Meritage Homes CORP
Form 10-Q
May 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

or

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

Commission File Number 1-9977

MERITAGE HOMES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**86-0611231** (I.R.S. Employer Identification No.)
17851 North 85th Street, Suite 300 **Scottsdale, Arizona** (Address of Principal Executive Offices)	**85255** (Zip Code)

(480) 515-8100

(Registrant s Telephone Number, Including Area Code)

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 o No o

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

Large accelerated filer o	Accelerated filer x
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 May 4, 2009: 31,332,058

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MERITAGE HOMES CORPORATION

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	March 31, 2009	December 31, 2008
Assets:		
Cash and cash equivalents	$ 344,399	$ 205,923
Income tax receivables	3,811	111,508
Other receivables	27,065	31,046
Real estate	772,872	859,305
Real estate not owned	8,534	5,762
Deposits on real estate under option or contract	49,771	51,658
Investments in unconsolidated entities	15,729	17,288
Property and equipment, net	21,015	22,692
Intangibles, net	4,745	5,023
Prepaid expenses and other assets	17,451	16,044
Total assets	$ 1,265,392	$ 1,326,249
Liabilities:		
Accounts payable	$ 21,157	$ 31,655
Accrued liabilities	92,791	125,101
Home sale deposits	8,245	8,486
Liabilities related to real estate not owned	7,239	4,833
Senior and senior subordinated notes	622,421	628,968
Total liabilities	751,853	799,043
Stockholders Equity:		
Preferred stock, par value $0.01. Authorized 10,000,000 shares; none issued and outstanding at March 31, 2009 and December 31, 2008		
Common stock, par value $0.01. Authorized 125,000,000 shares; issued and outstanding 38,866,981 and 38,588,536 shares at March 31, 2009 and December 31, 2008, respectively	389	386
Additional paid-in capital	441,424	436,739
Retained earnings	260,499	278,854
Treasury stock at cost, 7,891,250 shares at March 31, 2009 and December 31, 2008	(188,773)	(188,773)
Total stockholders equity	513,539	527,206
Total liabilities and stockholders equity	$ 1,265,392	$ 1,326,249

See accompanying notes to condensed consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Home closing revenue	$ 230,978	$ 371,656
Land closing revenue	160	1,773
Total closing revenue	231,138	373,429
Cost of home closings	(203,197)	(326,226)
Cost of land closings	(151)	(1,687)
Home impairments	(10,431)	(44,349)
Land impairments	(37)	
Total cost of closings and impairments	(213,816)	(372,262)
Home closing gross profit	17,350	1,081
Land closing (loss)/profit	(28)	86
Total closing gross profit	17,322	1,167
Commissions and other sales costs	(19,145)	(33,765)
General and administrative expenses	(13,869)	(21,293)
Earnings/(loss) from unconsolidated entities, net	1,397	(13,529)
Interest expense	(8,330)	(5,661)
Other income, net	1,551	2,297
Gain on extinguishment of debt	2,805	
Loss before income taxes	(18,269)	(70,784)
(Provision)/benefit for income taxes	(86)	25,479
Net loss	$ (18,355)	$ (45,305)
Loss per common share:		
Basic and diluted	$ (0.60)	$ (1.72)
Weighted average number of shares:		
Basic and diluted	30,808	26,313

See accompanying notes to condensed consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net loss	$ (18,355)	$ (45,305)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,425	3,348
Real estate related impairments	10,468	44,349
Increase in deferred taxes		(8,561)
Stock-based compensation	1,064	1,419
Gain on early extinguishment of senior subordinated debt, net of transaction costs	(2,805)	
Equity in (earnings)/losses from unconsolidated entities (includes $15.8 million of impairments to joint ventures in 2008)	(1,397)	13,529
Distributions of earnings from unconsolidated entities	2,355	3,267
Changes in assets and liabilities:		
Decrease in real estate	77,167	63,796
Decrease in deposits on real estate under option or contract	681	2,349
Decrease in income tax receivable	107,660	74,859
Decrease/(increase) in receivables and prepaid expenses and other assets	2,405	(21,559)
Decrease in accounts payable and accrued liabilities	(42,808)	(47,692)
Decrease in home sale deposits	(241)	(2,676)
Net cash provided by operating activities	138,619	81,123
Cash flows from investing activities:		
Investments in unconsolidated entities	(1,425)	(3,286)
Distributions of capital from unconsolidated entities	1,709	1,833
Purchases of property and equipment	(472)	(1,806)
Proceeds from sales of property and equipment	45	35
Net cash used in investing activities	(143)	(3,224)
Cash flows from financing activities:		
Net repayments under Credit Facility		(80,200)
Purchase of treasury stock		(3)
Proceeds from stock option exercises		767
Net cash used in financing activities		(79,436)
Net increase/(decrease) in cash and cash equivalents	138,476	(1,537)
Cash and cash equivalents at beginning of period	205,923	27,677
Cash and cash equivalents at end of period	$ 344,399	$ 26,140

See supplemental disclosures of cash flow information at Note 11.

See accompanying notes to condensed consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization. Meritage Homes is a leading designer and builder of single-family detached and attached homes in the historically high-growth regions of the western and southern United States based on the number of home closings. We offer first-time, move-up, active adult and luxury homes to our targeted customer base. We have operations in three regions: West, Central and East, which are comprised of 12 metropolitan areas in Arizona, Texas, California, Nevada, Colorado and Florida. 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 markets, except for Arizona, where we also operate under the name of Monterey Homes, and in Texas, where we also operate as Legacy Homes and Monterey Homes. At March 31, 2009, we were actively selling homes in 170 communities, with base prices ranging from approximately $97,000 to $967,000.

Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of Meritage Homes Corporation and those of our consolidated subsidiaries, partnerships and other entities in which we have a controlling financial interest, and of variable interest entities (see Note 3) in which we are deemed the primary beneficiary (collectively, us , we , our and the Company). Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the accompanying financial statements include all adjustments necessary for the fair presentation of our results for the interim periods presented. Certain reclassifications related to the change in income tax receivable have been made to the prior year s consolidated statement of cash flows in order to conform to the current quarter presentation.

Real Estate. Real estate is stated at cost unless the community or land is determined to be impaired, at which point the inventory is written down to fair value as required by Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144). Inventory includes the costs of land acquisition, land development, home construction, capitalized interest, real estate taxes, direct overhead costs incurred during development and home construction that benefit the entire community and 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. Cost of home closings includes the specific construction costs of the home and all related 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. Therefore, an accrual to capture such obligations is recorded in connection with the home closing and charged directly to cost of sales.

Typically, a community s life cycle ranges from three to five years, commencing with the acquisition of the entitled land and continuing through the land development phase 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 or finished lots. 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 significantly shorter.

In accordance with SFAS No. 144, all of our land inventory and related real estate assets are reviewed for recoverability when impairment indicators are present, as our inventory is considered long-lived in accordance with U.S. generally accepted accounting principles. SFAS No. 144 requires impairment charges to be recorded if the fair value of an asset is less 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. Our analysis is completed on a quarterly basis at a community level with each community or land parcel evaluated individually. 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.

Existing and continuing communities. When projections for the remaining income expected to be earned from existing communities are no longer positive, the underlying real estate assets are deemed not fully recoverable, and further analysis is performed to determine the required impairment. The fair value of the community s assets is determined using either a discounted cash flow model for projects we intend to build out or a market-based approach for projects we intend to

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sell or that are in the preliminary development stage and product types have not yet been finalized. Impairments are charged to cost of home closing in the period during which it is determined that the fair value is less than the assets carrying amount. If a market-based approach is used, we determine fair value based on recent comparable purchase and sale activity in the local market, adjusted for known variances as determined by our knowledge of the region and general real estate expertise. Our key estimates in deriving fair value under our cash flow model are (i) home selling prices in the community adjusted for current and expected sales discounts and incentives, (ii) costs related to the community - both land development and home construction - including costs spent to date and budgeted remaining costs to spend, (iii) projected sales absorption rates, reflecting any product mix change strategies implemented to stimulate the sales pace, (iv) alternative land uses including disposition of all or a portion of the land