

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)

☒ 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

☐ 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 ☒ No ☐

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

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
Prepays, 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

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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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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.

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

Approximately \$511,000 of the capitalized interest is related to our joint venture investments and is a component (1) 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

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.

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.

Table of Contents**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):

	Hierarchy	September 30, 2014		December 31, 2013	
		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.

Table of Contents**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.

Table of Contents**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 average 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	

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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	

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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))%
Avg sales price	\$342.2	\$345.1	\$(2.9)	(0.8))%
California					
Dollars	\$87,610	\$84,741	\$2,869	3.4	%
Homes ordered	157	165	(8)	(4.8))%
Avg sales price	\$558.0	\$513.6	\$44.4	8.6	%
Colorado					
Dollars	\$66,744	\$44,178	\$22,566	51.1	%
Homes ordered	153	96	57	59.4	%
Avg sales price	\$436.2	\$460.2	\$(24.0)	(5.2))%
Nevada					
Dollars	N/A	N/A	N/M	N/M	
Homes ordered	N/A	N/A	N/M	N/M	
Avg sales price	N/A	N/A	N/M	N/M	
West Region Totals					
Dollars	\$222,107	\$209,667	\$12,440	5.9	%
Homes ordered	508	495	13	2.6	%
Avg sales price	\$437.2	\$423.6	\$13.6	3.2	%
Central Region - Texas					
Central Region Totals					
Dollars	\$181,127	\$157,868	\$23,259	14.7	%
Homes ordered	537	545	(8)	(1.5))%
Avg sales price	\$337.3	\$289.7	\$47.6	16.4	%
East Region					
Florida					
Dollars	\$86,145	\$74,312	\$11,833	15.9	%
Homes ordered	207	177	30	16.9	%
Avg sales price	\$416.2	\$419.8	\$(3.6)	(0.9))%
Georgia					
Dollars	\$9,447	N/A	N/M	N/M	
Homes ordered	31	N/A	N/M	N/M	
Avg sales price	\$304.7	N/A	N/M	N/M	
North Carolina					
Dollars	\$47,862	\$28,971	\$18,891	65.2	%
Homes ordered	128	72	56	77.8	%
Avg sales price	\$373.9	\$402.4	\$(28.5)	(7.1))%
South Carolina					
Dollars	\$14,225	N/A	N/M	N/M	

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Homes ordered	44	N/A	N/M	N/M	
Avg sales price	\$323.3	N/A	N/M	N/M	
Tennessee					
Dollars	\$12,730	\$3,106	\$9,624	309.9	%
Homes ordered	45	11	34	309.1	%
Avg sales price	\$282.9	\$282.4	\$0.5	0.2	%
East Region Totals					
Dollars	\$170,409	\$106,389	\$64,020	60.2	%
Homes ordered	455	260	195	75.0	%
Avg sales price	\$374.5	\$409.2	\$(34.7	)(8.5)%

Home orders and home order dollars for any period represent the aggregate units or sales price of all homes (1)ordered, net of cancellations. We do not include orders contingent upon the sale of a customer's existing home or any other material contingency as a sales contract until the contingency is removed.

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Home Orders (1)

	Nine Months Ended September 30,		Year over Year		
	2014	2013	Chg \$	Chg %	
Total					
Dollars	\$1,747,118	\$1,567,719	\$179,399	11.4	%
Homes ordered	4,672	4,484	188	4.2	%
Avg sales price	\$374.0	\$349.6	\$24.4	7.0	%
West Region					
Arizona					
Dollars	\$220,772	\$284,139	\$(63,367)	(22.3))%
Homes ordered	665	886	(221)	(24.9))%
Avg sales price	\$332.0	\$320.7	\$11.3	3.5	%
California					
Dollars	\$315,270	\$331,933	\$(16,663)	(5.0))%
Homes ordered	599	730	(131)	(17.9))%
Avg sales price	\$526.3	\$454.7	\$71.6	15.7	%
Colorado					
Dollars	\$185,993	\$154,251	\$31,742	20.6	%
Homes ordered	417	358	59	16.5	%
Avg sales price	\$446.0	\$430.9	\$15.1	3.5	%
Nevada					
Dollars	N/A	\$5,795	N/M	N/M	
Homes ordered	N/A	24	N/M	N/M	
Avg sales price	N/A	\$241.5	N/M	N/M	
West Region Totals					
Dollars	\$722,035	\$776,118	\$(54,083)	(7.0))%
Homes ordered	1,681	1,998	(317)	(15.9))%
Avg sales price	\$429.5	\$388.4	\$41.1	10.6	%
Central Region - Texas					
Central Region Totals					
Dollars	\$613,821	\$472,507	\$141,314	29.9	%
Homes ordered	1,889	1,689	200	11.8	%
Avg sales price	\$324.9	\$279.8	\$45.1	16.1	%
East Region					
Florida					
Dollars	\$218,651	228,527	\$(9,876)	(4.3))%
Homes ordered	560	568	(8)	(1.4))%
Avg sales price	\$390.4	402.3	\$(11.9)	(3.0))%
Georgia					
Dollars	\$9,447	N/A	N/M	N/M	
Homes ordered	31	N/A	N/M	N/M	
Avg sales price	\$304.7	N/A	N/M	N/M	
North Carolina					
Dollars	\$124,943	87,461	\$37,482	42.9	%
Homes ordered	311	218	93	42.7	%
Avg sales price	\$401.7	401.2	\$0.5	0.1	%
South Carolina					
Dollars	\$14,225	N/A	N/M	N/M	

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Homes ordered	44	N/A	N/M	N/M	
Avg sales price	\$323.3	N/A	N/M	N/M	
Tennessee					
Dollars	\$43,996	3,106	\$40,890	1,316.5	%
Homes ordered	156	11	145	1,318.2	%
Avg sales price	\$282.0	282.4	\$(0.4	) (0.1)%
East Region Totals					
Dollars	\$411,262	319,094	\$92,168	28.9	%
Homes ordered	1,102	797	305	38.3	%
Avg sales price	\$373.2	400.4	\$(27.2	) (6.8)%

Home orders and home order dollars for any period represent the aggregate units or sales price of all homes (1)ordered, net of cancellations. We do not include orders contingent upon the sale of a customer's existing home or any other material contingency as a sales contract until the contingency is removed.

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	Three Months Ended September 30,		2013	
	2014		2013	
	Beginning	Ending	Beginning	Ending
Active Communities				
Total	175	225	165	179
West Region				
Arizona	42	42	36	39
California	15	22	13	18
Colorado	13	16	12	12
Nevada	—	—	—	—
West Region Total	70	80	61	69
Central Region - Texas	69	65	71	73
Central Region Total	69	65	71	73
East Region				
Florida	18	26	20	19
Georgia	—	11	—	—
North Carolina	13	20	13	15
South Carolina	—	19	—	—
Tennessee	5	4	—	3
East Region Total	36	80	33	37

	Nine Months Ended September 30,		2013	
	2014		2013	
	Beginning	Ending	Beginning	Ending
Active Communities				
Total	188	225	158	179
West Region				
Arizona	40	42	38	39
California	22	22	17	18
Colorado	14	16	12	12
Nevada	—	—	1	—
West Region Total	76	80	68	69
Central Region - Texas	70	65	65	73
Central Region Total	70	65	65	73
East Region				
Florida	20	26	18	19
Georgia	—	11	—	—
North Carolina	17	20	7	15
South Carolina	—	19	—	—
Tennessee	5	4	—	3
East Region Total	42	80	25	37

	Three Months Ended		September 30,		Nine Months Ended		
	September 30,	2013	September 30,	2013	September 30,	2013	
	2014		2014		2014		
Cancellation Rates (1)							
Total	14	% 14	% 13	% 12	% 12	% 12	%
West Region							
Arizona	12	% 17	% 13	% 12	% 12	% 12	%
California	21	% 16	% 16	% 12	% 12	% 12	%

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Colorado	10	% 8	% 11	% 8	%
Nevada	N/A	N/A	N/A	11	%
West Region Total	15	% 15	% 14	% 11	%
Central Region - Texas	15	% 14	% 14	% 14	%
Central Region Total	15	% 14	% 14	% 14	%
East Region					
Florida	10	% 12	% 11	% 10	%
Georgia	11	% N/A	11	% N/A	
North Carolina	8	% 17	% 10	% 10	%
South Carolina	24	% N/A	24	% N/A	
Tennessee	4	% 8	% 3	% 8	%
East Region Total	11	% 14	% 10	% 10	%

(1) Cancellation rates are computed as the number of canceled units for the period divided by the gross order units for the same period.

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Order Backlog (1)

	At September 30,		Year over Year		
	2014	2013	Chg \$	Chg %	
Total					
Dollars	\$ 1,043,741	\$ 805,580	\$ 238,161	29.6	%
Homes in backlog	2,705	2,190	515	23.5	%
Avg sales price	\$385.9	\$367.8	\$18.1	4.9	%
West Region					
Arizona					
Dollars	\$83,830	\$131,508	\$(47,678)	(36.3))%
Homes in backlog	244	391	(147)	(37.6))%
Avg sales price	\$343.6	\$336.3	\$7.3	2.2	%
California					
Dollars	\$150,479	\$127,107	\$23,372	18.4	%
Homes in backlog	278	261	17	6.5	%
Avg sales price	\$541.3	\$487.0	\$54.3	11.1	%
Colorado					
Dollars	\$136,371	\$92,102	\$44,269	48.1	%
Homes in backlog	301	202	99	49.0	%
Avg sales price	\$453.1	\$456.0	\$(2.9)	(0.6))%
Nevada					
Dollars	N/A	N/A	N/M	N/M	
Homes in backlog	N/A	N/A	N/M	N/M	
Avg sales price	N/A	N/A	N/M	N/M	
West Region Totals					
Dollars	\$370,680	\$350,717	\$19,963	5.7	%
Homes in backlog	823	854	(31)	(3.6))%
Avg sales price	\$450.4	\$410.7	\$39.7	9.7	%
Central Region - Texas					
Central Region Totals					
Dollars	\$403,101	\$260,900	\$142,201	54.5	%
Homes in backlog	1,170	877	293	33.4	%
Avg sales price	\$344.5	\$297.5	\$47.0	15.8	%
East Region					
Florida					
Dollars	\$118,381	\$137,691	\$(19,310)	(14.0))%
Homes in backlog	286	315	(29)	(9.2))%
Avg sales price	\$413.9	\$437.1	\$(23.2)	(5.3))%
Georgia					
Dollars	\$21,322	N/A	N/M	N/M	
Homes in backlog	65	N/A	N/M	N/M	
Avg sales price	\$328.0	N/A	N/M	N/M	
North Carolina					
Dollars	\$77,138	\$46,953	\$30,185	64.3	%
Homes in backlog	196	114	82	71.9	%
Avg sales price	\$393.6	\$411.9	\$(18.3)	(4.4))%
South Carolina					
Dollars	\$31,915	N/A	N/M	N/M	

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Homes in backlog	90	N/A	N/M	N/M	
Avg sales price	\$354.6	N/A	N/M	N/M	
Tennessee					
Dollars	\$21,204	\$9,319	\$11,885	127.5	%
Homes in backlog	75	30	45	150.0	%
Avg sales price	\$282.7	\$310.6	\$(27.9	) (9.0)%
East Region Totals					
Dollars	\$269,960	\$193,963	\$75,997	39.2	%
Homes in backlog	712	459	253	55.1	%
Avg sales price	\$379.2	\$422.6	\$(43.4) (10.3)%

(1) Our backlog represented net orders that have not yet closed.

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Operating Results

Companywide. Home closing revenue for the three months ended September 30, 2014 increased 12.9% to \$545.5 million on 1,522 units when compared to the prior year, due to a 104-unit increase in units closed and a 5.2% increase in average closing price. Home orders increased to 1,500 units for the quarter ended September 30, 2014, up 200 units from the same period in 2013, while average sales prices grew by \$17,800, or 4.9%. Sales pace of orders per average active community for the third quarter held relatively steady at 7.5 in 2014 versus 7.6 in 2013. We ended September 30, 2014 with an increased active community count of 225 communities as compared to 179 at September 30, 2013, which includes the 32 communities gained through the Legendary acquisition. The results for the three months ended September 30, 2014 generated a 515-unit, or 23.5%, increase in our ending backlog with 2,705 homes as compared to 2,190 homes at September 30, 2013, the ending backlog increase is partially attributable to 185 units that the acquisition of Legendary added.

Closed units for the nine months ended September 30, 2014 increased to 3,999 homes and \$1.5 billion in home closing revenue as compared to 3,791 homes and \$1.2 billion in home closing revenue in the same period in 2013. Order units of 4,672 in the first nine months of 2014 increased by 188 units or 4.2% as compared to the same period in 2013, coupled with a \$24,400, or 7.0% increase in average sales price, reflecting the shift in focus to profitability over volume.

West. In the three months ended September 30, 2014, home closing revenue of \$224.8 million decreased 11.4% over the prior year. This drop in revenue was caused by the 119 unit or 17.9% decrease in units closed in the third quarter 2014 as compared to the prior year period which was partially offset by an average sales price increase of 7.9% or \$30,200. The Region had a 13-unit increase in orders, along with a \$13,600 increase in average sales price, resulting in a total increase in order dollar value of 5.9% to \$222.1 million. The increase in average sales price year over year has been seen throughout 2014 and is a result of our community locations with higher-priced homes. The relatively flat third quarter year-over-year comparisons on orders in the Region is largely the result of a general slowdown in demand in Arizona markets coupled with a return to more normalized demand levels in California, declines that demand in Colorado was able to offset. These results led to ending backlog in the Region valued at \$370.7 million on 823 units, a \$20.0 million increase on 31 fewer units over the same period in the prior year.

Our orders per average active community in the Region of 6.8 units for the three months ended September 30, 2014 as compared to 7.6 over the prior year is largely due to the softening Arizona market that has impacted demand. California orders pace also declined from 2013; however, that market is still performing at a pace exceeding our company average with 8.5 orders per average community in the third quarter of 2014. We strategically increased our active community count in California in the third quarter in order to continue to capitalize on the good demand in that market. Orders in Arizona have moderated in recent quarters and home prices there have begun to follow suit. Relatively flat average sales prices in Arizona coupled with declining orders pace, generated a net decrease in order value year-over-year with \$67.8 million for the third quarter of 2014 as compared to \$80.7 million in the 2013 period. We initiated limited price reductions and incentives to spur buyer demand in Arizona, however, we still believe the fundamentals in the Arizona market are strong in the long-run. We believe the current operating results in Arizona are in part due to the rapid sales price appreciation the state experienced in 2013. Colorado is the only state in the Region with improved orders year-over-year in the third quarter of 2014, leading to a \$22.6 million increase in order value on 57 additional units. Average sales prices of homes ordered in Colorado dipped by 5.2% to \$436,200 in the third quarter of 2014 as compared to \$460,200 for the 2013 period; however, Colorado still benefits from some of our highest average sales prices in the Company, second only to California. Colorado has increased its contribution to overall results in the Region to 30.1% of total order volume from 19.4% in 2013 helping offset declines in California and Arizona and aiding the overall average sales price growth the Region continues to experience.

Similar to the third quarter 2014 activity and for similar reasons noted above, home closings in our West Region decreased 301 units to 1,563 closings during the nine months ended September 30, 2014, a decline that was partially offset by a \$47,900 increase in average sales price resulting in a net 5.2% decrease in home closing revenue as compared to the same period in 2013. Orders in the first nine months of 2014 decreased 317 units or 15.9%, which,

consistent with the closings results, was partially offset by a 10.6% average sales price growth, resulting in a net decrease of \$54.1 million or 7.0% in order value over the same period in 2013.

Central. The Central Region, made up of our Texas markets, reported revenue growth with 584 units totaling \$178.6 million in revenue in the three months ended September 30, 2014, 14.7% and 31.1% increases in units and dollars, respectively, as compared to those reported in the same period in 2013. The Region reported relatively flat orders of 537 units as compared to 545 units for the same period a year ago. The orders results reflect a \$47,600 average sales price increase, contributing to a higher-ending backlog value of \$403.1 million, an increase of \$142.2 million or 54.5% as compared to the same period a year ago. The Central Region sales pace has steadily grown year over year with an increase to 8.0 units in the third quarter of 2014 as compared to 7.6 for the same period in 2013. A generally improving economy in the Texas markets, and community placement are largely credited for the year-over-year gains.

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Year to date, the Region's revenues were \$456.4 million on closings volume of 1,511 units, \$112.5 million higher revenue than the same period in the prior year, making Texas the state with the largest year-to-date revenue gain in the Company. The 200-unit and \$141.3 million increases in orders in the first nine months of 2014 mirror the gains experienced in the third quarter. Improvements in the general and local economy and our new product line up all contributed to our year-to-date gains.

East. Our East Region continues to benefit from year-over-year revenue growth, generating 392 closings with \$142.1 million of home closing revenue in the third quarter of 2014, 60.7% and 52.6% increases, respectively, from the same period in 2013. The increase in closing units in the three month period for 2014 was aided by the contributions from the Legendary acquired communities with no prior year comparative results as well as the full third quarter results from our Nashville operations, which only had one month of operations included in the 2013 results. Excluding the acquisitions, the East Region still posted gains in closing units and revenue for the three months ended September 30, 2014 of 9.7% and 12.6%, respectively, as compared the same period in 2013. The Region reported higher results in orders year over year generating \$64.0 million of additional order dollars, due to a 75.0% increase in units, partially offset by a \$34,700 or 8.5% decrease in average sales prices from 2013. This decrease in average sales prices is mainly attributable to our new operations in Nashville, Greenville and Atlanta, where our current average sales prices are approximately \$50,000-\$100,000 less than the average of the Region for the three months ended September 30, 2014. Sales pace in the Region increased slightly year over year to 7.8, along with a 65.7% increase in number of average active communities, largely driven by the 32 communities from the Legendary acquisition. The Region ended the quarter with a 253-unit and \$76.0 million increase in ending backlog, 55.1% and 39.2% gains, respectively. The Florida market was the largest contributor to the Region's results reporting \$61.7 million in closing revenue on 164 units and generating \$86.2 million in new orders on 207 units. Closings value in Florida dipped by \$4.8 million on 12 fewer units closed in 2014 versus 2013, whereas order value grew by \$11.8 million on 30 additional units year over year. We expect the impact of the improved orders and increased active community count in Florida to contribute to strong results as we close out the year. Operations in North Carolina contributed 104 units, or \$43.4 million in closings and 128 units, or \$47.9 million, in order volume from 16.5 average actively-selling communities during the third quarter of 2014. Georgia and South Carolina operations from the Legendary acquisition each contributed 37 closings valued at \$12.0 million and \$11.5 million, respectively. Georgia and South Carolina generated 31 and 44 orders, respectively, resulting in ending backlog of 65 units valued at \$21.3 million in Georgia and 90 units valued at \$31.9 million in South Carolina for the three months ended September 30, 2014, with no comparable results for the prior year. The Tennessee market is proving to be a significant contributor to the Region, accounting for 23.0% and 29.7% of the Region's year over year growth in revenue and closing units, respectively, and 15.0% and 17.4% of the year over year growth in order value and units, respectively, in the third quarter of 2014.

The Region's home closings for the nine months ended September 30, 2014 increased 310 units, or 50.4% over the same period in 2013. This generated total home closing revenue of \$349.3 million for the nine months ended September 30, 2014, a 57.4% increase over the same period a year ago. Year-to-date orders and order value increased 38.3% and 28.9%, respectively, to 1,102 units as compared to the same period in 2013. The increasing volume that the new markets in this Region are contributing, coupled with the same factors that impacted the third quarter performance helped to generate these positive year-to-date results.

Land Closing Revenue and Gross Profit

From time to time, we sell certain land parcels to other homebuilders, developers or investors if we believe the sale will provide a greater economic benefit to us than continuing home construction or where we are looking to diversify or divest our land positions in the specific geography. As a result of such sales, we recognized land closing revenue of \$11.3 and \$16.6 million for the three and nine months ending September 30, 2014, respectively, as compared to \$8.9 million and \$28.6 million for the three and nine months ending September 30, 2013, respectively. The \$0.5 million loss and \$1.5 million loss on land sales in the three and nine months ended September 30, 2014, respectively, is primarily due to the sale of the majority of our remaining assets in the Las Vegas area, a market we exited in 2011.

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Operating Information (dollars in thousands)

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue
Home Closing Gross Profit								
Total	\$111,238	20.4%	\$110,375	22.8%	\$313,798	21.6%	\$268,340	21.5%
West	\$46,254	20.6%	\$62,752	24.7%	\$143,749	22.2%	\$159,065	23.3%
Central	\$39,339	22.0%	\$27,705	20.3%	\$99,875	21.9%	\$64,362	18.7%
East	\$25,645	18.1%	\$19,918	21.4%	\$70,174	20.1%	\$44,913	20.2%

Home Closing Gross Profit

Companywide. Home closing gross profit represents home closing revenue less cost of home closings. Cost of home closings include land and lot development costs, direct home construction costs, an allocation of common community costs (such as model complex costs, common community and recreation areas and landscaping, and architectural, legal and zoning costs), interest, sales tax, impact fees, warranty, construction overhead, closing costs, less impairments, if any.

Home closing gross margin was 20.4% for the three months ended September 30, 2014, as compared to 22.8% for the three months ended September 30, 2013. Year to date gross margin was up slightly year over year, reporting 21.6% in 2014 as compared to 21.5% in 2013. The third quarter's 240-basis-point reduction stems largely from softer market conditions and increasing land costs in the West region, although the West Region still boasts the highest home closing gross margin year-to-date. The third quarter margins also reflect a 40-basis-point decline year over year due to the impact of acquisition accounting adjustments related to closings from Legendary acquired communities as well as a 20-basis-point decline from impairment charges on two older communities in Arizona. We expect the impact of the acquisition accounting adjustments to dissipate over the next several quarters.

West. Our West Region experienced a decline in home closing gross margin in the third quarter to 20.6% for the three months ended September 30, 2014 from 24.7% in the same period of 2013. Year-to-date gross margin results for the West Region also declined from 23.3% in 2013 to 22.2% in 2014. These declines are mainly due to the recent softening in Arizona and to a lesser extent in California, coupled with rising land costs. The Region's margins were also impacted by the impairment charges discussed above.

Central. The Central Region's 22.0% home closing gross margin was the highest for the Company for the three months ended September 30, 2014, increasing 170 basis points from 20.3% for the same period of 2013. The Region's year-to-date results reported a 320-basis-point improvement to 21.9% for the nine months ended September 30, 2014. These increases, which we began realizing in the latter part of 2013, are mostly due to strong buyer confidence coupled with new and desirable locations that are generating increased demand which is allowing us to initiate sales price increases.

East. The East Region reported home closing gross margins of 18.1% for the three months ended September 30, 2014 as compared to 21.4% for the same period in the prior year. Gross margin in this Region bears the impact of acquisition accounting adjustments to the land basis of the acquired assets from Legendary discussed previously. We continue to focus on opening superior community locations and implementing strategic sales price increases, which have partially offset the acquisition accounting adjustment. The Region's gross margins for the nine months ended September 30, 2014 were relatively flat at 20.1% versus 20.2% for the 2013 period. We anticipate acquisition

accounting adjustments from the Legendary acquisition to continue to place downward pressure on gross margins in our year-over-year comparisons in the short term.

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Financial Services Profit

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Financial Services Profit	\$4,294	\$4,294	\$10,936	\$11,515

Financial services profit represents the net profit of our financial services operations, including the operating profit generated by our wholly-owned title company, Carefree Title, as well as our portion of pre-tax earnings from mortgage and title joint ventures. Carefree Title is now fully operational in all applicable markets, thereby replacing our joint venture title operations and associated income. We are beginning to experience some marginal decline in our mortgage joint venture results due to the tightening of the credit market, which has made the mortgage industry more competitive than in prior years, resulting in a reduction in capture rate and per-loan profitability for our mortgage joint venture.

Selling, General and Administrative Expenses and Other Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
Commissions and Other Sales Costs					
Dollars	\$40,211	\$33,467	\$107,250	\$90,526	
Percent of home closing revenue	7.4	% 6.9	% 7.4	% 7.2	%
General and Administrative Expenses					
Dollars	\$29,218	\$24,412	\$75,460	\$66,587	
Percent of total closing revenue	5.2	% 5.0	% 5.1	% 5.2	%
Interest Expense					
Dollars	\$460	\$3,462	\$4,569	\$13,113	
Other Income, Net					
Dollars	\$1,998	\$605	\$6,395	\$1,760	
Loss on Early Extinguishment of Debt					
Dollars	\$—	\$—	\$—	\$3,796	
Provision for Income Taxes					
Dollars	\$(14,453)	\$(18,595)	\$(48,991)	\$(33,418))

Commissions and Other Sales Costs

Commissions and other sales costs are comprised of internal and external commissions and related sales and marketing expenses such as advertising and sales and model office costs. As anticipated with higher homebuilding revenues, commissions and other sales costs increased by \$6.7 million and \$16.7 million for the three and nine months ended September 30, 2014, respectively, as compared to the same periods in 2013. As a percentage of home closing revenue, these costs increased 50 basis points and 20 basis points for the three and nine months ended, respectively, over the prior periods. The increase as a percentage of home closing revenue is largely due to the opening of 36 new communities and the re-branding expenses related to the Legendary communities.

General and Administrative Expenses

General and administrative expenses represent corporate and divisional overhead expenses such as salaries and bonuses, occupancy, public company expenses, insurance and travel expenses. General and administrative expenses increased year over year to \$29.2 million for the three months ended September 30, 2014 as compared to \$24.4 million for the three months ended September 30, 2013. The increase in dollars incurred is mainly due to increased compensation costs driven by additional staffing volumes as well as overhead costs incurred in our newer markets, such as Nashville, Atlanta and Greenville, which had no comparable 2013 costs. In addition, the results for the three months ended September 30, 2014 include transaction related expenses from our acquisition of Legendary. We remain focused on cost control and maintaining overhead leverage at both the divisional and corporate levels. These expenses

increased to 5.2% of total revenue for the three months ended September 30, 2014, as compared to 5.0% for the same period in 2013, mainly due to the incremental overhead costs associated with the acquisition. Year-to-date general and administrative costs also had corresponding dollar increases but decreased slightly as a percentage of revenue.

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Interest Expense

Interest expense is comprised of interest incurred but not capitalized. For the three months ended September 30, 2014, our non-capitalizable interest expense was \$0.5 million as compared to \$3.5 million for the same period in the prior year and \$4.6 million for the nine months ended September 30, 2014 versus \$13.1 million in 2013. The decrease in expense year over year both for the third quarter and year to date is a result of a higher amount of assets under development included in our inventory that qualify for interest capitalization.

Other Income, Net

Other income, net primarily consists of (i) interest earned on our cash, cash equivalents, investments and marketable securities, (ii) sub lease income, (iii) forfeited deposits from potential homebuyers who canceled their purchase contracts with us, and (iv) payments and awards related to legal settlements. Other income, net, was higher for both the three and nine months ended September 30, 2014 as compared to the same periods in the prior year primarily due to the net positive impact of several legal settlements in 2014.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt for the nine months ended September 30, 2013 is attributable to the charges associated with the redemption of our 2017 senior subordinated notes. The charges represent both the loss on the extinguishment as well as the write off of remaining unamortized capitalized costs related to the notes. There were no such debt extinguishment charges for the three or nine months ended September 30, 2014.

Income Taxes

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 homebuilding 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.

Liquidity and Capital Resources

We ended the second quarter with \$94.0 million of cash and cash equivalents and investments and securities, a \$269.9 million decrease from December 31, 2013. Our principal uses of capital for the nine months ended September 30, 2014 were home construction and land development, the acquisition of new and strategic lot and land positions, operating expenses and the payment of routine liabilities. We used funds generated by operations to meet our short-term working capital requirements. We remain focused on generating strong margins in our homebuilding operations and acquiring desirable land positions in order to maintain a healthy balance sheet and keep us poised for growth.

Operating Cash Flow Activities

During the nine months ended September 30, 2014 and September 30, 2013, net cash used in operations totaled \$236.2 million and \$39.5 million, respectively. The first nine months of 2014 results benefited from cash generated by the \$93.0 million in net income, offset mainly by the \$350.9 million increase in real estate due to land acquisition and development spending along with dollars spent on home inventory under construction. Home inventory spending in the first nine months of 2014 increased as compared to the same period in 2013, as we started a higher number of spec homes in order to have an adequate supply of quick move-in homes available.

The first nine months of 2013 benefited from the cash generated by the \$78.4 in net income and the \$106.9 million increase in accounts payable and accrued liabilities offset by the \$221.7 million increase in real estate due to land acquisition and development spending along with dollars spent on home inventory under construction.

Investing Cash Flow Activities

During the nine months ended September 30, 2014, net cash used in investing activities totaled \$67.2 million as compared to \$36.8 million for the same period in 2013. Cash provided by investing activities in the first nine months of 2014 is mainly attributable to the \$115.6 million in maturities of new investments and securities comprised of treasury securities and treasury-backed investments coupled with the cash outlay of \$130.7 million for the acquisition

of Legendary.

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Net cash used in investing activities in the first nine months of 2013 primarily related to the maturities and purchases of investments and securities of \$132.9 million and \$139.7 million, respectively. Additionally in 2013, investing cash flows were impacted by cash outlays related to the Phillips Builders acquisition and purchases of property and equipment of \$18.4 million and \$9.7 million, respectively.

Financing Cash Flow Activities

During the nine months ended September 30, 2014, net cash provided by financing activities totaled \$113.4 million as compared to \$83.5 million for the same period in 2013. The net increase in financing cash in the nine months ended September 30, 2014 is primarily the net result of proceeds received in connection with our issuance of common stock in January 2014.

Net cash used in financing activities for the nine months ended September 30, 2013 of \$83.5 million was mainly the result of the issuance of \$175.0 million in senior notes and a concurrent tender of our 2017 senior subordinated notes of \$102.8 million.

Overview of Cash Management

Cash flows for each of our communities depend on their stage of the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, plat and other approvals, as well as construction of model homes, roads, utilities, general landscaping and other amenities. Because these costs are a component of our inventory and not recognized in our income statements until a home closes, we incur significant cash outlays prior to recognition of earnings. In the later stages of a community, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, we are currently actively acquiring land and developing lots in our markets to maintain and grow our lot supply and active community count. We are also using cash on hand to fund operations in several of our newer markets. As demand for new homes continues to improve and as we expand our business, we expect that cash outlays for land purchases and land development related to growing our lot inventory will continue to exceed our cash generated by operations in the near term.

During the third quarter of 2014, we closed 1,522 homes, purchased approximately 1,800 lots for \$105.6 million (excluding the \$130.7 million from the Legendary acquisition), spent \$77.7 million on land development, and started approximately 1,700 homes. In addition, we spent \$2.3 million on deposits to enter into option agreements for lots with land bankers in the third quarter of 2014. The opportunity to purchase substantially finished lots in desired locations is becoming increasingly more limited and competitive. As a result, we are spending more dollars on land development as we are purchasing more undeveloped land and partially-finished lots than in recent years. As a means of accessing parcels of land with minimal cash outlay, we have increased our use of rolling option contracts through land banking arrangements. Such arrangements provide us greater cash leveraging and a way of controlling lot inventory through purchasing lots based on predetermined schedules that are structured to mirror our forecasted pace of home construction starts. (See Notes 1 and 3 to the unaudited consolidated financial statements for additional information regarding land contract deposits and their associated committed cash).

We exercise strict controls and believe we have a prudent strategy for Company-wide cash management, including those related to cash outlays for land and inventory acquisition and development. Additionally, we continue to evaluate our capital needs in light of the improving homebuilding markets and our existing capital structure. In the second quarter of 2014, we increased the capacity of our unsecured revolving credit facility to \$400 million (See Note 5 to these unaudited consolidated financial statements for additional information).

We expect to generate cash from the sale of our inventory, but we intend to redeploy that cash to acquire and develop strategic and well-positioned lots that represent opportunities to generate desired margins, as well as for other operating purposes.

In addition to expanding our business in existing markets, we continue to explore strategic opportunities to expand outside of our existing markets. Accordingly, over the past several years, we have increased our presence in the East

by entering the Raleigh-Durham and Charlotte, North Carolina markets, the Tampa, Florida market and we entered the Nashville, Tennessee market through our August 2013 purchase of Phillips Builders. Most recently, we acquired Legendary Communities in August 2014 that has provided us entry into the Atlanta, Georgia and Greenville-Spartanburg, South Carolina markets and increased our presence in Charlotte, North Carolina. These opportunities expanded our footprint into new markets with positive growth potential.

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We may seek additional capital to strengthen our liquidity position to enable us to opportunistically acquire additional land inventory in anticipation of improving market conditions, and/or strengthen our long-term capital structure. Such additional capital may be in the form of equity or debt financing and may be from a variety of sources. There can be no assurances that we would be able to obtain such additional capital on terms acceptable to us, if at all, and such additional equity or debt financing could dilute the interests of our existing stockholders or increase our interest costs. Reference is made to Notes 5 and 9 in the notes to the unaudited financial statements included in this Quarterly Report on Form 10-Q.

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We believe that our leverage ratios provide useful information to the users of our financial statements regarding our financial position and cash and debt management. Debt-to-capital and net debt-to-capital are calculated as follows (dollars in thousands):

	At September 30, 2014		At December 31, 2013	
Senior and senior convertible notes	\$904,629		\$905,055	
Stockholders' equity	1,056,697		841,392	
Total capital	\$1,961,326		\$1,746,447	
Debt-to-capital (1)	46.1	%	51.8	%
Senior and senior convertible notes	\$904,629		\$905,055	
Less: cash and cash equivalents, and investments and securities	(93,962	)	(363,823)
Net debt	810,667		541,232	
Stockholders' equity	1,056,697		841,392	
Total capital	\$1,867,364		\$1,382,624	
Net debt-to-capital (2)	43.4	%	39.1	%

(1) Debt-to-capital is computed as senior and senior convertible notes divided by the aggregate of total senior and senior convertible notes and stockholders' equity.

Net debt-to-capital is computed as net debt divided by the aggregate of net debt and stockholders' equity. The most directly comparable GAAP financial measure is the ratio of debt to total capital. We believe the ratio of net debt-to-capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing.

We have an automatically effective shelf registration statement on file with the Securities and Exchange Commission that can be used to register offerings of debt and equity securities we may offer.

Credit Facility Covenants

We were in compliance with all Credit Facility covenants as of September 30, 2014. Borrowings under the Credit Facility are unsecured but availability is 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. We had no borrowings drawn on the facility during the nine months ended September 30, 2014. Our actual financial covenant calculations as of September 30, 2014 are reflected in the table below:

Financial Covenant (dollars in thousands):	Covenant Requirement	Actual	
Minimum Tangible Net Worth	\$704,187	\$1,008,747	
Leverage Ratio	<60%	43	%
Interest Coverage Ratio (1)	> 1.50	4.76	
Minimum Liquidity (1)	> \$56,609	\$469,677	
Investments other than defined permitted investments	<\$302,624	\$9,900	

(1) We are required to meet either the Interest Coverage Ratio or Minimum Liquidity, but not both.

Off-Balance Sheet Arrangements

The information in Notes 1, 3, 4 and 14 in the accompanying notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q is incorporated herein by reference. These Notes discuss our off-balance sheet arrangements with respect to land acquisition contracts and option agreements, and land development joint ventures, including the nature and amounts of financial obligations relating to these items. In addition, these Notes discuss the nature and amounts of certain types of commitments that arise in connection with the

ordinary course of our land development and homebuilding operations, including commitments of land development joint ventures for which we might be obligated.

Seasonality

Historically, we have experienced seasonal variations in our quarterly operating results and capital requirements. We typically take orders for more homes in the first half of the fiscal year than in the second half, which creates additional working

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capital requirements in the second and third quarters to build our inventories to satisfy the deliveries in the second half of the year. We expect this seasonal pattern to continue over the long-term, although it has been and may continue to be affected by the current recovery in the homebuilding industry.

Recently Issued Accounting Pronouncements.

See Note 1 to the accompanying notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

Special Note of Caution Regarding Forward-Looking Statements

In passing the Private Securities Litigation Reform Act of 1995 ("PSLRA"), Congress encouraged public companies to make "forward-looking statements" by creating a safe-harbor to protect companies from securities law liability in connection with forward-looking statements. We intend to qualify both our written and oral forward-looking statements for protection under the PSLRA.

The words "believe," "expect," "anticipate," "forecast," "plan," "intend," "may," "will," "should," "could," "estimate," and "pr

and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. All statements we make other than statements of historical fact are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements in this Quarterly Report include: statements concerning trends in the homebuilding industry in general, and our markets and results specifically; our operating strategy and initiatives; the benefits of our land acquisition strategy and structures, including the use and the benefits of land banking and joint ventures; that we expect to redeploy cash generated from operations to acquire and develop lot positions; management estimates regarding joint venture exposure, including our exposure to joint ventures that are in default of their debt or guarantee agreements; expectations regarding our industry and our business for the remainder of 2014 and beyond, including the long-term fundamentals of the Arizona market; our expansion plans relating to new markets; the impact on gross margins of purchase price adjustments relating to the Legendary acquisition; demographic and other trends related to the homebuilding industry in general; our expectation that existing guarantees, letters of credit and performance and surety bonds will not be drawn on; the adequacy of our insurance coverage and warranty reserves; our strategy, legal positions and the expected outcome of legal proceedings (including the joint venture litigation relating to the South Edge joint venture) we are involved in and the sufficiency of our reserves relating thereto; the sufficiency of our liquidity and capital resources to support our business strategy; our ability and willingness to acquire land under option or contract; our strategy and trends and expectations concerning sales prices, sales pace, closings, orders, cancellations, construction costs and gross margins, gross profit, revenues, net earnings, backlog, number, changes in and location of active communities, seasonality and the timing of new community openings; our future cash needs; that we may seek to raise additional debt and equity capital; and our intentions regarding the payment of dividends and the use of derivative contracts; and the impact of seasonality and changes in interest rates.

Important factors that could cause actual results to differ materially from those in forward-looking statements, and that could negatively affect our business include, but are not limited to, the following: the availability of finished lots and undeveloped land; interest rates and changes in the availability and pricing of residential mortgages; fluctuations in the availability and cost of labor; changes in tax laws that adversely impact our homebuyers; the ability of our potential buyers to sell their existing homes; cancellation rates and home prices in our markets; weakness in the homebuilding market resulting from an unexpected setback in the current economic recovery; inflation in the cost of materials used to develop communities and construct homes; the adverse effect of slower order absorption rates; potential write-downs or write-offs of assets, including pre-acquisition costs and deposits; changes in tax laws; a change in the feasibility of projects under option or contract that could result in the write-off of option deposits; our potential exposure to natural disasters; competition; the adverse impacts of cancellations resulting from small deposits relating to our sales contracts; construction defect and home warranty claims; adverse legal rulings; our success in prevailing on contested tax positions; our ability to obtain performance bonds in connection with our development work; the liquidity of our joint ventures and the ability of our joint venture partners to meet their obligations to us and the joint venture; the loss of key personnel; changes in or our failure to comply with laws and regulations; our lack of geographic diversification; fluctuations in quarterly operating results; our financial leverage and level of indebtedness and our ability to take certain actions because of restrictions contained in the indentures for our senior notes and our

ability to raise additional capital when and if needed; our credit ratings; successful integration of past and future acquisitions; our compliance with government regulations and the effect of legislative or other initiatives that seek to restrain growth or new housing construction or similar measures; acts of war; the replication of our "Green" technologies by our competitors; our exposure to information technology failures and security breaches; and other factors identified in documents filed by the company with the Securities and Exchange Commission, including those set forth in our Form 10-K for the year ended December 31, 2013 under the caption "Risk Factors," which can be found on our website.

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Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. In addition, we undertake no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2014 all of our debt is fixed rate and is made up of our \$175.0 million in principal of our 4.50% senior notes due 2018, \$300.0 million in principal of our 7.15% senior notes due 2020, \$300.0 million in principal of our 7.00% senior notes due 2022 and \$126.5 million in principal of our 1.875% convertible senior notes due 2032.

Except in limited circumstances, we do not have an obligation to prepay our fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value should not have a significant impact on fixed rate of borrowings unless we would be required to refinance such debt. See Note 5 to the accompanying notes to consolidated financial statements included in this Quarterly Report on Form 10-Q for additional discussion.

Our operations are interest rate sensitive. As overall housing demand is adversely affected by increases in interest rates, a significant increase in mortgage interest rates may negatively affect the ability of homebuyers to secure adequate financing and thus purchase our homes. Higher interest rates could adversely affect our revenues, gross margins and net income and would also increase our variable rate borrowing costs, if any. We do not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes.

Item 4. Controls and Procedures

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have developed and implemented disclosure controls and procedures. Our management, with the participation of our chief executive officer and chief financial officer, has reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this Form 10-Q (the "Evaluation Date"). Based on such evaluation, management has concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information that is required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosures.

During the fiscal quarter covered by this Form 10-Q, there has not been any change in our internal control over financial reporting that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various routine legal and regulatory proceedings, including, without limitation, claims and litigation alleging construction defects. In general, the proceedings are incidental to our business, and most exposure is subject to and should be covered by warranties and indemnities provided by our consultants and subcontractors. Additionally, some such claims are also covered by insurance. With respect to the majority of pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. Historically, most disputes regarding warranty claims are resolved prior to litigation. We believe there are not any pending legal or warranty matters that could have a material adverse impact upon our consolidated financial condition, results of operations or cash flows that have not been sufficiently reserved.

Joint Venture Litigation

Since 2008, we have been involved in litigation initiated by the lender group for a large Nevada-based land acquisition and unconsolidated development joint venture in which the lenders were seeking damages in two separate actions on the basis of enforcement of completion guarantees and other related claims (JP Morgan Chase Bank, N.A. v. KB HOME Nevada, et al., U.S. District Court, District of Nevada (Case No. 08-CV-01711 PMP Consolidated)). Our interest in this joint venture is comparatively small, totaling 3.53%, but we have vigorously defended and otherwise sought resolution of these actions. We are the only builder joint venture partner to have fully performed its obligations with respect to takedowns of lots from the joint venture, having completed our first takedown in April 2007 and having tendered full performance of our second and final takedown in April 2008. The joint venture and the lender group rejected our tender of performance for our second and final takedown, and we contend, among other things, that the rejection by the joint venture and the lender group of our tender of full performance was wrongful and constituted a breach of contract and should release us of liability with respect to the takedown and extinguish or greatly reduce our exposure under all guarantees. Pursuant to the lenders' request and stipulation of the parties, on January 23, 2012, the Court dismissed without prejudice all of the lenders' claims against Meritage in this consolidated lawsuit.

On December 9, 2010, three of the lenders filed a petition seeking to place the venture into an involuntary bankruptcy (JP Morgan Chase Bank, N.A. v. South Edge, LLC (Case No. 10-32968-bam)). On June 6, 2011, we received a demand letter from the lenders, requesting full payment of \$13.2 million the lenders claimed to be owed under the springing repayment guarantee, including past-due interest and penalties. The lenders claim that the involuntary bankruptcy filed by three of the co-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 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 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 most of the same issues addressed in the Ohio litigation (Case No. 2: 11-CV-01364-PMP). The Ohio and Nevada actions have been consolidated into a single action. 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, and 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, and on July 17, 2013 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

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\$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 ruling on appeal which is currently pending. In addition, we believe that four co-venturers in the South Edge entity (KB Home, Toll Brothers, Pardee Homes and Beazer Homes) 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 arbitration repayment guarantee.

In March 2012, Inspirada Builders, LLC (an entity owned by the above named four co-venturers), as Estate Representative of bankrupt 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. There were two main demands against us contained in this filing. The first is a demand for \$13.5 million, relating to alleged breaches of the Operating Agreement of South Edge, LLC, ironically for not paying the amount Meritage fully tendered but South Edge (at the direction of or as a result of acts of or the failure to perform by the above-named co-venture members) rejected in 2008. The second demand was for \$9.8 million relating to our supposed pro rata share of alleged future infrastructure improvement costs to be incurred by Inspirada Builders, LLC, which is the new owner of the project, having purchased it through bankruptcy proceedings. The second demand was dismissed on June 27, 2013. The \$13.5 million claim identified above represents the same alleged obligation that is the subject of the already pending repayment guarantee litigation between us and JP Morgan that is described above. Meritage has filed a response to Inspirada Builders' arbitration claims denying liability, together with cross-claims against the four above-named co-venture builders for breach of contract, breach of the implied covenant of good faith and fair dealing, and indemnity. The balance of the parties' claims are currently pending and were set to be resolved at an arbitration hearing in late 2013 but pursuant to a stipulation of the parties that arbitration has now been stayed pending resolution of our pending appeal of the Court's rulings in favor of JP Morgan in the federal court action. We do not believe there is any additional exposure to us related to this new claim beyond that already disclosed and discussed in this Legal Proceedings section.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, financial condition and/or operating results.

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

Issuer Purchases of Equity Securities:

We did not acquire any of our own equity securities during the nine months ended September 30, 2014.

We have never declared cash dividends, nor do we intend to declare cash dividends in the foreseeable future. We plan to retain our cash to finance the continuing development of the business. Future cash dividends, if any, will depend upon financial condition, results of operations, capital requirements, compliance with certain restrictive debt covenants, as well as other factors considered relevant by our Board of Directors.

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Item 6. Exhibits

Exhibit Number	Description	Page or Method of Filing
3.1	Restated Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3 of Form 8-K dated June 20, 2002
3.1.1	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated September 15, 2004
3.1.2	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement for the 2006 Annual Meeting of Stockholders
3.1.3	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix B of the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Stockholders
3.1.4	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on January 9, 2009
3.2	Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated August 21, 2007
3.2.1	Amendment to Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K filed on December 24, 2008
3.2.2	Amendment No. 2 to Amended and Restated Bylaws of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated May 18, 2011
31.1	Rule 13a-14(a)/15d-14(a) Certification of Steven J. Hilton, Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Larry W. Seay, Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer	Filed herewith
101	The following financial statements from Meritage Homes Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, were formatted in XBRL (Extensible Business Reporting Language); (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Income Statements, (iii) Unaudited Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Consolidated Financial Statements.	

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 31st day of October 2014.

MERITAGE HOMES CORPORATION,
a Maryland corporation

By: /s/ LARRY W. SEAY
Larry W. Seay
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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