,493) |
| Southwest | (218,966) |
| California | (91,105) |
| Total goodwill impairment | \$ (335,609) |

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The Company's remaining goodwill totaled \$5.7 million at September 30, 2008 and December 31, 2007, and related to the Southeast and Financial Services reportable segments.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of presentation and significant accounting policies (continued)***Allowance for warranties*

Home purchasers are provided with warranties against certain building defects. The specific terms and conditions of those warranties vary geographically. Most warranties cover different aspects of the home's construction and operating systems for a period of up to ten years. The Company estimates the costs to be incurred under these warranties and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes to the Company's allowance for warranties were as follows (\$000's omitted):

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2008 | 2007 |
| Allowance for warranties at beginning of period | \$ 90,917 | \$ 117,259 |
| Warranty reserves provided | 21,010 | 52,093 |
| Payments and other adjustments | (47,593) | (74,088) |
| Allowance for warranties at end of period | \$ 64,334 | \$ 95,264 |

Residential mortgage loans available-for-sale

Prior to January 1, 2008, residential mortgage loans available-for-sale were measured at the lower of aggregate cost or market value. In accordance with SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), the Company elected the fair value option for its portfolio loans available-for-sale and for first mortgage loans originated subsequent to December 31, 2007. SFAS 159 permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Election of the fair value option for residential mortgage loans available-for-sale allows a better offset of the changes in fair values of the loans and the derivative instruments used to economically hedge them without having to apply complex hedge accounting provisions. Fair values for agency loans available-for-sale are determined based on quoted market prices for comparable instruments. Fair values for non-agency loans available-for-sale are determined based on actual purchase commitments from whole loan investors. Portfolio loans available-for-sale had a fair value of \$2 million upon adoption of SFAS 159, which had no effect as the loans were previously written down to fair value. At September 30, 2008, residential mortgage loans available-for-sale, all of which were accounted for at fair value, had an aggregate fair value of \$236.6 million and an aggregate outstanding principal balance of \$234.1 million.

Interest income on these loans is recorded in Financial Services revenues. The net loss resulting from changes in fair value of these loans totaled \$2.6 million and \$1.4 million during the three and nine months ended September 30, 2008, respectively, and was included in Financial Services revenues. These changes in fair value were mostly offset by hedging activities. Loan origination costs related to residential mortgage loans available-for-sale are recognized as incurred in Financial Services expenses while the associated loan origination fees are recognized in Financial Services revenues as earned, generally upon loan closing. Prior to the adoption of SFAS 159, mortgage origination costs and fees related to residential mortgage loans available-for-sale were deferred as an adjustment to the cost of the related loans and recognized as an adjustment to Financial Services revenues upon the sale of such loans.

Mortgage servicing rights

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The Company sells its servicing rights monthly on a flow basis through fixed price servicing contracts. With the adoption of SEC Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB 109) effective January 1, 2008, the Company recognizes the fair value of its rights to service a mortgage loan as revenue at the time of entering into an interest rate lock loan commitment with a borrower. Prior to January 1, 2008, the fair value of such rights were not recognized until the related loan was sold. Fair value is determined based on values in the Company's servicing sales contracts.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of presentation and significant accounting policies (continued)***Fair value disclosures*

Effective January 1, 2008, the Company adopted SFAS 157, Fair Value Measurements (SFAS 157), for its financial instruments measured at fair value on a recurring basis. SFAS 157 provides a framework for measuring fair value in generally accepted accounting principles, expands disclosures about fair value measurements, 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.

The Company's financial instruments measured at fair value on a recurring basis are summarized below (\$000's omitted):

| Financial Instrument | Fair Value Hierarchy | Fair Value at September 30, 2008 |
|---|-----------------------------|---|
| Mortgage loan commitments | Level 2 | \$ 3,715 |
| Residential mortgage loans available-for-sale | Level 2 | 236,648 |
| Forward contracts | Level 2 | (54) |
| Whole loan commitments | Level 2 | 7 |
| | | \$ 240,316 |

In addition, the Company measured \$4.6 million of its loans held for investment at fair value since the cost of the loans exceeded their fair value. Fair value of the loans was determined based on the fair value of the underlying collateral, which is considered a level 2 input under SFAS 157.

New accounting pronouncements

Effective January 1, 2008, the Company adopted SEC Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109) as well as SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SAB 109, which revises and rescinds portions of SAB No. 105, Application of Accounting Principles to Loan Commitments, specifically requires that the fair value of interest rate lock loan commitments include the fair value of future servicing rights. SFAS 159 permits entities to measure various financial instruments and certain other items at fair value on a contract-by-contract basis. Under SFAS 159, the Company elected the fair value option for residential mortgage loans available-for-sale originated subsequent to December 31, 2007. These accounting changes decreased income before income taxes for the three months ended September 30, 2008 by \$3.8 million, consisting of a decrease to Financial Services revenues of \$1.7 million along with an increase to Financial Services expenses of \$2.1 million. The accounting changes increased income before taxes for the nine months ended September 30, 2008 by \$4.7 million, consisting of an increase to Financial Services revenue of \$11.5 million, offset by an increase to Financial Services expenses of \$6.8 million.

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PULTE HOMES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of presentation and significant accounting policies (continued)

New accounting pronouncements (continued)

Effective January 1, 2008, the Company adopted SFAS 157, Fair Value Measurements (SFAS 157), for its financial instruments measured at fair value on a recurring basis. SFAS 157 provides a framework for measuring fair value in generally accepted accounting principles, expands disclosures about fair value measurements, and establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See the caption *Fair value disclosures* included in Note 1 for additional information regarding the fair value of certain financial assets and liabilities. The Company will adopt SFAS 157 as of January 1, 2009 for its non-financial assets and liabilities and for its financial assets and liabilities measured at fair value on a non-recurring basis. The Company is currently evaluating the effects that the remaining adoption of SFAS 157 will have on its consolidated financial statements.

On December 4, 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100 percent of the assets acquired, liabilities assumed, and any non-controlling interest in the acquired company at the acquisition-date fair value. In addition, SFAS 141R requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS 141R also modifies the accounting for certain acquired income tax assets and liabilities. SFAS 141R is effective for new acquisitions consummated on or after January 1, 2009 and early adoption is not permitted.

On December 4, 2007, the FASB also issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements (SFAS 160). SFAS 160 requires all entities to report non-controlling (i.e., minority) interests in subsidiaries as equity in the consolidated financial statements and to account for transactions between an entity and non-controlling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS 160 also requires expanded disclosure that distinguishes between the interests of the controlling owners and the interests of the non-controlling owners of a subsidiary. SFAS 160 is effective for the Company beginning on January 1, 2009 and earlier adoption is not permitted. The adoption of SFAS 160 is not expected to have a material impact on the Company's financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133, (SFAS 161). SFAS 161 expands the disclosure requirements in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, regarding an entity's derivative instruments and hedging activities. SFAS 161 is effective for the Company's fiscal year beginning January 1, 2009. The Company does not expect the adoption of SFAS 161 to have a material effect on its consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, 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 (EPS) pursuant to the two-class method. The two-class method determines earnings per share for each class of common stock and participating securities according to dividends or dividend equivalents and their respective participation rights in undistributed earnings. The Company's outstanding restricted stock awards will be considered participating securities under the FSP. The FSP is effective for the Company's fiscal year beginning January 1, 2009 and requires retrospective application. The Company does not expect the adoption of the FSP to have a material impact on its reported EPS.

On October 10, 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of FASB Statement No. 157, Fair Value Measurements, in a market that is not active. FSP FAS 157-3 was effective upon issuance and adopted by the Company as of September 30, 2008. The adoption of FSP FAS 157-3 did not have a material impact on the Company's consolidated financial statements.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Inventory and land held for sale**

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

| | September 30, 2008 | December 31, 2007 |
|----------------------------------|-----------------------|----------------------|
| Homes under construction | \$ 1,989,728 | \$ 2,115,102 |
| Land under development | 2,172,854 | 3,656,623 |
| Land held for future development | 1,067,484 | 1,255,786 |
| | \$ 5,230,066 | \$ 7,027,511 |

The Company capitalizes interest cost into homebuilding inventories. Each layer of capitalized interest is amortized over a period that approximates the average life of communities under development. Interest expense is allocated over the period based on the cyclical timing of unit settlements. Interest expensed to homebuilding cost of sales for the three and nine months ended September 30, 2008 includes \$19.3 million and \$64.3 million, respectively, of capitalized interest related to land and community valuation adjustments compared with \$43.5 million and \$90.3 million, respectively, for the three and nine months ended September 30, 2007. Information related to interest capitalized into homebuilding inventory is as follows (\$000's omitted):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest in inventory at beginning of period | \$ 176,885 | \$ 212,441 | \$ 160,598 | \$ 235,596 |
| Interest capitalized | 53,369 | 61,179 | 166,780 | 182,404 |
| Interest expensed | (52,526) | (98,205) | (149,650) | (242,585) |
| Interest in inventory at end of period | \$ 177,728 | \$ 175,415 | \$ 177,728 | \$ 175,415 |
| Interest incurred* | \$ 54,100 | \$ 61,900 | \$ 169,000 | \$ 185,100 |

* Interest incurred includes interest on our senior debt, short-term borrowings, and other financing arrangements and excludes interest incurred by our Financial Services segment.

Land Valuation Adjustments and Write-Offs

Land and community valuation adjustments

In accordance with SFAS 144, the Company records valuation adjustments on land inventory and related communities under development when events and circumstances indicate that they may be impaired and when the cash flows estimated to be generated by those assets are less than their carrying amounts. Such indicators include gross margin or sales pace significantly below expectations, construction costs or land development costs significantly in excess of budgeted amounts, significant delays or changes in the planned development for the community, and other known qualitative factors. For communities that are not yet active, a significant additional consideration includes an evaluation of the regulatory environment related to the probability, timing, and cost of obtaining necessary approvals from local municipalities and any potential

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concessions that may be necessary in order to obtain such approvals. The Company also considers potential changes to the product offerings in a community and any alternative strategies for the land, such as the sale of the land either in whole or in parcels. The weakened market conditions throughout the homebuilding industry have resulted in lower than expected net new orders, revenues, and gross margins and higher than expected cancellation rates. As a result, a portion of the Company's land inventory and communities under development demonstrated indicators of potential impairment and were tested accordingly for impairment. As required by SFAS 144, the Company compared the expected undiscounted cash flows for these communities to their carrying value. For those communities whose carrying values exceeded the expected undiscounted cash flows, the Company calculated the fair value of the community. Impairment charges are required to be recorded if the fair value of the community's inventory is less than its carrying amount.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Inventory and land held for sale (continued)***Land Valuation Adjustments and Write-Offs (continued)*Land and community valuation adjustments (continued)

The Company determined the fair value of the community's inventory using a discounted cash flow model. These estimated cash flows are significantly impacted by estimates related to expected average selling prices and sale incentives, expected sales paces and cancellation rates, expected land development and construction timelines, and anticipated land development, construction, and overhead costs. Such estimates must be made for each individual community and may vary significantly between communities. Due to uncertainties in the estimation process, the significant volatility in demand for new housing, and the long life cycles of many communities, actual results could differ significantly from such estimates. The Company's determination of fair value also requires discounting the estimated cash flows at a rate commensurate with the inherent risks associated with each of the assets and related estimated cash flow streams. The discount rate used in determining each community's fair value depends on the stage of development of the community and other specific factors that increase or decrease the inherent risks associated with the community's cash flow streams. For example, communities that are entitled and near completion will generally require a lower discount rate than communities that are not entitled and consist of multiple phases spanning several years of development and construction activity.

The table below provides, as of the date indicated, the number of communities in which the Company recognized impairment charges, the fair value of those communities at such date (net of impairment charges), and the amount of impairment charges recognized (\$ in millions).

| Quarter Ended | Number of Communities Impaired | 2008 | | Number of Communities Impaired | 2007 | |
|---------------|--------------------------------------|--|-----------------------|--------------------------------------|--|-----------------------|
| | | Fair Value of Communities Impaired, Net of Impairment Charges | Impairment Charges | | Fair Value of Communities Impaired, Net of Impairment Charges | Impairment Charges |
| March 31 | 150 | \$ 597.8 | \$ 598.8 | 35 | \$ 161.9 | \$ 62.4 |
| June 30 | 48 | 198.9 | 153.5 | 139 | 695.8 | 603.1 |
| September 30 | 96 | 232.4 | 250.4 | 169 | 822.4 | 615.9 |
| | | | \$ 1,002.7 | | | \$ 1,281.4 |

The Company recorded these valuation adjustments in its consolidated statements of operations within homebuilding expense. During the nine months ended September 30, 2008, the Company reviewed all of its land positions for potential impairment indicators and performed detailed impairment calculations for over 300 communities that showed signs of potential impairment. The discount rate used in the Company's determination of fair value for the impaired communities ranged from 8% to 21%, with an aggregate average of 14%. In the event that market conditions or the Company's operations deteriorate in the future or the current difficult market conditions extend beyond the Company's expectations, additional impairments may be necessary in the future.

Net realizable value adjustments - land held for sale

In accordance with SFAS 144, the Company values long-lived assets held for sale at the lower of carrying amount or fair value less costs to sell. The Company records these net realizable value adjustments in its consolidated statements of operations within homebuilding expense. As a result of changing market conditions in the homebuilding industry, a portion of the Company's land held for sale was written down to net

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realizable value. The Company recognized net realizable value adjustments related to land held for sale of \$15.9 million and \$80.5 million for the three months ended September 30, 2008 and 2007, respectively, and \$125.1 million and \$132.8 million for the nine months ended September 30, 2008 and 2007, respectively.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. Inventory and land held for sale (continued)***Land Valuation Adjustments and Write-Offs (continued)*Net realizable value adjustments land held for sale (continued)

The Company's land held for sale was as follows (\$000's omitted):

| | September 30, 2008 | December 31, 2007 |
|--------------------------------|-------------------------------|------------------------------|
| Land held for sale, gross | \$ 471,421 | \$ 347,758 |
| Net realizable value reserves | (185,470) | (95,195) |
| Land held for sale, net | \$ 285,951 | \$ 252,563 |

Write-off of deposits and other related costs

From time to time, the Company writes off certain deposits and other costs related to land option contracts the Company no longer plans to pursue. Such decisions take into consideration changes in national and local market conditions, the willingness of land sellers to modify terms of the related purchase agreement, the availability and best use of necessary capital, and other factors. The Company wrote off (or recovered) deposits and other related costs in the amount of (\$931 thousand) and \$94.6 million during the three months ended September 30, 2008 and 2007, respectively, and \$19.4 million and \$204.2 million for the nine months ended September 30, 2008 and 2007, respectively. The Company records these write-offs of deposits and other related costs in its consolidated statements of operations within homebuilding expense.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****3. Segment information**

The Company's Homebuilding operating segments are engaged in the acquisition and development of land primarily for residential purposes within the continental United States and the construction of housing on such land targeted for first-time, first and second move-up, and active adult home buyers. The Company has determined that its Homebuilding operating segments are its Areas, which are aggregated into seven reportable segments based on similarities in the economic and geographic characteristics of the Company's homebuilding operations. Accordingly, the Company's reportable Homebuilding segments are as follows:

- Northeast: Northeast Area includes the following states:
Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Virginia
- Southeast: Southeast Area includes the following states:
Georgia, North Carolina, South Carolina, Tennessee
- Florida: Florida Area includes the following state:
Florida
- Midwest: Great Lakes Area includes the following states:
Colorado, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio
- Central: Texas Area includes the following state:
Texas
- Southwest: Southwest Area includes the following states:
Arizona, Nevada, New Mexico
- *California: Northern California and Southern California Areas include the following state:
California

* *The Company's homebuilding operations located in Reno, Nevada are reported in the California segment, while its remaining Nevada homebuilding operations are reported in the Southwest segment.*

The Company also has one reportable segment for its financial services operations, which consists principally of mortgage banking and title operations conducted through Pulte Mortgage and other Company subsidiaries. The Company's Financial Services segment operates generally in the same markets as the Company's Homebuilding segments.

Evaluation of segment performance is based on operating earnings from continuing operations before provision for income taxes which, for the Homebuilding segments, is defined as home sales (settlements) and land sale revenues less home cost of sales, land cost of sales and certain selling, general and administrative and other expenses, plus equity income from unconsolidated entities, which are incurred by or allocated to our Homebuilding segments. Operating earnings for the Financial Services segment is defined as revenues less costs associated with the Company's mortgage operations and certain selling, general and administrative expenses incurred by or allocated to the Financial Services segment. Each reportable segment generally follows the same accounting policies described in Note 1 Summary of Significant Accounting Policies to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****3. Segment information (continued)**

| | Operating Data by Segment (\$000 s omitted) | | | |
|---|---|----------------|-----------------------|----------------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, 2008 | 2007 | September 30, 2008 | 2007 |
| Revenues: | | | | |
| Northeast | \$ 202,445 | \$ 325,691 | \$ 596,833 | \$ 722,581 |
| Southeast | 222,214 | 298,466 | 689,224 | 826,733 |
| Florida | 181,934 | 275,538 | 560,843 | 877,646 |
| Midwest | 186,956 | 341,892 | 528,997 | 760,054 |
| Central | 112,045 | 164,002 | 349,152 | 472,857 |
| Southwest | 409,538 | 669,671 | 1,153,747 | 1,612,254 |
| California | 206,657 | 363,296 | 621,570 | 989,837 |
| Financial Services | 36,438 | 32,743 | 118,871 | 99,686 |
| Total segment revenues | 1,558,227 | 2,471,299 | 4,619,237 | 6,361,648 |
| Corporate and unallocated (a) | 6,362 | 499 | 19,936 | 2,829 |
| Consolidated revenues | \$ 1,564,589 | \$ 2,471,798 | \$ 4,639,173 | \$ 6,364,477 |
| Income (loss) before income taxes: | | | | |
| Northeast | \$ (2,178) | \$ (24,343) | \$ (44,692) | \$ (124,876) |
| Southeast | 5,202 | 11,000 | (1,012) | 51,524 |
| Florida | (8,131) | (149,939) | (181,070) | (270,866) |
| Midwest | (27,553) | (49,059) | (80,695) | (272,802) |
| Central | (4,132) | (41,542) | (2,141) | (100,617) |
| Southwest | (133,770) | (202,437) | (523,171) | (245,867) |
| California | (29,518) | (178,341) | (157,736) | (415,237) |
| Financial Services (b) | 10,092 | 12,896 | 35,938 | 32,659 |
| Total segment income (loss) before income taxes | (189,988) | (621,765) | (954,579) | (1,346,082) |
| Corporate and unallocated (c) | (104,603) | (472,148) | (248,295) | (696,988) |
| Consolidated loss before income taxes (d) | \$ (294,591) | \$ (1,093,913) | \$ (1,202,874) | \$ (2,043,070) |

(a) Corporate and unallocated includes interest income earned from short-term investments of cash and equivalents.

(b) Financial Services income before income taxes includes interest expense of \$1.5 million and \$4.2 million for the three months ended September 30, 2008 and 2007, respectively, and \$4.9 million and \$12.5 million for the nine months ended September 30, 2008 and 2007, respectively. Financial Services income before income taxes includes interest income of \$3.5 million and \$5.4 million for the three months ended September 30, 2008 and 2007, respectively, and \$9.9 million and \$16.4 million for the nine months ended September 30, 2008 and 2007, respectively.

(c) Corporate and unallocated includes amortization of capitalized interest of \$52.5 million and \$98.2 million for the three months ended September 30, 2008 and 2007, respectively, and \$149.7 million and \$242.6 million for the nine months ended September 30, 2008 and 2007, respectively, and goodwill impairments of \$335.6 million for the three and nine months ended September 30, 2007, as well as

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- certain shared services that benefit all operating segments, the costs of which are not allocated to the operating segments reported above.*
- (d) *Consolidated loss before income taxes includes selling, general and administrative expenses of \$225.2 million and \$260.2 million for the three months ended September 30, 2008 and 2007, respectively, and \$676.2 million and \$894.4 million for the nine months ended September 30, 2008 and 2007, respectively.*

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****3. Segment information (continued)**

| | Valuation Adjustments and Write-Offs by Segment (\$000 s omitted) | | | |
|--|--|------------|------------------------------------|--------------|
| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| Land and community valuation adjustments: | | | | |
| Northeast | \$ 4,342 | \$ 26,547 | \$ 31,563 | \$ 83,451 |
| Southeast | 4,834 | 14,768 | 34,780 | 15,021 |
| Florida | 5,648 | 104,777 | 153,925 | 207,276 |
| Midwest | 26,826 | 34,002 | 72,914 | 204,536 |
| Central | 7,358 | 36,646 | 8,274 | 87,931 |
| Southwest | 144,665 | 186,520 | 481,111 | 256,734 |
| California | 36,957 | 169,193 | 155,348 | 336,137 |
| Corporate and unallocated (a) | 19,679 | 43,478 | 64,739 | 90,296 |
| | \$ 250,309 | \$ 615,931 | \$ 1,002,654 | \$ 1,281,382 |
| Net realizable value adjustments (NRV) - land held for sale: | | | | |
| Northeast | \$ 6,180 | \$ 14,428 | \$ 33,195 | \$ 14,428 |
| Southeast | 127 | 1,056 | 468 | 2,126 |
| Florida | 3,731 | 10,666 | 20,301 | 21,019 |
| Midwest | 2,425 | 33,334 | 6,650 | 59,334 |
| Central | 1,619 | 5,483 | 2,811 | 9,505 |
| Southwest | 4,210 | 13,400 | 52,677 | 14,859 |
| California | (2,437) | 2,112 | 9,006 | 11,480 |
| | \$ 15,855 | \$ 80,479 | \$ 125,108 | \$ 132,751 |
| Write-off of deposits and other related costs (b): | | | | |
| Northeast | \$ (1,157) | \$ 7,422 | \$ (754) | \$ 45,595 |
| Southeast | 127 | 426 | 3,520 | 940 |
| Florida | | 36,875 | 545 | 46,714 |
| Midwest | 61 | 943 | 802 | 7,858 |
| Central | 3 | 11 | 3 | 903 |
| Southwest | 32 | 25,721 | 15,328 | 60,100 |
| California | 3 | 23,152 | (16) | 42,107 |
| | \$ (931) | \$ 94,550 | \$ 19,428 | \$ 204,217 |
| Impairments of investments in unconsolidated joint ventures: | | | | |
| Southwest | \$ | \$ 51,099 | \$ | \$ 51,099 |
| California | | | | 54,100 |
| Corporate and unallocated (c) | 1,378 | | 3,088 | |
| | \$ 1,378 | \$ 51,099 | \$ 3,088 | \$ 105,199 |

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| | | | | |
|--|------------|------------|--------------|--------------|
| Total valuation adjustments and write-offs | \$ 266,611 | \$ 842,059 | \$ 1,150,278 | \$ 1,723,549 |
|--|------------|------------|--------------|--------------|

- (a) *Includes \$19.3 million and \$64.3 million, respectively, of write-offs of capitalized interest related to land and community valuation adjustments and a \$407 thousand valuation adjustment related to a non-strategic land parcel recorded during the three and nine months ended September 30, 2008. For the three and nine months ended September 30, 2007, write-offs of capitalized interest related to land and community valuation adjustments totaled \$43.5 million and \$90.3 million, respectively.*
- (b) *Includes settlements related to costs previously in dispute and considered non-recoverable.*
- (c) *Includes impairments related to joint ventures located in Puerto Rico.*

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****3. Segment information (continued)**

Total assets and inventory by reportable segment were as follows (\$000 s omitted):

| | Assets | Inventory |
|----------------------------------|---------------|--------------|
| As of September 30, 2008: | | |
| Northeast | \$ 1,147,844 | \$ 881,386 |
| Southeast | 629,706 | 598,852 |
| Florida | 977,124 | 777,062 |
| Midwest | 568,218 | 480,751 |
| Central | 396,064 | 312,612 |
| Southwest | 1,589,428 | 1,286,488 |
| California | 914,141 | 718,509 |
| Financial Services | 309,358 | |
| Corporate and unallocated (a) | 1,651,148 | 174,406 |
| Consolidated | \$ 8,183,031 | \$ 5,230,066 |
| As of December 31, 2007: | | |
| Northeast | \$ 1,245,240 | \$ 1,053,403 |
| Southeast | 835,085 | 733,556 |
| Florida | 1,223,222 | 1,020,433 |
| Midwest | 678,638 | 622,779 |
| Central | 426,432 | 345,569 |
| Southwest | 2,173,718 | 2,032,818 |
| California | 1,190,970 | 1,062,277 |
| Financial Services | 559,915 | |
| Corporate and unallocated (a) | 1,892,483 | 156,676 |
| Consolidate | \$ 10,225,703 | \$ 7,027,511 |

(a) Corporate and unallocated primarily includes cash and equivalents; goodwill and intangibles; land, not owned, under option agreements; capitalized interest; income tax assets; and other corporate items that are not allocated to the operating segments.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****4. Investments in unconsolidated entities**

The Company participates in a number of joint ventures with independent third parties. Many of these joint ventures purchase, develop, and/or sell land and homes in the United States and Puerto Rico. A summary of the Company's joint ventures is presented below (\$000's omitted):

| | September 30, 2008 | December 31, 2007 |
|--|-----------------------|----------------------|
| Number of joint ventures with limited recourse guarantees | 2 | 4 |
| Number of joint ventures with debt non-recourse to Pulte | 4 | 4 |
| Number of other active joint ventures | 12 | 12 |
| Total number of active joint ventures | 18 | 20 |
| Investments in joint ventures with limited recourse guarantees | \$ 16,536 | \$ 54,223 |
| Investments in joint ventures with debt non-recourse to Pulte | 30,466 | 35,767 |
| Investments in other active joint ventures | 97,948 | 15,489 |
| Total investments in unconsolidated entities | \$ 144,950 | \$ 105,479 |
| Pulte proportionate share of joint venture debt: | | |
| Joint venture debt with limited recourse guarantees | \$ 82,625 | \$ 124,529 |
| Joint venture debt non-recourse to Pulte | 8,725 | 9,442 |
| Pulte's total proportionate share of joint venture debt | \$ 91,350 | \$ 133,971 |
| Total joint venture debt | \$ 518,187 | \$ 602,507 |

During the nine months ended September 30, 2008 and 2007, the Company recognized an equity loss of \$713 thousand and \$107.7 million, respectively, from its unconsolidated joint ventures. During the nine months ended September 30, 2008 and 2007, the Company made capital contributions of \$49.6 million and \$155.6 million, respectively, to its joint ventures and received capital and earnings distributions of \$8.6 million and \$33.4 million, respectively, from its joint ventures. The 2008 capital contributions include contributions of \$33 million in the second quarter of 2008 to repay outstanding debt at its scheduled maturity date and to fund land development costs for one joint venture. The Company also made scheduled land purchases in 2008 from a different joint venture that provided the joint venture with the funds necessary to repay its remaining debt, the Company's portion of which totaled \$18.2 million at December 31, 2007.

The Company has committed through a limited recourse guaranty that one of the joint ventures will maintain specified loan to value ratios, though this guaranty is not expected to require additional capital contributions. The Company's proportionate share of this joint venture's debt totaled \$30.4 million at September 30, 2008.

The remaining joint venture agreement providing limited recourse guarantees requires the Company and other members of the joint venture to guarantee for the benefit of the lender the completion of the project if the joint venture does not perform the required development and an increment of interest on the loan. This joint venture defaulted under its debt agreement, and the lender has foreclosed on the joint venture's property that served as collateral. The lender also recently filed suit against the majority of the members of the joint venture, including the Company, in an effort to enforce the completion guaranty. While the Company is pursuing a favorable resolution with the lender and believes it has meritorious defenses against the lawsuit, there is no assurance that the Company will not be required to pay damages under the completion guaranty. We believe the Company's maximum exposure is limited to its proportionate share of the amount, if any, determined to be owed under such guaranties. Accordingly, the amount of any potential loss the Company might incur as a result of resolving this matter should not exceed the Company's proportionate share of the joint venture's outstanding principal plus accumulated interest, the Company's proportionate share of which totaled approximately \$52.2 million at September 30, 2008.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****4. Investments in unconsolidated entities (continued)**

Additionally, in the case of most joint ventures, the Company has agreed to indemnify the joint venture's lenders for certain environmental contingencies, and most guaranty arrangements provide that the Company is responsible for its proportionate share of the outstanding debt if the joint venture voluntarily files for bankruptcy. The Company would not be responsible under these guaranties unless the joint venture was unable to meet its contractual borrowing obligations or in instances of fraud, misrepresentation, or other bad faith actions by the Company. To date, the Company has not been requested to perform under the bankruptcy or environmental guaranties described above.

The timing of repayment obligations under the joint venture debt agreements varies by agreement and in certain instances is contingent upon the joint venture's sale of its land holdings. If additional capital infusions are required and approved, the Company would need to contribute its pro rata portion of those capital needs in order not to dilute its ownership in the joint ventures. While future capital contributions may be required, the Company believes the total amount of such contributions will be limited. The Company's maximum financial loss exposure related to joint ventures is unlikely to exceed the combined investment and limited recourse guaranty totals.

In addition to the joint ventures with limited recourse guaranties, the Company has investments in other unconsolidated entities, some of which have debt. These investments include the Company's joint ventures in Puerto Rico, which are in the final stages of liquidation, as well as other entities, the majority of which are not engaged in homebuilding activities. The Company's proportionate share of debt associated with the joint ventures in Puerto Rico totaled \$7.1 million and \$8.1 million at September 30, 2008 and December 31, 2007, respectively. The Company does not have any significant financing exposures related to these entities.

5. Shareholders' equity

Pursuant to the two \$100 million stock repurchase programs authorized by the Board of Directors in October 2002 and 2005, and the \$200 million stock repurchase program authorized in February 2006 (for a total stock repurchase authorization of \$400 million), the Company has repurchased a total of 9,688,900 shares for a total of \$297.7 million, though there were no repurchases under these programs during the nine months ended September 30, 2008. The Company had remaining authorization to purchase \$102.3 million of common stock at September 30, 2008.

Under its stock-based compensation plans, the Company accepts shares as payment under certain conditions related to stock option exercises and vesting of restricted stock, generally related to the payment of minimum tax obligations. During the nine months ended September 30, 2008 and 2007, the Company repurchased \$4 million and \$5.2 million, respectively, of shares from employees under these plans. Such repurchases are excluded from the \$400 million stock repurchase authorization.

Accumulated other comprehensive income (loss)

The accumulated balances related to each component of other comprehensive income (loss) are as follows (\$000's omitted):

| | September 30, 2008 | December 31, 2007 |
|---|-----------------------|----------------------|
| Foreign currency translation adjustments: | | |
| Mexico | \$ 89 | \$ (451) |
| Fair value of derivatives, net of income taxes of \$2,086 in 2008 and \$2,192 in 2007 | (3,107) | (4,432) |

\$ (3,018) \$ (4,883)

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****6. Income taxes**

The Company's income tax benefit for the three and nine months ended September 30, 2008 was \$14.2 million and \$67.9 million, respectively, compared with a benefit of \$306 million and \$662 million in the corresponding prior year periods. These amounts represent effective tax rates for the three and nine months ended September 30, 2008 of 4.8% and 5.6%, respectively, compared with effective tax rates of 28% and 32.4%, respectively, in the corresponding prior year periods. The significant changes in the Company's effective tax rate resulted primarily from the recording of valuation allowances against the Company's deferred tax assets beginning in the fourth quarter of 2007.

At September 30, 2008 and December 31, 2007, the Company had net deferred income tax assets of \$1.3 billion and \$738 million, respectively, offset by valuation allowances of \$1 billion and \$632 million, respectively. In accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109), the Company adjusted its net deferred income tax assets from \$105.9 million to \$248.2 million during the nine months ended September 30, 2008, to reflect the Company's current estimate of the amount realizable from the carryback of the current year's projected net operating loss to the 2006 tax year. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company's consolidated results of operations or financial position.

The Company is currently under examination by various taxing jurisdictions and anticipates finalizing the examinations with certain jurisdictions within the next twelve months. The final outcome of these examinations is not yet determinable. The statute of limitations for the Company's major tax jurisdictions remains open for examination for tax years 1998-2007.

7. Debt and other financing arrangements

The Company repurchased \$313.4 million of its 4.875% senior notes due 2009 by means of a tender offer completed in June 2008. These repurchases resulted in a net loss of \$1.6 million, which is included in the consolidated statements of operations within other non-operating, net expenses.

The Company amended its unsecured revolving credit facility in February 2008 to reduce the borrowing capacity from \$1.86 billion to \$1.6 billion and to adjust the required tangible net worth minimum to exclude the effects of any deferred tax asset valuation allowances. The amendment resulted in a net loss of \$1.5 million, which is included in the consolidated statements of operations within other non-operating, net expenses.

In May 2008, Pulte Mortgage repaid and terminated its \$100 million asset-backed commercial paper program. As of September 30, 2008, Pulte Mortgage's committed credit arrangements consisted of a \$405 million revolving credit facility. Pulte Mortgage had \$192.4 million and \$440.6 million outstanding under the revolving credit facility at September 30, 2008 and December 31, 2007, respectively.

8. Supplemental Guarantor information

At September 30, 2008, Pulte Homes, Inc. had the following outstanding senior note obligations: (1) \$25 million, 4.875%, due 2009, (2) \$200 million, 8.125%, due 2011, (3) \$499 million, 7.875%, due 2011, (4) \$300 million, 6.25%, due 2013, (5) \$500 million, 5.25%, due 2014, (6) \$350 million, 5.2%, due 2015, (7) \$150 million, 7.625%, due 2017, (8) \$300 million, 7.875%, due 2032, (9) \$400 million, 6.375%, due 2033, (10) \$300 million, 6%, due 2035, and (11) \$150 million, 7.375%, due 2046. Such obligations to pay principal, premium (if any), and interest are guaranteed jointly and severally on a senior basis by Pulte Homes, Inc.'s 100%-owned Homebuilding subsidiaries (collectively, the Guarantors). Such guaranties are full and unconditional.

Supplemental consolidating financial information of the Company, including such information for the Guarantors, is presented below. Investments in subsidiaries are presented using the equity method of accounting. Separate financial statements of the Guarantors are not provided as the consolidating financial information contained herein provides a more meaningful disclosure to allow investors to determine the

nature of the assets held by, and the operations of, the combined groups.

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONDENSED CONSOLIDATING BALANCE SHEET****September 30, 2008****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|---|------------------------------|--|---------------------------------------|--------------------------------|---|
| ASSETS | | | | | |
| Cash and equivalents | \$ | \$ 835,385 | \$ 338,507 | \$ | \$ 1,173,892 |
| Unfunded settlements | | 17,219 | (1,991) | | 15,228 |
| House and land inventory | | 5,225,003 | 5,063 | | 5,230,066 |
| Land held for sale | | 285,951 | | | 285,951 |
| Land, not owned, under option agreements | | 17,254 | | | 17,254 |
| Residential mortgage loans available-for-sale | | | 236,648 | | 236,648 |
| Investments in unconsolidated entities | 1,348 | 138,107 | 5,495 | | 144,950 |
| Other assets | 67,793 | 701,253 | 61,792 | | 830,838 |
| Deferred income tax assets | 224,977 | 48 | 23,179 | | 248,204 |
| Investment in subsidiaries | 7,762,648 | 83,316 | 4,869,426 | (12,715,390) | |
| | \$ 8,056,766 | \$ 7,303,536 | \$ 5,538,119 | \$ (12,715,390) | \$ 8,183,031 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Liabilities: | | | | | |
| Accounts payable, accrued and other liabilities | \$ 108,761 | \$ 1,036,991 | \$ 335,794 | \$ | \$ 1,481,546 |
| Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets | | | 192,407 | | 192,407 |
| Income tax liabilities | 159,721 | | | | 159,721 |
| Senior notes | 3,165,998 | | | | 3,165,998 |
| Advances (receivable) payable - subsidiaries | 1,438,927 | (1,515,595) | 76,668 | | |
| Total liabilities | 4,873,407 | (478,604) | 604,869 | | 4,999,672 |
| Shareholders' equity | 3,183,359 | 7,782,140 | 4,933,250 | (12,715,390) | 3,183,359 |
| | \$ 8,056,766 | \$ 7,303,536 | \$ 5,538,119 | \$ (12,715,390) | \$ 8,183,031 |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONDENSED CONSOLIDATING BALANCE SHEET****December 31, 2007****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|---|------------------------------|--|---------------------------------------|--------------------------------|---|
| ASSETS | | | | | |
| Cash and equivalents | \$ | \$ 715,411 | \$ 344,900 | \$ | \$ 1,060,311 |
| Unfunded settlements | | 37,674 | 1,040 | | 38,714 |
| House and land inventory | | 7,021,018 | 6,493 | | 7,027,511 |
| Land held for sale | | 252,563 | | | 252,563 |
| Land, not owned, under option agreements | | 20,838 | | | 20,838 |
| Residential mortgage loans available-for-sale | | | 447,089 | | 447,089 |
| Investments in unconsolidated entities | 1,448 | 93,392 | 10,639 | | 105,479 |
| Other assets | 307,142 | 745,553 | 114,597 | | 1,167,292 |
| Deferred income tax assets | 82,679 | 48 | 23,179 | | 105,906 |
| Investment in subsidiaries | 8,407,720 | 83,703 | 5,709,912 | (14,201,335) | |
| | \$ 8,798,989 | \$ 8,970,200 | \$ 6,657,849 | \$ (14,201,335) | \$ 10,225,703 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | |
| Liabilities: | | | | | |
| Accounts payable, accrued and other liabilities | \$ 157,703 | \$ 1,354,652 | \$ 347,556 | \$ | \$ 1,859,911 |
| Collateralized short-term debt, recourse solely to applicable non-guarantor subsidiary assets | | | 440,611 | | 440,611 |
| Income tax liabilities | 126,758 | | | | 126,758 |
| Senior notes | 3,478,230 | | | | 3,478,230 |
| Advances (receivable) payable - subsidiaries | 716,105 | (804,897) | 88,792 | | |
| Total liabilities | 4,478,796 | 549,755 | 876,959 | | 5,905,510 |
| Shareholders' equity | 4,320,193 | 8,420,445 | 5,780,890 | (14,201,335) | 4,320,193 |
| | \$ 8,798,989 | \$ 8,970,200 | \$ 6,657,849 | \$ (14,201,335) | \$ 10,225,703 |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended September 30, 2008****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|--|------------------------------|--|---------------------------------------|--------------------------------|---|
| Revenues: | | | | | |
| Homebuilding | \$ | \$ 1,521,789 | \$ | \$ | \$ 1,521,789 |
| Financial Services | | 4,131 | 32,307 | | 36,438 |
| Other non-operating | 71 | 4,274 | 2,017 | | 6,362 |
| Total revenues | 71 | 1,530,194 | 34,324 | | 1,564,589 |
| Expenses: | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | | 1,626,974 | | | 1,626,974 |
| Selling, general and administrative and other expense | 2,804 | 167,117 | 24,171 | | 194,092 |
| Financial Services | 531 | 1,686 | 24,131 | | 26,348 |
| Other non-operating, net | 15,407 | (6,323) | (5) | | 9,079 |
| Intercompany interest | 56,127 | (56,127) | | | |
| Total expenses | 74,869 | 1,733,327 | 48,297 | | 1,856,493 |
| Other Income: | | | | | |
| Equity income (loss) | | (1,407) | (1,280) | | (2,687) |
| Income (loss) before income taxes and equity in income of subsidiaries | (74,798) | (204,540) | (15,253) | | (294,591) |
| Income taxes (benefit) | (8,247) | (152) | (5,805) | | (14,204) |
| Income (loss) before equity in income of subsidiaries | (66,551) | (204,388) | (9,448) | | (280,387) |
| Equity in income (loss) of subsidiaries | (213,836) | 4,947 | (178,990) | 387,879 | |
| Net income (loss) | \$ (280,387) | \$ (199,441) | \$ (188,438) | \$ 387,879 | \$ (280,387) |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the nine months ended September 30, 2008****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|--|------------------------------|--|---------------------------------------|--------------------------------|---|
| Revenues: | | | | | |
| Homebuilding | \$ | \$ 4,500,366 | \$ | \$ | \$ 4,500,366 |
| Financial Services | | 11,300 | 107,571 | | 118,871 |
| Other non-operating | 75 | 12,484 | 7,377 | | 19,936 |
| Total revenues | 75 | 4,524,150 | 114,948 | | 4,639,173 |
| Expenses: | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | | 5,142,366 | | | 5,142,366 |
| Selling, general and administrative and other expense | 11,818 | 540,715 | 33,124 | | 585,657 |
| Financial Services | 1,611 | 5,243 | 76,126 | | 82,980 |
| Other non-operating, net | 49,560 | (19,212) | (17) | | 30,331 |
| Intercompany interest | 158,231 | (158,231) | | | |
| Total expenses | 221,220 | 5,510,881 | 109,233 | | 5,841,334 |
| Other Income: | | | | | |
| Equity income (loss) | | 1,895 | (2,608) | | (713) |
| Income (loss) before income taxes and equity in income of subsidiaries | (221,145) | (984,836) | 3,107 | | (1,202,874) |
| Income taxes (benefit) | (18,086) | (52,391) | 2,551 | | (67,926) |
| Income (loss) before equity in income of subsidiaries | (203,059) | (932,445) | 556 | | (1,134,948) |
| Equity in income (loss) of subsidiaries | (931,889) | 19,107 | (860,351) | 1,773,133 | |
| Net income (loss) | \$ (1,134,948) | \$ (913,338) | \$ (859,795) | \$ 1,773,133 | \$ (1,134,948) |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the three months ended September 30, 2007****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated | | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|--|----------------------------------|-----------------------------------|---------------------------------------|--------------------------------|---|
| | | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | | |
| Revenues: | | | | | |
| Homebuilding | \$ | \$ 2,438,556 | \$ | \$ | \$ 2,438,556 |
| Financial Services | | 5,679 | 27,064 | | 32,743 |
| Other non-operating | 3 | 37 | 459 | | 499 |
| Total revenues | 3 | 2,444,272 | 27,523 | | 2,471,798 |
| Expenses: | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | | 2,810,553 | | | 2,810,553 |
| Selling, general and administrative and other expense | 7,238 | 650,064 | 17,685 | | 674,987 |
| Financial Services | 733 | 1,950 | 17,284 | | 19,967 |
| Other non-operating, net | 22,882 | (8,451) | (5,802) | | 8,629 |
| Intercompany interest | 48,871 | (48,871) | | | |
| Total expenses | 79,724 | 3,405,245 | 29,167 | | 3,514,136 |
| Other Income: | | | | | |
| Equity income (loss) | | (51,536) | (39) | | (51,575) |
| Income (loss) before income taxes and equity in income of subsidiaries | (79,721) | (1,012,509) | (1,683) | | (1,093,913) |
| Income taxes (benefit) | (19,238) | (286,712) | (92) | | (306,042) |
| Income (loss) before equity in income of subsidiaries | (60,483) | (725,797) | (1,591) | | (787,871) |
| Equity in income (loss) of subsidiaries | (727,388) | 6,054 | (412,470) | 1,133,804 | |
| Net income (loss) | \$ (787,871) | \$ (719,743) | \$ (414,061) | \$ 1,133,804 | \$ (787,871) |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF OPERATIONS****For the nine months ended September 30, 2007****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|---|------------------------------|--|---------------------------------------|--------------------------------|---|
| Revenues: | | | | | |
| Homebuilding | \$ | \$ 6,261,962 | \$ | \$ | \$ 6,261,962 |
| Financial Services | | 14,216 | 85,470 | | 99,686 |
| Other non-operating | 10 | 1,102 | 1,717 | | 2,829 |
| Total revenues | 10 | 6,277,280 | 87,187 | | 6,364,477 |
| Expenses: | | | | | |
| Homebuilding: | | | | | |
| Cost of sales | | 6,834,885 | | | 6,834,885 |
| Selling, general and administrative and other expense | 25,037 | 1,289,162 | 55,176 | | 1,369,375 |
| Financial Services | 2,074 | 6,046 | 59,163 | | 67,283 |
| Other non-operating, net | 66,969 | (24,513) | (14,154) | | 28,302 |
| Intercompany interest | 113,594 | (113,594) | | | |
| Total expenses | 207,674 | 7,991,986 | 100,185 | | 8,299,845 |
| Other Income: | | | | | |
| Equity income (loss) | | (107,740) | 38 | | (107,702) |
| Income (loss) before income taxes and equity in | | | | | |
| income of subsidiaries | (207,664) | (1,822,446) | (12,960) | | (2,043,070) |
| Income taxes (benefit) | (68,245) | (590,709) | (3,022) | | (661,976) |
| Income (loss) before equity in income of subsidiaries | (139,419) | (1,231,737) | (9,938) | | (1,381,094) |
| Equity in income (loss) of subsidiaries | (1,241,675) | 16,130 | (820,083) | 2,045,628 | |
| Net income (loss) | \$ (1,381,094) | \$ (1,215,607) | \$ (830,021) | \$ 2,045,628 | \$ (1,381,094) |

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF CASH FLOWS****For the nine months ended September 30, 2008****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated | | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|---|-----------------------------------|---------------------------------------|------------|--------------------------------|---|
| | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | | | |
| Net cash provided by (used in) operating activities | \$ (80,975) | \$ 591,043 | \$ 259,550 | \$ | \$ 769,618 |
| Cash flows from investing activities: | | | | | |
| Distributions from unconsolidated entities | | 6,038 | | | 6,038 |
| Investments in unconsolidated entities | | (49,554) | | | (49,554) |
| Dividends received from subsidiaries | | 23,000 | 11,409 | (34,409) | |
| Investment in subsidiaries | (148,287) | (1,410) | (42,451) | 192,148 | |
| Proceeds from the sale of fixed assets | | 4,903 | | | 4,903 |
| Increase in loans held for investment | | | 2,085 | | 2,085 |
| Capital expenditures | | (12,545) | (1,962) | | (14,507) |
| Net cash provided by (used in) investing activities | (148,287) | (29,568) | (30,919) | 157,739 | (51,035) |
| Cash flows from financing activities: | | | | | |
| Net repayments under Financial Services credit arrangements | | | (248,204) | | (248,204) |
| Repayment of other borrowings | (313,384) | (4,613) | | | (317,997) |
| Capital contributions from parent | | 147,991 | 44,157 | (192,148) | |
| Advances (to) from affiliates | 581,959 | (573,470) | (8,489) | | |
| Excess tax benefits from share-based awards | (6,305) | | | | (6,305) |
| Issuance of common stock | 1,867 | | | | 1,867 |
| Stock repurchases | (4,024) | | | | (4,024) |
| Dividends paid | (30,851) | (11,409) | (23,000) | 34,409 | (30,851) |
| Net cash provided by (used in) financing activities | 229,262 | (441,501) | (235,536) | (157,739) | (605,514) |
| Effect of exchange rate changes on cash and equivalents | | | 512 | | 512 |
| Net increase (decrease) in cash and equivalents | | 119,974 | (6,393) | | 113,581 |
| Cash and equivalents at beginning of period | | 715,411 | 344,900 | | 1,060,311 |

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| | | | | | |
|---------------------------------------|----|------------|------------|----|--------------|
| Cash and equivalents at end of period | \$ | \$ 835,385 | \$ 338,507 | \$ | \$ 1,173,892 |
|---------------------------------------|----|------------|------------|----|--------------|

Table of Contents**PULTE HOMES, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)****(Unaudited)****8. Supplemental Guarantor information (continued)****CONSOLIDATING STATEMENT OF CASH FLOWS****For the nine months ended September 30, 2007****(\$000 s omitted)**

| | Pulte Homes, Inc. | Unconsolidated Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminating Entries | Consolidated Pulte Homes, Inc. |
|---|----------------------------------|--|---------------------------------------|--------------------------------|---|
| Net cash provided by (used in) operating activities | \$ (486,819) | \$ 213,712 | \$ 597,775 | \$ | \$ 324,668 |
| Cash flows from investing activities: | | | | | |
| Distributions from unconsolidated entities | | 26,024 | 3,047 | | 29,071 |
| Investments in unconsolidated entities | | (155,606) | | | (155,606) |
| Dividends received from subsidiaries | 51 | 22,000 | | (22,051) | |
| Investment in subsidiaries | (113,030) | (1,558) | (53,829) | 168,417 | |
| Proceeds from the sale of fixed assets | | 9,685 | | | 9,685 |
| Capital expenditures | | (51,734) | (2,661) | | (54,395) |
| Net cash provided by (used in) investing activities | (112,979) | (151,189) | (53,443) | 146,366 | (171,245) |
| Cash flows from financing activities: | | | | | |
| Net repayments under Financial | | | | | |
| Services credit arrangements | | | (528,627) | | (528,627) |
| Net borrowings under revolving credit facility | 25,000 | | | | 25,000 |
| Repayment of other borrowings | (61,188) | (10,894) | | | (72,082) |
| Capital contributions from parent | | 87,030 | 81,387 | (168,417) | |
| Advances (to) from affiliates | 663,046 | (407,828) | (255,218) | | |
| Excess tax benefits from share-based awards | 2,997 | | | | 2,997 |
| Issuance of common stock | 5,880 | | | | 5,880 |
| Stock repurchases | (5,225) | | | | (5,225) |
| Dividends paid | (30,712) | (51) | (22,000) | 22,051 | (30,712) |
| Net cash provided by (used in) financing activities | 599,798 | (331,743) | (724,458) | (146,366) | (602,769) |
| Effect of exchange rate changes on cash and equivalents | | | (160) | | (160) |
| Net decrease in cash and equivalents | | (269,220) | (180,286) | | (449,506) |
| Cash and equivalents at beginning of period | | 318,308 | 232,984 | | 551,292 |

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| | | | | | | | |
|---------------------------------------|----|-----------|----|--------|----|----|---------|
| Cash and equivalents at end of period | \$ | \$ 49,088 | \$ | 52,698 | \$ | \$ | 101,786 |
|---------------------------------------|----|-----------|----|--------|----|----|---------|

Table of Contents**Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations
Overview**

The U.S. housing market continues to be unfavorably impacted by a lack of consumer confidence, decreased housing affordability, tightened mortgage standards, and large supplies of resale and new home inventories and related pricing pressures. These factors have contributed to weakened demand for new homes, slower sales, higher cancellation rates, and increased price discounts and sales incentives to attract homebuyers. As a result of the combination of these homebuilding industry and related mortgage financing developments, we have experienced a net loss in each quarter since the fourth quarter of 2006. Such losses resulted from a combination of reduced operational profitability and significant asset impairments. Since the beginning of 2006, we have incurred total land-related charges of \$3.6 billion, impairments of our investments in unconsolidated joint ventures totaling \$288.4 million, and goodwill impairments of \$370 million.

We continue to operate our business with the expectation that difficult market conditions will continue to impact us for at least the near term. We expect negative trends in our unit settlements and pricing to continue and the majority of the markets we serve to remain challenging throughout 2008 and 2009. We have adjusted our approach to land acquisition and development and construction practices and continue to shorten our land pipeline, limit land development expenditures, reduce production volumes, and balance home price and profitability with sales pace and cash flow at each of our communities. We are delaying planned land purchases and development spending and have significantly reduced our total number of controlled lots owned and under option. Additionally, we are closely managing the number of speculative homes put into production. While we will continue to purchase select land positions where it makes strategic and economic sense to do so, we anticipate minimal investment in new land parcels in the near term. We have also closely evaluated and made significant reductions in employee headcount and overhead expenses. Due to the persistence of these difficult market conditions, improving the efficiency of our overhead costs will continue to be a significant area of focus. We believe that these measures will help to strengthen our market position and allow us to take advantage of opportunities that may develop in the future.

The U.S. economy is currently undergoing a period of economic uncertainty, and the related financial markets are experiencing significant volatility. In response, the U.S. government has made significant efforts in recent months to stabilize these conditions and increase the regulatory oversight of the financial markets, including passage of the Housing and Economic Recovery Act of 2008 (the Act), which was enacted into law on July 30, 2008. Overall, the Act is intended to help stabilize and add consumer confidence to the housing industry. However, the Act also mandates certain changes to which the industry will have to adjust, such as the elimination of down payment assistance programs for FHA loans originated after September 30, 2008. Such programs were utilized for approximately 12% of our unit settlements in the three months ended September 30, 2008. The U.S. government has also taken a series of actions intended to stabilize the U.S. economy and financial markets and increase the overall liquidity available to companies and consumers. We are evaluating the impact the Act and these other actions will have on our business and future results of operations. Thus far, these actions have not proven stimulative for the homebuilding industry.

If these trends in economic conditions or financial market volatility continue, it could adversely affect our business and results of operations in future periods, including a potential reduction in the demand for housing as well as difficulties in accessing financing on acceptable terms. Given these conditions and the continued weakness in new home sales and closings, visibility as to future earnings performance is limited. Our evaluation for land-related charges recorded to date assumed our best estimates of cash flows for the communities tested. If conditions in the homebuilding industry or our local markets worsen in the future or if our strategy related to certain communities changes, we may be required to evaluate our assets, including additional projects, for further impairments or write-downs, which could result in future charges that might be significant.

Table of Contents**Overview (continued)**

The following is a summary of our operating results for the three and nine months ended September 30, 2008 and 2007 (\$000 s omitted, except per share data):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|----------------|------------------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Income (loss) before income taxes: | | | | |
| Homebuilding operations | \$ (301,966) | \$ (1,098,679) | \$ (1,228,417) | \$ (2,050,256) |
| Financial Services operations | 10,092 | 12,896 | 35,938 | 32,659 |
| Other non-operating | (2,717) | (8,130) | (10,395) | (25,473) |
| Loss before income taxes | (294,591) | (1,093,913) | (1,202,874) | (2,043,070) |
| Income taxes (benefit) | (14,204) | (306,042) | (67,926) | (661,976) |
| Net loss | \$ (280,387) | \$ (787,871) | \$ (1,134,948) | \$ (1,381,094) |
| Per share data - assuming dilution: | | | | |
| Net loss | \$ (1.11) | \$ (3.12) | \$ (4.48) | \$ (5.48) |

The following is a comparison of our loss before income taxes for the three and nine months ended September 30, 2008 and 2007:

Our Homebuilding loss before income taxes was \$302 million and \$1.2 billion for the three and nine months ended September 30, 2008, respectively, compared with a Homebuilding loss before income taxes of \$1.1 billion and \$2.1 billion, respectively, for the same periods in the prior year. The pre-tax loss experienced by our Homebuilding operations resulted from lower settlement revenues combined with lower gross margins and significant land-related charges and impairments of investments in unconsolidated joint ventures. Such land-related charges and impairments totaled \$266.2 million and \$1.2 billion for the three and nine months ended September 30, 2008 compared with \$842.1 million and \$1.7 billion for the same periods in the prior year.

Income before income taxes from Financial Services decreased 22% and increased 10% for the three and nine months ended September 30, 2008, respectively, compared with the prior year periods, due primarily to a shift in the mix of loans originated toward more profitable agency-backed products and the impact of new accounting standards adopted on January 1, 2008. The favorable shift in product mix was offset by reduced loan origination volume resulting from the decline in settlement revenues from Homebuilding.

The decrease in other non-operating expenses for the three and nine months ended September 30, 2008, compared with the same periods in the prior year, resulted primarily from an increase in interest income partially offset by expenses related to the amendment of our unsecured revolving credit facility completed in February 2008 and the repurchase of \$313 million of our senior notes due 2009 by means of a tender offer completed in June 2008.

Table of Contents**Homebuilding Operations Summary**

The following table presents a summary of pre-tax income (loss) and unit information for our Homebuilding operations for the three and nine months ended September 30, 2008 and 2007 (\$000 s omitted):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Home sale revenue (settlements) | \$ 1,508,825 | \$ 2,407,762 | \$ 4,460,393 | \$ 6,098,869 |
| Land sale revenue | 12,964 | 30,794 | 39,973 | 163,093 |
| Total Homebuilding revenues | 1,521,789 | 2,438,556 | 4,500,366 | 6,261,962 |
| Home cost of sales (a) | (1,599,064) | (2,700,512) | (4,981,387) | (6,549,864) |
| Land cost of sales (b) | (27,910) | (110,041) | (160,979) | (285,021) |
| Selling, general and administrative expense | (191,997) | (236,610) | (571,577) | (813,476) |
| Equity income (loss) (c) | (2,689) | (51,695) | (760) | (107,958) |
| Other income (expense), net (d) | (2,095) | (438,377) | (14,080) | (555,899) |
| Loss before income taxes | \$ (301,966) | \$ (1,098,679) | \$ (1,228,417) | \$ (2,050,256) |
| Total active communities at September 30 | | | 561 | 669 |
| Unit settlements | 5,377 | 7,468 | 15,548 | 18,826 |
| Average selling price | \$ 281 | \$ 322 | \$ 287 | \$ 324 |
| Net new orders: | | | | |
| Units | 3,008 | 4,582 | 13,543 | 20,613 |
| Dollars (e) | \$ 785,000 | \$ 1,267,000 | \$ 3,659,000 | \$ 6,606,000 |
| Backlog at September 30: | | | | |
| Units | | | 5,885 | 12,042 |
| Dollars | | | \$ 1,708,700 | \$ 4,087,000 |

- (a) Includes homebuilding interest expense, which represents the amortization of capitalized interest. Home cost of sales also includes land and community valuation adjustments of \$249.9 million and \$615.9 million for the three months ended September 30, 2008 and 2007, respectively, and \$1 billion and \$1.3 billion for the nine months ended September 30, 2008 and 2007, respectively.
- (b) Includes net realizable value adjustments for land held for sale of \$15.9 million and \$80.5 million for the three months ended September 30, 2008 and 2007, respectively, and \$125.1 million and \$132.8 million for the nine months ended September 30, 2008 and 2007, respectively.
- (c) Includes impairments of our investments in unconsolidated joint ventures, which totaled \$1.4 million and \$51.1 million for the three months ended September 30, 2008 and 2007, respectively. Impairments in unconsolidated joint ventures totaled \$3.1 million and \$105.2 million for the nine months ended September 30, 2008 and 2007, respectively.
- (d) Includes the write off (recovery) of deposits and other related costs for land option contracts we no longer plan to pursue of (\$931 thousand) and \$94.6 million for the three months ended September 30, 2008 and 2007, respectively, and \$19.4 million and \$204.2 million for the nine months ended September 30, 2008 and 2007, respectively. Additionally, includes goodwill impairment charges of \$335.6 million for the three and nine months ended September 30, 2007.
- (e) 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.

Table of Contents**Homebuilding Operations Summary (continued)**

Home sale revenues for the three and nine months ended September 30, 2008 were lower than those for the same periods in the prior year by \$899 million and \$1.6 billion, or 37% and 27%, respectively. The decreases in home sale revenues for the three and nine months ended September 30, 2008 compared with the prior year periods were attributable to 28% and 17% decreases, respectively, in unit settlements combined with 13% and 11% decreases, respectively, in the average selling price. The declines in unit settlements resulted from both reductions in the number of our active communities (down 16% at September 30, 2008 compared with September 30, 2007) and the challenging sales conditions in our local markets. The decreases in average selling price reflect a combination of factors, including changes in the product and geographic mix of homes closed during the period as well as lower market selling prices and increased sales incentives. Home sale revenues and average selling prices decreased in each of our Homebuilding segments in 2008.

Homebuilding gross profit margins from home settlements improved to negative 6% for the three months ended September 30, 2008, compared with negative 12.2% for the same period in the prior year. For the nine months ended September 30, 2008, Homebuilding gross profit margins were negative 11.7% compared with negative 7.4% for the same period in 2007. The low level of gross profit margins is attributable to the difficult market conditions and challenging sales environment where we have realized lower average selling prices and increased sales incentives. In addition, land and community valuation adjustments of \$249.9 million and \$1 billion were recorded during the three months and nine months ended September 30, 2008, respectively, compared with land and community valuation adjustments of \$615.9 million and \$1.3 billion, respectively, in the corresponding prior year periods.

We acquire land primarily for the construction of our homes for sale to homebuyers. We select locations for development of homebuilding communities after completing extensive market research, enabling us to match the location and product offering with our targeted consumer group. Where we develop land, we engage directly in many phases of the development process, including land and site planning, obtaining environmental and other regulatory approvals, as well as constructing roads, sewers, water and drainage facilities, and other amenities. We will often sell parcels of land within or adjacent to our communities to retail and commercial establishments. We also will, on occasion, sell lots within our communities to other homebuilders. Gross profits from land sales for the three months ended September 30, 2008 had a negative margin contribution of \$14.9 million, compared with a negative margin contribution of \$79.2 million for the same period in 2007. Gross profits from land sales for the nine months ended September 30, 2008 had a negative margin contribution of \$121 million, compared with a negative margin contribution of \$121.9 million for the same period in 2007. These negative margin contributions include net realizable value adjustments for land held for sale of \$15.9 million and \$80.5 million for the three months ended September 30, 2008 and 2007, respectively, and \$125.1 million and \$132.8 million for the nine months ended September 30, 2008 and 2007, respectively. Revenues and their related gains/losses may vary significantly between periods, depending on the timing of land sales. We continue to evaluate our existing land positions to ensure the most effective use of capital. As of September 30, 2008, we had \$286 million of land held for sale.

Selling, general and administrative expense as a percentage of home settlement revenues was 12.7% for the three months ended September 30, 2008 compared with 9.8% for the same period in the prior year. For the nine months ended September 30, 2008, selling, general and administrative expense as a percentage of home settlement revenues was 12.8% compared with 13.3% in the prior year period. The respective \$44.6 million and \$241.9 million reductions in selling, general and administrative costs in the three and nine months ended September 30, 2008 compared with the same periods in the prior year resulted from our internal initiatives focused on controlling costs and matching our cost structure with the current business environment. However, these reductions were partially offset by significant decreases in revenues, lower absorption into inventory of overhead costs due to lower construction volumes, and severance costs of \$2.9 million and \$12.4 million, respectively, for the three and nine months ended September 30, 2008 related to further overhead reductions. The three and nine months ended September 30, 2007 included employee severance benefits of approximately \$300 thousand and \$26.6 million, respectively, related to a restructuring plan initiated in May 2007. Additionally, certain insurance-related expenses decreased \$6.8 million and increased \$22.1 million, respectively, in the three and nine months ended September 30, 2008, primarily related to the development of general liability product claims.

Equity income (loss) includes impairments of investments in unconsolidated joint ventures totaling \$1.4 million and \$3.1 million in the three and nine months ended September 30, 2008, respectively, and \$51.1 million and \$105.2 million in the three and nine months ended September 30, 2007, respectively.

Table of Contents**Homebuilding Operations Summary (continued)**

Other income (expense), net includes the write off (or recovery) of deposits and related costs resulting from decisions not to pursue certain land acquisitions and options, which totaled (\$931 thousand) and \$94.6 million for the three months ended September 30, 2008 and 2007, respectively, and \$19.4 million and \$204.2 million for the nine months ended September 30, 2008 and 2007, respectively. These write-offs were partially offset by higher customer deposit income resulting from increased customer cancellations. For the three and nine months ended September 30, 2007, we also recorded asset impairment and lease termination costs totaling \$7.1 million and \$14.8 million, respectively, related to the restructuring plan initiated in May 2007. Additionally, we recorded goodwill impairment charges of \$335.6 million in the three and nine months ended September 30, 2007.

For the three and nine months ended September 30, 2008, net new order units decreased 34% to 3,008 units and 34% to 13,543 units, respectively, compared with the same periods in 2007. The cancellation rate for the third quarter was 37%, compared with 44% for the same period in 2007. Most of our local markets have experienced substantial increases in resale and new home inventory, and this, combined with a lack of consumer confidence, decreased housing affordability, difficulties experienced by customers in selling their existing homes, and the more restrictive mortgage financing market, has resulted in higher cancellation rates and lower net new orders.

The dollar value of net new orders decreased 38% and 45% for the three and nine months ended September 30, 2008, respectively, compared with the same periods in 2007. At September 30, 2008, we had 561 active communities, a decrease of 16% from September 30, 2007. Ending backlog, which represents orders for homes that have not yet closed, was 5,885 units at September 30, 2008 with a dollar value of \$1.7 billion, declines of 51% and 58%, respectively, compared with September 30, 2007.

At September 30, 2008 and December 31, 2007, our Homebuilding operations controlled 127,993 and 157,858 lots, respectively. Of these controlled lots, 109,877 and 131,385 lots were owned, and 18,012 and 24,813 lots were under option agreements approved for purchase at September 30, 2008 and December 31, 2007, respectively. In addition, there were 104 and 1,660 lots under option agreements, pending approval, at September 30, 2008 and December 31, 2007, respectively. For the three and nine months ended September 30, 2008, we withdrew from land contracts representing approximately 100 lots valued at \$8.7 million and 5,500 lots valued at \$151.8 million, respectively.

The total purchase price related to approved land under option for use by our Homebuilding operations at future dates approximated \$1.2 billion at September 30, 2008. In addition, the total purchase price related to land under option pending approval was valued at approximately \$7.2 million at September 30, 2008. Land option agreements, which may be cancelled at our discretion, may extend over several years and are secured by deposits and other related costs totaling \$236.5 million, of which \$1.4 million is refundable. This balance excludes \$21.3 million of contingent payment obligations which may or may not become actual obligations to us.

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Homebuilding Segment Operations

Our homebuilding operations represent our core business. Homebuilding offers a broad product line to meet the needs of first-time, first and second move-up, and active adult homebuyers. We have determined our Homebuilding operating segments to be our Areas, which are aggregated into seven reportable segments based on similarities in the economic and geographic characteristics of our homebuilding operations. We conduct our operations in 50 markets, located throughout 27 states, and have presented our reportable Homebuilding segments as follows:

- Northeast: Northeast Area includes the following states:
Connecticut, Delaware, Maryland, Massachusetts, New Jersey,

New York, Pennsylvania, Rhode Island, Virginia
- Southeast: Southeast Area includes the following states:
Georgia, North Carolina, South Carolina, Tennessee
- Florida: Florida Area includes the following state:
Florida
- Midwest: Great Lakes Area includes the following states:
Colorado, Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Ohio
- Central: Texas Area includes the following state:
Texas
- Southwest: Southwest Area includes the following states:
Arizona, Nevada, New Mexico
- *California: Northern California and Southern California Areas include the following state:
California

* *Our homebuilding operations located in Reno, Nevada are reported in the California segment, while our remaining Nevada homebuilding operations are reported in the Southwest segment.*

Table of Contents**Homebuilding Segment Operations (continued)**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------------|------------------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Home sale revenue (settlements) (\$000 s omitted): | | | | |
| Northeast | \$ 202,445 | \$ 321,586 | \$ 596,833 | \$ 717,726 |
| Southeast | 221,394 | 298,009 | 687,950 | 824,842 |
| Florida | 181,760 | 273,999 | 560,669 | 803,076 |
| Midwest | 182,415 | 341,892 | 522,052 | 756,257 |
| Central | 111,923 | 153,158 | 346,560 | 438,214 |
| Southwest | 407,295 | 655,972 | 1,130,773 | 1,569,248 |
| California | 201,593 | 363,146 | 615,556 | 989,506 |
| | \$ 1,508,825 | \$ 2,407,762 | \$ 4,460,393 | \$ 6,098,869 |
| Income (loss) before income taxes (\$000 s omitted): | | | | |
| Northeast | \$ (2,178) | \$ (24,343) | \$ (44,692) | \$ (124,876) |
| Southeast | 5,202 | 11,000 | (1,012) | 51,524 |
| Florida | (8,131) | (149,939) | (181,070) | (270,866) |
| Midwest | (27,553) | (49,059) | (80,695) | (272,802) |
| Central | (4,132) | (41,542) | (2,141) | (100,617) |
| Southwest | (133,770) | (202,437) | (523,171) | (245,867) |
| California | (29,518) | (178,341) | (157,736) | (415,237) |
| Unallocated | (101,886) | (464,018) | (237,900) | (671,515) |
| | \$ (301,966) | \$ (1,098,679) | \$ (1,228,417) | \$ (2,050,256) |
| Unit settlements: | | | | |
| Northeast | 497 | 729 | 1,433 | 1,633 |
| Southeast | 776 | 1,019 | 2,405 | 2,798 |
| Florida | 808 | 1,058 | 2,377 | 2,944 |
| Midwest | 661 | 1,132 | 1,899 | 2,537 |
| Central | 545 | 699 | 1,698 | 1,995 |
| Southwest | 1,571 | 2,025 | 4,191 | 4,860 |
| California | 519 | 806 | 1,545 | 2,059 |
| | 5,377 | 7,468 | 15,548 | 18,826 |
| Net new orders - units: | | | | |
| Northeast | 328 | 440 | 1,363 | 2,000 |
| Southeast | 493 | 883 | 2,063 | 2,907 |
| Florida | 424 | 766 | 2,283 | 3,362 |
| Midwest | 553 | 631 | 1,832 | 2,789 |
| Central | 317 | 521 | 1,259 | 1,876 |
| Southwest | 629 | 900 | 3,516 | 5,307 |
| California | 264 | 441 | 1,227 | 2,372 |
| | 3,008 | 4,582 | 13,543 | 20,613 |

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Unit backlog:

| | | |
|------------|-------|--------|
| Northeast | 721 | 1,284 |
| Southeast | 939 | 1,817 |
| Florida | 1,158 | 1,630 |
| Midwest | 761 | 1,649 |
| Central | 431 | 1,003 |
| Southwest | 1,335 | 3,166 |
| California | 540 | 1,493 |
| | 5,885 | 12,042 |

Table of Contents**Homebuilding Segment Operations (continued)**

| | As of September 30, 2008 | As of December 31, 2007 |
|------------------|-----------------------------|----------------------------|
| Controlled lots: | | |
| Northeast | 10,406 | 13,152 |
| Southeast | 13,334 | 17,170 |
| Florida | 31,546 | 35,348 |
| Midwest | 9,284 | 14,098 |
| Central | 11,738 | 13,023 |
| Southwest | 38,911 | 49,746 |
| California | 12,774 | 15,321 |
| | 127,993 | 157,858 |

Northeast:

For the third quarter of 2008, Northeast home sale revenues decreased 37% compared with the prior year period due to a 32% decrease in unit settlements combined with an 8% decrease in the average selling price. The significant reduction in the loss before income taxes was primarily attributable to a reduction in land-related charges to \$9.4 million in the third quarter of 2008 from \$48.4 million in the prior year period. Gross margins excluding land-related charges decreased from the prior year period. Net new order units decreased 26% due to the difficult market conditions and a reduction in the number of active communities. The cancellation rate was 20% and 33% in the third quarter of 2008 and 2007, respectively. Our Long Island and Delaware Valley markets were the primary cause for the reduction in net new orders.

For the nine months ended September 30, 2008, Northeast home sale revenues decreased 17% compared with the prior year period due to a 12% decrease in unit settlements combined with a 5% decrease in the average selling price. The reduction in the loss before income taxes was primarily attributable to lower land-related charges of \$64 million in 2008 compared with \$143.5 million in 2007. Gross margins excluding land-related charges decreased from the prior year period. Net new order units decreased 32% compared with the prior year period due to lower demand and a reduction in the number of active communities. Our Delaware Valley, Washington, D.C and Maryland markets were the primary cause for the reduction in net new orders.

Southeast:

For the third quarter of 2008, Southeast home sale revenues decreased 26% compared with the prior year period due to a 24% decrease in unit settlements, primarily in our Georgia and Charlotte markets, combined with a slight decrease in the average selling price. The reduction in income before taxes in the third quarter of 2008 was attributable to these lower revenues combined with lower gross margins (excluding land-related charges). Land-related charges decreased to \$5.1 million in the third quarter of 2008 compared with \$16.3 million in the prior year period. Net new order units declined in every market and by 44% overall compared with the prior year period due to lower demand and a reduction in the number of active communities. The cancellation rate was 37% and 29% in the third quarter of 2008 and 2007, respectively.

For the nine months ended September 30, 2008, Southeast home sale revenues decreased 17% compared with the prior year period due to a 14% decrease in unit settlements combined with a 3% decrease in the average selling price. The largest declines in unit settlements occurred in our Georgia and Charlotte markets. The loss before income taxes in the nine months ended September 30, 2008 was attributable to these lower revenues combined with lower gross margins (excluding land-related charges) and \$38.8 million of land-related charges compared with \$18.1 million in the prior year period. Net new order units declined by 29% compared with the prior year period due to lower demand and a reduction in the number of active communities.

Florida:

Our Florida segment continues to be extremely challenged due to the combination of a significant decrease in demand combined with high levels of new and existing home inventories, especially in the southern portion of the state. For the third quarter of 2008, Florida home sale revenues decreased 34% compared with the prior year period due to a 24% decrease in unit settlements combined with a 13% decrease in the average selling price. All of our Florida markets experienced lower revenues, including significant declines in Southwest Florida. In spite of the lower home sales revenues and lower gross margins (excluding land-related charges), the loss before income taxes improved significantly due to a

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reduction in land-related charges to \$9.4 million compared with \$152.3 million in the prior year period. Net new order units declined by 45% due to the difficult market conditions and a reduction in the number of active communities. The cancellation rate was 38% and 37% in the third quarter of 2008 and 2007, respectively.

Table of Contents**Homebuilding Segment Operations (continued)**

For the nine months ended September 30, 2008, Florida home sale revenues decreased 30% compared with the prior year period due to a 19% decrease in unit settlements combined with a 14% decrease in the average selling price. Each of our Florida markets experienced declines in unit settlements. The decrease in the loss before income taxes was attributable to the reduction in revenues combined with significantly lower gross margins (excluding land-related charges) and offset by \$174.8 million in land-related charges compared with \$275 million in the prior year period. Net new order units declined by 32% compared with the prior year period due to the difficult market conditions and a reduction in the number of active communities.

Midwest:

Our Midwest segment continues to face difficult local economic conditions as each of our markets experienced lower unit settlements and revenues in the third quarter of 2008. Midwest home sale revenues decreased 47% during the quarter compared with the prior year period due to a 42% decrease in unit settlements combined with a 9% decrease in the average selling price. The loss before income taxes improved in the third quarter of 2008 compared with the third quarter of 2007 primarily due to a decrease in land-related charges to \$29.3 million from \$68.3 million. Gross margins excluding land-related charges were lower compared with the prior period. Net new order units declined by 12% due to the difficult market conditions and a significant reduction in the number of active communities. The cancellation rate in the third quarter of 2008 was 23% compared with 35% in the same period in 2007.

For the nine months ended September 30, 2008, Midwest home sale revenues decreased 31% compared with the prior year period due to a 25% decrease in unit settlements combined with an 8% decrease in the average selling price. Each market experienced lower revenues compared with the prior year period. The loss before income taxes improved in 2008 compared with 2007 primarily due to a decrease in land-related charges to \$80.4 million from \$271.7 million. Gross margins excluding land-related charges decreased between the two periods. Net new order units declined by 34% due to the difficult market conditions and a significant reduction in the number of active communities.

Central:

Home sale revenues for the Central segment decreased 27% during the third quarter 2008 compared with the prior year period due to a 22% decrease in unit settlements combined with a 6% decrease in the average selling price. The improvement in loss before income taxes in the third quarter of 2008 was primarily attributable to incurring only \$9 million of land-related charges as the prior year period included land-related charges totaling \$42.1 million. Gross margins excluding land-related charges did not change significantly compared with the prior year period. Net new order units declined by 39% as the result of lower demand and a significant reduction in the number of active communities. The cancellation rate was 36% and 38% in the third quarter of 2008 and 2007, respectively.

For the nine months ended September 30, 2008, Central home sale revenues decreased 21% compared with the prior year period due to a 15% decrease in unit settlements combined with a 7% decrease in average selling prices. Our Dallas and San Antonio markets experienced the largest revenue declines. The improvement in loss before income taxes was primarily attributable to incurring only \$11.1 million of land-related charges as the prior year period included land-related charges totaling \$98.3 million. Gross margins excluding land-related charges were slightly lower compared with the prior year period. Net new order units declined by 33% due to the difficult market conditions and a significant reduction in the number of active communities.

Southwest:

Market conditions in our Southwest operations continued to be challenging during the third quarter of 2008, especially in our Las Vegas market. For the three months ended September 30, 2008, Southwest home sale revenues decreased 38% compared with the prior year period due to a 22% decrease in unit settlements combined with a 20% decrease in average selling prices. The significant loss before income taxes in the third quarter of 2008 resulted primarily from land-related charges totaling \$148.9 million, although these charges were less than the land-related charges of \$225.6 million in the prior year period. In addition, the prior year period also included impairments of \$51.1 million related to two unconsolidated joint ventures. Gross margins excluding land-related charges were significantly lower in the third quarter of 2008 compared with the prior year period. Reduced revenues and lower gross margins were offset by decreased land-related charges resulting in a significant decrease in the loss before income taxes compared with the prior year period. Net new order units declined by 30% due to the difficult market conditions and a reduction in the number of active communities. The cancellation rate was 48% and 58% in the third quarter of 2008 and 2007, respectively.

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Homebuilding Segment Operations (continued)

For the nine months ended September 30, 2008, Southwest home sale revenues decreased 28% compared with the prior year period due to a 14% decrease in unit settlements combined with a 16% decrease in average selling prices. The significant loss before income taxes was attributable to this reduction in revenues, significantly lower gross margins (excluding land-related charges), and land-related charges of \$549.1 million compared with \$331.7 million in the prior year period. In addition, the prior year period's results also included impairments of \$51.1 million related to two unconsolidated joint ventures. Net new order units declined by 34% due to the difficult market conditions and a reduction in the number of active communities.

California:

Our California operations have been impacted by significantly weakened demand for new homes, affordability issues, and an excess supply of resale inventory in substantially all of our markets. For the third quarter of 2008, California home sale revenues decreased 44% compared with the prior year period due to a 36% decrease in unit settlements combined with a 14% decrease in average selling prices. Each of our California markets experienced home sale revenue reductions, and this was particularly pronounced in the Bay Area. The loss before income taxes resulted from these lower revenues, reductions in gross margins (excluding land-related charges), and land-related charges totaling \$34.5 million. However, the loss before income taxes was significantly lower than in the third quarter of 2007 due to the prior year period including land-related charges totaling \$194.5 million. Net new order units declined by 40% in the third quarter of 2008 compared with the same period in the prior year due to the difficult market conditions and a significant reduction in the number of active communities. The cancellation rate was 48% and 61% in the third quarter of 2008 and 2007, respectively.

For the nine months ended September 30, 2008, California home sales revenue decreased 38% compared with the prior year period due to a 25% decrease in unit settlements combined with a 17% decrease in average selling prices. The loss before income taxes resulted from these lower revenues, lower gross margins (excluding land-related charges), and land-related charges totaling \$164.3 million. However, the loss before income taxes was significantly lower than in the third quarter of 2007 due to the prior year period including land-related charges totaling \$389.7 million and an impairment of an unconsolidated joint venture in the amount of \$54.1 million. Net new order units declined by 48% due to the difficult market conditions and a significant reduction in the number of active communities.

Table of Contents**Financial Services Operations**

We conduct our financial services business, which includes mortgage and title operations, through Pulte Mortgage and other subsidiaries. We originate mortgage loans using our own funds or borrowings made available through various credit arrangements, and then sell such mortgage loans monthly to outside investors. Also, we sell our servicing rights on a flow basis through fixed price servicing sales contracts. The following table presents selected financial information for our Financial Services segment (\$000 s omitted):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------------|------------------------------------|---------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Mortgage operations revenues | \$ 32,307 | \$ 27,064 | \$ 107,571 | \$ 85,470 |
| Title services | 4,131 | 5,679 | 11,300 | 14,216 |
| Total Financial Services revenues | 36,438 | 32,743 | 118,871 | 99,686 |
| Expenses | (26,348) | (19,967) | (82,980) | (67,283) |
| Equity income | 2 | 120 | 47 | 256 |
| | | | | |
| Income before income taxes | \$ 10,092 | \$ 12,896 | \$ 35,938 | \$ 32,659 |
| | | | | |
| Total originations: | | | | |
| Loans | 3,924 | 6,261 | 11,369 | 16,719 |
| | | | | |
| Principal | \$ 875,100 | \$ 1,424,100 | \$ 2,555,800 | \$ 3,743,800 |

Mortgage origination unit volume decreased 37% and 32% while mortgage origination principal volume decreased 39% and 32% for the three and nine months ended September 30, 2008, respectively, compared with the same periods in the prior year. The decrease in unit volume is attributable to lower home settlements in 2008 compared with 2007, combined with a decrease in the capture rate to 91.9% from 92.7% for the nine months ended September 30, 2008. For the three months ended September 30, 2008, the capture rate increased to 93.4% from 92.5% in the same period in the prior year. Our capture rate represents loan originations from our Homebuilding operations as a percentage of total loan opportunities from our Homebuilding operations, excluding cash settlements. The decrease in mortgage origination principal volume resulted from the reduced settlement volume combined with a decrease in the average loan size. Our Homebuilding customers continue to account for substantially all total loan production, representing nearly 100% of unit production for the three and nine months ended September 30, 2008 and 2007.

The mortgage industry has experienced a significant shift away from adjustable rate mortgages (ARMs) over the last two years. ARMs, which generally have a lower profit per loan than fixed rate products, represented 3% and 4% of total funded origination dollars for the three and nine months ended September 30, 2008, respectively, and 7% and 10% for the three and nine months ended September 30, 2007, respectively. Interest-only mortgages, a component of ARMs, represented 26% and 30% of ARM origination dollars for the three and nine months ended September 30, 2008 and 71% and 76% of ARM originations dollars for the three and nine months ended September 30, 2007, respectively. As a result, interest-only mortgages represented only 1% of total funded origination dollars for both the three and nine months ended September 30, 2008, compared with 5% and 8% for the three and nine months ended September 30, 2007, respectively.

Our customers' average FICO scores for the three months ended September 30, 2008 and 2007 were 736 and 745, respectively, and 737 and 745 for the nine months ended September 30, 2008 and 2007, respectively. Average Combined Loan-to-Value was 84% and 81% for the three months ended September 30, 2008 and 2007, respectively, and 84% and 82% for the nine months ended September 30, 2008 and 2007, respectively. At September 30, 2008, our loan application backlog decreased to \$960.4 million compared with \$2.5 billion at September 30, 2007, due primarily to the lower backlog in our Homebuilding operations.

Table of Contents**Financial Services Operations (continued)**

Based on principal dollars, approximately 5% of the loans we originated in the third quarter of 2008 were considered sub-prime loans, which we define as first mortgages with FICO scores of 620 or below. Approximately 0.1% of third quarter 2008 originations were considered Alt-A loans, which we define as non-full documentation first mortgages with FICO scores of 621 or higher. The remaining 95% of third quarter 2008 originations were prime loans, which we define as full documentation first mortgages with FICO scores of 621 or higher. Because we sell our loans monthly and retain only limited risk for sold loans for a short period of time, we believe that our Financial Services operations do not have any material direct risks related to sub-prime and Alt-A loans. However, the availability of certain mortgage financing products has become more constrained as the mortgage industry is now more closely scrutinizing sub-prime, Alt-A, and other non-conforming mortgage products. These developments have had, and may continue to have, a material adverse effect on the overall demand for new housing and thereby on the results of operations of both our Homebuilding and Financial Services segments.

Income before income taxes decreased \$2.8 million, or 22%, for the three months ended September 30, 2008 compared with the prior year period and increased \$3.3 million, or 10%, for the nine months ended September 30, 2008 compared with the prior year period. This increase is partially attributed to the adoption of two new accounting pronouncements, SEC Staff Accounting Bulletin No. 109 *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109) and SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which require that the fair value of interest rate lock loan commitments include the fair value of future servicing rights and that designated loans held for sale be carried at fair value rather than at the lower of cost or market. These accounting changes decreased income before income taxes for the three months ended September 30, 2008 by \$3.8 million, consisting of a decrease to Financial Services revenues of \$1.7 million along with an increase to Financial Services expenses of \$2.1 million. The accounting changes increased income before taxes for the nine months ended September 30, 2008 by \$4.7 million, consisting of an increase to Financial Services revenue of \$11.5 million, offset by an increase to Financial Services expenses of \$6.8 million. Additionally, Financial Services also benefited from a shift in the mix of loans originated toward more profitable agency-backed products.

Since we sell the majority of our loans monthly and retain only limited risk related to the loans we originate, our overall loan loss reserves have historically not been significant. In recent quarters, however, we experienced increases in our non-performing loans and foreclosed properties as well as higher expected losses on repurchased loans and mortgage reinsurance policies. As a result, our overall loan loss reserves increased to \$14.9 million at September 30, 2008 compared with \$12.4 million at December 31, 2007. Loan loss provisions included in expenses totaled \$2.2 million and \$8.2 million, respectively, for the three and nine months ended September 30, 2008, respectively, compared with \$2.6 million and \$5.3 million, respectively, for the same periods in the prior year.

We economically hedge portions of our forecasted cash flows from sales of closed mortgage loans with derivative financial instruments to minimize the impact of changes in interest rates. We do not use derivative financial instruments for trading purposes.

Other Non-Operating

Other non-operating expenses consist of income and expenses related to corporate services provided to our subsidiaries. These expenses are incurred for financing, developing and implementing strategic initiatives centered on new business development and operating efficiencies, and providing the necessary administrative support associated with being a publicly-traded entity listed on the New York Stock Exchange. Accordingly, these results will vary from period to period as these strategic initiatives evolve.

Table of Contents**Other Non-Operating (continued)**

The following table presents other non-operating expenses for the three and nine months ended September 30, 2008 and 2007 (\$000 s omitted):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|-------------------|------------------------------------|--------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net interest income (expense) | \$ 5,639 | \$ (268) | \$ 17,757 | \$ 134 |
| Other expenses, net | (8,356) | (7,862) | (28,152) | (25,607) |
| Loss before income taxes | \$ (2,717) | \$ (8,130) | \$ (10,395) | \$ (25,473) |

The increases in net interest income from the prior year periods resulted from higher average cash balances and lower borrowings under our unsecured revolving credit facility. The increases in other expenses, net are due primarily to expenses related to the amendment of our unsecured revolving credit facility completed in February 2008 and the repurchase of \$313 million of our senior notes due 2009 by means of a tender offer completed in June 2008.

Interest capitalized into homebuilding inventory is charged to home cost of sales based on the cyclical timing of our unit settlements over a period that approximates the average life cycle of our communities. Interest capitalized decreased based on reduced debt levels during the first nine months of 2008 compared with the prior year period. Interest expensed to homebuilding cost of sales for the three and nine months ended September 30, 2008 includes \$19.3 million and \$64.3 million, respectively, of capitalized interest related to land and community valuation adjustments compared with \$43.5 million and \$90.3 million, respectively, for the three and nine months ended September 30, 2007. Information related to interest capitalized into homebuilding inventory is as follows (\$000 s omitted):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest in inventory at beginning of period | \$ 176,885 | \$ 212,441 | \$ 160,598 | \$ 235,596 |
| Interest capitalized | 53,369 | 61,179 | 166,780 | 182,404 |
| Interest expensed | (52,526) | (98,205) | (149,650) | (242,585) |
| Interest in inventory at end of period | \$ 177,728 | \$ 175,415 | \$ 177,728 | \$ 175,415 |
| Interest incurred* | \$ 54,100 | \$ 61,900 | \$ 169,000 | \$ 185,100 |

* Interest incurred includes interest on our senior debt, short-term borrowings, and other financing arrangements and excludes interest incurred by our Financial Services segment.

Income Taxes

Our income tax benefit for the three and nine months ended September 30, 2008 was \$14.2 million and \$67.9 million, respectively, compared with a benefit of \$306 million and \$662 million, respectively, in the corresponding prior year periods. These amounts represent effective tax rates for the three and nine months ended September 30, 2008 of 4.8% and 5.6%, respectively, compared with effective tax rates of 28% and 32.4%, respectively, in the corresponding prior year periods. The significant changes in the Company's effective tax rate resulted primarily from the recording of valuation allowances against our deferred tax assets beginning in the fourth quarter of 2007.

Table of Contents**Liquidity and Capital Resources**

We finance our land acquisition, development, and construction activities by using internally generated funds and existing credit arrangements. We routinely monitor current operational requirements and financial market conditions to evaluate the use of available financing sources, including securities offerings. Based on our current financial condition and credit relationships, we believe that our operations and borrowing resources are sufficient to provide for our current and foreseeable capital requirements. However, we continue to evaluate our long-term capital requirements and liquidity and may determine that modifications are appropriate based on market conditions.

At September 30, 2008, we had cash and equivalents of \$1.2 billion and no borrowings outstanding under our unsecured revolving credit facility. We also had \$3.2 billion of senior notes outstanding. Other financing included limited recourse land-collateralized financing totaling \$5.9 million. Sources of our working capital include our cash and equivalents, our committed unsecured revolving credit facility, and Pulte Mortgage's committed credit arrangements.

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

Our ratio of debt-to-total capitalization, excluding our land-collateralized and Pulte Mortgage debt, was 49.9% at September 30, 2008, and 38.5% net of cash and equivalents.

Currently, our unsecured revolving credit facility includes an uncommitted accordion feature, under which the credit facility may be increased from \$1.6 billion to \$2.25 billion. We have the capacity to issue letters of credit up to \$1.125 billion. Borrowing availability is reduced by the amount of letters of credit outstanding. The credit facility includes a borrowing base limitation when we do not have an investment grade senior unsecured debt rating from at least two of Fitch Ratings, Moody's Investor Service, and Standard and Poor's Corporation. We currently do not have investment grade ratings from Moody's Investor Service and Standard and Poor's Corporation and are therefore subject to the borrowing base limitations. Given the uncertainty of current market conditions, we anticipate operating under the borrowing base limitation for the remainder of 2008 and throughout 2009. Under the borrowing base limitation, the sum of our senior debt and the amount drawn on the revolving credit facility may not exceed an amount based on certain percentages of various categories of our unencumbered inventory and other assets. As of September 30, 2008, we had no borrowings outstanding and approximately \$1.2 billion available for borrowing under this facility after consideration of outstanding letters of credit. As a result, the borrowing base limitation did not restrict our borrowing at September 30, 2008.

The credit facility contains certain financial covenants. We are required to not exceed a debt-to-total capitalization ratio as well as to meet a tangible net worth minimum each quarter. At September 30, 2008, our debt-to-total capitalization ratio (as defined in the credit facility) was 46.9% (compared with the current requirement to not exceed 47.5%) while our tangible net worth cushion (as defined in the credit facility) was approximately \$89 million. Additionally, if the interest coverage ratio (as defined in the credit facility) is less than 2 to 1, LIBOR margin and letter of credit pricing under the credit facility can increase in increments ranging from 0.125% to 0.375% and the debt-to-total capitalization ratio covenant threshold can decrease in increments of 2.5%. This resulted in a decrease in our required debt-to-total capitalization ratio covenant threshold to 47.5% at September 30, 2008 from 50% at June 30, 2008, and similar decreases may occur in the future. Violations of certain of the financial covenants in the credit facility, if not waived by the lenders or cured, could result in an optional maturity date acceleration by the lenders, which might require repayment of any borrowings and replacement or cash collateralization of any letters of credit outstanding under the credit facility, and could also result in a default under our \$3.2 billion of senior notes.

Consistent with our plans to operate our business with the expectation that the difficult U.S. housing market conditions will continue to impact us for the near term, we are currently in discussions with our bank syndicate to amend our credit agreement for adjustments in the covenant levels. We believe the amendment, if completed, will ease our required covenant levels but will likely reduce the capacity of the facility and increase our borrowing costs. We expect to have the amendment completed by December 31, 2008, but there can be no assurances that the amendment will be completed by that date, if at all. In the event the amendment is not completed, market conditions deteriorate in the future, or we incur additional land-related charges, our compliance with the required covenant levels may be adversely impacted. Additionally, our ability to utilize the full capacity of the credit agreement may be limited under the terms of the borrowing base.

Table of Contents**Liquidity and Capital Resources (continued)**

Pulte Mortgage provides mortgage financing for many of our home sales and uses its own funds and borrowings made available pursuant to various committed and uncommitted credit arrangements. Pulte Mortgage uses these resources to finance its lending activities until the mortgage loans are sold to investors. At September 30, 2008, Pulte Mortgage's committed credit arrangements consisted of a \$405 million revolving credit facility as the previous \$100 million asset-backed commercial paper program was repaid and terminated in May 2008. The revolving credit facility requires Pulte Mortgage to maintain a consolidated tangible net worth of at least \$50 million or 85% of the average month-end tangible net worth for the preceding calendar year (\$52.8 million for 2008) and restricts funded debt to 15 times tangible net worth. At September 30, 2008, Pulte Mortgage had \$192.4 million outstanding under the revolving credit facility.

Pursuant to the two \$100 million stock repurchase programs authorized by our Board of Directors in October 2002 and 2005, and the \$200 million stock repurchase authorization in February 2006 (for a total stock repurchase authorization of \$400 million), we have repurchased a total of 9,688,900 shares for a total of \$297.7 million. There were no repurchases under these programs during the nine months ended September 30, 2008. We had remaining authorization to purchase common stock aggregating \$102.3 million at September 30, 2008.

Our net cash provided by operating activities for the nine months ended September 30, 2008 was \$769.6 million, compared with \$324.7 million for the nine months ended September 30, 2007. The primary drivers of cash flow from operations are inventory levels and profitability. For the nine months ended September 30, 2008, we continued to focus on right-sizing our land and house inventory to better match current market conditions, which resulted in a significant net decrease to inventories compared with a significant increase in the prior year period. The seasonal reduction in residential mortgage loans available-for-sale also contributed significant cash during both periods, though this reduction is largely offset by related repayments under Pulte Mortgage's credit arrangements, which are reflected within cash flows from financing activities. Cash provided by operating activities was also favorably impacted by receipt of a federal income tax refund totaling \$212 million during the nine months ended September 30, 2008. These impacts were partially offset by an increased net loss, though the net loss in both periods was largely due to non-cash land-related charges.

Cash used in investing activities was \$51 million for the nine months ended September 30, 2008, compared with \$171.2 million for the nine months ended September 30, 2007. The significant decrease in cash used in investing activities resulted primarily from a reduction in contributions to our unconsolidated joint ventures combined with reduced capital expenditures. These factors were partially offset by lower cash distributions received from our unconsolidated joint ventures in 2008 compared with the prior year period.

Net cash used in financing activities totaled \$605.5 million for the nine months ended September 30, 2008 compared with \$602.8 million for the nine months ended September 30, 2007. The primary cause for this increase was the repurchase of \$313 million of our senior notes due 2009 by means of a tender offer completed in June 2008. The net repayments under our Pulte Mortgage credit arrangements also contributed to the use of cash in financing activities in both 2008 and 2007 and is consistent with the decrease in residential mortgage loans available-for-sale included in cash provided by operating activities. There were no borrowings under our revolving credit facility during 2008.

Inflation

We, and the homebuilding industry in general, may be adversely affected during periods of high inflation because of higher land and construction costs. Inflation may also increase our financing, labor, and material costs. In addition, higher mortgage interest rates significantly affect the affordability of permanent mortgage financing to prospective homebuyers. While we attempt to pass to our customers increases in our costs through increased sales prices, the current industry conditions have resulted in lower sales prices in many of our markets. If we are unable to raise sales prices enough to compensate for higher costs, or if mortgage interest rates increase significantly, affecting our prospective homebuyers' ability to adequately finance home purchases, our revenues, gross margins, and net income would be adversely affected.

Seasonality

We experience variability in our quarterly results from operations due to the seasonal nature of the homebuilding industry. Historically, we have experienced significant increases in revenues and cash flow from operations during the fourth quarter based on the timing of home settlements. Under current market conditions, however, it is difficult to determine whether these seasonal trends will continue.

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Contractual Obligations

Our consolidated contractual obligations as of September 30, 2008 did not change materially from those disclosed in Contractual Obligations 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, 2007.

Off-Balance Sheet Arrangements

At September 30, 2008 and December 31, 2007, aggregate outstanding debt of unconsolidated joint ventures was \$518.2 million and \$602.5 million, respectively, of which our proportionate share of such joint venture debt was \$91.3 million and \$134 million, respectively. Of our proportionate share of joint venture debt, we provided limited recourse guaranties for \$82.6 million and \$124.5 million of such joint venture debt at September 30, 2008 and December 31, 2007, respectively.

See Note 4 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q for a more detailed discussion regarding our joint venture guaranties.

New Accounting Pronouncements

See Note 1 to the Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

Critical Accounting Policies and Estimates

There have been no significant changes to our critical accounting policies and estimates during the three months ended September 30, 2008 compared with those disclosed 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, 2007.

Table of Contents**Item 3. Quantitative and Qualitative Disclosures About Market Risk***Quantitative disclosure:*

We are subject to interest rate risk on our rate-sensitive financing to the extent long-term rates decline. The following table sets forth, as of September 30, 2008, our rate-sensitive financing obligations, principal cash flows by scheduled maturity, weighted-average interest rates, and estimated fair values (\$000 s omitted):

| | 2008 | 2009 | 2010 | As of September 30 for the years ending December 31, | | | Total | Fair Value |
|--|--------|-----------|--------|---|------|--------------|--------------|--------------|
| | | | | 2011 | 2012 | Thereafter | | |
| Rate-sensitive liabilities: | | | | | | | | |
| <i>Fixed interest rate debt:</i> | | | | | | | | |
| Senior notes | \$ | \$ 25,412 | \$ | \$ 698,563 | \$ | \$ 2,450,000 | \$ 3,173,975 | \$ 2,620,374 |
| Average interest rate | | 4.88% | | 7.95% | | 6.24% | 6.60% | |
| Limited recourse collateralized financing | \$ 231 | \$ 3,841 | \$ 890 | \$ 890 | \$ | | \$ 5,852 | \$ 5,852 |
| Average interest rate | 7.28% | 8.30% | 7.25% | 7.25% | | | 7.94% | |

Qualitative disclosure:

There has been no material change 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, 2007.

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 involve known risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among other things, (1) general economic and business conditions; (2) interest rate changes and the availability of mortgage financing; (3) continued volatility and potential further deterioration in the debt and equity markets; (4) competition; (5) the availability and cost of land and other raw materials used by the Company in its homebuilding operations; (6) the availability and cost of insurance covering risks associated with the Company's business; (7) shortages and the cost of labor; (8) weather related slowdowns; (9) slow growth initiatives and/or local building moratoria; (10) governmental regulation, including the effects from the Emergency Economic Stabilization Act and the interpretation of tax, labor and environmental laws; (11) changes in consumer confidence and preferences; (12) required accounting changes; (13) terrorist acts and other acts of war; and (14) other factors of national, regional and global scale, including those of a political, economic, business and competitive nature. See the Company's Annual Report on Form 10-K and Annual Report to Shareholders for the year ended December 31, 2007 and other public filings with the Securities and Exchange Commission for a further discussion of these and other risks and uncertainties applicable to Pulte's business. Pulte undertakes no duty to update any forward-looking statement whether as a result of new information, future events or changes in Pulte's expectations.

Item 4. Controls and Procedures

Management, including our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2008. Based upon, and as of the date of, that evaluation, our President & Chief Executive Officer and Executive Vice President & Chief Financial Officer concluded that the disclosure controls and procedures were effective as of September 30, 2008.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

Set forth below is a discussion of the material changes in our risk factors as previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K). The following replaces the risk factor titled *Our future growth may require additional capital, which may not be available* as included in the 2007 Form 10-K.

Adverse Capital and Credit Market Conditions May Significantly Affect Our Access to Capital and Cost of Capital

The capital and credit markets have been experiencing extreme volatility. In recent weeks, the volatility and disruption have reached unprecedented levels. In many cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity for issuers.

We need liquidity for future growth and development of our business. Without sufficient liquidity, we may not be able to purchase additional land or develop land, which could adversely affect our financial results. One source of liquidity is our unsecured revolving credit facility. In the event market conditions deteriorate further and result in additional significant land-related charges or other asset impairments, we may violate certain financial covenants in the credit facility. These violations, if not waived by the lenders or cured, could result in an optional maturity date acceleration by the lenders, which might require repayment of any borrowings and replacement or cash collateralization of any letters of credit outstanding under the credit facility, and could also result in a default under our \$3.2 billion of senior notes. We are currently in discussions with our bank syndicate to amend our credit agreement for adjustments in the covenant levels. The amendment, if completed, is likely to ease our required covenant levels but will likely reduce the capacity of the facility and increase our borrowing costs. There can be no assurances as to whether any agreement with our lenders can be reached or the timing of any such agreement.

The ability to reach an agreement with our lenders or to seek alternative sources of financing, if necessary, will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the homebuilding industry, our credit ratings and credit capacity, as well as the possibility that lenders could develop a negative perception of our long- or short-term financial prospects if the level of our business activity decreases further due to the market downturn. At September 30, 2008, we had cash and equivalents of \$1.2 billion and no borrowings outstanding under our unsecured revolving credit facility. However, our internal sources of liquidity may prove to be insufficient, and in such case, we may not be able to successfully obtain additional financing on terms acceptable to us, or at all.

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Issuer Purchases of Equity Securities**

| | (a) Total number of shares purchased (2) | (b) Average price paid per share (2) | (c) Total number of shares purchased as part of publicly announced plans or programs | (d) Approximate dollar value of shares that may yet be purchased under the plans or programs (\$000 s omitted) |
|--|---|---|---|--|
| July 1, 2008 through July 31, 2008 | | | | \$ 102,342(1) |
| August 1, 2008 through August 31, 2008 | | | | \$ 102,342(1) |
| September 1, 2008 through September 30, 2008 | 24,875 | \$ 16.36 | | \$ 102,342(1) |
| Total | 24,875 | \$ 16.36 | | |

- (1) Pursuant to the two \$100 million stock repurchase programs authorized and announced by our Board of Directors in October 2002 and 2005 and the \$200 million stock repurchase authorized and announced in February 2006 (for a total stock repurchase authorization of \$400 million), the Company has repurchased a total of 9,688,900 shares for a total of \$297.7 million. There are no expiration dates for the programs.
- (2) During September 2008, a total of 24,875 shares were surrendered by employees for payment of minimum tax obligations upon the vesting of restricted stock, and were not repurchased as part of our publicly announced stock repurchase programs.

**Item 6. Exhibits
Exhibit Number and Description**

- 3(a) Articles of Incorporation, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Registration Statement on Form S-4, Registration No. 333-62518)
- 3(b) Certificate of Amendment to the Articles of Incorporation of Pulte Homes, Inc. (Dated May 16, 2005) (Incorporated by reference to Exhibit 3(a) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2006)
- 3(c) By-laws, as amended, of Pulte Homes, Inc. (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K dated September 15, 2004)
- 4(a) Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of Pulte Homes, Inc. and its subsidiaries, has not been filed. The Company agrees to furnish a copy of such instruments to the SEC upon request.
- 31(a) Rule 13a-14(a) Certification by Richard J. Dugas, Jr., President and Chief Executive Officer
- 31(b) Rule 13a-14(a) Certification by Roger A. Cregg, Executive Vice President and Chief Financial Officer
- 32 Certification Pursuant to 18 United States Code § 1350 and Rule 13a-14(b) under the Securities Exchange Act of 1934

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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.

PULTE HOMES, INC.

/s/ Roger A. Cregg
Roger A. Cregg
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and duly authorized officer)
Date: November 6, 2008