Meritage Homes CORP
Form 10-Q
August 02, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 2011

Or

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

For the transition period from __________ to __________

Commission File Number 1-9977
MERITAGE HOMES CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 þ	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 þ

Common shares outstanding as of July 29, 2011: 32,409,603

MERITAGE HOMES CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2011
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EX-101 PRESENTATION LINKBASE DOCUMENT

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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, 2011	December 31, 2010
Assets:		
Cash and cash equivalents	$ 167,568	$ 103,953
Investments and securities	199,215	299,345
Restricted cash	10,270	9,344
Other receivables	16,080	20,835
Real estate	776,228	738,928
Real estate not owned	1,398	866
Deposits on real estate under option or contract	11,810	10,359
Investments in unconsolidated entities	10,939	10,987
Property and equipment, net	14,781	14,602
Intangibles, net	1,807	2,143
Prepaid expenses and other assets	15,673	13,576
Total assets	$ 1,225,769	$ 1,224,938
Liabilities:		
Accounts payable	$ 31,302	$ 23,589
Accrued liabilities	80,677	87,811
Home sale deposits	7,600	6,897
Liabilities related to real estate not owned	1,298	866
Senior and senior subordinated notes	606,095	605,780
Total liabilities	726,972	724,943
Stockholders Equity:		
Preferred stock, par value $0.01. Authorized 10,000,000 shares; none issued and outstanding at June 30, 2011 and December 31, 2010	0	0
Common stock, par value $0.01. Authorized 125,000,000 shares; issued 40,300,853 and 40,030,136 shares at June 30, 2011 and December 31, 2010, respectively	403	400
Additional paid-in capital	473,716	468,820
Retained earnings	213,451	219,548
Treasury stock at cost, 7,891,250 shares at June 30, 2011 and December 31, 2010	(188,773)	(188,773)
Total stockholders equity	498,797	499,995

Total liabilities and stockholders equity	$ 1,225,769	$ 1,224,938

See accompanying notes to consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Home closing revenue	$ 220,131	$ 291,405	$ 397,620	$ 491,987
Land closing revenue	0	0	100	1,222
Total closing revenue	220,131	291,405	397,720	493,209
Cost of home closings	(179,954)	(238,205)	(326,399)	(400,247)
Cost of land closings	0	0	(91)	(964)
Real estate impairments	(590)	(304)	(1,254)	(846)
Total cost of closings and impairments	(180,544)	(238,509)	(327,744)	(402,057)
Home closing gross profit	39,587	52,896	69,967	90,894
Land closing gross profit	0	0	9	258
Total closing gross profit	39,587	52,896	69,976	91,152
Commissions and other sales costs	(18,853)	(21,606)	(34,168)	(38,828)
General and administrative expenses	(14,990)	(16,729)	(30,116)	(31,422)
Earnings from unconsolidated entities, net	1,226	1,786	2,134	2,589
Interest expense	(7,496)	(8,553)	(15,519)	(16,848)
Other income, net	1,273	51	1,996	3,983
Loss on extinguishment of debt	0	(3,454)	0	(3,454)
Income/(loss) before income taxes	747	4,391	(5,697)	7,172
Provision for income taxes	(185)	(225)	(400)	(346)
Net income/(loss)	$ 562	$ 4,166	$ (6,097)	$ 6,826
Income/(loss) per common share:				
Basic	$ 0.02	$ 0.13	$ (0.19)	$ 0.21
Diluted	0.02	0.13	(0.19)	0.21
Weighted average number of shares:				
Basic	32,395	32,077	32,328	32,009
Diluted	32,638	32,287	32,328	32,258

See accompanying notes to consolidated financial statements

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

	Six Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net (loss)/income	$ (6,097)	$ 6,826
Adjustments to reconcile net (loss)/income to net cash (used in)/provided by operating activities:		
Depreciation and amortization	3,573	4,028
Real-estate-related impairments	1,254	846
Stock-based compensation	3,101	2,496
Loss on early extinguishment of debt, net of transaction costs	0	3,454
Equity in earnings from unconsolidated entities	(2,134)	(2,589)
Distributions of earnings from unconsolidated entities	2,654	3,356
Other operating expenses	418	(888)
Changes in assets and liabilities:		
Increase in real estate	(38,140)	(39,794)
Increase in deposits on real estate under option or contract	(1,553)	(2,826)
Decrease in receivables and prepaid expenses and other assets	2,962	78,888
Increase in accounts payable and accrued liabilities	524	5,820
Increase/(decrease) in home sale deposits	703	(772)
Net cash (used in)/provided by operating activities	(32,735)	58,845
Cash flows from investing activities:		
Investments in unconsolidated entities	(426)	(433)
Distributions of capital from unconsolidated entities	9	16
Purchases of property and equipment	(3,961)	(3,886)
Proceeds from sales of property and equipment	7	50
Maturities of investments and securities	229,000	50,228
Payments to purchase investments and securities	(129,151)	(195,195)
(Increase)/decrease in restricted cash	(926)	1,582
Net cash provided by/(used in) investing activities	94,552	(147,638)
Cash flows from financing activities:		
Repayments of senior notes	0	(197,543)
Proceeds from issuance of senior notes	0	195,134
Debt issuance costs	0	(2,969)
Proceeds from stock option exercises	1,798	1,509
Net cash provided by/(used in) financing activities	1,798	(3,869)

Net increase/(decrease) in cash and cash equivalents		63,615		(92,662)
Cash and cash equivalents at beginning of period		103,953		249,331
Cash and cash equivalents at end of period	$	167,568	$	156,669

See supplemental disclosures of cash flow information at Note 9.

See accompanying notes to consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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 seven metropolitan areas in Arizona, Texas, California, Nevada, Colorado, Florida and North Carolina. In April 2011, we announced our entry into Raleigh-Durham, North Carolina. We expect to begin our sales operations in the second half of 2011. 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, although we also operate under the name of Monterey Homes in Arizona and Texas. At June 30, 2011, we were actively selling homes in 145 communities, with base prices ranging from approximately $90,000 to $620,000.

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, 2010. 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 elimina 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. Results for interim periods are not necessarily indicative of results to be expected for the full year.

Restricted Cash. Restricted cash consists of amounts held in restricted accounts as collateral for our letter of credit arrangements. The aggregate capacity of these secured letters of credit is approximately $40 million. These outstanding letters of credit are secured by corresponding pledges of restricted cash accounts invested in money market accounts and United States Government securities, totaling $10.3 million and $9.3 million at June 30, 2011 and December 31, 2010, respectively, and are reflected as restricted cash on our consolidated balance sheets.

Investments and Securities. Our investments and securities are comprised of both treasury securities and deposits with banks that are FDIC-insured and secured by treasury-backed investments. All of our investments are classified as held-to-maturity and are recorded at amortized cost as we have both the ability and intent to hold them until their respective maturities. The contractual lives of these investments are typically less than 18 months. The amortized cost of the investments approximates fair value.

Real Estate. Real estate is stated at cost unless the asset is determined to be impaired, at which point the inventory is written down to fair value as required by Accounting Standards Codification (ASC) Subtopic 360-10, *Property, Plant and Equipment* (ASC 360-10). Inventory includes the costs of land acquisition, land development, home construction, capitalized interest, real estate taxes, 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 two to five years, commencing with the acquisition of the land 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.

All of our land inventory and related real estate assets are reviewed for recoverability quarterly, as our inventory is considered long-lived in accordance with GAAP. Impairment charges are 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, and actual results may also differ from our assumptions. Our analysis is completed on a quarterly basis 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. The impairment of a community is allocated to each lot on a straight-line basis.

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 to be sold. Impairments are charged to cost of home closings 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. If a discounted cash flow approach is used, we compute our fair value based on a proprietary model. 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 and expected cancellation rates, (iv) alternative land uses including disposition of all or a portion of the land owned and (v) our discount rate, which is currently 14-16% and varies based on the perceived risk inherent in the community s other cash flow assumptions. These assumptions vary widely across different communities and geographies and are largely dependent on local market conditions. Community-level factors that may impact our key estimates include:

- The presence and significance of local competitors, including their offered product type, comparable lot size, and competitive actions;
- Economic and related demographic conditions for the population of the surrounding community;
- Desirability of the particular community, including unique amenities or other favorable or unfavorable attributes; and
- Existing home inventory supplies, including foreclosures and short sales.

These local circumstances may significantly impact our assumptions and the resulting computation of fair value and are, therefore, closely evaluated by our division personnel in their creation of the discounted cash flow models. The models are also evaluated by regional and corporate personnel for consistency and integration, as decisions that affect pricing or absorption at one community may have resulting consequences for neighboring communities. We typically do not project market improvements in our discounted cash flow models, but may do so in limited circumstances in the latter years of a long-lived community. In certain cases, we may elect to stop development and/or marketing of (mothball) an existing community if we believe the economic performance of the community would be maximized by deferring development for a period of time to allow market conditions to improve. The decision may be based on financial and/or operational metrics. If we decide to mothball a project, we will impair it to its fair value as discussed above and then cease future development and/or marketing activity until such a time where management believes that market conditions have improved and economic performance is maximized. Quarterly, we review all communities, including mothballed communities, for potential impairments.

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Option deposits and pre-acquisition costs. We also evaluate assets associated with future communities for impairments on a quarterly basis. Using similar techniques described in the Existing and continuing communities section above, we determine if the contribution margins to be generated by our future communities are acceptable to us. If the projections indicate that a community is still meeting our internal investment guidelines and is generating a profit, those assets are determined to be fully recoverable and no impairments are required. In cases where we decide to abandon a project, we will fully impair all assets related to such project and will expense and accrue any additional costs that we are contractually obligated to incur. In certain circumstances, we may also elect to continue with a project because it is expected to generate positive cash flows, even though it may not be generating an accounting profit, or due to other strategic factors. In such cases, we will impair our pre-acquisition costs and deposits, as necessary, and record an impairment to bring the book value to fair value. Refer to Note 2 of these consolidated financial statements for further information regarding our impairments.

Deposits. Deposits paid related to land options and contracts to purchase land are capitalized when incurred and classified as deposits on real estate under option or contract until the related land is purchased. Deposits are reclassified to a component of real estate 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. As our exposure associated with these non-refundable deposits is limited to the deposit amount, since the acquisition contracts typically do not require specific performance, we do not consider the options a contractual obligation to purchase the land. The review of the likelihood of the acquisition of contracted lots is completed quarterly in conjunction with the real estate impairment analysis noted above and therefore, if impaired, the deposits are recorded at the lower of cost or fair value. Our deposits were $11.8 million and $10.4 million as of June 30, 2011 and December 31, 2010, respectively.

Off-Balance-Sheet Arrangements Joint Ventures. Historically, 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 desired lots. We currently have only two such active ventures. We also participate in six mortgage and title business joint ventures. The mortgage joint ventures are engaged in, or invest in mortgage companies that engage in, mortgage brokerage activities, and they originate and provide services to both our customers and other homebuyers.

In connection with our joint ventures, we may also provide certain types of guarantees to associated lenders and municipalities. These guarantees can be classified into three categories: (i) Repayment Guarantees, (ii) Bad Boy Guarantees , and (iii) Completion Guarantees, described in more detail below (in thousands). Additionally, we have classified a guarantee related to our minority ownership in the South Edge joint venture separately, as the venture s lender group has presented us with a demand letter for such guarantee.

	At June 30, 2011	At December 31, 2010
Repayment guarantees	$ 410	$ 733
Bad Boy guarantees	0	0
Completion guarantees (1)	0	0
South Edge guarantee (2)	13,243	11,758
Total guarantees	$ 13,653	$ 12,491

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

(2) The increase in the balance during 2011 represents accrued interest and penalties as reflected in a demand letter received from the venture s lenders. We have not been provided the calculation of such interest and penalties and

have not confirmed the increase in the balance. Based on recent events as discussed in Note 11, we no longer believe that the entire $13.2 million of the guarantee is enforceable. However, the ultimate resolution of this matter will be addressed through litigation and/or settlements.

Repayment Guarantees. We and/or our land development joint venture partners occasionally provide limited repayment guarantees on a pro rata basis on the debt of the land development joint ventures. If such a guarantee were ever to be called or triggered, the maximum exposure to Meritage would generally be only our pro-rata share of the amount of debt outstanding that was in excess of the fair value of the underlying land securing the debt. Our share of these limited pro rata repayment guarantees as of June 30, 2011 and December 31, 2010 is illustrated in the table above. See Note 11 of these consolidated financial statements for further information regarding our repayment guarantees.

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Bad Boy Guarantees. In addition, we and/or our joint venture partners occasionally provide guarantees that are only applicable if and when the joint venture directly, or indirectly through agreement with its joint venture partners or other third parties, causes the joint venture to voluntarily file a bankruptcy or similar liquidation or reorganization action or take other actions that limit a lender s right to exercise remedies against its collateral or which are fraudulent or improper (commonly referred to as bad boy guarantees). These types of guarantees typically are on a pro rata basis among the joint venture partners and are designed to protect the secured lender s remedies with respect to its mortgage or other secured lien on the joint venture or the joint venture s underlying property. We believe these guarantees, as defined, unless invoked as described above, are not considered guarantees of indebtedness under our senior and senior subordinated indentures. We had no such amounts classified as a bad boy guarantee at June 30, 2011 or December 31, 2010.

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

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

The joint venture obligations, guarantees and indemnities discussed above are generally provided by us or one or more of our subsidiaries. In joint ventures involving other homebuilders or developers, support for these obligations is generally provided by the parent companies of the joint venture partners. In connection with our periodic real estate impairment reviews, we may accrue for any such commitments where we believe our obligation to pay is probable and can be reasonably estimated. In such situations, our accrual represents the portion of the total joint venture obligation related to our relative ownership percentage. In the limited cases where our venture partners, some of whom are homebuilders or developers who may be experiencing financial difficulties as a result of current market conditions, may be unable to fulfill their pro rata share of a joint venture obligation, we may be fully responsible for these commitments if such commitments are joint and several. We continue to monitor these matters and reserve for these obligations if and when they become probable and can be reasonably estimated. Except as noted below and in Note 11 to these consolidated financial statements, as of June 30, 2011 and December 31, 2010, we did not have any such reserves. See Note 11 regarding outstanding litigation for one of our joint ventures and corresponding reserves.

Off-Balance-Sheet Arrangements Other. We often acquire lots from various development entities pursuant to option and purchase agreements. The purchase price typically approximates the market price at the date the contract is executed (with possible future escalators).

We provide letters of credit and performance, maintenance and other bonds in support of our related obligations with respect to option deposits and the development of our projects and other corporate purposes. Letters of credit to guarantee our performance of certain development and construction activities are generally posted in lieu of cash deposits on our option contracts. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. In the event a letter of credit or bond is drawn upon, we would be obligated to reimburse the issuer. We believe it is unlikely that any significant amounts of these letters of credit or bonds will be drawn upon. The table below outlines our letter of credit and surety bond obligations (in thousands):

	June 30, 2011		December 31, 2010	
	Outstanding	Estimated work remaining to complete	Outstanding	Estimated work remaining to complete
Sureties:				
Sureties related to joint ventures	$ 1,594	$ 32	$ 1,594	$ 32
Sureties related to owned projects and lots under contract	54,492	24,750	57,399	26,968
Total sureties	$ 56,086	$ 24,782	$ 58,993	$ 27,000
Letters of Credit (LOCs):				
LOCs for land development	2,932	N/A	2,488	N/A
LOCs for general corporate operations	6,460	N/A	6,460	N/A
Total LOCs	$ 9,392	N/A	$ 8,948	N/A

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

	At June 30, 2011	**At December 31, 2010**
Accruals related to real estate development and construction activities	$ 12,761	$ 10,689
Payroll and other benefits	9,975	12,146
Accrued taxes	3,093	2,820
Warranty reserves	25,929	29,265
Other accruals	28,919	32,891
Total	$ 80,677	$ 87,811

Warranty Reserves. We have certain obligations related to post-construction warranties and defects for closed homes. With the assistance of an actuary, we have estimated these reserves based on the number of home closings and historical data and trends for our communities. We also use industry averages with respect to similar product types and geographic areas in markets where our experience is not robust enough to facilitate a meaningful conclusion. We regularly review our warranty reserves and adjust them, as necessary, to reflect changes in trends as information becomes available. A summary of changes in our warranty reserves follows (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2011		2010		2011		2010	
Balance, beginning of period	$	27,210	$	32,154	$	29,265	$	33,541
Additions to reserve from new home deliveries		1,591		2,215		2,848		3,692
Warranty claims		(2,872)		(3,172)				