Meritage Homes CORP
Form 10-Q
October 31, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2014

Or

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

For the transition period from to

Commission File Number 1-9977

MERITAGE HOMES CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Maryland	86-0611231
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
8800 East Raintree Drive, Suite 300 Scottsdale, Arizona	85260
(Address of Principal Executive Offices)	(Zip Code)

(480) 515-8100
(Registrant's Telephone Number, Including Area Code)
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by a checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by a checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Common shares outstanding as of October 29, 2014: 39,125,006

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	$84,105	$274,136
Investments and securities	9,857	89,687
Other receivables	56,178	38,983
Real estate	1,865,051	1,405,299
Real estate not owned	4,999	289
Deposits on real estate under option or contract	80,263	51,595
Investments in unconsolidated entities	9,900	11,638
Property and equipment, net	31,979	22,099
Deferred tax asset	65,538	70,404
Prepaids, other assets and goodwill	64,942	39,231
Total assets	$2,272,812	$2,003,361
Liabilities:		
Accounts payable	$105,068	$68,018
Accrued liabilities	168,584	166,611
Home sale deposits	33,535	21,996
Liabilities related to real estate not owned	4,299	289
Senior, convertible senior notes and other borrowings	904,629	905,055
Total liabilities	1,216,115	1,161,969
Stockholders' Equity:		
Preferred stock, par value $0.01. Authorized 10,000,000 shares; none issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, par value $0.01. Authorized 125,000,000 shares; issued 39,125,006 and 36,244,071 shares at September 30, 2014 and December 31, 2013, respectively	391	362
Additional paid-in capital	535,204	412,961
Retained earnings	521,102	428,069
Total stockholders' equity	1,056,697	841,392
Total liabilities and stockholders' equity	$2,272,812	$2,003,361

See accompanying notes to unaudited consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED INCOME STATEMENTS
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Homebuilding:				
Home closing revenue	$545,524	$483,147	$1,454,103	$1,249,897
Land closing revenue	11,252	8,933	16,622	28,568
Total closing revenue	556,776	492,080	1,470,725	1,278,465
Cost of home closings	(434,286)	(372,772)	(1,140,305)	(981,557)
Cost of land closings	(11,729)	(6,126)	(18,084)	(24,139)
Total cost of closings	(446,015)	(378,898)	(1,158,389)	(1,005,696)
Home closing gross profit	111,238	110,375	313,798	268,340
Land closing gross (loss)/profit	(477)	2,807	(1,462)	4,429
Total closing gross profit	110,761	113,182	312,336	272,769
Financial Services:				
Revenue	2,749	1,684	7,099	3,960
Expense	(1,238)	(901)	(3,444)	(2,229)
Earnings from financial services unconsolidated entities and other, net	2,783	3,511	7,281	9,784
Financial services profit	4,294	4,294	10,936	11,515
Commissions and other sales costs	(40,211)	(33,467)	(107,250)	(90,526)
General and administrative expenses	(29,218)	(24,412)	(75,460)	(66,587)
(Loss)/earnings from other unconsolidated entities, net	(134)	46	(364)	(229)
Interest expense	(460)	(3,462)	(4,569)	(13,113)
Other income, net	1,998	605	6,395	1,760
Loss on early extinguishment of debt	—	—	—	(3,796)
Earnings before income taxes	47,030	56,786	142,024	111,793
Provision for income taxes	(14,453)	(18,595)	(48,991)	(33,418)
Net earnings	$32,577	$38,191	$93,033	$78,375
Earnings per common share:				
Basic	$0.83	$1.05	$2.39	$2.17
Diluted	$0.79	$0.99	$2.27	$2.05
Weighted average number of shares:				
Basic	39,123	36,226	38,977	36,060
Diluted	41,656	38,865	41,564	38,771

See accompanying notes to unaudited consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net earnings	$93,033	$78,375
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	8,154	7,169
Stock-based compensation	9,035	7,040
Loss on early extinguishment of debt	—	3,796
Excess income tax benefit from stock-based awards	(2,197)	(1,733)
Equity in earnings from unconsolidated entities	(6,917)	(9,555)
Deferred tax asset valuation benefit	—	(4,614)
Distributions of earnings from unconsolidated entities	8,784	10,796
Other	8,361	3,071
Changes in assets and liabilities:		
Increase in real estate	(350,868)	(221,668)
Increase in deposits on real estate under option or contract	(27,552)	(20,425)
Increase in receivables and prepaid expenses and other assets	(19,502)	(14,224)
Increase in accounts payable and accrued liabilities	34,501	106,862
Increase in home sale deposits	9,015	15,584
Net cash used in operating activities	(236,153)	(39,526)
Cash flows from investing activities:		
Investments in unconsolidated entities	(245)	(107)
Distributions of capital from unconsolidated entities	—	79
Purchases of property and equipment	(16,367)	(9,717)
Proceeds from sales of property and equipment	173	39
Maturities of investments and securities	115,584	132,900
Payments to purchase investments and securities	(35,697)	(139,672)
Cash paid for acquisitions	(130,677)	(18,379)
Increase in restricted cash	—	(1,966)
Net cash used in investing activities	(67,229)	(36,823)
Cash flows from financing activities:		
Repayment of senior subordinated notes	—	(102,822)
Proceeds from issuance of senior notes	—	175,000
Debt issuance costs	—	(1,403)
Excess income tax benefit from stock-based awards	2,197	1,733
Non-controlling interest acquisition	—	(257)
Proceeds from issuance of common stock, net	110,420	—
Proceeds from stock option exercises	734	11,225
Net cash provided by financing activities	113,351	83,476
Net (decrease)/increase in cash and cash equivalents	(190,031)	7,127
Cash and cash equivalents at beginning of period	274,136	170,457
Cash and cash equivalents at end of period	$84,105	$177,584

See supplemental disclosures of cash flow information at Note 12.
See accompanying notes to unaudited consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Organization. Meritage Homes is a leading designer and builder of single-family detached homes based on the number of home closings. We primarily build in the historically high-growth regions of the western, southern and southeastern United States and offer a variety of homes that are designed to appeal to a wide range of homebuyers, including first-time, move-up, active adult and luxury. We have homebuilding operations in three regions: West, Central and East, which are comprised of nine states: Arizona, Texas, California, Colorado, Florida, North Carolina, South Carolina, Georgia and Tennessee. In August 2014, we entered the Atlanta, Georgia and Greenville, South Carolina markets through the acquisition of the homebuilding assets and operations of Legendary Communities ("Legendary"). With this acquisition, we acquired control of approximately 4,800 lots, of which 700 are owned and 4,100 are under option contracts with third parties. The acquisition of Legendary contributed 185 units to our backlog as of September 30, 2014. We also operate a wholly-owned title company, Carefree Title Agency, Inc. ("Carefree Title"). Carefree Title's core business includes title insurance and closing/settlement services we offer to our homebuyers. Through our predecessors, we commenced our homebuilding operations in 1985. Meritage Homes Corporation was incorporated in 1988 in the state of Maryland.

Our homebuilding and marketing activities are conducted under the name of Meritage Homes in each of our homebuilding markets, other than Tennessee, where we operate under the Phillips Builders brand, and in the Atlanta and Greenville markets where we currently operate under the Legendary Communities brand. We also operate as Monterey Homes in some markets. At September 30, 2014, we were actively selling homes in 225 communities, with base prices ranging from approximately $127,000 to $859,000.

Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. The consolidated financial statements include the accounts of Meritage Homes Corporation and those of our consolidated subsidiaries, partnerships and other entities in which we have a controlling financial interest, and of variable interest entities (see Note 3) in which we are deemed the primary beneficiary (collectively, “us”, “we”, “our” and “the Company”). Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the accompanying financial statements include all adjustments (consisting only of normal recurring entries), necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year. Certain reclassifications have been made to the prior year to conform with current year presentation, including any adjustments recorded to previously established warranty reserves.

Cash and Cash Equivalents. Liquid investments with an initial maturity of three months or less are classified as cash equivalents. Amounts in transit from title companies for home closings of approximately $36.9 million and $26.4 million are included in cash and cash equivalents at September 30, 2014 and December 31, 2013, respectively. Included in our cash and cash equivalents balance as of September 30, 2014 and December 31, 2013 are $0.3 million and $68.3 million, respectively, of money market funds that are invested in short term (three months or less) U.S. government securities.

Investments and Securities. Our investments and securities are comprised of both treasury securities and deposits with banks that are FDIC-insured and secured by U.S. government treasury-backed investments, and therefore we believe bear a limited risk of loss. All of our investments are classified as held-to-maturity and are recorded at amortized cost as we have both the ability and intent to hold them until their respective maturities. The contractual lives of these investments are greater than three months but not exceeding 18 months. Due to their short duration and low contractual interest rates, the amortized cost of the investments approximates fair value with no unrecognized gains and losses or other-than-temporary impairments.

Real Estate. Real estate is stated at cost unless the asset is determined to be impaired, at which point the inventory is written down to fair value as required by Accounting Standards Codification (“ASC”) Subtopic 360-10, Property, Plant and Equipment (“ASC 360-10”). Inventory includes the costs of land acquisition, land development, home construction, capitalized interest, real estate taxes, capitalized direct overhead costs incurred during development and home construction that benefit the entire community, less impairments, if any. Land and development costs are typically allocated and transferred to homes under construction when construction begins. Home construction costs are accumulated on a per-home basis, while most selling costs are expensed as incurred. Cost of home closings includes the specific construction costs of the home and all related allocated land acquisition, land development and other common costs (both incurred and estimated to be incurred) that are allocated

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based upon the total number of homes expected to be closed in each community or phase. Any changes to the estimated total development costs of a community or phase are allocated to the remaining homes in the community or phase. When a home closes, we may have incurred costs for goods and services that have not yet been paid. Therefore, we record an accrued liability to capture such obligations in connection with the home closing and charged directly to cost of sales.

We rely on certain estimates to determine our construction and land development costs. Construction and land costs are comprised of direct and allocated costs, including estimated future costs. In determining these costs, we compile project budgets that are based on a variety of assumptions, including future construction schedules and costs to be incurred. It is possible that actual results could differ from budgeted amounts for various reasons, including construction delays, labor or material shortages, increases in costs that have not yet been committed, changes in governmental requirements, or other unanticipated issues encountered during construction and development and other factors beyond our control. To address uncertainty in these budgets, we assess, update and revise project budgets on a regular basis, utilizing the most current information available to estimate construction and land costs.

Typically, a community’s life cycle ranges from three to five years, commencing with the acquisition of the land, continuing through the land development phase, if applicable, and concluding with the sale, construction and closing of the homes. Actual community lives will vary based on the location and size of the community, the sales absorption rate and whether the land purchased was raw, partially-developed or in finished status. Master-planned communities encompassing several phases and super-block land parcels may have significantly longer lives and projects involving a small number of finished lots may be shorter.

All of our land inventory and related real estate assets are reviewed for recoverability, as our inventory is considered “long-lived” in accordance with GAAP. Impairment charges are recorded to write down an asset to its estimated fair value if the undiscounted cash flows expected to be generated by the asset are lower than its carrying amount. Our determination of fair value is based on projections and estimates. Changes in these expectations may lead to a change in the outcome of our impairment analysis, and actual results may also differ from our assumptions. Our analysis is conducted if indicators of a decline in value of our land and real estate assets exist. If an asset is deemed to be impaired, the impairment recognized is measured as the amount by which the assets’ carrying amount exceeds their fair value. The impairment of a community is allocated to each lot on a straight-line basis.

Deposits. Deposits paid related to purchase contracts and land options are recorded and classified as Deposits on real estate under option or contract until the related land is purchased. Deposits are reclassified as a component of real estate inventory at the time the deposit is used to offset the acquisition price of the lots based on the terms of the underlying agreements. To the extent they are non-refundable, deposits are charged to expense if the land acquisition is terminated or no longer considered probable. Since the acquisition contracts typically do not require specific performance, we do not consider such contracts to be contractual obligations to purchase the land and our total exposure under such contracts is limited to the loss of the non-refundable deposits and any ancillary capitalized costs. Our deposits were $80.3 million and $51.6 million as of September 30, 2014 and December 31, 2013, respectively.

Goodwill. In accordance with ASC 350, Intangibles, Goodwill and Other ("ASC 350"), we analyze goodwill on at least an annual basis through a qualitative assessment to determine whether it is necessary to perform a two-step goodwill impairment test. ASC 350 states that an entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. Such qualitative factors include: (1) macroeconomic conditions, such as a deterioration in general economic conditions, (2) industry and market considerations such as deterioration in the environment in which the entity operates, (3) cost factors such as increases in raw materials, labor costs, etc., and (4) overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings. If the qualitative analysis determines that additional impairment testing is required, the two-step impairment testing in accordance with ASC 350 would be initiated. We continually evaluate our qualitative inputs to assess whether events and circumstances have occurred that indicate the goodwill balance may not be recoverable.

Off-Balance Sheet Arrangements —Joint Ventures. In the past, we have participated in land development joint ventures as a means of accessing larger parcels of land, expanding our market opportunities, managing our risk profile and leveraging our capital base; however, in recent years, such ventures have not been a significant avenue for us to access lots. See Note 4 for additional discussion of our investments in unconsolidated entities.

Off-Balance Sheet Arrangements — Other. We may acquire lots from various development and land bank entities pursuant to purchase and option agreements. The purchase price generally approximates the market price at the date the contract is executed (with possible future escalators). See Note 3 for further discussion.

Surety Bonds and Letters of Credit. We may provide letters of credit in support of our obligations relating to the development of our projects and other corporate purposes. We may also utilize surety bonds to guarantee our performance of

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certain development and construction activities. Surety bonds are generally posted in lieu of letters of credit or cash deposits. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. Bonds are generally not released until all development activities under the applicable bond are complete. In the event a bond or letter of credit is drawn upon, we would be obligated to reimburse the issuer for any amounts advanced under the bond. We believe it is unlikely that any significant amounts of these bonds or letters of credit will be drawn upon.

The table below outlines our surety bond and letter of credit obligations (in thousands):

	At September 30, 2014		At December 31, 2013	
	Outstanding	Estimated work remaining to complete	Outstanding	Estimated work remaining to complete
Surety Bonds:				
Surety bonds related to joint ventures	$87	$ 87	$87	$ 87
Surety bonds related to owned projects and lots under contract	249,510	95,778	191,742	86,115
Total surety bonds	$249,597	$ 95,865	$191,829	$ 86,202
Letters of Credit (“LOCs”):				
LOCs in lieu of deposits for contracted lots	$1,200	N/A	$1,685	N/A
LOCs for land development	18,586	N/A	35,883	N/A
LOCs for general corporate operations	4,500	N/A	4,500	N/A
Total LOCs	$24,286	N/A	$42,068	N/A

Accrued Liabilities. Accrued liabilities consist of the following (in thousands):

	At September 30, 2014	At December 31, 2013
Accruals related to real-estate development and construction activities	$38,463	$29,992
Payroll and other benefits	34,942	36,232
Accrued taxes	12,878	22,902
Warranty reserves	21,454	21,971
Legal reserves	15,747	16,463
Real-estate notes payable (1)	16,574	15,993
Other accruals	28,526	23,058
Total	$168,584	$166,611

(1) Reflects balance of non-recourse notes payable made in connection with land purchases.

Warranty Reserves. We provide home purchasers with limited warranties against certain building defects and have certain obligations related to those post-construction warranties for closed homes. The specific terms and conditions of these limited warranties vary by state, but overall the nature of the warranties include a complete workmanship and materials warranty typically during the first year after the close of the home and a structural warranty that typically extends up to 10 years subsequent to the close of the home. With the assistance of an actuary, we estimate these reserves for the structural warranty based on the number of homes still under warranty and historical warranty data and trends for our communities. We also use industry data with respect to similar product types and geographic areas in markets where our experience may not be sufficient to draw a meaningful conclusion. We regularly review our warranty reserves and adjust them, as necessary, to reflect changes in trends as information becomes available. A summary of changes in our warranty reserves follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	$20,882	$21,844	$21,971	$22,064
Additions to reserve from new home deliveries	3,023	2,818	8,058	8,055

Warranty claims	(2,451)	(2,405)	(9,075)	(7,862)
Adjustments to pre-existing reserves	—	—	500	—
Balance, end of period	$21,454	$22,257	$21,454	$22,257

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Warranty reserves are included in Accrued liabilities on the accompanying consolidated balance sheets, and additions and adjustments to the reserves are included in Cost of home closings within the accompanying consolidated income statements. These reserves are intended to cover costs associated with our contractual and statutory warranty obligations, which include, among other items, claims involving defective workmanship and materials. We believe that our total reserves, coupled with our contractual relationships and rights with our trades and the general liability insurance we maintain, are sufficient to cover our general warranty obligations. However, unanticipated changes in legal, weather, environmental or other conditions could have an impact on our actual warranty costs, and future costs could differ significantly from our estimates.

Recently Issued Accounting Pronouncements.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. We will be required to perform the going concern assessment under ASU 2014-15 beginning with the year ending December 31, 2016.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (“ASU 2014-12”). ASU 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in ASC 718, Compensation — Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The amendments in ASU 2014-12 are effective for us on January 1, 2016. Early adoption is permitted. We do not anticipate the adoption of ASU 2014-12 will have a material effect on our consolidated financial statements or disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying the following steps: (1) identify the contract(s) with a customer; (2)identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in ASU 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the Accounting Standards Codification, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for us on January 1, 2017. Early adoption is not permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360) - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”), which changes the criteria for classifying activities as discontinued operations and increases the related disclosure requirements. Pursuant to ASU 2014-08, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as a discontinued operation. If the disposal does qualify as a discontinued operation under ASU 2014-08, the entity will be required to provide expanded disclosures. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. ASU 2014-08 is effective for us on January 1, 2015. We do not anticipate the adoption of ASU 2014-08 will have a material effect on our consolidated financial statements or disclosures.

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NOTE 2 — REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

	At September 30, 2014	At December 31, 2013
Homes under contract under construction (1)	$440,033	$262,633
Unsold homes, completed and under construction (1)	283,883	147,889
Model homes (1)	100,027	81,541
Finished home sites and home sites under development (2)	1,041,108	913,236
	$1,865,051	$1,405,299

(1) Includes the allocated land and land development costs associated with each lot for these homes.

(2) Includes land held for development and land held for sale. Land held for development primarily reflects land and land development costs related to land where development activity is not currently underway but is expected to begin in the future. For these parcels, we may have chosen not to currently develop certain land holdings as they typically represent a portion or phases of a larger land parcel that we plan to build out over several years. We do not capitalize interest for inactive assets, and all ongoing costs of land ownership (i.e. property taxes, homeowner association dues, etc.) are expensed as incurred.

Subject to sufficient qualifying assets, we capitalize interest incurred in connection with the development and construction of real estate. Completed homes and land not actively under development do not qualify for interest capitalization. Capitalized interest is allocated to real estate when incurred and charged to cost of closings when the related property is delivered to our customers. To the extent our debt exceeds our qualified assets base, we expense a proportionate share of the interest incurred.

A summary of our capitalized interest is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Capitalized interest, beginning of period	$44,355	$26,294	$32,992	$21,600
Interest incurred	14,695	12,508	43,333	37,876
Interest expensed	(460)	(3,462)	(4,569)	(13,113)
Interest amortized to cost of home and land closings	(8,135)	(6,342)	(21,301)	(17,365)
Capitalized interest, end of period (1)	$50,455	$28,998	$50,455	$28,998

(1) Approximately $511,000 of the capitalized interest is related to our joint venture investments and is a component of Investments in unconsolidated entities on our consolidated balance sheets as of September 30, 2014 and December 31, 2013.

NOTE 3 — VARIABLE INTEREST ENTITIES AND CONSOLIDATED REAL ESTATE NOT OWNED

We enter into purchase and option agreements for land or lots as part of our normal course of business. These purchase and option agreements enable us to acquire land at one or multiple future dates at pre-determined prices. We believe these acquisition structures reduce the financial risk associated with land acquisitions and holdings and allow us to better maximize our liquidity.

Based on the provisions of the relevant accounting guidance, we have concluded that when we enter into purchase or option agreements to acquire land or lots from an entity, a variable interest entity, or “VIE”, may be created. We evaluate all purchase and option agreements for land to determine whether they are a VIE. ASC 810, Consolidations, requires that for each VIE, we assess whether we are the primary beneficiary and, if we are, we consolidate the VIE in our financial statements and reflect such assets and liabilities as “Real estate not owned.” Historically, such consolidations have been immaterial to our financial statements, and the liabilities related to consolidated VIEs are excluded from our debt covenant calculations.

In substantially all cases, the entities with which we have option agreements and their creditors have no recourse against us and the maximum exposure to loss in our option agreements is limited to non-refundable option deposits and any capitalized pre-acquisition costs. Often, we are at risk for items over budget related to land development on property we have

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under option if we are the land developer. In these cases, we have contracted to complete development at a fixed cost on behalf of the land owner and we bear any budget shortfalls and maintain any budget savings. Some of our option deposits may be refundable to us if certain contractual conditions are not performed by the party selling the lots.
The table below presents a summary of our lots under option or contract at September 30, 2014 (dollars in thousands):

	Projected Number of Lots	Purchase Price	Option/Earnest Money Deposits Cash	
Purchase and option contracts recorded on balance sheet as Real estate not owned	70	$4,999	$ 700	
Option contracts not recorded on balance sheet - non-refundable deposits, committed (1)	5,891	430,970	55,422	
Purchase contracts not recorded on balance sheet — non-refundable deposits, committed (1)	4,124	241,093	21,012	
Purchase contracts not recorded on balance sheet — refundable deposits, committed	641	25,434	1,227	
Total committed (on and off balance sheet)	10,726	702,496	78,361	
Total purchase and option contracts not recorded on balance sheet — refundable deposits, uncommitted (2)	5,048	163,581	2,602	
Total lots under contract or option	15,774	$866,077	$ 80,963	
Total option contracts not recorded on balance sheet (3)	15,704	$861,078	$ 80,263	(4)

(1) Deposits are generally non-refundable except if certain contractual conditions fail or certain contractual obligations are not performed by the selling party.
(2) Deposits are refundable at our sole discretion. We have not completed our acquisition evaluation process and we have not internally committed to purchase these lots.
(3) Except for our specific performance option contracts recorded on our balance sheet as Real estate not owned, none of our option agreements require us to purchase lots.
(4) Amount is reflected in our consolidated balance sheet in the line item Deposits on real estate under option or contract as of September 30, 2014.

Generally, our option contracts to purchase lots remain effective so long as we purchase a pre-established minimum number of lots each month or quarter, as determined by the respective agreement. The pre-established number is typically structured to approximate our expected rate of home construction starts. Purchase contracts generally involve bulk purchase terms where we purchase all or a large portion of the lots at one time and are typically short-term in nature.

NOTE 4 — INVESTMENTS IN UNCONSOLIDATED ENTITIES

In the past, we have entered into land development joint ventures as a means of accessing larger parcels of land, expanding our market opportunities, managing our risk profile and leveraging our capital base. While purchasing land through a joint venture can be beneficial, currently we do not view these ventures as critical to the success of our homebuilding operations and have not entered into any new land joint ventures since 2008. Based on the structure of these joint ventures, they may or may not be consolidated into our results. Our joint venture partners generally are other homebuilders, land sellers or other real estate investors. We generally do not have a controlling interest in these ventures, which means our joint venture partners could cause the venture to take actions we disagree with, or fail to take actions we believe should be undertaken, including the sale of the underlying property to repay debt or recoup all or part of the partners' investments. As of September 30, 2014, we had two active equity-method land development ventures.
For land development joint ventures, we, and in some cases our joint venture partners, usually receive an option or other similar arrangement to purchase portions of the land held by the joint venture. Option prices are generally

negotiated prices that approximate market value when we enter into the option contract or similar arrangement. For these ventures, our share of the joint venture profit relating to lots we purchase from the joint ventures is deferred until homes are delivered by us and title passes to a homebuyer. Therefore, we allocate the portion of such joint venture profit to the land acquired by us as a reduction in the basis of the property.

In connection with our land development joint ventures, we may also provide certain types of guarantees to lenders financing the joint ventures. These guarantees can be classified into two categories: Repayment Guarantees and Completion Guarantees, described in more detail below. Additionally, we have classified separately a guarantee related to our minority

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ownership in the South Edge joint venture, as there is pending litigation with the successors -in-trust to the venture's lender group and other venture partners regarding that guarantee.

(In thousands)	At September 30, 2014	At December 31, 2013
Repayment guarantees	$—	$—
Completion guarantees (1)	—	—
South Edge guarantee (2)	13,243	13,243
Total guarantees	$13,243	$13,243

(1) As our completion guarantees are typically backed by funding from a third party, we do not believe these guarantees represent a potential cash obligation for us, as they require only non-financial performance.

(2) See Note 14 regarding outstanding litigation related to a joint venture project known as "South Edge" or "Inspirada" and the corresponding reserves and charges we have recorded relating thereto.

Repayment Guarantees. We and/or our land development joint venture partners occasionally provide limited repayment guarantees on a pro rata basis on the debt of land development joint ventures. If such a guarantee were ever to be called or triggered, the maximum exposure to Meritage would generally be only our pro-rata share of the amount of debt outstanding that was in excess of the fair value of the underlying land securing the debt. We had no repayment guarantees as of September 30, 2014 or December 31, 2013.

Completion Guarantees. If there is development work to be completed, we and our joint venture partners are also typically obligated to the project lender(s) to complete construction of the land development improvements if the joint venture does not perform the required development. Provided we and the other joint venture partners are in compliance with these completion obligations, the project lenders are generally obligated to fund these improvements through any financing commitments available under the applicable joint venture development and construction loans. In addition, we and our joint venture partners have from time to time provided unsecured indemnities to joint venture project lenders. These indemnities generally obligate us to reimburse the project lenders only for claims and losses related to matters for which such lenders are held responsible and our exposure under these indemnities is limited to specific matters such as environmental claims. A part of our project acquisition due diligence process is to determine potential environmental risks and generally we or the joint venture entity obtain an independent environmental review. Per the guidance of ASC 460-10, Guarantees, we believe these guarantees are either not applicable or not material to our financial results.

Surety Bonds. We and our joint venture partners also indemnify third party surety providers with respect to performance bonds issued on behalf of certain of our joint ventures. If a joint venture does not perform its obligations, the surety bond could be called. If these surety bonds are called and the joint venture fails to reimburse the surety, we and our joint venture partners may be obligated to make such payments. These surety indemnity arrangements are generally joint and several obligations with our joint venture partners. Although a majority of the required work may have been performed, these bonds are typically not released until all development specifications under the bond have been met. None of these bonds have been called to date and we believe it is unlikely that any of these bonds will be called or if called, that any such amounts would be material to us. See the table in Note 1 for more information on our surety bonds.

The joint venture obligations, guarantees and indemnities discussed above are generally provided by us or our subsidiaries. In joint ventures involving other homebuilders or developers, support for these obligations is generally provided by the parent companies of the joint venture partners. Upon the occurrence of specific events, we may accrue for any such commitments where we believe our obligation to pay is probable and can be reasonably estimated. In such situations, our accrual would represent the portion of the total joint venture obligation related to our relative ownership percentage. Except as noted above and in Note 14 to these unaudited consolidated financial statements, as of September 30, 2014 and December 31, 2013, we did not have any such reserves.

We also participate in one mortgage joint venture, which is engaged in mortgage activities and provides services to both our homebuyers as well as other buyers. Our investment in this joint venture as of September 30, 2014 and December 31, 2013 was $1.3 million and $2.9 million, respectively. Prior year balances included investments in wind

down title joint ventures that are no longer in operation.
The joint venture financial information below represent the most recent information available to us.

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Summarized condensed financial information related to unconsolidated joint ventures that are accounted for using the equity method was as follows (in thousands):

	At September 30, 2014	At December 31, 2013
Assets:		
Cash	$4,759	$7,299
Real estate	34,445	34,949
Other assets	2,807	3,067
Total assets	$42,011	$45,315
Liabilities and equity:		
Accounts payable and other liabilities	$4,349	$2,889
Notes and mortgages payable	13,347	13,453
Equity of:		
Meritage (1)	7,838	10,332
Other	16,477	18,641
Total liabilities and equity	$42,011	$45,315

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue	$7,982	$8,975	$19,905	$25,373
Costs and expenses	(3,744)	(3,256)	(9,609)	(9,466)
Net earnings of unconsolidated entities	$4,238	$5,719	$10,296	$15,907
Meritage's share of pre-tax earnings (1)(2)	$2,649	$3,578	$6,917	$9,583

(1) Balance represents Meritage's interest, as reflected in the financial records of the respective joint ventures. This balance may differ from the balance reflected in our consolidated financial statements due to the following reconciling items: (i) timing differences for revenue and distributions recognition, (ii) step-up basis and corresponding amortization, (iii) income deferrals as discussed in Note (2) below and (iv) the cessation of allocation of losses from joint ventures in which we have previously written down our investment balance to zero and where we have no commitment to fund additional losses.

(2) Our share of pre-tax earnings is recorded in Earnings from financial services unconsolidated entities and other, net and Loss from other unconsolidated entities, net on our consolidated income statements and excludes joint venture profit related to lots we purchased from the joint ventures. Such profit is deferred until homes are delivered by us and title passes to a homebuyer.

The joint venture assets and liabilities noted in the table above primarily represent two active land ventures, one mortgage venture and various inactive ventures in which we have a total investment of $9.9 million. As of September 30, 2014, we believe these ventures are in compliance with their respective debt agreements, if applicable, and such debt is non-recourse to us.

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NOTE 5 — SENIOR, CONVERTIBLE SENIOR NOTES AND OTHER BORROWINGS

Senior, convertible senior notes and other borrowings consist of the following (in thousands):

	At September 30, 2014	At December 31, 2013
4.50% senior notes due 2018	$175,000	$175,000
7.15% senior notes due 2020. At September 30, 2014 and December 31, 2013 there was approximately $3,129 and $3,555 in net unamortized premium, respectively	303,129	303,555
7.00% senior notes due 2022	300,000	300,000
1.875% convertible senior notes due 2032	126,500	126,500
$400 million unsecured revolving credit facility	—	—
	$904,629	$905,055

In the second quarter of 2014, we entered into an amended and restated unsecured, four year revolving credit facility (the “Credit Facility”). The Credit Facility provides for total lending commitments of up to $400 million, $200 million of which is available for letters of credit. In addition, the Credit Facility has an accordion feature under which we may increase the total commitment by a maximum aggregate amount of $100 million, subject to certain conditions, including the availability of additional bank commitments. The Credit Facility matures June 13, 2018 and amends, restates and replaces our previous $200 million unsecured revolving credit facility. No amounts were drawn under the current or previous Credit Facility as of September 30, 2014 or December 31, 2013 or at any time during the nine months ended September 30, 2014. As of September 30, 2014, we had outstanding letters of credit totaling $24.3 million issued through the Credit Facility, leaving $375.7 million under the Credit Facility available to be drawn.

Borrowings under our unsecured revolving Credit Facility are subject to, among other things, a borrowing base. The Credit Facility also contains certain financial covenants, including (a) a minimum tangible net worth requirement of $670.3 million (which amount is subject to increase over time based on subsequent earnings and proceeds from equity offerings), and (b) a maximum leverage covenant that prohibits the leverage ratio (as defined therein) from exceeding 60%. In addition, we are required to maintain either (i) an interest coverage ratio (EBITDA to interest expense, as defined therein) of at least 1.50 to 1.00 or (ii) liquidity (as defined therein) of an amount not less than our consolidated interest incurred during the trailing 12 months.

The indentures for our 4.50%, 7.15% and 7.00% senior notes (collectively, "the senior notes") contain covenants including, among others, limitations on the amount of secured debt we may incur, and limitations on sale and leaseback transactions and mergers. Our convertible senior notes do not have any financial covenants.

Obligations to pay principal and interest on our notes listed in the table above are guaranteed by all of our wholly-owned subsidiaries (each a “Guarantor” and, collectively, the “Guarantor Subsidiaries”), each of which is directly or indirectly 100% owned by Meritage Homes Corporation. Such guarantees are full and unconditional, and joint and several. In the event of a sale or other disposition of all of the assets of any Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the equity interests of any Guarantor then held by Meritage and its subsidiaries, then that Guarantor will be released and relieved of any obligations under its note guarantee. There are no significant restrictions on our ability or the ability of any Guarantor to obtain funds from their respective subsidiaries, as applicable, by dividend or loan. We do not provide separate financial statements of the Guarantor Subsidiaries because Meritage (the parent company) has no independent assets or operations and the guarantees are full and unconditional and joint and several. Subsidiaries of Meritage Homes Corporation that are nonguarantor subsidiaries, if any, are, individually and in the aggregate, inconsequential.

The convertible senior notes are convertible into shares of our common stock at a conversion rate of 17.1985 shares of our common stock per $1,000 principal amount of Convertible Notes, or a conversion price of $58.14 per share.

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NOTE 6 — FAIR VALUE DISCLOSURES

We account for the non-recurring fair value measurements of our non-financial assets and liabilities in accordance with ASC 820-10, Fair Value Measurement and Disclosure ("ASC 820"). This guidance defines fair value, establishes a framework for measuring fair value and addresses required disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from market participants external to the company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions and specific knowledge of the assets/liabilities and related markets. The three levels are defined as follows:

- Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 — Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on the company's own estimates about the assumptions that market participants would use to value the asset or liability.

If the only observable inputs are from inactive markets or for transactions which the company evaluates as "distressed", the use of Level 1 inputs should be modified by the company to properly address these factors, or the reliance of such inputs may be limited, with a greater weight attributed to Level 3 inputs. Refer to Notes 1 and 2 for additional information regarding the valuation of our non-financial assets.

Financial Instruments. The fair value of our fixed-rate debt is derived from quoted market prices by independent dealers and is as follows (in thousands):

		September 30, 2014		December 31, 2013	
	Hierarchy	Aggregate Principal	Estimated Fair Value	Aggregate Principal	Estimated Fair Value
4.50% senior notes	Level 2	$175,000	$174,563	$175,000	$174,125
7.15% senior notes	Level 2	$300,000	$322,500	$300,000	$325,500
7.00% senior notes	Level 2	$300,000	$321,750	$300,000	$318,750
1.875% convertible senior notes	Level 2	$126,500	$125,551	$126,500	$142,154

Due to the short-term nature of other financial assets and liabilities, we consider the carrying amounts of our other short-term financial instruments to approximate fair value.

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NOTE 7 — EARNINGS PER SHARE

Basic and diluted earnings per common share were calculated as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Basic weighted average number of shares outstanding	39,123	36,226	38,977	36,060
Effect of dilutive securities:				
Convertible debt (1)	2,176	2,176	2,176	2,176
Stock options and unvested restricted stock	357	463	411	535
Diluted weighted average shares outstanding	41,656	38,865	41,564	38,771
Net earnings as reported	$32,577	$38,191	$93,033	$78,375
Interest attributable to convertible senior notes, net of income taxes	378	393	1,135	1,180
Net earnings for diluted earnings per share	$32,955	38,584	$94,168	79,555
Basic earnings per share	$0.83	$1.05	$2.39	$2.17
Diluted earnings per share (1)	$0.79	$0.99	$2.27	$2.05
Antidilutive stock options not included in the calculation of diluted earnings per share	22	10	24	5

(1) In accordance with ASC Subtopic 260-10, Earnings Per Share, we calculate the dilutive effect of convertible securities using the "if-converted" method.

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NOTE 8 — ACQUISITIONS AND GOODWILL
Phillips Builders. In August 2013, we entered the Nashville, Tennessee market through the acquisition of the assets and operations of Phillips Builders LLC and selected assets of Phillips Development LLC ("Phillips Builders"). The purchase price was approximately $18.4 million in cash. The results of Phillips Builders operations have been included in our financial statements since September 1, 2013, the effective date of the acquisition. As a result of the transaction, we recorded approximately $10.2 million of goodwill (all of which is tax deductible) which relates to expected synergies from establishing a market presence in Tennessee and the experience and reputation of the acquired management team.
Legendary Communities. In August 2014, we entered the Atlanta, Georgia and Greenville, South Carolina markets as well as increased our existing Charlotte, North Carolina presence through the acquisition of the homebuilding assets and operations of Legendary Communities ("Legendary"). The purchase price was approximately $130.7 million in cash. In addition, the agreement entitles the selling parties to an earn-out over the next three years based on operational performance. The initial estimate of the total earn-out is approximately $10.0 million. The results of Legendary operations have been included in our financial statements since August 1, 2014, the effective date of the acquisition. As a result of the transaction, we recorded approximately $22.7 million of goodwill (all of which is tax deductible) which relates to expected synergies from establishing a market presence in Georgia and South Carolina, the experience and knowledge of the acquired workforce and the capital efficient operating structure of the business acquired. The remaining basis of the $108.0 million is almost entirely comprised of the fair value of the acquired inventory with limited other assets and liabilities.
Goodwill. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. The acquisitions of Phillips Builders and Legendary were recorded in accordance with ASC 805, Business Combinations ("ASC 805") and ASC 820, using the acquisition method of accounting. The purchase price for the acquisition was allocated based on estimated fair value of the assets and liabilities at the date of the acquisition. The combined excess purchase price over the fair value of the net assets of $33.0 million was recorded as goodwill, which is included in our consolidated balance sheet in Prepaids, other assets and goodwill.
A summary of changes in the carrying amount of goodwill follows (in thousands):

	West	Central	East	Financial Services	Corporate	Total
Balance at January 1, 2013	$—	$—	$—	$—	$—	$—
Additions	—	—	10,247	—	—	10,247
Balance at December 31, 2013	—	—	10,247	—	—	10,247
Additions	—	—	22,715	—	—	22,715
Balance at September 30, 2014	$—	$—	$32,962	$—	$—	$32,962

Under the guidelines contained in ASC 350, we selected January 1 as the date of our annual goodwill impairment test. During 2014, we performed an analysis of qualitative factors for potential impairment of goodwill carried and determined that no impairment existed.

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NOTE 9 — STOCKHOLDERS' EQUITY

A summary of changes in shareholders' equity is presented below (dollars in thousands):

	Nine Months Ended September 30, 2014				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2013	36,244	$362	$412,961	$428,069	$841,392
Net earnings	—	—	—	93,033	93,033
Exercise/vesting of equity awards	351	4	730	—	734
Excess income tax benefit from stock-based awards	—	—	2,197	—	2,197
Equity award compensation expense	—	—	9,035	—	9,035
Issuance of stock (1)	2,530	25	110,395	—	110,420
Other	—	—	(114)	—	(114)
Balance at September 30, 2014	39,125	$391	$535,204	$521,102	$1,056,697

	Nine Months Ended September 30, 2013				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2012	35,613	$356	$390,249	$303,605	$694,210
Net earnings	—	—	—	78,375	78,375
Exercise/vesting of equity awards	618	6	11,219	—	11,225
Excess income tax benefit from stock-based awards	—	—	1,733	—	1,733
Equity award compensation expense	—	—	7,040	—	7,040
Non-controlling interest acquisition	—	—	(257)	—	(257)
Balance at September 30, 2013	36,231	$362	$409,984	$381,980	$792,326

(1) In January 2014, we issued 2,530,000 shares of common stock in a secondary public offering, par value $0.01 per share, at a price of $45.75 per share.

NOTE 10 — STOCK-BASED COMPENSATION

We have a stock compensation plan, the Amended and Restated 2006 Stock Incentive Plan (the "Plan"), that was adopted in 2006 and was amended and restated effective May 2014. The Plan was approved by our stockholders and is administered by our Board of Directors. The provisions of the Plan allow for the grant of stock appreciation rights, restricted stock awards, restricted stock units, performance share awards and performance-based awards in addition to non-qualified and incentive stock options. The Plan authorizes awards to officers, key employees, non-employee directors and consultants for up to 10,050,000 shares of common stock, of which 1,620,260 shares remain available for grant at September 30, 2014. The remaining shares available for grant are inclusive of a stockholder approved share increase of 1,100,000 shares that occurred at our May 2014 annual meeting of stockholders. We believe that such awards provide a means of performance-based compensation to attract and retain qualified employees and better align the interests of our employees with those of our stockholders. Non-vested stock awards and stock options granted in previous years are typically granted with a five-year ratable vesting period. Non-vested stock awards and performance-based awards granted to our executive management team and our Board of Directors are typically granted with a three-year cliff vesting. We have not granted any stock option awards since 2009.

Compensation cost related to time-based restricted stock awards is measured as of the closing price on the date of grant and is expensed on a straight-line basis over the vesting period of the award. Compensation cost related to performance-based restricted stock awards is also measured as of the closing price on the date of grant but is expensed in accordance with ASC 718-10-25-20, Compensation – Stock Compensation, which requires an assessment of probability of attainment of the performance target. As our performance targets are dependent on performance over a specified measurement period, once we determine that the performance target outcome is probable, the cumulative expense is recorded immediately with the remaining expense recorded on a straight-line basis through the end of the award's vesting period.

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Below is a summary of compensation expense and stock award activity (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock-based compensation expense	$3,771	$3,099	$9,035	$7,040
Non-vested shares granted	—	3,600	374,683	345,700
Performance-based non-vested shares granted	—	—	52,083	62,500
Stock options exercised	1,200	12,400	41,445	334,500
Restricted stock awards vested (includes performance-based awards)	2,100	2,550	309,490	283,350

The following table includes additional information regarding the Plan (dollars in thousands):

	As of September 30, 2014	December 31, 2013
Unrecognized stock-based compensation cost	$23,826	$17,385
Weighted average years remaining vesting period	2.38	2.18
Total equity awards outstanding (1)	1,285,301	1,317,710

(1) Includes vested and unvested options outstanding and unvested restricted stock awards.

NOTE 11 — INCOME TAXES

Components of the income tax (provision)/benefit are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Federal	$(12,622)	$(18,153)	$(43,480)	$(33,846)
State, net of federal benefit	(1,831)	(442)	(5,511)	428
Total	$(14,453)	$(18,595)	$(48,991)	$(33,418)

The effective tax rate for the three months ended September 30, 2014 was 30.7% versus 32.7% in 2013, reflecting the benefit of energy tax credits and greater homebuilder manufacturing deductions from qualified production activities. The effective tax rate for the nine months ended September 30, 2014 was 34.5% as compared to 29.9% for the same period in the prior year. The prior year results benefited from a partial reversal of the state valuation allowance on our deferred tax assets.

At September 30, 2014 and December 31, 2013, we have no unrecognized tax benefits. We believe that our current income tax filing positions and deductions would be sustained on audit and do not anticipate any adjustments that would result in a material change. Our policy is to accrue interest and penalties on unrecognized tax benefits and include them in federal income tax expense.

In accordance with ASC 740-10, we determine our net deferred tax assets by taxing jurisdiction. We evaluate our net deferred tax assets, including the benefit from net operating losses ("NOLs"), by jurisdiction to determine if a valuation allowance is required. Companies must assess whether a valuation allowance should be established based on the consideration of all available evidence using a “more likely than not” standard with significant weight being given to evidence that can be objectively verified. This assessment considers, among other matters, the nature, frequency and severity of cumulative losses, forecasts of future profitability, the length of statutory carryforward periods, a company's experience with operating losses and experiences of utilizing tax credit carryforwards and tax planning alternatives. We have no valuation allowance against any of our deferred tax assets and state NOL carryovers at this time.

At September 30, 2014, we had no federal NOL carryforward benefit and no federal tax credit carryforwards and net tax benefits for state NOL carryforwards of approximately $7.2 million that expire at various times from 2014 to 2031 depending on the state jurisdiction.

At September 30, 2014, we have income taxes payable of $7.9 million, which primarily consists of current federal and state tax accruals as well as tax and interest amounts that we expect to pay within one year for amending any prior-year tax returns. This amount is recorded in Accrued liabilities in the accompanying balance sheet as of September 30, 2014.

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We conduct business and are subject to tax in the U.S. and several states. With few exceptions, we are no longer subject to U.S. federal, state, or local income tax examinations by taxing authorities for years prior to 2010. We are not subject to any federal income tax examinations at this time. We have one state income tax examination pending. The tax benefits from any future NOLs, built-in losses, and tax credits would be materially reduced or potentially eliminated if we experience an “ownership change” as defined under Internal Revenue Code (“IRC”) §382. Based on our analysis performed as of September 30, 2014, we do not believe that we have experienced an ownership change. As a protective measure, our stockholders held a Special Meeting of Stockholders on February 16, 2009 and approved an amendment to our Articles of Incorporation that restricts certain transfers of our common stock. The amendment is intended to help us avoid an unintended ownership change and thereby preserve the value of our tax benefits for future utilization.

On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (the “Act”), which the President signed into law on January 2, 2013. The Act extended certain tax provisions which had a retroactive effect on 2012. Among other things, the Act extended for two years the availability of a business tax credit under IRC §45L for building new energy efficient homes, which originally was set to expire at the end of 2011. Under ASC 740, the effects of new legislation are recognized in the period that includes the date of enactment, regardless of the retroactive benefit. In accordance with this guidance, we recorded a tax benefit of approximately $1.7 million in 2013 related to the extension of the IRC §45L tax credit for the qualifying new energy efficient homes that we closed in 2012. Additional IRC §45L credits for qualifying homes sold in 2013 produced an estimated net benefit of $2.0 million in 2013. At this time, Congress has not extended the benefit of §45L beyond 2013. However, we have substantially completed a project to qualify more homes sold in 2012 and 2013. The results of that project produced an additional net tax benefit of $2.1 million which was recorded in the quarter ending September 30, 2014.

NOTE 12 — SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

The following presents certain supplemental cash flow information (in thousands):

	Nine Months Ended September 30,	
	2014	2013
Cash paid during the period for:		
Interest, net of interest capitalized	$3,801	$2,876
Income taxes	$51,668	$5,192
Non-cash operating activities:		
Real estate not owned	$4,710	$481
Real estate acquired through notes payable	$581	$9,588

NOTE 13 — OPERATING AND REPORTING SEGMENTS

We operate with two principal business segments: homebuilding and financial services. As defined in ASC 280-10, Segment Reporting, we have nine homebuilding operating segments. These segments are engaged in the business of acquiring and developing land, constructing homes, marketing and selling those homes, and providing warranty and customer services. We aggregate our homebuilding operating segments into reporting segments based on similar long-term economic characteristics and geographical proximity. Our current reportable homebuilding segments are as follows:

West: Arizona, California and Colorado (1)

Central: Texas

East: Florida, Georgia, North Carolina, South Carolina and Tennessee

(1) Activity for our wind-down Nevada operations is reflected in the West Region's results.

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Management's evaluation of homebuilding segment performance is based on segment operating income, which we define as homebuilding and land revenues less cost of home construction, commissions and other sales costs, land development and other land sales costs and other costs incurred by or allocated to each segment. Each reportable segment follows the same accounting policies described in our 2013 Form 10-K in Note 1, “Business and Summary of Significant Accounting Policies.” Operating results for each segment may not be indicative of the results for such segment had it been an independent, stand-alone entity for the periods presented. The following segment information is in thousands:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Homebuilding revenue (1):				
West	$234,950	$259,669	$659,596	$695,615
Central	179,761	139,307	459,619	357,406
East	142,065	93,104	351,510	225,444
Consolidated total	$556,776	$492,080	$1,470,725	$1,278,465
Homebuilding segment operating income:				
West	$22,204	$41,298	$74,398	$95,356
Central	19,323	12,677	47,512	22,320
East	9,295	9,990	30,539	19,991
Total homebuilding segment operating income	50,822	63,965	152,449	137,667
Financial services profit	4,294	4,294	10,936	11,515
Corporate and unallocated (2)	(9,490)	(8,662)	(22,823)	(22,011)
(Loss)/earnings from other unconsolidated entities, net	(134)	46	(364)	(229)
Interest expense	(460)	(3,462)	(4,569)	(13,113)
Other income, net	1,998	605	6,395	1,760
Loss on early extinguishment of debt	—	—	—	(3,796)
Earnings before income taxes	$47,030	$56,786	$142,024	$111,793

(1) Homebuilding revenue includes the following land closing revenue, by segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Land closing revenue:				
West	$10,105	$5,875	$11,155	$11,616
Central	1,147	3,058	3,244	13,482
East	—	—	2,223	3,470
Consolidated total	$11,252	$8,933	$16,622	$28,568

(2) Balance consists primarily of corporate costs and numerous shared service functions such as finance and treasury that are not allocated to the homebuilding or financial services reporting segments.

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At September 30, 2014	West	Central	East	Financial Services	Corporate and Unallocated	Total
Deposits on real estate under option or contract	$22,569	$26,956	$30,738	$—	$—	$80,263
Real estate	945,921	464,158	454,972	—	—	1,865,051
Investments in unconsolidated entities	203	8,451	—	—	1,246	9,900
Other assets	45,005	83,378	63,916	607	124,692 (1)	317,598
Total assets	$1,013,698	$582,943	$549,626	$607	$125,938	$2,272,812

At December 31, 2013	West	Central	East	Financial Services	Corporate and Unallocated	Total
Deposits on real estate under option or contract	$26,415	$12,198	$12,982	$—	$—	$51,595
Real estate	800,288	369,464	235,547	—	—	1,405,299
Investments in unconsolidated entities	204	8,941	50	—	2,443	11,638
Other assets	26,900	165,403 (1)	31,372	497	310,657 (1)	534,829
Total assets	$853,807	$556,006	$279,951	$497	$313,100	$2,003,361

(1) Balance consists primarily of cash and securities and our deferred tax asset.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

We are involved in various routine legal proceedings incidental to our business, some of which are covered by insurance. With respect to most pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and our actual future expenditure to resolve those matters could prove to be different from the amount that we accrued or reserved. On a quarterly basis, our senior management and legal team conduct an in-depth review of all active legal claims and litigation matters and we record a legal or warranty accrual representing the estimated total expense required to resolve each such matter. As of September 30, 2014, we have reserved approximately $15.7 million related to non-warranty related litigation and asserted claims, which includes reserves for the Joint Venture Litigation discussed below. In addition, our $21.5 million warranty reserve includes accruals for our warranty obligations as well as construction defect claims that are similarly recorded in an amount we believe will be necessary to resolve those construction defect claims. Except as may be specifically disclosed herein, we believe that any reasonably possible additional losses from existing claims and litigation in excess of our existing reserves and accruals would be immaterial, individually and in the aggregate, to our financial results.

Joint Venture Litigation

We are a defendant in a lawsuit filed by the lenders related to a project known as “South Edge” or “Inspirada”. We are also a party to a demand for arbitration made by an entity controlled by certain co-venturers, which demand was made by that entity as Estate Representative of bankrupt South Edge, LLC. The project involves a large master-planned community located in Henderson, Nevada, which was acquired by an unconsolidated joint venture with capital supplied by us and our co-venturers, and a syndicated loan for the project. In connection with the loan obtained by the venture, we provided a narrowly crafted repayment guarantee that could only be triggered upon a “bankruptcy event”. That guarantee covers our 3.53% pro rata share of the project financing.

On December 9, 2010, three of the lenders filed a petition seeking to place the venture into an involuntary bankruptcy. On June 6, 2011, we received a demand letter from the lenders, requesting full payment of $13.2 million, including past-due interest and penalties, the lenders claimed to be owed under the springing repayment guarantee. The lenders claim that the involuntary bankruptcy filed by three of the lenders triggered the “springing” repayment guarantee. We do not believe the lenders have an enforceable position associated with their $13.2 million claim and do not believe we should be required to pay such amount because, among other reasons, the lenders breached their contract with us by refusing to accept the April 2008 full tender of our performance and by refusing to release their lien in connection with our second and final takedown in this project and we do not believe the repayment guarantee was triggered by the lenders' filing of the involuntary bankruptcy. As a result, on August 19, 2011, we filed a lawsuit against JP Morgan Chase Bank, NA ("JP Morgan") in the Court of Common Pleas in

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Franklin County, Ohio (Case No. 11CVH0810353) regarding the repayment guarantee. In reaction to that lawsuit, on August 25, 2011, JP Morgan filed a lawsuit against us in the US District Court of Nevada, which is currently being prosecuted in the name of JP Morgan's agent, ISG Insolvency Group, Inc. regarding the same issues addressed in the Ohio litigation. The Ohio action and the Nevada action have been consolidated. On October 26, 2011, the Bankruptcy Court approved a Plan pursuant to which (i) the lenders have received all payments to which they are entitled, (ii) the project has been conveyed to Inspirada Builders, LLC, which is an entity owned by four of the co-venturers in the South Edge entity (KB Home, Toll Brothers, Pardee Homes and Beazer Homes), and (iii) the four co-venturer builders claim to have succeeded to the lenders' repayment guarantee claim against Meritage.

On September 4, 2012, the Court ruled on a motion for summary judgment that JP Morgan has standing to pursue its repayment guarantee claims against Meritage, that Meritage was liable thereunder to JP Morgan and that the parties should be permitted to conduct discovery with respect to the amount of damages to which JP Morgan is entitled under the repayment guarantee. Following limited discovery, JP Morgan filed a motion for summary judgment with respect to damages, and on June 17, 2013 the Court granted the motion, ruling that Meritage owes JP Morgan $15,053,857. Later, on July 8, 2013, the Court entered Judgment in favor of JP Morgan in the amount of $15,753,344, which included an additional $699,487 for pre-judgment interest that accrued between December 6, 2012 and the date of the Judgment. We immediately appealed the Court's rulings, which is currently pending. On July 17, 2013 we posted a supersedeas bond in the amount of $16,050,604 staying enforcement of the Judgment, which was approved by the Court on July 17, 2013. Pursuant to a stipulation between the parties, the bond amount included the amount of the Judgment and additional sums for a potential award of post-judgment interest and attorneys' fees on appeal. On February 14, 2014 the Court awarded JP Morgan an additional $877,241 for pre-judgment attorneys’ fees. Meritage has appealed this Judgment as well, and per stipulation of the parties, has posted an amended bond in the total amount of $16,930,477, covering both judgments. We disagree with many of the conclusions and findings contained in the Court's order, and have challenged and will continue to challenge the rulings. In addition, we believe that the four above-named builders are liable to Meritage for any amounts that Meritage may ultimately be required to pay under the repayment guarantee, and we have filed claims against those builders to, among other things, recover from them any amounts Meritage is required to pay under the repayment guarantee.

In March 2012, Inspirada Builders, LLC, as Estate Representative of South Edge, LLC (the original joint venture) filed demand for arbitration in the United States Bankruptcy Court in the District of Nevada against Meritage Homes of Nevada, Inc. seeking: (1) $13.5 million, relating to alleged breaches of the Operating Agreement of South Edge, LLC, for an alleged failure to pay the amounts Meritage Homes of Nevada fully tendered but South Edge rejected in April 2008; and (2) $9.8 million relating to our supposed pro rata share of alleged future infrastructure improvement costs to be incurred by Inspirada Builders, LLC (the new owner of the project and which is owned by the four builders identified above). The $13.5 million component of this claim represents the same alleged obligation and amount that is the subject of the above described pending repayment guarantee litigation between us and JP Morgan. Meritage filed a response to Inspirada Builders' arbitration claims denying liability, together with cross-claims against each of the four above-named co-venture builders for breach of contract, breach of the implied covenant of good faith and fair dealing, and indemnity. On June 27, 2013, the $9.8 million claim for future infrastructure costs was dismissed. Although the balance of the parties' claims are currently pending and were set to be resolved at a hearing in late 2013, per the parties' stipulation the Arbitration has now been stayed pending resolution of the pending appeal of the Court's rulings in favor of JP Morgan in the federal court action. In connection with these on-going legal proceedings, we have established a reserve in an amount that we believe is appropriate for this matter. Our 3.53% investment in the venture has previously been fully impaired. We do not believe that the ultimate disposition of these matters will have a material adverse effect on our financial condition.

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

Most housing markets continued to experience overall improvement in the third quarter of 2014, although at a more moderate pace than in the prior year, with relatively low inventories of homes available and an improving economy and job market that have helped steady housing demand. Individual markets continue to respond differently, but sales pace has moderated as prices have increased over the past several quarters. Although housing in most markets is still considered generally affordable by industry experts, overall there has been a decline in housing affordability, largely the result of successive periods of price increases in many markets. We are still benefiting from favorable customer interest and traffic in many of our communities that translate into generally steady order demand and pricing power in most of our markets.

We remain committed to our plan of strategically positioning ourselves in well-located and highly-desired communities in many of the top real-estate markets in the United States and continue to actively source land in those locations. We offer our buyers the ability to personalize their homes and we provide a home warranty, successfully setting us apart from the competition we face with resale homes. We also believe we differentiate ourselves from our competition by offering a line-up of plans that highlight the benefits of our industry-leading energy efficient homes.
Company Actions and Positioning
As the homebuilding market continues to improve, albeit at a more moderate pace than in the prior year, we remain focused on our main goals of growing our orders and revenue, and generating profit while maintaining a strong balance sheet. To help meet these goals we continue to execute on the following initiatives:

- Strategic expansion through acquisitions into new markets that indicate positive long-term growth trends:
  Entered the Atlanta, Georgia, and Greenville, South Carolina markets and grew our existing Charlotte, North Carolina operations through the acquisition of Legendary Communities in August 2014;
  Entered the Nashville, Tennessee market through the acquisition of the assets and operations of Phillips Builders in August 2013;
- Maintained a strong balance sheet:
  Completed two new senior note issuances in 2013, and extended our earliest debt maturities until 2018;
  Increased the capacity of our unsecured revolving credit facility to $400 million in the second quarter of 2014;
  Completed an equity offering in January 2014;
- Increased the percentage of controlled lots through optioned contracts in order to minimize initial cash outlays for land purchases;
- Continuing to actively acquire and develop lots in markets we deem key to our success in order to maintain and strategically grow our lot supply and active community count over the long term; increasing the average number of actively selling communities by 16.3% year over year for the quarter ended September 30;
- Utilizing our enhanced market research to capitalize on the knowledge of our buyers' demands in each community, tailoring our pricing, product and amenities offered;
- Continuing to innovate and promote the Meritage Green energy efficiency program, where all new homes we construct (except those we construct in areas in which we have recent acquisitions), at a minimum, meets ENERGY STAR® standards, certified by the U.S. Environmental Protection Agency, for indoor air quality, water conservation and overall energy efficiency;
- Focusing our purchasing efforts to manage cost increases; and
- Striving for excellence in construction; and monitoring our customers' satisfaction as measured by survey scores and working toward improving them based on the results of the surveys.

In addition to the strategic acquisitions mentioned above, we also continue to acquire lot positions within our existing geographic footprint through an increased usage of option contracts, more specifically through land banking arrangements that have become more available recently and that allow us to leverage our balance sheet by securing additional land through limited initial cash outlays. (See Note 3 to the unaudited consolidated financial statements for additional information related to option contracts).

In the third quarter of 2014, we opened 36 new communities while closing out 18 communities in our existing markets. In addition, the Legendary Communities ("Legendary") acquisition contributed 32 actively-selling communities, helping us to end the quarter with 225 active communities, a net increase of 50 over the end of the second quarter of 2014.

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Year over year for the quarter, our average active community count increased by 16.3%, a direct result of our focus on growing our land positions and strategically increasing our active community count in preferred locations.
We also may continue to opportunistically access the capital markets through various debt and equity transactions, providing additional liquidity, extending our debt maturities and strengthening our balance sheet. Throughout 2014, we have taken steps to strengthen our balance sheet through two capital transactions. In the first quarter of 2014 we issued common stock, raising $110.4 million, net of offering costs, in a public offering. In the second quarter of 2014, we replaced our prior unsecured revolving credit facility with a new and expanded facility of $400 million. (See Note 5 to the accompanying unaudited consolidated financial statements for further discussion regarding our debt).

Summary Company Results

We began 2014 with higher beginning backlog and have been successful in maintaining increased backlog year-over-year, as well as achieving year-over-year growth in closing order volumes and value in the third quarter of 2014. As a result, we ended the third quarter of 2014 with 23.5% more units in backlog for a total of 2,705 homes valued at $1.0 billion, and home closing revenue increases of 12.9% or $62.4 million over the third quarter of 2013. We generated 200 additional orders in the quarter as well, a 15.4% increase over those reported in 2013. These year over year improvements in closings and orders both in units and volume were achieved through organic growth that was improved further by the results of our new markets from recent acquisitions. We believe our increased community count, additional markets from recent acquisitions and our focus on community placement, coupled with our appealing Meritage Green energy efficiency product offerings and improving general and economic conditions will help continue to drive demand for the remainder of 2014 and will help us continue to generate positive trends in closing revenue and order backlog value.
In the third quarter of 2014, we recorded 1,522 closings and $545.5 million in associated revenue, reflecting a 7.3% rise in closing units and 5.2% increase in averages sales prices translating to a 12.9% increase in revenue over 2013. We also experienced an increase in home orders year over year with 1,500 and 1,300 orders in the three months ended September 30, 2014 and 2013, respectively. Our average orders pace was 7.5 units in the third quarter of 2014, relatively flat from the 7.6 units for the same period in 2013. Individual markets are responding to the changes in the real estate environment differently and on different time frames as evidenced by our West Region posting a decline year-over-year in orders pace, whereas the East and Central Regions reported nearly offsetting gains. The West Region declines are largely due to the softening housing market Arizona has experienced in 2014 following the significant increases that market experienced in 2013.
We recorded a 240-basis-point decrease year-over year in home closing gross margin during the three months ended September 30, 2014, down from 22.8% in 2013 to 20.4% in 2014. This decline stems largely from higher average land costs coupled with moderating sales prices, particularly in the West Region. The East Region also reported declines year over year in home closing gross margin, mainly due to acquisition accounting adjustments on the closings generated from the existing home inventory we acquired from Legendary. In the third quarter, our Central Region improved in both volume and gross margin, which helped to offset some of the declines in the West and East Regions. The $62.4 million increase in home closing revenue is primarily driven by the 104 additional closing units and to a lesser extent the $17,700 increase in average sales price for the three months ended September 30, 2014 as compared to the same period in the prior year. Much of the increase in average sales price is due to changes in product mix as more of our closings in recent quarters are from higher-priced and larger product offerings. We reported a decline in pre-tax earnings and net earnings to $47.0 million and $32.6 million, respectively for the three months ended September 30, 2014, as compared to $56.8 million and $38.2 million, respectively, for the same period in 2013, mainly due to the lower margins noted above and some reduced leverage on our fixed general and administrative costs.
In the third quarter of 2014 and 2013, we maintained a low cancellation rate on home orders at 14% of gross orders, which is below our historical average.

Critical Accounting Policies

The accounting policies we deem most critical to us and that involve the most difficult, subjective or complex judgments include revenue recognition, valuation of real estate and warranty reserves. There have been no significant changes to our critical accounting policies during the nine months ended September 30, 2014 compared to those disclosed in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our 2013 Annual Report on Form 10-K.

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The composition of our closings, home orders and backlog is constantly changing and is based on a dissimilar mix of communities between periods as new projects open and existing projects wind down. Further, individual homes within a community can range significantly in price due to differing square footage, option selections, lot sizes and quality of lots (e.g. cul-de-sac, view lots, greenbelt lots). These variations result in a lack of meaningful comparability between our home orders, closings and backlog due to the changing mix between periods. The tables below present operating and financial data that we consider most critical to managing our operations (dollars in thousands):

Home Closing Revenue

	Three Months Ended September 30,		Quarter over Quarter	
	2014	2013	Chg $	Chg %
Total				
Dollars	$545,524	$483,147	$62,377	12.9 %
Homes closed	1,522	1,418	104	7.3 %
Avg sales price	$358.4	$340.7	$17.7	5.2 %
West Region				
Arizona				
Dollars	$77,793	$96,562	$(18,769)	(19.4)%
Homes closed	236	301	(65)	(21.6)%
Avg sales price	$329.6	$320.8	$8.8	2.7 %
California				
Dollars	$97,260	$113,954	$(16,694)	(14.6)%
Homes closed	196	259	(63)	(24.3)%
Avg sales price	$496.2	$440.0	$56.2	12.8 %
Colorado				
Dollars	$49,792	$43,033	$6,759	15.7 %
Homes closed	114	104	10	9.6 %
Avg sales price	$436.8	$413.8	$23.0	5.6 %
Nevada				
Dollars	N/A	$245	N/M	N/M
Homes closed	N/A	1	N/M	N/M
Avg sales price	N/A	$245.0	N/M	N/M
West Region Totals				
Dollars	$224,845	$253,794	$(28,949)	(11.4)%
Homes closed	546	665	(119)	(17.9)%
Avg sales price	$411.8	$381.6	$30.2	7.9 %
Central Region - Texas				
Central Region Totals				
Dollars	$178,614	$136,249	$42,365	31.1 %
Homes closed	584	509	75	14.7 %
Avg sales price	$305.8	$267.7	$38.1	14.2 %
East Region				
Florida				
Dollars	$61,713	$66,464	$(4,751)	(7.1)%
Homes closed	164	176	(12)	(6.8)%
Avg sales price	$376.3	$377.6	$(1.3)	(0.3)%
Georgia				
Dollars	$11,899	N/A	N/M	N/M
Homes closed	37	N/A	N/M	N/M
Avg sales price	$321.6	N/A	N/M	N/M

North Carolina					
Dollars	$43,413	$24,361	$19,052	78.2	%
Homes closed	104	62	42	67.7	%
Avg sales price	$417.4	$392.9	$24.5	6.2	%
South Carolina					
Dollars	$11,494	N/A	N/M	N/M	
Homes closed	37	N/A	N/M	N/M	
Avg sales price	$310.6	N/A	N/M	N/M	
Tennessee					
Dollars	$13,546	$2,279	$11,267	494.4	%
Homes closed	50	6	44	733.3	%
Avg sales price	$270.9	$379.8	$(108.9)	(28.7	)%
East Region Totals					
Dollars	$142,065	$93,104	$48,961	52.6	%
Homes closed	392	244	148	60.7	%
Avg sales price	$362.4	$381.6	$(19.2)	(5.0	)%

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Home Closing Revenue

	Nine Months Ended September 30,		Year over Year	
	2014	2013	Chg $	Chg %
Total				
Dollars	$1,454,103	$1,249,897	$204,206	16.3 %
Homes closed	3,999	3,791	208	5.5 %
Avg sales price	$363.6	$329.7	$33.9	10.3 %
West Region				
Arizona				
Dollars	$234,181	$233,447	$734	0.3 %
Homes closed	699	744	(45)	(6.0)%
Avg sales price	$335.0	$313.8	$21.2	6.8 %
California				
Dollars	$272,254	$329,414	$(57,160)	(17.4)%
Homes closed	546	784	(238)	(30.4)%
Avg sales price	$498.6	$420.2	$78.4	18.7 %
Colorado				
Dollars	$142,006	$112,238	$29,768	26.5 %
Homes closed	318	298	20	6.7 %
Avg sales price	$446.6	$376.6	$70.0	18.6 %
Nevada				
Dollars	N/A	$8,900	N/M	N/M
Homes closed	N/A	38	N/M	N/M
Avg sales price	N/A	$234.2	N/M	N/M
West Region Totals				
Dollars	$648,441	$683,999	$(35,558)	(5.2)%
Homes closed	1,563	1,864	(301)	(16.1)%
Avg sales price	$414.9	$367.0	$47.9	13.1 %
Central Region - Texas				
Central Region Totals				
Dollars	$456,375	$343,924	$112,451	32.7 %
Homes closed	1,511	1,312	199	15.2 %
Avg sales price	$302.0	$262.1	$39.9	15.2 %
East Region				
Florida				
Dollars	$189,542	$161,846	$27,696	17.1 %
Homes closed	482	456	26	5.7 %
Avg sales price	$393.2	$354.9	$38.3	10.8 %
Georgia				
Dollars	$11,899	N/A	N/M	N/M
Homes closed	37	N/A	N/M	N/M
Avg sales price	$321.6	N/A	N/M	N/M
North Carolina				
Dollars	$102,119	$57,849	$44,270	76.5 %
Homes closed	248	153	95	62.1 %
Avg sales price	$411.8	$378.1	$33.7	8.9 %
South Carolina				
Dollars	$11,494	N/A	N/M	N/M

Homes closed	37	N/A	N/M	N/M
Avg sales price	$310.6	N/A	N/M	N/M
Tennessee				
Dollars	$34,233	$2,279	$31,954	1,402.1 %
Homes closed	121	6	115	1,916.7 %
Avg sales price	$282.9	$379.8	$(96.9)	(25.5)%
East Region Totals				
Dollars	$349,287	$221,974	$127,313	57.4 %
Homes closed	925	615	310	50.4 %
Avg sales price	$377.6	$360.9	$16.7	4.6 %

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Home Orders (1)

	Three Months Ended September 30,		Quarter over Quarter		
	2014	2013	Chg $	Chg %	
Total					
Dollars	$573,643	$473,924	$99,719	21.0	%
Homes ordered	1,500	1,300	200	15.4	%
Avg sales price	$382.4	$364.6	$17.8	4.9	%
West Region					
Arizona					
Dollars	$67,753	$80,748	$(12,995	)(16.1	)%
Homes ordered	198	234	(36	)(15.4	