HONEYWELL INTERNATIONAL INC
Form 4
July 14, 2014

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
Mahoney Timothy O.

(Last) (First) (Middle)

101 COLUMBIA ROAD

(Street)

MORRISTOWN, NJ 07960

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HONEYWELL INTERNATIONAL INC [HON]

3. Date of Earliest Transaction (Month/Day/Year)
07/11/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President & CEO, Aerospace

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Supplemental Savings Plan Interests	(1)	07/11/2014		A (2)		15.562		(2)	(2)	Common Stock	15.562

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Mahoney Timothy O. 101 COLUMBIA ROAD MORRISTOWN, NJ 07960			President & CEO, Aerospace	

Signatures

Jacqueline Katzel FOR Timothy O. Mahoney	07/14/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Instrument converts to common stock on a one-for-one basis.

(2) Reflects phantom shares of common stock represented by Company contributions to my account under the Executive Supplemental Savings Plan under Rule 16b-3 on 07/11/2014.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ="font-family:inherit;font-size:8pt;">
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 of stock options
335

3

11,222

—

11,225

Excess income tax benefit from stock-based awards
—

—

1,733

—

1,733

Equity award compensation expense
—

—

7,040

—

7,040

Issuance of restricted stock
283

3

(3
)

—

—

Non-controlling interest acquisition
—

—

(257

Explanation of Responses:

)

—

(257
)
Balance at September 30, 2013
36,231

$
362

$
409,984

$
381,980

$
792,326

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	Nine Months Ended September 30, 2012 (In thousands)					
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2011	40,377	$404	$478,839	$198,442	$(188,773)	$488,912
Net earnings	—	—	—	10,035	—	10,035
Exercise of stock options	259	3	3,897	—	—	3,900
Equity award compensation expense	—	—	6,095	—	—	6,095
Issuance of restricted stock	200	2	(2)	—	—	—
Issuance of stock (1)	2,645	26	87,099	—	—	87,125
Cancellation of treasury shares (2)	(7,891)	(79)	(188,694)	—	188,773	—
Balance at September 30, 2012	35,590	356	387,234	208,477	—	596,067

(1) In July 2012, we issued a public offering of 2,645,000 shares of common stock, par value $0.01 per share, at a price to the public of $34.75 per share.

(2) During the third quarter of 2012, we canceled and retired all of our treasury shares. These shares remain as authorized and unissued shares.

NOTE 9 — STOCK-BASED COMPENSATION

We have a stock compensation plan, the 2006 Stock Option Plan (the "Plan"), that was adopted in 2006, and superseded a prior stock compensation plan. The Plan has been amended from time to time. 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, 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 8,950,000 shares of common stock, of which 967,743 shares remain available for grant at September 30, 2013. 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.

Compensation cost related to time-based restricted stock awards are measured as of the closing price on the date of grant and are expensed on a straight-line basis over the vesting period of the award. Compensation cost related to performance-based restricted stock awards are also measured as of the closing price on the date of grant but are 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 annual in nature, once we determine that the performance target outcome is probable, the year-to-date expense is recorded and the remaining expense is recorded on a straight-line basis through the end of the award's vesting period.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Stock-based compensation expense	$3,099	$2,822	$7,040	$6,095
Non-vested shares granted	3,600	16,750	345,700	386,500
Performance-based non-vested shares granted	—	—	62,500	56,250
Stock options exercised	12,400	179,832	334,500	259,132

Restricted stock awards vested (includes performance-based awards)	2,550	3,300	283,350	200,316

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We did not grant any stock option awards during the nine months ended September 30, 2013 or September 30, 2012.
The following table includes additional information regarding the Plan (dollars in thousands):

	As of September 30, 2013	December 31, 2012
Unrecognized stock-based compensation cost	$19,529	$13,072
Weighted average years remaining vesting period	2.40	2.17
Total equity awards outstanding (1)	1,328,885	1,615,235

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

NOTE 10 — INCOME TAXES

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Federal	$(18,153)	$—	$(33,846)	$—
State	(442)	(202)	428	4,781
Total	$(18,595)	$(202)	$(33,418)	$4,781

The effective tax rate for the three and nine months ended September 30, 2013 is 32.7% and 29.9%, respectively, and reflects the benefit of energy tax credit, the homebuilder manufacturing deduction, and a partial reversal of the state valuation allowance on our deferred tax assets. Due to the effects of the deferred tax asset valuation allowance and federal and state tax net operating losses (“NOLs”), the effective tax rate in 2012 is not meaningful as there is no correlation between the effective tax rate and the amount of pre-tax income or loss for that period.

At September 30, 2013 and December 31, 2012, we have no unrecognized tax benefits due to the lapse of the statute of limitations and completion of audits for prior years. 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, Income Taxes, we determine our net deferred tax assets by taxing jurisdiction. We evaluate our net deferred tax assets, including the benefit from 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 recorded a full valuation allowance against all of our net deferred tax assets during 2008 due to economic conditions and the weight of negative evidence at that time. During the second quarter of 2012, we determined that the positive evidence exceeded the negative evidence in the tax jurisdiction of Florida and that it was more likely than not that most of the deferred tax assets and NOL carryovers for the Florida jurisdiction would be realized. In the fourth quarter of 2012, we reversed the valuation allowance against our federal deferred tax assets and those in most of our state jurisdictions because the weight of the positive evidence in those jurisdictions exceeded that of the negative evidence. However, we retained a valuation allowance for certain states which have shorter carryforward periods for utilization of NOL carryovers or lower current earnings relative to their NOL carryforward balance. A portion of this remaining allowance relating to state tax assets was released in the second and third quarters of 2013.

We continue to evaluate the remaining state valuation allowance to determine if sufficient positive evidence indicates that it is more likely than not that an additional portion of the underlying state NOL carryforwards should be able to be realized.

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At September 30, 2013 and December 31, 2012, we had a valuation allowance against deferred tax assets as follows (in thousands):

	September 30, 2013	December 31, 2012
State	4,051	8,666
Total valuation allowance	$4,051	$8,666

Our future NOL and deferred tax asset realization depends on sufficient taxable income in the carryforward periods under existing tax laws. Federal NOL carryforwards may be used to offset future taxable income for 20 years. State NOL carryforwards may be used to offset future taxable income for a period of time ranging from 5 to 20 years, depending on the state jurisdiction. At September 30, 2013, we had a federal NOL carryforward benefit of $9.1 million that expires in 2031 and federal tax credit carryforwards of $5.7 million which begin to expire in 2030. At September 30, 2013, we also had tax benefits for state NOL carryforwards of $17.9 million that expire at various times from 2013 to 2031 depending on the state jurisdiction.

At September 30, 2013, we have income taxes payable of $29.6 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 having amended prior-year tax returns. This amount is recorded in accrued liabilities in the accompanying balance sheet as of September 30, 2013.

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 2008. We are not subject to any federal or state income tax examination at this time.

The tax benefits from our 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, 2013, 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 have 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 $2.6 million in the first quarter of 2013 related to the extension of the IRC §45L tax credit for the qualifying new energy efficient homes that we closed in 2012. We are currently estimating our IRC §45L qualification rates for homes closed in 2012 and 2013 based on best available information, and any additional credits will be recognized in future periods if we determine that we quality for them after completing a more in-depth analysis.

NOTE 11 — SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Nine Months Ended September 30	
	2013	2012
Cash paid during the period for:		
Interest, net of interest capitalized	$2,876	$19,615
Income taxes	$5,192	$909
Non-cash operating activities:		
Real estate not owned	$481	$—
Real estate acquired through notes payable	$9,588	2,800

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Explanation of Responses:

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NOTE 12 — 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 seven homebuilding operating segments (the seven states in which we operate) within our homebuilding business. These segments are engaged in the business of acquiring and developing land, constructing homes, marketing and selling those homes, and providing warranty and customer service. We aggregate our homebuilding operating segments into reporting segments based on similar long-term economic characteristics and geographical proximity. In latter 2012, management's evaluation of segment reporting led to a re-grouping of our homebuilding segments to more closely align them into long-term expected profitability trends and, accordingly, all prior year segment financial information has been updated to reflect our new aggregation. Our current reportable homebuilding segments are as follows:

West: Arizona, California and Colorado (1)
Central: Texas
East: Florida, the Carolinas and Tennessee

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

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, including impairments. Each reportable segment follows the same accounting policies described in our 2012 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	
	2013	2012	2013	2012
Homebuilding revenue (1):				
West	$259,669	$186,507	$695,615	$415,471
Central	139,307	104,526	357,406	279,004
East	93,104	51,610	225,444	134,613
Consolidated total	$492,080	$342,643	$1,278,465	$829,088
Homebuilding segment operating income:				
West	$41,298	$15,319	$95,356	$26,970
Central	12,677	5,673	22,320	11,325
East	9,990	3,691	19,991	9,768
Total homebuilding segment operating income	63,965	24,683	137,667	48,063
Financial services profit	4,294	2,985	11,515	6,743
Corporate and unallocated (2)	(8,662)	(7,323)	(22,011)	(17,233)
Earnings/(loss) from other unconsolidated entities, net	46	(74)	(229)	(348)
Interest expense	(3,462)	(5,009)	(13,113)	(18,718)
Other income/(expense), net	605	(8,276)	1,760	(7,481)
Loss on early extinguishment of debt	—	—	(3,796)	(5,772)
Earnings before income taxes	$56,786	$6,986	$111,793	$5,254

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Land closing revenue:				
West	5,875	$6,488	$11,616	$6,488
Central	3,058	485	13,482	1,568
East	—	790	3,470	790
Consolidated total	$8,933	$7,763	$28,568	$8,846

(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.

	At September 30, 2013					
	West	Central	East	Financial Services	Corporate and Unallocated (1)	Total
Deposits on real estate under option or contract	$13,644	$11,390	$9,877	$—	$ —	$34,911
Real estate	738,573	370,005	236,636	—	—	1,345,214
Investments in unconsolidated entities	205	9,340	46	—	1,071	10,662
Other assets (2)	33,765	167,260	30,556	553	251,165	483,299
Total assets	$786,187	$557,995	$277,115	$553	$ 252,236	$1,874,086

	At December 31, 2012					
	West	Central	East	Financial Services	Corporate and Unallocated (3)	Total
Deposits on real estate under option or contract	$4,419	$7,168	$2,764	$—	$ —	$14,351
Real estate	647,316	305,100	160,771	—	—	1,113,187
Investments in unconsolidated entities	365	10,645	16	—	1,059	12,085
Other assets (4)	24,935	132,546	25,914	297	252,247	435,939
Total assets	$677,035	$455,459	$189,465	$297	$ 253,306	$1,575,562

(1)(3) Balance consists primarily of corporate assets not allocated to the reporting segments.
(2)(4) Balance consists primarily of cash and securities and our deferred tax asset.

NOTE 13 — COMMITMENTS AND CONTINGENCIES

We are involved in various routine legal proceedings incidental to our business. 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, 2013, we have reserved approximately $16.8 million related to non-warranty related litigation and asserted claims, which includes reserves for the Joint Venture Litigation discussed below. In addition, our $22.3 million warranty reserve includes accruals for all 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 currently 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.

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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 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. 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

The positive momentum the housing market has experienced in recent quarters continued into the third quarter of 2013, despite the increase in mortgage rates and the seasonally slower summer months. The market continues to be largely driven by housing affordability and decreasing levels of home inventory in many markets. While sales pace moderated in the third quarter, we are still benefiting from increased customer interest and traffic in our communities that translate into positive order trends overall as compared to the prior year.

We remain focused on strategically positioning ourselves in well-located and highly-desired communities in many of the top real-estate markets in the United States. During the last few quarters, improving demand for homes has allowed us to place more emphasis on increasing prices over sales pace in order to maximize our profitability in top producing markets. This has resulted in our sales pace decreasing in our most robust markets. We have also begun to actively acquire lot positions through 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 for additional information related to option contracts). We believe we successfully differentiate ourselves from our competition by offering a line-up of plans that highlight the benefits of our industry-leading energy efficient homes. We also offer our buyers the ability to personalize their homes and we provide a home warranty, further setting us apart from the competition we face with resale homes. Our solid operating and financial results during the first nine months of 2013 are reflected in our improved profitability and kept our balance sheet strong.
Company Actions and Positioning
As the homebuilding market recovery continues, we remain focused on increasing community count and securing strategic land positions to support future growth in our orders volume and revenue while reducing costs, thereby growing margins and profitability while maintaining a strong balance sheet. To help meet these goals we continue to execute on the following initiatives:

- Acquiring and developing lots in high-performing markets we deem key to our success in order to maintain and grow our lot supply and active community count in existing markets as well as entry into new markets;
- Increasing our lots under control and increasing the percentage controlled through option contracts in order to minimize initial cash outlay for land purchases;
- 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 every new home we construct, 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;
- Adapting sales and marketing efforts to generate additional traffic and successfully compete with resale homes;
- Focusing our purchasing efforts to manage costs as homebuilding recovers and demand rises;
- Growing our inventory balance while ensuring sufficient liquidity through exercising tight control over cash flows; 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 initiatives listed above evidencing our confidence in the long-term demand for housing, we continually evaluate opportunities for expansion into new markets that indicate positive long-term growth trends. We are redeploying our capital into projects both within our geographic footprint and through entry into new markets. In connection with these efforts, in August 2013, we entered the Nashville, Tennessee market through the acquisition of the assets and operations of Phillips Builders. With this acquisition, we acquired approximately 500 lots, contributing 30 units in backlog as of September 30, 2013. We also are now closed out of the Las Vegas, Nevada market, only providing on-going warranty support for our homeowners.

In the third quarter of 2013, we opened 27 new communities while closing out 13 communities, ending the quarter with 179 active communities, three of which are from the Phillips Builders acquisition. We expect active community count to continue to grow as our new communities have longer lot positions and are not closing out at the quicker pace of some of our older active communities. We expect to end the year with approximately 185 actively-selling communities.

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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.

Over the past 18 months, we have taken steps to strengthen our balance sheet and extend debt maturities through debt transactions. Most recently, in March 2013, we concurrently issued $175.0 million of 4.50% senior notes due 2018 and redeemed $16.7 million of our $99.8 million senior subordinated notes due 2017. We redeemed the remaining balance of these notes in April 2013. In June 2013, we amended our Credit Facility to extend the facility maturity date by one year to July 2016 and increased the total commitment currently available under the Credit Facility by $10.0 million to $135.0 million. (See Note 5 to the accompanying unaudited consolidated financial statements for further discussion.)

Summary Company Results

Along with most of the homebuilding industry, we continued to experience strong operating and financial performance in the third quarter of 2013. We believe our overall improving trends are attributable to our focus on community placement, coupled with our Meritage Green energy efficiency product offerings as well as the overall improvement in home demand. Demand in our markets continues to outpace supply, allowing us to benefit from price appreciation, which more than offset construction cost increases, and thereby improved our margins. We continue to focus on growing our land positions and strategically increasing our active community count in preferred locations to meet the additional demand we are experiencing and capitalize on improved consumer sentiment regarding home purchases.

In the third quarter of 2013, we benefited from gains in nearly all of our key operating and financial metrics. We recorded 1,300 orders and 1,418 closings, increases of 8.0% and 18.5%, respectively over the third quarter of 2012. Orders pace per average actively selling community slowed slightly, reflecting the effect of recent interest rate increases, home price increases, as well as the overall slower summer months. Most notably, we recorded a significant increase year-over year in home closing gross margin during the three months ended September 30, 2013, increasing 420 basis points from the same period in 2012 to 22.8%. While home closing gross margin may continue to rise slightly over the short term, we expect that home closing gross margin will normalize at a slightly lower percentage rate over the longer term. We believe our results are indicative of successful execution of business initiatives and increased housing demand. We expect the positive housing fundamentals to continue to support moderate growth in upcoming quarters. Comparative positive trends are and will continue to be increasingly more difficult as we began experiencing notable and sustained improvement in the second quarter of 2012. Accordingly, we anticipate the comparative gains to be more tempered as we experience successive quarters of the improved homebuilding environment.

Total home closing revenue was $483.1 million for the three months ended September 30, 2013, increasing 44.3% from the same period last year. The $148.3 million increase is driven by both the 221 additional closing units for the quarter ended September 30, 2013 as compared to the same period last year and the 21.8% increase in average sales prices to $340,700. The increased sales prices were partially due to a shift in order mix to communities and states that have a greater demand for larger homes with higher average home prices and partially due to price appreciation. We reported net earnings of $38.2 million for the three months ended September 30, 2013, as compared to $6.8 million for the same period in 2012. We expect improving revenue and profitability for the remainder of the year, as indicated by our higher ending backlog, average sales prices and improved margins.

Total home closing revenue for the nine months ended September, 2013 was $1.2 billion as compared to $820.2 million for the 2012 period. The 52.4% increase in year-to-date closing revenue is due to a 793-unit increase strengthened by the $56,100 increase in average sales prices. Net earnings for the year-to-date period increased more than six times from $10.0 million in 2012 to $78.4 million in 2013. The same contributing factors for third quarter results mentioned above impacted the year-to-date results.

At September, 2013, our backlog of $805.6 million reflects an increase of 64.6% or $316.1 million, when compared to backlog at September 30, 2012. The improvement reflects a 8.0% increase in unit orders, as well as higher average sales prices on home orders of 19.7% for the three months ended September 30, 2013, as compared to the same period a year ago. In the third quarter of 2013, we were also able to maintain a low cancellation rate on home orders at 14%

of gross orders. Cancellations increased from 13% in the third quarter of 2012. These cancellation rates are still a bit below our historical averages.

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, warranty reserves, off-balance sheet arrangements, and share-

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based payments. There have been no significant changes to our critical accounting policies during the nine months ended September 30, 2013 compared to those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our 2012 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	
	2013	2012	Chg $	Chg %
Total				
Dollars	$483,147	$334,880	$148,267	44.3 %
Homes closed	1,418	1,197	221	18.5 %
Avg sales price	$340.7	$279.8	$60.9	21.8 %
West Region				
Arizona				
Dollars	$96,562	$59,519	$37,043	62.2 %
Homes closed	301	243	58	23.9 %
Avg sales price	$320.8	$244.9	$75.9	31.0 %
California				
Dollars	$113,954	$88,748	$25,206	28.4 %
Homes closed	259	244	15	6.1 %
Avg sales price	$440.0	$363.7	$76.3	21.0 %
Colorado				
Dollars	$43,033	$27,639	$15,394	55.7 %
Homes closed	104	83	21	25.3 %
Avg sales price	$413.8	$333.0	$80.8	24.3 %
Nevada				
Dollars	$245	$4,113	$(3,868)	(94.0)%
Homes closed	1	22	(21)	(95.5)%
Avg sales price	$245.0	$187.0	$58.0	31.0 %
West Region Totals				
Dollars	$253,794	$180,019	$73,775	41.0 %
Homes closed	665	592	73	12.3 %
Avg sales price	$381.6	$304.1	$77.5	25.5 %
Central Region - Texas				
Central Region Totals				
Dollars	$136,249	$104,041	$32,208	31.0 %
Homes closed	509	434	75	17.3 %
Avg sales price	$267.7	$239.7	$28.0	11.7 %
East Region				
Carolinas				
Dollars	$24,361	$14,459	$9,902	68.5 %
Homes closed	62	40	22	55.0 %
Avg sales price	$392.9	$361.5	$31.4	8.7 %
Florida				
Dollars	$66,464	36,361	$30,103	82.8 %
Homes closed	176	131	45	34.4 %
Avg sales price	$377.6	277.6	$100.0	36.0 %

Tennessee					
Dollars	$2,279	N/A	N/A	N/A	
Homes closed	6	N/A	N/A	N/A	
Avg sales price	$379.8	N/A	N/A	N/A	
East Region Totals					
Dollars	$93,104	$50,820	$42,284	83.2	%
Homes closed	244	171	73	42.7	%
Avg sales price	$381.6	$297.2	$84.4	28.4	%

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	Nine Months Ended September 30		Year over Year		
	2013	2012	Chg $	Chg %	
Total					
Dollars	$1,249,897	$820,242	$429,655	52.4	%
Homes closed	3,791	2,998	793	26.5	%
Avg sales price	$329.7	$273.6	$56.1	20.5	%
West Region					
Arizona					
Dollars	$233,447	$153,190	$80,257	52.4	%
Homes closed	744	593	151	25.5	%
Avg sales price	$313.8	$258.3	$55.5	21.5	%
California					
Dollars	$329,414	$172,575	$156,839	90.9	%
Homes closed	784	489	295	60.3	%
Avg sales price	$420.2	$352.9	$67.3	19.1	%
Colorado					
Dollars	$112,238	$75,816	$36,422	48.0	%
Homes closed	298	227	71	31.3	%
Avg sales price	$376.6	$334.0	$42.6	12.8	%
Nevada					
Dollars	$8,900	$7,402	$1,498	20.2	%
Homes closed	38	39	(1)	(2.6	)%
Avg sales price	$234.2	$189.8	$44.4	23.4	%
West Region Totals					
Dollars	$683,999	$408,983	$275,016	67.2	%
Homes closed	1,864	1,348	516	38.3	%
Avg sales price	$367.0	$303.4	$63.6	21.0	%
Central Region - Texas					
Central Region Totals					
Dollars	$343,924	$277,436	$66,488	24.0	%
Homes closed	1,312	1,190	122	10.3	%
Avg sales price	$262.1	$233.1	$29.0	12.4	%
East Region					
Carolinas					
Dollars	$57,849	$30,513	$27,336	89.6	%
Homes closed	153	84	69	82.1	%
Avg sales price	$378.1	$363.3	$14.8	4.1	%
Florida					
Dollars	$161,846	103,310	$58,536	56.7	%
Homes closed	456	376	80	21.3	%
Avg sales price	$354.9	274.8	$80.1	29.1	%
Tennessee					
Dollars	$2,279	N/A	N/A	N/A	
Homes closed	6	N/A	N/A	N/A	
Avg sales price	$379.8	N/A	N/A	N/A	
East Region Totals					
Dollars	$221,974	$133,823	$88,151	65.9	%
Homes closed	615	460	155	33.7	%

Avg sales price	$360.9	$290.9	$70.0	24.1 %

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Home Orders (1)

	Three Months Ended September 30		Quarter over Quarter	
	2013	2012	Chg $	Chg %
Total				
Dollars	$473,924	$366,752	$107,172	29.2 %
Homes ordered	1,300	1,204	96	8.0 %
Avg sales price	$364.6	$304.6	$60.0	19.7 %
West Region				
Arizona				
Dollars	$80,748	$70,315	$10,433	14.8 %
Homes ordered	234	229	5	2.2 %
Avg sales price	$345.1	$307.1	$38.0	12.4 %
California				
Dollars	$84,741	$94,974	$(10,233)	(10.8)%
Homes ordered	165	248	(83)	(33.5)%
Avg sales price	$513.6	$383.0	$130.6	34.1 %
Colorado				
Dollars	$44,178	$28,925	$15,253	52.7 %
Homes ordered	96	88	8	9.1 %
Avg sales price	$460.2	$328.7	$131.5	40.0 %
Nevada				
Dollars	$—	$4,384	$(4,384)	N/A
Homes ordered	—	22	(22)	N/A
Avg sales price	N/A	$199.3	N/A	N/A
West Region Totals				
Dollars	$209,667	$198,598	$11,069	5.6 %
Homes ordered	495	587	(92)	(15.7)%
Avg sales price	$423.6	$338.3	$85.3	25.2 %
Central Region - Texas				
Central Region Totals				
Dollars	$157,868	$106,116	$51,752	48.8 %
Homes ordered	545	425	120	28.2 %
Avg sales price	$289.7	$249.7	$40.0	16.0 %
East Region				
Carolinas				
Dollars	$28,971	$12,709	$16,262	128.0 %
Homes ordered	72	36	36	100.0 %
Avg sales price	$402.4	$353.0	$49.4	14.0 %
Florida				
Dollars	$74,312	$49,329	$24,983	50.6 %
Homes ordered	177	156	21	13.5 %
Avg sales price	$419.8	$316.2	$103.6	32.8 %
Tennessee				
Dollars	$3,106	N/A	N/A	N/A
Homes ordered	11	N/A	N/A	N/A
Avg sales price	$282.4	N/A	N/A	N/A
East Region Totals				

Dollars	$106,389	$62,038	$44,351	71.5	%
Homes ordered	260	192	68	35.4	%
Avg sales price	$409.2	$323.1	$86.1	26.6	%

(1) Home orders and home order dollars for any period represent the aggregate units or sales price of all homes 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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	Nine Months Ended September 30		Year over Year	
	2013	2012	Chg $	Chg %
Total				
Dollars	$1,567,719	$1,060,910	$506,809	47.8 %
Homes ordered	4,484	3,701	783	21.2 %
Avg sales price	$349.6	$286.7	$62.9	21.9 %
West Region				
Arizona				
Dollars	$284,139	$200,258	$83,881	41.9 %
Homes ordered	886	738	148	20.1 %
Avg sales price	$320.7	$271.4	$49.3	18.2 %
California				
Dollars	$331,933	$258,053	$73,880	28.6 %
Homes ordered	730	714	16	2.2 %
Avg sales price	$454.7	$361.4	$93.3	25.8 %
Colorado				
Dollars	$154,251	$88,012	$66,239	75.3 %
Homes ordered	358	266	92	34.6 %
Avg sales price	$430.9	$330.9	$100.0	30.2 %
Nevada				
Dollars	$5,795	$11,455	$(5,660)	(49.4)%
Homes ordered	24	61	(37)	(60.7)%
Avg sales price	$241.5	$187.8	$53.7	28.6 %
West Region Totals				
Dollars	$776,118	$557,778	$218,340	39.1 %
Homes ordered	1,998	1,779	219	12.3 %
Avg sales price	$388.4	$313.5	$74.9	23.9 %
Central Region - Texas				
Central Region Totals				
Dollars	$472,507	$332,007	$140,500	42.3 %
Homes ordered	1,689	1,370	319	23.3 %
Avg sales price	$279.8	$242.3	$37.5	15.5 %
East Region				
Carolinas				
Dollars	$87,461	$38,841	$48,620	125.2 %
Homes ordered	218	109	109	100.0 %
Avg sales price	$401.2	$356.3	$44.9	12.6 %
Florida				
Dollars	$228,527	$132,284	$96,243	72.8 %
Homes ordered	568	443	125	28.2 %
Avg sales price	$402.3	$298.6	$103.7	34.7 %
Tennessee				
Dollars	$3,106	N/A	N/A	N/A
Homes ordered	11	N/A	N/A	N/A
Avg sales price	$282.4	N/A	N/A	N/A
East Region Totals				
Dollars	$319,094	$171,125	$147,969	86.5 %
Homes ordered	797	552	245	44.4 %

Avg sales price	$400.4	$310.0	$90.4	29.2 %

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	Three Months Ended September 30			
	2013		2012	
	Beginning	Ending	Beginning	Ending
Active Communities				
Total	165	179	—151	153
West Region				
Arizona	36	39	32	34
California	13	18	20	19
Colorado	12	12	8	8
Nevada	—	—	2	2
West Region Total	61	69	62	63
Central Region - Texas	71	73	68	68
Central Region Total	71	73	68	68
East Region				
Carolinas	13	15	5	7
Florida	20	19	16	15
Tennessee	—	3	—	—
East Region Total	33	37	21	22

	Nine Months Ended September 30,			
	2013		2012	
	Beginning	Ending	Beginning	Ending
Active Communities				
Total	158	179	157	153
West Region				
Arizona	38	39	37	34
California	17	18	20	19
Colorado	12	12	10	8
Nevada	1	—	2	2
West Region Total	68	69	69	63
Central Region - Texas	65	73	67	68
Central Region Total	65	73	67	68
East Region				
Carolinas	7	15	3	7
Florida	18	19	18	15
Tennessee	—	3	—	—
East Region Total	25	37	21	22

	Three Months Ended September 30		Nine Months Ended September 30	
Cancellation Rates (1)	2013	2012	2013	2012
Total	14 %	13 %	12 %	13 %
West Region				
Arizona	17 %	11 %	12 %	10 %
California	16 %	14 %	12 %	14 %
Colorado	8 %	5 %	8 %	7 %
Nevada	N/A	19 %	11 %	16 %
West Region Total	15 %	12 %	11 %	11 %

Central Region - Texas	14	%	16	%	14	%	16	%
Central Region Total	14	%	16	%	14	%	16	%
East Region								
Carolinas	17	%	10	%	10	%	7	%
Florida	12	%	7	%	10	%	16	%
Tennessee	8	%	N/A		8	%	N/A	
East Region Total	14	%	8	%	10	%	14	%

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

Order Backlog (1)

	At September 30		Year over Year	
	2013	2012	Chg $	Chg %
Total				
Dollars	$805,580	$489,522	$316,058	64.6 %
Homes in backlog	2,190	1,618	572	35.4 %
Avg sales price	$367.8	$302.5	$65.3	21.6 %
West Region				
Arizona				
Dollars	$131,508	$92,300	$39,208	42.5 %
Homes in backlog	391	303	88	29.0 %
Avg sales price	$336.3	$304.6	$31.7	10.4 %
California				
Dollars	$127,107	$113,126	$13,981	12.4 %
Homes in backlog	261	307	(46)	(15.0)%
Avg sales price	$487.0	$368.5	$118.5	32.2 %
Colorado				
Dollars	$92,102	$35,689	$56,413	158.1 %
Homes in backlog	202	109	93	85.3 %
Avg sales price	$456.0	$327.4	$128.6	39.3 %
Nevada				
Dollars	$—	$5,129	$(5,129)	N/A
Homes in backlog	—	27	(27)	N/A
Avg sales price	N/A	$190.0	N/A	N/A
West Region Totals				
Dollars	$350,717	$246,244	$104,473	42.4 %
Homes in backlog	854	746	108	14.5 %
Avg sales price	$410.7	$330.1	$80.6	24.4 %
Central Region - Texas				
Central Region Totals				
Dollars	$260,900	148,065	112,835	76.2 %
Homes in backlog	877	576	301	52.3 %
Avg sales price	$297.5	$257.1	$40.4	15.7 %
East Region				
Carolinas				
Dollars	$46,953	$16,944	$30,009	177.1 %
Homes in backlog	114	49	65	132.7 %
Avg sales price	$411.9	$345.8	$66.1	19.1 %
Florida				
Dollars	$137,691	$78,269	$59,422	75.9 %
Homes in backlog	315	247	68	27.5 %
Avg sales price	$437.1	$316.9	$120.2	37.9 %
Tennessee				
Dollars	$9,319	N/A	N/A	N/A
Homes in backlog	30	N/A	N/A	N/A

Avg sales price	$310.6	N/A	N/A	N/A	
East Region Totals					
Dollars	$193,963	$95,213	$98,750	103.7	%
Homes in backlog	459	296	163	55.1	%
Avg sales price	$422.6	$321.7	$100.9	31.4	%

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

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Operating Results

Companywide. Home closings revenue for the three months ended September 30, 2013 increased 44.3% to $483.1 million on 1,418 units when compared to the prior year, due to a 221-unit increase in units closed and a $60,900 increase in average closing price. Home orders also increased significantly to $473.9 million on 1,300 units for the quarter ended September 30, 2013 as compared to $366.8 million on 1,204 units in the 2012 period, reflecting increased average sales prices of $60,000, or 19.7%, although sales pace on orders from average active communities dipped slightly year over year. The slower pace of growth in orders reflects our focus on asset maximization and price increases over absorptions pace. The improved demand over the past several quarters resulted in a 572-unit, or 35.4%, increase in our ending backlog at September 30, 2013 with 2,190 homes as compared to 1,618 homes at September 30, 2012. Additionally, the value of orders in backlog at September 30, 2013 increased 64.6% due to a $65,300 or 21.6% improvement in average sales price versus the same period a year ago. Our closings revenue and continued orders growth results reflect our ability to convert the higher demand the housing market is experiencing into orders and closings as we benefit from our superior land positions, desirable home designs and industry-leading energy efficiency innovations. Our average price increases are a result of a shift in mix to higher priced markets and states with a greater demand for larger homes, as well as the benefit from price appreciation in many of the markets in which we operate. Our active community count increased to 179 communities as of September 30, 2013 as compared to both 153 at September 30, 2012 and 165 reported at the end of the second quarter of 2013.

Closed units for the nine months ended September 30, 2013 increased 793 homes or 26.5% over the same period in 2012. Order units of 4,484 in the first nine months of 2013 increased 21.2% as compared to 3,701 in the same period in 2012, with a $62,900, or 21.9% increase in average sales price, reflecting the improved demand in 2013 that resulted in an increased ending backlog as mentioned above.

West. In the three months ended September 30, 2013, home closings rose to 665 units, an increase of 12.3% or 73 units over prior year, with a value of $253.8 million, an increase 41.0% from 2012. Despite the increase in actively selling communities during the third quarter of 2013, the Region had a 92-unit decrease in orders offset by an $85,300 increase in average sales price, resulting in a net increase in order dollar value of $11.1 million. The $85,300 increase in average sales price is a result of our community locations with higher-priced homes that have also had successive periods of price increases due to strong buyer demand. These results led to ending backlog in the Region valued at $350.7 million on 854 units, a 108-unit or 14.5% increase over the same period in the prior year. Pent-up demand and our superior community locations, as well as unique energy efficient products, are largely the drivers behind the impressive growth in the states within the West Region.

We believe the successes in the West Region are a testament to our business strategy that emphasizes well-located lot and land positions, innovative product design and our energy-efficient features. Our orders per average active community in the Region maintained a healthy pace of 7.6 units, although that does represent a decrease of 19.1% over the prior year, reflecting the increased average sales prices over the past year. This decrease is also largely due to the exceptional demand the California market experienced in the latter half of 2012 and early 2013. While demand is still good, it is not at the same rate we enjoyed both last year and the first half of this year. Both Arizona and Colorado volumes were pivotal in the overall Region results and represent a larger percentage of the Region's operations. We are opening communities in locations in both Arizona and Colorado where the product demand is for larger homes and where we have been able to successively initiate price increases, driving the impressive average sales price increases in both states, while a larger number of actively selling communities due to recent openings are aiding the bolstered volume in both orders and backlog.

As previously discussed, we wound down our operations in Nevada and the only business we are currently conducting in Nevada is servicing warranty calls for our existing homeowners. We closed our final home there in the third quarter of 2013.

For the nine months ended September 30, 2013, home closings in our West Region increased 516 units to 1,864 closings, which together with a $63,600 increase in average sales price resulted in a 67.2% increase in home closing

revenue as compared to the same period in the prior year. Orders in the first nine months of 2013 increased 219 units or 12.3%, which coupled with the $74,900 average sales price growth, resulted in an increase of $218.3 million to $776.1 million of order volume over the same period in 2012. These results are indicative of the improved homebuilding environment and buyer demand in these states.

Central. The Central Region, made up of our Texas markets, closed 509 units totaling $136.2 million in revenues in the three months ended September 30, 2013, 17.3% and 31.0% increases in units and dollars, respectively, as compared to those reported in the same period in 2012. The Region also experienced a 28.2% increase in orders to 545 units as compared to 425 units for the same period a year ago. The orders increases were achieved mainly due to growth in our active community count to 73 at September 30, 2013 versus 68 at September 30, 2012 and by our 20.6% increase in orders per average community over the prior year. The Central Region's increase in orders in the three months ended September 30, 2013, aided by a $40,000 average sales price increase, contributed to a higher-ending backlog value of $260.9 million, an increase of $112.8 million or 76.2% as compared to the same

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period a year ago. Community placement and more actively selling communities are largely credited for the year-over-year gains, coupled with the improved general economy.
Year to date, the Region's revenues experienced an increase to $343.9 million of closings volume on 1,312 units, $66.5 million higher than the same period in the prior year. The 319-unit and $140.5 million increases in orders in the first nine months of 2013 mirror the gains experienced in the third quarter. Improvements in the general economy and our new product line up both contributed to our year-to-date gains.
East. Our East Region generated 244 closings with $93.1 million of home revenue in the third quarter of 2013, 42.7% and 83.2% increases, respectively, from the same period in 2012. The Region also reported higher results in orders generating $44.4 million of additional order dollars, due to a 35.4% increase in units as well as a $86,100 or 26.6% increase in average sales price year over year. This is largely attributable to our 63% increase in the number of average actively selling communities in desirable locations, primarily in our new markets in the Carolinas where our average number of actively selling communities more than doubled and, to a lesser extent, our new operations in Tampa and Nashville. Sales pace in the Region held steady year over year, which coupled with the improved orders and average sales prices led to a 163-unit and $98.8 million increase in ending backlog, 55.1% and 103.7% gains, respectively. Significant increases in average sales prices in Florida are due to overall price increases, as well as to a shift to community locations that generate a higher demand for larger homes with typically higher sales prices. The Florida market was the largest contributor to the Region's results, although operations in the Carolinas contributed 62 units, or $24.4 million in closings and 72 units, or $29.0 million, in order volume from 14 average actively-selling communities during the third quarter. Our first month of operations in Tennessee commenced in September 2013, contributing 6 closings and 11 orders valued at $2.3 million and $3.1 million, respectively.

The performance in this Region is a testament to our commitment of expanding our geographical footprint through entry into highly sought-after markets and strategic community positioning efforts with strong buyer demand. Our focus and efforts have been supported by strong orders and average sales price growth in the Region.

The Region's home closings for the nine months ended September 30, 2013 increased 155 units, or 33.7% over the same period in 2012. This generated total home closing revenue of $222.0 million for the nine months ended September 30, 2013, a 65.9% increase over the same period a year ago. Year-to-date orders and order value increased 44.4% and 86.5%, respectively, to 797 units as compared to the same period in 2012. The increasing volume that the new markets in this Region are contributing, coupled with the same factors that impacted the third quarter performance for the rest of the country 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 $8.9 million and $28.6 million for the three and nine months ending September, 2013, respectively, as compared to $7.8 million and $8.8 million for the three and nine months ending September, 2012, respectively. The majority of the 2013 land sales are from the sale of certain parcels in communities where we continue to hold extended lot positions as well as the sale of certain Nevada assets as part of our wind-down efforts. Gross profit on land sales improved year over year for both the three and nine months ended September 30, 2013 over 2012 as the 2012 land sales of legacy assets purchased at a higher land basis generated close to break-even margins.

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Operating Information (dollars in thousands)

	Three Months Ended September 30				Nine Months Ended September 30			
	2013		2012		2013		2012	
	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	$110,375	22.8%	$62,154	18.6%	$268,340	21.5%	$149,213	18.2%
West	$62,752	24.7%	$33,304	18.5%	$159,065	23.3%	$72,941	17.8%
Central	$27,705	20.3%	$18,787	18.1%	$64,362	18.7%	$49,374	17.8%
East	$19,918	21.4%	$10,063	19.8%	$44,913	20.2%	$26,898	20.1%

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 profit increased to a margin of 22.8% and 21.5% for the three and nine months ended September 30, 2013, respectively, as compared to 18.6% and 18.2% for the three and nine months ended September 30, 2012, respectively. The third quarter of 2013 also experienced a 130 basis point improvement in home closing gross profit sequentially from 21.5% in the second quarter of 2013. We have been successful in maintaining and, in many markets, increasing gross profit despite direct cost increases experienced in the homebuilding industry recently. This is mainly attributable to sales price increases, construction overhead leverage as our volume has increased over the last several quarters, as well as our focus on direct costs containment. We believe that with our improving orders, sales price increases, and strong ending backlog numbers, we should see stability and potentially modest growth in our gross profit throughout the remainder of 2013.

West. Our West Region boasted the highest home closing gross margin figures, increasing to 24.7% for the three months ended September 30, 2013 from 18.5% in the same period of 2012. For the first nine months of 2013, home closing gross margin increased to 23.3% from 17.8% in the first nine months of 2012. The significant improvement year over year is largely the result of price increases we have been able to implement in many communities due to improving market conditions, the desirability of our community locations, as well as overhead leverage experienced with increased volumes.

Central. The Central Region’s 20.3% and 18.7% home closing gross margin for the three and nine months ended September 30, 2013 steadily increased from 18.1% and 17.8% for the same periods of 2012. These increases are mostly due to successful price increases that more than offset rising construction costs. The markets within our Central Region have historically reported lower gross margin results than our other markets.

East. This Region reported home closing gross margins of 21.4% and 20.2% for the three and nine months ended September 30, 2013 as compared to 19.8% and 20.1% for the same periods in the prior year. We continue to focus on cost containment measures, opening superior community locations and implementing strategic sales price increases, which collectively have led to a 150 basis point margin improvement sequentially from the second quarter of 2013.

Year-to-date margins in this Region are relatively flat year over year as a result of our units mix in the first quarter of 2013 versus 2012, reflecting the lower margins from close out communities.

Financial Services Profit

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Financial Services Profit	$4,294	$2,985	$11,515	$6,743

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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. The majority of our financial services profit stems from these mortgage and title joint ventures. In the future, we expect Carefree Title to comprise a greater portion of our financial services profit as it is currently still in its start-up phase and is not yet fully operational in all of our markets. Increases year over year are attributable to the increase in the number of closings processed through our joint ventures and our corresponding profit.

Selling, General and Administrative Expenses and Other Expenses

	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Commissions and Other Sales Costs				
Dollars	$33,467	$25,855	$90,526	$67,950
Percent of home closing revenue	6.9 %	7.7 %	7.2 %	8.3 %
General and Administrative Expenses				
Dollars	$24,412	$19,209	$66,587	$50,446
Percent of total closing revenue	5.0 %	5.6 %	5.2 %	6.1 %
Interest Expense				
Dollars	$3,462	$5,009	$13,113	$18,718
Other Income/(Expense), Net				
Dollars	605	(8,276)	$1,760	$(7,481)
Loss on Early Extinguishment of Debt				
Dollars	$—	$—	$3,796	$5,772
(Provision for)/Benefit from Income Taxes				
Dollars	$(18,595)	$(202)	$(33,418)	$4,781

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. Reflecting higher homebuilding revenues and the significant increase of actively selling communities, commissions and other sales costs increased by $7.6 million and $22.6 million for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012; however, a percentage of home closing revenue, these costs dropped 80 basis points to 6.9% and 110 basis points to 7.2% for the three and nine months ended September 30, 2013, respectively. The improved ratio in these costs as a percentage of home closing revenue for both the three and nine months is indicative of our continued focus on containing costs as well as our ability to leverage these costs over our increasing revenue.

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 $24.4 million and $66.6 million for the three and nine months ended September 30, 2013 as compared to $19.2 million and $50.4 million for the three and nine months ended September 30, 2012. The increases in dollars incurred is mainly due to increased compensation costs driven by additional staffing volumes and incentive compensation directly tied to operational metrics as well as overhead costs incurred in our new markets. We remain focused on cost control and maintaining overhead leverage at both the divisional and corporate levels. Due to the increase in revenue and improved operating leverage, these expenses decreased 60 and 90 basis points, respectively, to 5.0% and 5.2% of total revenue for the three and nine months ended September 30, 2013, respectively, as compared to the same periods in 2012.

Interest Expense

Interest expense is comprised of interest incurred but not capitalized. For the three and nine months ended September 30, 2013, respectively, our non-capitalizable interest expense was $3.5 million and $13.1 million as compared to $5.0 million and $18.7 million for the same periods in the prior year. The decrease in expense year over year is a result of a higher amount of active assets under development included in our inventory that qualify for interest capitalization. While we anticipate our non-capitalizable interest expense will continue to decrease, we expect our eligible assets under construction to remain below our debt balance for the remainder of 2013, and therefore, we anticipate that we will continue to incur such interest charges for the remainder of this year.

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Other Income/(Expense), 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, increased for the three and nine months ended September 30, 2013 as compared to the same periods in the prior year primarily due to the $8.7 million litigation reserve charge recorded in the third quarter of 2012.

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 tender and redemption of the remaining balance 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. Loss on early extinguishment of debt for the nine months ended September 30, 2012 is attributable to the charges associated with the tender and redemption of our 2015 notes and $26.1 million partial tender of our 2017 senior subordinated notes. See Note 5 to the consolidated financial statements for additional discussion. There were no such charges in the three months ended September 30, 2013 or 2012.

Income Taxes

During the three and nine months ended September 30, 2013, we reported an effective tax rate of 32.7% and 29.9% compared to 2.9% and (91.0)%, respectively, for the same periods in 2012. The three and nine month tax rates in 2013 include additional reversals of our state deferred tax valuation allowance, the benefit of energy tax credits, and the homebuilder manufacturing deduction. See Note 10 to the consolidated financial statements for additional discussion. Due to the effects of the deferred tax asset valuation allowance and federal and state tax net operating losses, the effective tax rate in 2012 is not meaningful as there is no correlation between the effective tax rate and the amount of pre-tax income or loss for that period.

Liquidity and Capital Resources

We ended the second quarter with $311.3 million of cash and cash equivalents, investments and securities, and restricted cash, a $15.9 million increase from December 31, 2012. Our principal uses of capital for the nine months ended September 30, 2013 were operating expenses, home construction and land development, the payment of routine liabilities, and the acquisition of new and strategic lot and land positions, including our acquisition of Phillips Builders in Tennessee. We used funds generated by operations to meet our short-term working capital requirements. We remain focused on generating positive margins in our homebuilding operations and acquiring desirable land positions in order to maintain a strong balance sheet and keep us poised for growth.

Operating Cash Flow Activities

During the nine months ended September 30, 2013 and September 30, 2012, net cash used in operations totaled $39.5 million and $132.3 million, respectively. The first nine months of 2013 results benefited from cash generated by the $78.4 million in net income and a $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.

Net cash used in operations in the first nine months of 2012 was primarily the result of our increase in real estate assets, attributable to land acquisition and development activities as well as an increase in home inventory under construction.

Investing Cash Flow Activities

During the nine months ended September 30, 2013, net cash used in investing activities totaled $36.8 million as compared to net cash provided by investing activities of $70.7 million for the same periods in 2012. Cash used in investing activities in the first nine months of 2013 is mainly attributable to the difference between the $132.9 million in maturities and $139.7 million in purchases of new investments and securities comprised of treasury securities and treasury-backed investments coupled with cash outlays related to acquisitions and purchases of property and equipment to fund model homes in new communities of $18.4 million and $9.7 million, respectively.

Net cash provided by investing activities in the first nine months of 2012 primarily related to the maturities and purchases of investments and securities of $190.7 million and $109.8 million, respectively.

Financing Cash Flow Activities

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During the nine months ended September 30, 2013 net cash provided by financing activities totaled $83.5 million as compared to $192.9 million for the same period in 2012. The net increase in financing cash in both periods is primarily the net result of our capital transactions. During the first nine months ended September 30, 2013 we issued $175.0 million in senior notes and concurrently tendered our 2017 senior subordinated notes for $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 statement 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 in strategic and attractive locations we deem key to our success. As demand for new homes continues to improve and we expand our business, we expect that cash outlays for land purchases and land development in order to grow our lot inventory in the near term will continue to exceed our cash generated by operations. During the third quarter of 2013, we closed 1,418 homes, purchased approximately 2,700 lots for $93.1 million, spent $73.4 million on land development, and started 1,489 homes. In addition, we spent $11.4 million on deposits to enter into contracts for lots secured with land bankers in the third quarter of 2013. As a means of accessing large parcels of land with minimal cash outlay, we have recently begun to enter into rolling option contracts through land banking arrangements. Such arrangements provide 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. Purchasing land through these arrangements allows us greater cash leveraging and the opportunity to enter into larger land deals that otherwise would have been prohibitive due to the amount of initial cash outlay they would have required. (See Notes 1 and 3 to the consolidated financial statements for additional information regarding land contract deposits and their associated committed cash). 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.

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. We continuously evaluate our capital needs in light of the improving homebuilding markets and our existing capital structure. In the first half of 2013, we called and paid our $99.8 million of 2017 debt. Accordingly, we have no debt maturities until 2018. In addition, in the second quarter of 2013, we amended our existing $125 million senior unsecured revolving credit facility ("the Credit Facility") to, among other things, extend the facility maturity date by one year from July 24, 2015 to July 24, 2016 and increase the total commitment currently available under the Credit Facility to $135 million and increase the accordion feature to $75 million. See Note 5 to the consolidated financial statements for additional discussion regarding these capital transactions.

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 look into opportunities to expand outside of our existing markets. Accordingly, over the last two years, we entered the Raleigh-Durham and Charlotte, North Carolina markets, and the Tampa, Florida market and most recently, we entered the Nashville, Tennessee market through our August 2013 purchase of Phillips Builders. These opportunities expand our footprint into new markets with positive growth potential and the ability to leverage our existing East Region resources.

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 Note 5 in the notes to the unaudited financial statements included in this Quarterly Report on Form 10-Q.
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

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thousands):

	At September 30, 2013		At December 31, 2012	
Senior, senior subordinated and senior convertible notes	$798,337		$722,797	
Stockholders' equity	792,326		694,210	
Total capital	$1,590,663		$1,417,007	
Debt-to-capital (1)	50.2	%	51.0	%
Senior, senior subordinated and senior convertible notes	$798,337		$722,797	
Less: cash and cash equivalents, restricted cash, and investments and securities	(311,334	)	(295,469	)
Net debt	487,003		427,328	
Stockholders' equity	792,326		694,210	
Total capital	$1,279,329		$1,121,538	
Net debt-to-capital (2)	38.1	%	38.1	%

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

(2) 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, 2013. 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 $360.0 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 quarter or nine months ended September 30, 2013. Our actual financial covenant calculations as of September 30, 2013 are reflected in the table below:

Financial Covenant (dollars in thousands):	Covenant Requirement	Actual
Minimum Tangible Net Worth	$504,942	$767,970
Leverage Ratio	< 60%	35%
Interest Coverage Ratio (1)	> 1.50	3.99
Minimum Liquidity (1)	> $50,192	$405,430
Investments other than defined permitted investments	< $260,391	$10,662

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

Off-Balance Sheet Arrangements

Reference is made to Notes 1, 3 and 13 in the accompanying notes to unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q. 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 capital requirements in the second and third quarters to build our inventories to satisfy the deliveries in the second half of the

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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," "should," "could," “estimate,” and “project” a 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, as amended, 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; our perceptions about our exposure to loss with respect to our financial instruments and our intention to hold our investments and securities to maturity; our strategic initiatives; that underperforming or mothballed communities will not incur material impairments in the future; the benefits of our land acquisition strategy and structures; that Carefree Title will be fully operational in applicable locations by the end of 2013 and that we will wind down our remaining title joint venture; 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 2013 and beyond; our land and lot acquisition strategy including our expansion plans relating to new markets; the sufficiency of our warranty reserves; demographic and other trends related to the homebuilding industry in general; the future supply of housing inventory; 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; the future impact of deferred tax assets or liabilities; the impact of new accounting standards and changes in accounting estimates; trends and expectations concerning sales prices, sales pace, closings, orders, cancellations, construction costs and gross margins, gross profit (including contributions from Carefree Title), revenues, net earnings, number and growth of active communities, seasonality and the timing of new community openings; our future cash needs; the expected vesting periods of unrecognized compensation expense; the benefits of our equity compensation program; that we may seek to raise additional debt and equity capital; that we will continue to incur direct interest expense (versus capitalizing and amortizing through cost of closings); the sufficiency of our reserves and our support for our uncertain tax filings positions and timing of payments relating thereto; 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 currently known to management 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: weakness in the homebuilding market resulting from an unexpected setback in the current economic recovery; the availability of finished lots and undeveloped land; interest rates and changes in the availability and pricing of residential mortgages; the availability and cost of materials and labor; adverse changes in tax laws that benefit our homebuyers; the ability of our potential buyers to sell their existing homes; cancellation rates and home prices in our markets; inflation in the cost of materials used to construct homes; the adverse effect of slower order absorption rates; potential write-downs or write-offs of assets, including pre-acquisition costs and 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; our success in prevailing on contested

tax positions; our ability to preserve our deferred tax assets and use them within the statutory time limits; delays and risks associated with land development; 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; 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 future acquisitions; government regulations

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and 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, 2012 under the caption “Risk Factors,” which can be found on our website.

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, 2013 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, $200.0 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 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. 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 furnished 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 warranty and indemnity obligations of 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.
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 all of the lenders' claims against Meritage in this consolidated lawsuit without prejudice.
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. 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

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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, 2012, 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 three months ended September 30, 2013.

We have not declared cash dividends for more than ten years, 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
4.1	First Supplemental Indenture (re 4.5% Senior Notes due 2018)	Filed herewith
4.2	Second Supplemental Indenture (re 7% Senior Notes due 2022)	Filed herewith
4.3	Supplemental Indenture No. 2 (re 1.875% Convertible Senior Notes due 2032)	Filed herewith
4.4	Fifth Supplemental Indenture (re 7.15% Senior Notes due 2020)	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certificate of Steven J. Hilton, Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certificate 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, 2013, 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 1st day of November 2013.

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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