Meritage Homes CORP
Form 10-Q
July 31, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from to

Commission File Number 1-9977

(Exact Name of Registrant as Specified in its Charter)

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

(480) 515-8100
(Registrant’s telephone number, including area code)
(Former Name, Former Address and Formal Fiscal Year, if Changed Since Last Report)

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

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

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

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

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

Common shares outstanding as of July 29, 2015: 39,660,997

MERITAGE HOMES CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2015
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$217,021	$103,333
Other receivables	64,659	56,763
Real estate	2,027,064	1,877,682
Real estate not owned	—	4,999
Deposits on real estate under option or contract	92,085	94,989
Investments in unconsolidated entities	10,303	10,780
Property and equipment, net	33,741	32,403
Deferred tax asset	65,651	64,137
Prepaids, other assets and goodwill	76,145	71,052
Total assets	$2,586,669	$2,316,138
Liabilities		
Accounts payable	$103,145	$83,619
Accrued liabilities	137,602	154,144
Home sale deposits	38,728	29,379
Liabilities related to real estate not owned	—	4,299
Loans payable and other borrowings	34,654	30,722
Senior and convertible senior notes	1,104,202	904,486
Total liabilities	1,418,331	1,206,649
Stockholders' Equity		
Preferred stock, par value $0.01. Authorized 10,000,000 shares; none issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock, par value $0.01. Authorized 125,000,000 shares; issued 39,660,997 and 39,147,153 shares at June 30, 2015 and December 31, 2014, respectively	397	391
Additional paid-in capital	552,098	538,788
Retained earnings	615,843	570,310
Total stockholders' equity	1,168,338	1,109,489
Total liabilities and stockholders' equity	$2,586,669	$2,316,138

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Homebuilding:				
Home closing revenue	$591,027	$502,800	$1,108,300	$908,579
Land closing revenue	6,774	2,804	8,213	5,370
Total closing revenue	597,801	505,604	1,116,513	913,949
Cost of home closings	(476,790)	(392,839)	(898,576)	(706,019)
Cost of land closings	(6,262)	(2,762)	(7,547)	(6,355)
Total cost of closings	(483,052)	(395,601)	(906,123)	(712,374)
Home closing gross profit	114,237	109,961	209,724	202,560
Land closing gross profit/(loss)	512	42	666	(985)
Total closing gross profit	114,749	110,003	210,390	201,575
Financial Services:				
Revenue	2,741	2,451	5,276	4,350
Expense	(1,362)	(1,131)	(2,661)	(2,206)
Earnings from financial services unconsolidated entities and other, net	2,757	2,297	5,301	4,498
Financial services profit	4,136	3,617	7,916	6,642
Commissions and other sales costs	(45,167)	(36,105)	(86,779)	(67,039)
General and administrative expenses	(27,650)	(24,571)	(57,300)	(46,242)
Loss from other unconsolidated entities, net	(169)	(61)	(292)	(230)
Interest expense	(4,621)	(1,396)	(7,775)	(4,109)
Other income, net	136	3,749	551	4,397
Earnings before income taxes	41,414	55,236	66,711	94,994
Provision for income taxes	(12,281)	(20,157)	(21,178)	(34,538)
Net earnings	$29,133	$35,079	$45,533	$60,456
Earnings per common share:				
Basic	$0.73	$0.90	$1.15	$1.55
Diluted	$0.70	$0.85	$1.10	$1.48
Weighted average number of shares:				
Basic	39,648	39,118	39,520	38,904
Diluted	42,145	41,598	42,079	41,487

See accompanying notes to unaudited consolidated financial statements

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	$45,533	$60,456
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	6,729	5,182
Stock-based compensation	8,465	5,264
Excess income tax benefit from stock-based awards	(2,012)	(2,194)
Equity in earnings from unconsolidated entities	(5,009)	(4,268)
Distributions of earnings from unconsolidated entities	5,769	6,119
Other	424	3,955
Changes in assets and liabilities:		
Increase in real estate	(144,450)	(229,805)
Decrease/(increase) in deposits on real estate under option or contract	3,604	(7,986)
Increase in receivables, prepaids and other assets	(10,346)	(15,121)
Increase in accounts payable and accrued liabilities	4,996	2,247
Increase in home sale deposits	9,349	5,537
Net cash used in operating activities	(76,948)	(170,614)
Cash flows from investing activities:		
Investments in unconsolidated entities	(282)	(233)
Purchases of property and equipment	(7,829)	(11,864)
Proceeds from sales of property and equipment	62	146
Maturities of investments and securities	—	65,388
Payments to purchase investments and securities	—	(35,614)
Net cash (used in)/provided by investing activities	(8,049)	17,823
Cash flows from financing activities:		
Proceeds from Credit Facility, net	—	—
Repayment of loans payable and other borrowings	(3,211)	(4,036)
Proceeds from issuance of senior notes	200,000	—
Debt issuance costs	(2,955)	—
Excess income tax benefit from stock-based awards	2,012	2,194
Proceeds from issuance of common stock, net	—	110,420
Proceeds from stock option exercises	2,839	707
Net cash provided by financing activities	198,685	109,285
Net increase/(decrease) in cash and cash equivalents	113,688	(43,506)
Cash and cash equivalents, beginning of period	103,333	274,136
Cash and cash equivalents, end of period	$217,021	$230,630

See Supplemental Disclosure of Cash Flow Information in Note 13.
See accompanying notes to unaudited consolidated financial statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND BASIS OF PRESENTATION

Organization. Meritage Homes is a leading designer and builder of single-family detached homes. We primarily build in historically high-growth regions of the United States and offer a variety of homes that are designed to appeal to a wide range of homebuyers, including first-time, move-up, active adult and luxury. We have homebuilding operations in three regions: West, Central and East, which are comprised of nine states: Arizona, California, Colorado, Texas, Florida, Georgia, North Carolina, South Carolina and Tennessee. In August 2014, we entered the Atlanta, Georgia and Greenville, South Carolina markets through the acquisition of the homebuilding assets and operations of Legendary Communities ("Legendary Communities"). We also operate a wholly-owned title company, Carefree Title Agency, Inc. ("Carefree Title"). Carefree Title's core business includes title insurance and closing/settlement services we offer to our homebuyers. Through our predecessors, we commenced our homebuilding operations in 1985. Meritage Homes Corporation was incorporated in 1988 in the state of Maryland.

Our homebuilding and marketing activities are conducted under the name of Meritage Homes in each of our homebuilding markets, other than Tennessee, where we currently operate under the name of Phillips Builders, and in the Atlanta and Greenville markets where we currently operate under the Legendary Communities brand. We also offer luxury homes in some markets under the brand name of Monterey Homes. At June 30, 2015, we were actively selling homes in 240 communities, with base prices ranging from approximately $122,000 to $1,315,000.

Basis of Presentation. The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014. The consolidated financial statements include the accounts of Meritage Homes Corporation and those of our consolidated subsidiaries, partnerships and other entities in which we have a controlling financial interest, and of variable interest entities (see Note 3) in which we are deemed the primary beneficiary (collectively, “us”, “we”, “our” and “the Company”). Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the accompanying unaudited financial statements include all adjustments (consisting only of normal recurring entries), necessary for the fair presentation of our results for the interim periods presented. Results for interim periods are not necessarily indicative of results to be expected for the full year. Certain reclassifications have been made to prior year results to conform to current year presentation.

Cash and Cash Equivalents. Liquid investments with an initial maturity of three months or less are classified as cash equivalents. Amounts in transit from title companies or closing agents for home closings of approximately $57.5 million and $59.2 million are included in cash and cash equivalents at June 30, 2015 and December 31, 2014, respectively.

Real Estate. Real estate is stated at cost unless the asset is determined to be impaired, at which point the inventory is written down to fair value as required by Accounting Standards Codification (“ASC”) 360-10, Property, Plant and Equipment (“ASC 360-10”). Inventory includes the costs of land acquisition, land development, home construction, capitalized interest, real estate taxes, capitalized direct overhead costs incurred during development and home construction that benefit the entire community, less impairments, if any. Land and development costs are typically allocated and transferred to homes under construction when construction begins. Home construction costs are accumulated on a per-home basis, while selling costs are expensed as incurred. Cost of home closings includes the specific construction costs of the home and all related allocated land acquisition, land development and other common costs (both incurred and estimated to be incurred) that are allocated based upon the total number of homes expected to be closed in each community or phase. Any changes to the estimated total development costs of a community or phase are allocated to the remaining homes in the community or phase. When a home closes, we may have incurred costs for goods and services that have not yet been paid. An accrued liability to capture such obligations is recorded in connection with the home closing and charged directly to cost of sales.

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

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

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

Deposits. Deposits paid related to land options and purchase contracts are recorded and classified as Deposits on real estate under option or contract until the related land is purchased. Deposits are reclassified as a component of real estate inventory at the time the deposit is used to offset the acquisition price of the lots based on the terms of the underlying agreements. To the extent they are non-refundable, deposits are charged to expense if the land acquisition is terminated or no longer considered probable. Since our acquisition contracts typically do not require specific performance, we do not consider such contracts to be contractual obligations to purchase the land and our total exposure under such contracts is limited to the loss of the non-refundable deposits and any ancillary capitalized costs. Our deposits were $92.1 million and $95.0 million as of June 30, 2015 and December 31, 2014, respectively.

Goodwill. In accordance with ASC 350, Intangibles, Goodwill and Other ("ASC 350"), we analyze goodwill on at least an annual basis to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. ASC 350 states that an entity may assess qualitative factors first to determine whether it is necessary to perform a two-step goodwill impairment test. Such qualitative factors include: (1) macroeconomic conditions, such as a deterioration in general economic conditions, (2) industry and market considerations such as deterioration in the environment in which the entity operates, (3) cost factors such as increases in raw materials and labor costs, and (4) overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings. If the qualitative analysis determines that additional impairment testing is required, the two-step impairment testing in accordance with ASC 350 would be initiated. We continually evaluate our qualitative inputs to assess whether events and circumstances have occurred that indicate the goodwill balance may not be recoverable. See Note 9 for additional information related to goodwill.

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

Off-Balance Sheet Arrangements - Other. In the normal course of business, we may acquire lots from various development entities pursuant to option and purchase agreements. The purchase price generally approximates the market price at the date the contract is executed (with possible future escalators). See Note 3 for additional information on off-balance sheet arrangements.

Surety Bonds and Letters of Credit. We provide letters of credit in support of our obligations relating to the development of our projects and other corporate purposes. For some projects, surety bonds may be posted in lieu of letters of credit or cash deposits. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. Bonds are generally not released until all development activities under the bond are complete. In the event a bond or letter of credit is drawn upon, we would be obligated to reimburse the issuer for any amounts advanced under the bond. We believe it is unlikely that any significant amounts of these bonds or letters of credit will be drawn upon. The table below outlines our surety bond and letter of credit obligations (in thousands):

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	At June 30, 2015		At December 31, 2014	
	Outstanding	Estimated work remaining to complete	Outstanding	Estimated work remaining to complete
Sureties:				
Sureties related to joint ventures	$87	$ 87	$87	$ 87
Sureties related to owned projects and lots under contract	241,805	93,313	230,079	93,667
Total Sureties	$241,892	$ 93,400	$230,166	$ 93,754
Letters of Credit (“LOCs”):				
LOCs in lieu of deposits for contracted lots	$—	N/A	$1,200	N/A
LOCs for land development	13,091	N/A	13,789	N/A
LOCs for general corporate operations	4,500	N/A	4,500	N/A
Total LOCs	$17,591	N/A	$19,489	N/A

Accrued Liabilities. Accrued liabilities at June 30, 2015 and December 31, 2014 consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Accruals related to real estate development and construction activities	$40,187	$34,975
Payroll and other benefits	29,592	44,107
Accrued taxes	4,637	11,096
Warranty reserves	21,993	22,080
Legal reserves	15,484	16,499
Other accruals	25,709	25,387
Total	$137,602	$154,144

Warranty Reserves. We provide home purchasers with limited warranties against certain building defects and have certain obligations related to those post-construction warranties for closed homes. The specific terms and conditions of these limited warranties vary by state, but overall the nature of the warranties include a complete workmanship and materials warranty typically during the first one to two years after the close of the home and a structural warranty that typically extends up to 10 years subsequent to the close of the home. With the assistance of an actuary, we have estimated these reserves for the structural warranty based on the number of homes still under warranty and historical data and trends for our communities. We also use industry data with respect to similar product types and geographic areas in markets where our experience is incomplete to draw a meaningful conclusion. We regularly review our warranty reserves and adjust them, as necessary, to reflect changes in trends as information becomes available. Based on such reviews, we increased our warranty reserve balance by $750,000 and $500,000 in the three and six months ended June 30, 2015 and 2014, respectively, which increased our cost of sales. A summary of changes in our warranty reserves follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	$21,839	$21,482	$22,080	$21,971
Additions to reserve from new home deliveries	2,996	2,759	5,624	5,035
Warranty claims	(3,592)	(3,859)	(6,461)	(6,624)
Adjustments to pre-existing reserves	750	500	750	500
Balance, end of period	$21,993	$20,882	$21,993	$20,882

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

Recent Accounting Pronouncements. In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability, other than those related to a revolving debt arrangement, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 is effective for us for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. ASU 2015-03 is to be applied on a retrospective basis and represents a change in accounting principle. The adoption of ASU 2015-03 will result in a retrospective reclassification of our debt costs as described above, but we do not expect the resulting changes to be material.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis ("ASU 2015-02"). ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. ASU 2015-02 is effective for us beginning January 1, 2016. Early adoption is permitted. We do not anticipate the adoption of ASU 2015-02 will have a material effect on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items ("ASU 2015-01"). ASU 2015-01 eliminates the concept of extraordinary items from GAAP but retains the presentation and disclosure guidance for items that are unusual in nature or occur infrequently and expands the guidance to include items that are both unusual and infrequently occurring. ASU 2015-01 is effective for us on January 1, 2016. A reporting entity may apply ASU 2015-01 prospectively or retrospectively to all periods presented in the financial statements. We do not anticipate the adoption of ASU 2015-01 will have a material effect on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"), which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. We will be required to perform the going concern assessment under ASU 2014-15 beginning with the year ending December 31, 2016. We do not anticipate the adoption of ASU 2014-15 will have a material effect on our consolidated financial statements or disclosures.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”). ASU 2014-09 requires entities to recognize revenue that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services by applying the following steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 supersedes the revenue recognition requirements in ASU 605, Revenue Recognition, most industry-specific guidance throughout the industry topics of the ASC, and some cost guidance related to construction-type and production-type contracts. ASU 2014-09 is effective for us on January 1, 2018. Early adoption is not permitted. We are currently evaluating the potential impact of adopting this guidance on our consolidated financial statements.

NOTE 2 — REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

	June 30, 2015	December 31, 2014
Homes under contract under construction (1)	$506,004	$328,931
Unsold homes, completed and under construction (1)	251,067	302,288
Model homes (1)	120,981	109,614
Finished home sites and home sites under development (2)	1,149,012	1,136,849
	$2,027,064	$1,877,682

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

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

Subject to sufficient qualifying assets, we capitalize our development period interest costs incurred in connection with the development and construction of real estate. Capitalized interest is allocated to active real estate when incurred and charged to cost of closings when the related property is delivered. A summary of our capitalized interest is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Capitalized interest, beginning of period	$56,843	$38,701	$54,060	$32,992
Interest incurred	16,526	14,382	31,808	28,638
Interest expensed	(4,621)	(1,396)	(7,775)	(4,109)
Interest amortized to cost of home and land closings	(9,878)	(7,332)	(19,223)	(13,166)
Capitalized interest, end of period (1)	$58,870	$44,355	$58,870	$44,355

(1) Approximately $490,000 of the capitalized interest is related to our joint venture investments and is a component of Investments in unconsolidated entities in our consolidated balance sheet as of June 30, 2015 and December 31, 2014.

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

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

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

In order to determine if we are the primary beneficiary, we must first assess whether we have the ability to control the activities of the VIE that most significantly impact its economic performance. Such activities include, but are not limited to, the ability to determine the budget and scope of land development work, if any; the ability to control financing decisions for the VIE; the ability to acquire additional land into the VIE or dispose of land in the VIE not under contract with Meritage; and the ability to change or amend the existing option contract with the VIE. If we are not determined to control such activities, we are not considered the primary beneficiary of the VIE. If we do have the ability to control such activities, we will continue our analysis by determining if we are also expected to absorb a potentially significant amount of the VIE’s losses or, if no party absorbs the majority of such losses, if we will benefit from a potentially significant amount of the VIE’s expected gains.

In substantially all cases, creditors of the entities with which we have option agreements have no recourse against us and the maximum exposure to loss in our option agreements is limited to non-refundable option deposits and any capitalized pre-acquisition costs. Often, we are at risk for items over budget related to land development on property we have under option if we are the land developer. In these cases, we have contracted to complete development at a fixed cost deemed to be in line with current marking pricing on behalf of the land owner and any budget savings or shortfalls are borne by us. Some of our option deposits may be refundable to us if certain contractual conditions are not performed by the party selling the lots.

The table below presents a summary of our lots under option at June 30, 2015 (dollars in thousands):

	Projected Number of Lots	Purchase Price	Option/ Earnest Money Deposits–Cash	
Purchase and option contracts recorded on balance sheet as Real estate not owned	—	$—	$—	
Option contracts not recorded on balance sheet — non-refundable deposits, committed (1)	6,706	537,038	73,925	
Purchase contracts not recorded on balance sheet — non-refundable deposits, committed (1)	2,516	125,952	13,321	
Purchase contracts not recorded on balance sheet —refundable deposits, committed	907	31,835	748	
Total committed (on and off balance sheet)	10,129	694,825	87,994	
Total purchase and option contracts not recorded on balance sheet — refundable deposits, uncommitted (2)	5,576	281,864	4,091	
Total lots under contract or option	15,705	$976,689	$92,085	
Total purchase and option contracts not recorded on balance sheet (3)	15,705	$976,689	$92,085	(4)

(1) Deposits are non-refundable except if certain contractual conditions are not performed by the selling party.

(2) Deposits are refundable at our sole discretion. We have not completed our acquisition evaluation process and we have not internally committed to purchase these lots.

(3) Except for our specific performance contracts recorded on our balance sheet as Real estate not owned, if any, none of our option agreements require us to purchase lots.

(4) Amount is reflected in our consolidated balance sheet in the line item Deposits on real estate under option or contract as of June 30, 2015.

Generally, our options to purchase lots remain effective so long as we purchase a pre-established minimum number of lots each month or quarter, as determined by the respective agreement. Although the pre-established number is typically structured to approximate our expected rate of home construction starts, during a weakened homebuilding market, or in situations where we may encounter development or construction delays, we may purchase lots at an absorption level that exceeds our sales and home starts pace.

NOTE 4 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

In the past, we have entered into land development joint ventures as a means of accessing larger parcels of land, expanding our market opportunities, managing our risk profile and leveraging our capital base. While purchasing land through a joint venture can be beneficial, currently we do not view joint ventures as critical to the success of our homebuilding operations and have not entered into any new land joint ventures since 2008. Based on the structure of these joint ventures, they may or may not be consolidated into our results. Our joint venture partners are generally other homebuilders, land sellers or other real estate investors. We generally do not have a controlling interest in these ventures, which means our joint venture partners could cause the venture to take actions we disagree with, or fail to take actions we believe should be undertaken, including the sale of the underlying property to repay debt or recoup all or part of the partners' investments. As of June 30, 2015, we had two active equity-method land ventures.

We have outstanding litigation reserves related to a minority ownership in one of our inactive joint ventures, the South Edge joint venture. There is pending litigation with the venture's lender group regarding our $13.2 million guarantee related to that venture and, separate pending arbitration proceedings regarding a dispute we have with certain members of the joint venture. See Note 15 regarding the outstanding litigation related to this joint venture and the corresponding reserves and charges we have recorded relating thereto.

As of June 30, 2015, we also participated in one mortgage joint venture, which is engaged in mortgage activities and provides services to both our homebuyers as well as other buyers. Our investment in this mortgage joint venture as of June 30, 2015 and December 31, 2014 was $1.5 million and $2.0 million, respectively.
Summarized condensed financial information related to unconsolidated joint ventures that are accounted for using the equity method was as follows (in thousands):

	At June 30, 2015	At December 31, 2014
Assets:		
Cash	$5,743	$6,471
Real estate	33,902	34,435
Other assets	3,947	2,990
Total assets	$43,592	$43,896
Liabilities and equity:		
Accounts payable and other liabilities	$5,609	$5,994
Notes and mortgages payable	13,345	13,346
Equity of:		
Meritage (1)	7,980	7,735
Other	16,658	16,821
Total liabilities and equity	$43,592	$43,896

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$8,413	$6,614	$15,154	$11,923
Costs and expenses	(4,213)	(3,112)	(7,408)	(5,865)
Net earnings of unconsolidated entities	$4,200	$3,502	$7,746	$6,058
Meritage’s share of pre-tax earnings (1) (2)	$2,588	$2,236	$5,009	$4,268

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

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

The joint venture assets and liabilities noted in the table above primarily represent the active land ventures, one mortgage venture and various inactive ventures. Our total investment in all of these joint ventures is $10.3 million and $10.8 million as of June 30, 2015 and December 31, 2014, respectively. As of June 30, 2015, we believe these ventures are in compliance with their respective debt agreements, if applicable, and such debt is non recourse to us.

NOTE 5 — LOANS PAYABLE AND OTHER BORROWINGS

Loans payable and other borrowings consist of the following (in thousands):

	At June 30, 2015	At December 31, 2014
Other borrowings, real estate note payable (1)	$34,654	$30,722
$500 million unsecured revolving credit facility, maturing July 2019, with interest approximating LIBOR (approximately 0.19% at June 30, 2015) plus 1.75% or Prime (3.25% at June 30, 2015) plus 0.75%	—	—
Total	$34,654	$30,722

(1) Reflects balance of non-recourse notes payable in connection with land purchases, with interest rates ranging from 0% to 6%.

In July 2012, we entered into an unsecured revolving $125.0 million credit facility ("Credit Facility"). In 2014, we amended and restated the Credit Facility, increasing the capacity as of December 31, 2014 to $400.0 million, increasing the amount available for letters of credit to $200.0 million and extending the maturity date to June 2018. In the first quarter of 2015, we further increased the capacity to $500.0 million. In July 2015, the maturity date of the credit facility was extended to July 9, 2019 and the accordion feature was amended to permit the size of the facility to be increased by $100.0 million up to a maximum of $600.0 million. In addition to the extended maturity date, various terms including interest rates and commitment fees were reduced. Borrowings under the Credit Facility are unsecured but availability is subject to, among other things, a borrowing base. The Credit Facility also contains certain financial covenants, including (a) a minimum tangible net worth requirement of $670.3 million (which amount is subject to increase over time based on subsequent earnings and proceeds from equity offerings), and (b) a maximum leverage covenant that prohibits the leverage ratio (as defined therein) from exceeding 60%. In addition, we are required to maintain either (i) an interest coverage ratio (EBITDA to interest expense, as defined therein) of at least 1.50 to 1.00 or (ii) liquidity (as defined therein) of an amount not less than our consolidated interest incurred during the trailing 12 months. During the second quarter of 2015, our maximum borrowings under the Credit Facility were $110.0 million, all of which was repaid as of June 30, 2015. As of June 30, 2015 we had outstanding letters of credit issued under the Credit Facility totaling $17.6 million, leaving $482.4 million available under the Credit Facility to be drawn.

NOTE 6 — SENIOR AND CONVERTIBLE SENIOR NOTES

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

	At June 30, 2015	At December 31, 2014
4.50% senior notes due 2018	$175,000	$175,000
7.15% senior notes due 2020. At June 30, 2015 and December 31, 2014 there was approximately $2,702 and $2,986 in net unamortized premium, respectively	302,702	302,986
7.00% senior notes due 2022	300,000	300,000
6.00% senior notes due 2025	200,000	—
1.875% convertible senior notes due 2032 (1)	126,500	126,500
Total	$1,104,202	$904,486

(1) The Convertible Notes may be redeemed by the note-holders on the fifth, tenth and fifteenth anniversary dates of the issuance date of the Convertible Notes.

On June 2, 2015, we completed an offering of $200.0 million aggregate principal amount of Senior Notes due 2025 ("2025 Notes"). The 2025 Notes bear interest at 6.00% per annum, payable on June 1 and December 1 of each year, commencing on December 1, 2015.

The indentures for all of our senior notes contain covenants including, among others, limitations on the amount of secured debt we may incur, and limitations on sale and leaseback transactions and mergers. Our convertible senior notes do not have any financial covenants.

The convertible senior notes are convertible into shares of our common stock at an initial conversion rate of 17.1985 shares of our common stock per $1,000 principal amount of convertible senior notes. This corresponds to an initial conversion price of $58.14 per share and represents a 47.5% conversion premium based on the closing price of our common stock on September 12, 2012.

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

NOTE 7 — FAIR VALUE DISCLOSURES

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

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

If the only observable inputs are from inactive markets or for transactions which the company evaluates as “distressed”, the use of Level 1 inputs should be modified by the company to properly address these factors, or the reliance of such inputs may be limited, with a greater weight attributed to Level 3 inputs. Except as discussed in Note 1, we do not value any other non-financial assets at fair value.

Financial Instruments: The fair value of our fixed-rate debt is derived from quoted market prices by independent dealers (level 2 inputs as per the discussion above) and is as follows (in thousands):

	June 30, 2015		December 31, 2014	
	Aggregate Principal	Estimated Fair Value	Aggregate Principal	Estimated Fair Value
4.50% senior notes	$175,000	$178,500	$175,000	$175,000
7.15% senior notes	$300,000	$323,250	$300,000	$322,500
7.00% senior notes	$300,000	$320,250	$300,000	$318,000
6.00% senior notes	$200,000	$201,000	N/A	N/A
1.875% convertible senior notes	$126,500	$133,299	$126,500	$124,444

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

NOTE 8 — EARNINGS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Basic weighted average number of shares outstanding	39,648	39,118	39,520	38,904
Effect of dilutive securities:				
Convertible debt (1)	2,176	2,176	2,176	2,176
Stock options and unvested restricted stock	321	304	383	407
Diluted average shares outstanding	42,145	41,598	42,079	41,487
Net earnings as reported	$29,133	$35,079	$45,533	$60,456
Interest attributable to convertible senior notes, net of income taxes	386	378	771	757
Net earnings for diluted earnings per share	$29,519	$35,457	$46,304	$61,213
Basic earnings per share	$0.73	$0.90	$1.15	$1.55
Diluted earnings per share (1)	$0.70	$0.85	$1.10	$1.48
Antidilutive stock options not included in the calculation of diluted earnings per share	14	254	7	20

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

NOTE 9 — ACQUISITIONS AND GOODWILL

Legendary Communities. In August 2014, we entered the Atlanta, Georgia and Greenville, South Carolina markets as well as increased our existing Charlotte, North Carolina presence through the acquisition of the homebuilding assets and operations of Legendary Communities. The purchase price was approximately $130.7 million in cash. The results of operations of Legendary Communities have been included in our financial statements since August 1, 2014, the effective date of the acquisition. As a result of the transaction, we recorded approximately $22.7 million of goodwill (all of which is tax deductible) which relates to expected synergies from establishing a market presence in Georgia and South Carolina, the experience and knowledge of the acquired workforce and the capital efficient operating structure of the business acquired. The remaining basis of the $108.0 million is almost entirely comprised of the fair value of the acquired inventory with limited other assets and liabilities.

Goodwill. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. Our acquisitions are recorded in accordance with ASC 805, Business Combinations ("ASC 805") and ASC 820, using the acquisition method of accounting. The purchase price for acquisitions is allocated based on estimated fair value of the assets and liabilities at the date of the acquisition. The combined excess purchase price of our acquisitions over the fair value of the net assets is included in our consolidated balance sheet in Prepaids, other assets and goodwill.

A summary of the carrying amount of goodwill follows (in thousands):

	West	Central	East	Financial Services	Corporate	Total
Balance at December 31, 2014	—	—	32,962	—	—	32,962
Additions	—	—	—	—	—	—
Impairments	—	—	—	—	—	—
Balance at June 30, 2015	$—	$—	$32,962	$—	$—	$32,962

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NOTE 10 — STOCKHOLDERS' EQUITY

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

	Six Months Ended June 30, 2015 (In thousands)				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2014	39,147	$391	$538,788	$570,310	$1,109,489
Net earnings	—	—	—	45,533	45,533
Exercise/vesting of equity awards	514	6	2,833	—	2,839
Excess income tax benefit from stock-based awards	—	—	2,012	—	2,012
Equity award compensation expense	—	—	8,465	—	8,465
Balance at June 30, 2015	39,661	$397	$552,098	$615,843	$1,168,338

	Six Months Ended June 30, 2014 (In thousands)				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2013	36,244	$362	$412,961	$428,069	$841,392
Net earnings	—	—	—	60,456	60,456
Exercise/vesting of equity awards	348	4	703	—	707
Excess income tax benefit from stock-based awards	—	—	2,194	—	2,194
Equity award compensation expense	—	—	5,264	—	5,264
Issuance of stock (1)	2,530	25	110,395	—	110,420
Other	—	$—	$(114)	$—	$(114)
Balance at June 30, 2014	39,122	$391	$531,403	$488,525	$1,020,319

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

NOTE 11 — STOCK BASED AND DEFERRED COMPENSATION

We have a stock compensation plan, the Amended and Restated 2006 Stock Incentive Plan (the “Plan”), that was adopted in 2006 and was amended and restated effective May 2014. The Plan was approved by our stockholders and is administered by our Board of Directors. The provisions of the Plan allow for the grant of stock appreciation rights, restricted stock awards, restricted stock units, performance share awards and performance-based awards in addition to non-qualified and incentive stock options. The Plan authorizes awards to officers, key employees, non-employee directors and consultants for up to 10,050,000 shares of common stock, of which 1,076,123 shares remain available for grant at June 30, 2015. 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 are usually granted with a five-year ratable vesting period, with a three-year cliff vesting for non-vested stock and performance-based awards granted to certain senior executive officers and non-employee directors.

Compensation cost related to time-based restricted stock awards is measured as of the closing price on the date of grant and is expensed on a straight-line basis over the vesting period of the award. Compensation cost related to performance-based restricted stock awards is also measured as of the closing price on the date of grant but is expensed in accordance with ASC 718-10-25-20, Compensation – Stock Compensation ("ASC 718"), which requires an assessment of probability of attainment of the performance target. As our performance targets are dependent on performance over a specified measurement period, once we determine that the performance target outcome is probable, the cumulative expense is recorded immediately with the remaining expense and recorded on a straight-line basis through the end of the award’s vesting period. Beginning with grants in 2014, a portion of the performance-based restricted stock awards granted contain market conditions as defined by ASC 718. The guidance in ASC 718 requires that compensation expense for stock awards with market conditions be expensed based on a derived grant date fair value and expensed over the service period. We engaged a third party to perform a valuation analysis on the awards containing market conditions and our associated expense with those awards is based on the derived fair value from that analysis and is being expensed straight line over the service period of the awards. Below is a summary of compensation expense and stock award activity (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock-based compensation expense	3,835	$2,853	$8,465	$5,264
Non-vested shares granted	15,000	19,400	403,787	374,683
Performance-based non-vested shares granted	—	—	66,187	52,083
Stock options exercised	200	—	143,640	40,245
Restricted stock awards vested (includes performance-based awards)	44,134	7,220	370,204	307,390

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

	As of	
	June 30, 2015	December 31, 2014
Unrecognized stock-based compensation cost	$25,868	$20,577
Weighted average years expense recognition period	2.68	2.11
Total equity awards outstanding (1)	1,137,554	1,255,714

(1) Includes options outstanding and unvested restricted stock and performance-based awards and restricted stock units.

In 2013, we began to offer a non-qualified deferred compensation plan ("deferred compensation plan") to highly compensated employees in order to allow them additional pre-tax income deferral opportunities above and beyond the limits that qualified plans, such as 401k plans, impose on highly compensated employees. We do not currently offer a contribution match on the deferred compensation plan. All contributions to the plan to date have been funded by the employees and, therefore, we have no associated expense related to the deferred compensation plan for the three or six months ended June 30, 2015 or 2014.

NOTE 12 — INCOME TAXES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Federal	$11,767	$17,976	$19,427	$30,858
State	514	2,181	1,751	3,680
Total	$12,281	$20,157	$21,178	$34,538

The effective tax rate for the three and six months ended June 30, 2015 was 29.7% and 31.7%, respectively, and for the three and six months ended June 30, 2014 was 36.5% and 36.4%, respectively. Our tax rate has been favorably impacted in both periods by the homebuilding manufacturing deduction and in 2015 there was a favorable impact from additional estimated federal energy tax credits related to prior tax years. The 2014 impact from such credits was fully recognized in the fourth quarter of 2014. In the second quarter of 2015, there was also a favorable impact from a state tax rate reduction in Texas due to a change in law.

At June 30, 2015 and December 31, 2014, 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 will be sustained on audit and do not anticipate any adjustments that will 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 ("ASC 740"), we determine our deferred tax assets and liabilities by taxing jurisdiction. We evaluate our 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, experiences with operating losses and experiences of utilizing tax credit carryforwards and tax planning alternatives. We have no valuation allowance on our deferred tax assets and NOL carryovers at June 30, 2015.

At June 30, 2015, we had no remaining federal NOL carryforward or federal tax credits. At June 30, 2015, we had tax benefits for state NOL carryforwards of $4.6 million, unchanged from December 31, 2014, that begin to expire in 2015 depending on the state jurisdiction.

At June 30, 2015, we have income taxes payable of $0.4 million, which primarily consists of current federal and state tax accruals, net of estimated tax payments and tax credits. This amount is recorded in Accrued liabilities in the accompanying unaudited balance sheet at June 30, 2015.

We conduct business and are subject to tax in the U.S. and several states. With few exceptions, we are no longer subject to U.S. federal, state, or local income tax examinations by taxing authorities for years prior to 2010. We have one state income tax examination pending resolution at this time.

The tax benefits from 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 §382. Based on our analysis performed as of June 30, 2015 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 any tax benefit for future utilization.

NOTE 13 — SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	Six Months Ended June 30,	
	2015	2014
Cash paid during the period for:		
Interest, net of interest capitalized	$4,061	$2,413
Income taxes	$27,227	$41,519
Non-cash operating activities:		
Real estate not owned (decrease)/increase	$(4,999)	$4,710
Real estate acquired through notes payable	$7,143	$1,043

NOTE 14 — OPERATING AND REPORTING SEGMENTS

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

West:	Arizona, California and Colorado
Central:	Texas
East:	Florida, Georgia, North Carolina, South Carolina and Tennessee

Management’s evaluation of 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 Note 1, “Organization and Basis of Presentation.” 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Homebuilding revenue (1):				
West	$219,774	$231,965	$426,652	$424,646
Central	179,475	160,143	333,501	279,858
East	198,552	113,496	356,360	209,445
Consolidated total	$597,801	$505,604	$1,116,513	$913,949
Homebuilding segment operating income:				
West	$15,256	$27,384	$29,453	$52,194
Central	21,053	18,720	35,158	28,189
East	15,959	10,580	21,578	21,244
Total homebuilding segment operating income	52,268	56,684	86,189	101,627
Financial services segment profit	4,136	3,617	7,916	6,642
Corporate and unallocated costs (2)	(10,336)	(7,357)	(19,878)	(13,333)
Loss from unconsolidated entities, net	(169)	(61)	(292)	(230)
Interest expense	(4,621)	(1,396)	(7,775)	(4,109)
Other income, net	136	3,749	551	4,397
Net earnings before income taxes	$41,414	$55,236	$66,711	$94,994

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(1) Homebuilding revenue includes the following land closing revenue, by segment as outlined in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Land closing revenue:				
West	$—	$—	$—	$1,050
Central	5,078	581	6,517	2,097
East	1,696	2,223	1,696	2,223
Total	$6,774	$2,804	$8,213	