

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2020**

**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



**Setting the standard for energy-efficient homes®**

**Meritage Homes Corporation**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**

(State or Other Jurisdiction of Incorporation or Organization)

**86-0611231**

(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)

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class          | Trading Symbol(s) | Name of each exchange on which registered |
|------------------------------|-------------------|---|
| Common Stock \$.01 par value | MTH               | New York Stock Exchange                   |

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

Indicate by a checkmark whether the registrant has submitted electronically every Interactive Date File required to be submitted 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 such files). Yes  No

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

|                         |                                     |  |                           |                          |
|-------------------------|-------------------------------------|--|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> |  | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            |  | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     |  | Emerging growth company   | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Common shares outstanding as of July 23, 2020: 37,603,517

**MERITAGE HOMES CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2020**  
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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, 2020 | December 31, 2019 |
|---|---------------|-------------------|
| <b>Assets</b>   |               |                   |
| Cash and cash equivalents   | \$ 484,622    | \$ 319,466        |
| Other receivables   | 93,872        | 88,492            |
| Real estate   | 2,733,428     | 2,744,361         |
| Deposits on real estate under option or contract  | 47,832        | 50,901            |
| Investments in unconsolidated entities  | 3,646         | 4,443             |
| Property and equipment, net   | 46,299        | 50,606            |
| Deferred tax asset  | 26,468        | 25,917            |
| Prepays, other assets and goodwill  | 105,561       | 114,063           |
| Total assets  | \$ 3,541,728  | \$ 3,398,249      |
| <b>Liabilities</b>  |               |                   |
| Accounts payable  | \$ 167,235    | \$ 155,024        |
| Accrued liabilities   | 249,208       | 226,008           |
| Home sale deposits  | 23,247        | 24,246            |
| Loans payable and other borrowings  | 20,889        | 22,876            |
| Senior notes, net   | 996,548       | 996,105           |
| Total liabilities   | 1,457,127     | 1,424,259         |
| <b>Stockholders' Equity</b>   |               |                   |
| Preferred stock, par value \$0.01. Authorized 10,000,000 shares; none issued and outstanding at June 30, 2020 and December 31, 2019   | —             | —                 |
| Common stock, par value \$0.01. Authorized 125,000,000 shares; 37,603,517 and 38,199,111 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively | 377           | 382               |
| Additional paid-in capital  | 454,138       | 505,352           |
| Retained earnings   | 1,630,086     | 1,468,256         |
| Total stockholders' equity  | 2,084,601     | 1,973,990         |
| Total liabilities and stockholders' equity  | \$ 3,541,728  | \$ 3,398,249      |

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, |              |
|---|-----------------------------|------------|---------------------------|--------------|
|   | 2020                        | 2019       | 2020                      | 2019         |
| <b>Homebuilding:</b>  |                             |            |                           |              |
| Home closing revenue  | \$ 1,031,591                | \$ 863,053 | \$ 1,922,008              | \$ 1,561,703 |
| Land closing revenue  | 1,488                       | 1,557      | 12,084                    | 11,052       |
| Total closing revenue   | 1,033,079                   | 864,610    | 1,934,092                 | 1,572,755    |
| Cost of home closings   | (810,895)                   | (703,935)  | (1,522,952)               | (1,286,123)  |
| Cost of land closings   | (2,936)                     | (3,299)    | (13,149)                  | (12,428)     |
| Total cost of closings  | (813,831)                   | (707,234)  | (1,536,101)               | (1,298,551)  |
| Home closing gross profit   | 220,696                     | 159,118    | 399,056                   | 275,580      |
| Land closing gross loss   | (1,448)                     | (1,742)    | (1,065)                   | (1,376)      |
| Total closing gross profit  | 219,248                     | 157,376    | 397,991                   | 274,204      |
| <b>Financial Services:</b>  |                             |            |                           |              |
| Revenue   | 4,478                       | 4,160      | 8,390                     | 7,388        |
| Expense   | (1,758)                     | (1,720)    | (3,493)                   | (3,224)      |
| Earnings from financial services unconsolidated entities and other, net | 1,069                       | 3,591      | 1,730                     | 6,569        |
| Financial services profit   | 3,789                       | 6,031      | 6,627                     | 10,733       |
| Commissions and other sales costs                                       | (70,408)                    | (60,125)   | (131,581)                 | (112,680)    |
| General and administrative expenses                                     | (36,176)                    | (34,779)   | (70,346)                  | (68,345)     |
| Interest expense  | (2,105)                     | (3,197)    | (2,121)                   | (7,282)      |
| Other income, net   | 1,514                       | 2,368      | 2,125                     | 3,414        |
| Earnings before income taxes  | 115,862                     | 67,674     | 202,695                   | 100,044      |
| Provision for income taxes  | (25,184)                    | (16,846)   | (40,865)                  | (23,804)     |
| Net earnings  | \$ 90,678                   | \$ 50,828  | \$ 161,830                | \$ 76,240    |
| <b>Earnings per common share:</b>                                       |                             |            |                           |              |
| Basic   | \$ 2.41                     | \$ 1.33    | \$ 4.28                   | \$ 2.00      |
| Diluted   | \$ 2.38                     | \$ 1.31    | \$ 4.20                   | \$ 1.97      |
| <b>Weighted average number of shares:</b>                               |                             |            |                           |              |
| Basic   | 37,599                      | 38,266     | 37,842                    | 38,136       |
| Diluted   | 38,169                      | 38,889     | 38,512                    | 38,789       |

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, |                   |
|---|---------------------------|-------------------|
|   | 2020                      | 2019              |
| <b>Cash flows from operating activities:</b>  |                           |                   |
| Net earnings  | \$ 161,830                | \$ 76,240         |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |                           |                   |
| Depreciation and amortization   | 14,551                    | 12,381            |
| Stock-based compensation  | 9,594                     | 10,062            |
| Equity in earnings from unconsolidated entities                                     | (1,691)                   | (5,828)           |
| Distributions of earnings from unconsolidated entities                              | 1,491                     | 8,508             |
| Other   | 2,548                     | 4,305             |
| Changes in assets and liabilities:  |                           |                   |
| Decrease in real estate   | 9,655                     | 5,439             |
| Decrease in deposits on real estate under option or contract                        | 2,225                     | 5,096             |
| Decrease/(increase) in other receivables, prepaids and other assets                 | 3,469                     | (28)              |
| Increase/(decrease) in accounts payable and accrued liabilities                     | 34,772                    | (6,439)           |
| (Decrease)/increase in home sale deposits   | (999)                     | 3,613             |
| Net cash provided by operating activities   | <u>237,445</u>            | <u>113,349</u>    |
| <b>Cash flows from investing activities:</b>  |                           |                   |
| Investments in unconsolidated entities  | (3)                       | (1,112)           |
| Distributions of capital from unconsolidated entities                               | 1,000                     | 7,250             |
| Purchases of property and equipment   | (10,343)                  | (12,132)          |
| Proceeds from sales of property and equipment                                       | 259                       | 192               |
| Maturities/sales of investments and securities                                      | 632                       | 566               |
| Payments to purchase investments and securities                                     | (632)                     | (566)             |
| Net cash used in investing activities   | <u>(9,087)</u>            | <u>(5,802)</u>    |
| <b>Cash flows from financing activities:</b>  |                           |                   |
| Repayment of loans payable and other borrowings                                     | (2,389)                   | (2,629)           |
| Repurchase of shares  | (60,813)                  | (8,957)           |
| Net cash used in financing activities   | <u>(63,202)</u>           | <u>(11,586)</u>   |
| Net increase in cash and cash equivalents   | 165,156                   | 95,961            |
| Cash and cash equivalents, beginning of period                                      | 319,466                   | 311,466           |
| Cash and cash equivalents, end of period  | <u>\$ 484,622</u>         | <u>\$ 407,427</u> |

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 homes. We primarily build in historically high-growth regions of the United States and offer a variety of homes that are designed to appeal primarily to first-time and first move-up buyers. 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. 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. Beginning in the fourth quarter of 2019, we commenced operations of wholly owned Meritage Homes Insurance Agency, Inc. ("Meritage Insurance"). Meritage Insurance works in collaboration with insurance companies nationwide to offer homeowners insurance and other insurance products to our homebuyers. We commenced our homebuilding operations in 1985 through our predecessor company known as Monterey Homes. Meritage Homes Corporation was incorporated in the state of Maryland in 1988 under the name of Homeplex Mortgage Investments Corporation and was merged with Monterey Homes in 1996, at which time our name was changed to Monterey Homes Corporation and later ultimately to Meritage Homes Corporation.

Our homebuilding activities are conducted under the name of Meritage Homes in each of our homebuilding markets. In limited cases, we also offer luxury homes under the brand name of Monterey Homes that are currently in close-out stages. At June 30, 2020, we were actively selling homes in 237 communities, with base prices ranging from approximately \$183,000 to \$1,300,000.

**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, 2019. The unaudited 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 consolidated financial statements include all normal and recurring adjustments that are considered 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 fiscal year.

**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 \$68.4 million and \$54.5 million are included in cash and cash equivalents at June 30, 2020 and December 31, 2019, 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, and capitalized direct overhead costs incurred during development, less impairments, if any. Land and development costs are typically allocated and transferred to homes when home construction begins. Home construction costs are accumulated on a per-home basis, while selling and marketing 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 that 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 home closings.

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 and weather delays, labor or material shortages, increases in costs that have not yet been committed, changes in governmental requirements, or other

unanticipated issues or delays 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 home construction and land development 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. Such an analysis is conducted if there is an indication of a decline in value of our land and real estate assets. If an impairment of a community is required, the impairment charges are allocated to each lot on a straight-line basis.

**Deposits.** Deposits paid for 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 at the time the deposit is applied to the acquisition price of the land based on the terms of the underlying agreements. To the extent they are non-refundable, deposits are charged to expense if the land acquisition contract 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 on real estate under option or contract were \$47.8 million and \$50.9 million as of June 30, 2020 and December 31, 2019, respectively.

**Goodwill.** In accordance with ASC 350, *Intangibles, Goodwill and Other* ("ASC 350"), we analyze goodwill on an annual basis (or whenever indication of impairment exists) through a qualitative assessment to determine whether it is necessary to perform a 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, 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 on our goodwill assets.

**Leases.** We lease certain office space and equipment for use in our operations. We assess each of these contracts to determine whether the arrangement contains a lease as defined by ASC 842, *Leases* ("ASC 842"). In order to meet the definition of a lease under ASC 842, the contractual arrangement must convey to us the right to control the use of an identifiable asset for a period of time in exchange for consideration. Leases that meet the criteria of ASC 842 are recorded on our consolidated balance sheet as right-of-use ("ROU") assets and lease liabilities. ROU assets are classified within Prepaids, other assets and goodwill on our consolidated balance sheet, while lease liabilities are classified within Accrued liabilities on our consolidated balance sheet.

The table below outlines our ROU assets and lease liabilities (in thousands):

|                   | As of         |                   |
|-------------------|---------------|-------------------|
|                   | June 30, 2020 | December 31, 2019 |
| ROU assets        | \$ 23,936     | \$ 26,332         |
| Lease liabilities | 31,182        | 34,231            |

**Off-Balance Sheet Arrangements - Joint Ventures** We may participate 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, although our participation in such ventures is currently very limited. 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 these off-balance sheet arrangements.

**Surety Bonds and Letters of Credit.** We may provide surety bonds or letters of credit in support of our obligations relating to the development of our projects and other corporate purposes. Surety bonds are generally posted in lieu of letters of credit or cash deposits. The amount of these obligations outstanding at any time varies depending on the stage and level of completion of our development activities. Bonds are generally not released until all applicable 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 or letter of credit. 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):

|  | As of             |                                      |                   |                                      |
|--|-------------------|--------------------------------------|-------------------|--------------------------------------|
|  | June 30, 2020     |                                      | December 31, 2019 |                                      |
|  | Outstanding       | Estimated work remaining to complete | Outstanding       | Estimated work remaining to complete |
| <b>Sureties:</b>   |                   |                                      |                   |                                      |
| Sureties related to owned projects and lots under contract | \$ 437,963        | \$ 176,195                           | \$ 405,017        | \$ 186,986                           |
| <b>Total Sureties</b>                                      | <b>\$ 437,963</b> | <b>\$ 176,195</b>                    | <b>\$ 405,017</b> | <b>\$ 186,986</b>                    |
| <b>Letters of Credit ("LOCs"):</b>                         |                   |                                      |                   |                                      |
| LOCs for land development                                  | 66,715            | N/A                                  | 57,192            | N/A                                  |
| LOCs for general corporate operations                      | 3,750             | N/A                                  | 3,750             | N/A                                  |
| <b>Total LOCs</b>  | <b>\$ 70,465</b>  | <b>N/A</b>                           | <b>\$ 60,942</b>  | <b>N/A</b>                           |

**Accrued Liabilities.** Accrued liabilities at June 30, 2020 and December 31, 2019 consisted of the following (in thousands):

|   | As of             |                   |
|---|-------------------|-------------------|
|   | June 30, 2020     | December 31, 2019 |
| Accruals related to real estate development and construction activities | \$ 78,210         | \$ 74,448         |
| Payroll and other benefits  | 50,874            | 67,734            |
| Accrued interest  | 8,610             | 8,758             |
| Accrued taxes   | 38,766            | 8,459             |
| Warranty reserves   | 21,578            | 22,015            |
| Lease liabilities   | 31,182            | 34,231            |
| Other accruals  | 19,988            | 10,363            |
| <b>Total</b>  | <b>\$ 249,208</b> | <b>\$ 226,008</b> |

**Warranty Reserves.** We provide home purchasers with limited warranties against certain building defects and we 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 for the first year after the close of the home, a major mechanical warranty for two years after the close of the home and a structural warranty that typically extends up to 10 years after the close of the home. With the assistance of an actuary, we have estimated the reserves for the structural warranty based on the number of homes still under warranty and historical data and trends for our communities. We may 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 of warranty costs incurred, we did not adjust the warranty reserve balance in the three or six months ended June 30, 2020 or 2019. Included in the warranty reserve balances at June 30, 2020 and December 31, 2019 reflected in the table below are case-specific reserves for a warranty matter related to alleged stucco defects in Florida and water drainage issues in a single community in Florida. See Note 15 in the accompanying unaudited financial statements for additional information regarding these case-specific reserves.



A summary of changes in our warranty reserves follows (in thousands):

|   | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2020                        | 2019      | 2020                      | 2019      |
| Balance, beginning of period                  | \$ 22,090                   | \$ 23,213 | \$ 22,015                 | \$ 24,552 |
| Additions to reserve from new home deliveries | 4,218                       | 3,888     | 8,028                     | 7,275     |
| Warranty claims                               | (4,730)                     | (6,174)   | (8,465)                   | (10,900)  |
| Adjustments to pre-existing reserves          | —                           | —         | —                         | —         |
| Balance, end of period                        | \$ 21,578                   | \$ 20,927 | \$ 21,578                 | \$ 20,927 |

Warranty reserves are included in Accrued liabilities on the accompanying unaudited consolidated balance sheets, and additions and adjustments to the reserves, if any, 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 trade partners 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.

**Revenue Recognition.** In accordance with ASC 606, *Revenue from Contracts with Customers*, we apply the following steps in determining the timing and amount of revenue to recognize: (1) identify the contract with our customer; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract, if applicable; and (5) recognize revenue when (or as) we satisfy the performance obligation. The performance obligation and subsequent revenue recognition for our three sources of revenue are outlined below:

- Revenue from closings of residential real estate is recognized when closings have occurred, the risks and rewards of ownership are transferred to the buyer, and we have no continuing involvement with the property, which is generally upon the close of escrow. Revenue is reported net of any discounts and incentives.
- Revenue from land sales is recognized when a significant down payment is received, title passes, and collectability of the receivable, if any, is reasonably assured, and we have no continuing involvement with the property, which is generally upon the close of escrow.
- Revenue from financial services is recognized when closings have occurred and all financial services have been rendered, which is generally upon the close of escrow.

Home closing and land sale revenue expected to be recognized in any future year related to remaining performance obligations (if any) and contract liabilities expected to be recognized as revenue, excluding revenue pertaining to contracts that have an original expected duration of one year or less, is not material. Revenue from financial services includes estimated insurance policy renewal commissions. Our performance obligations are satisfied upon issuance of the initial policy with a third party broker, accordingly, related contract assets for these estimated future renewal commissions are included in Prepaids, other assets and goodwill totaling \$0.5 million at June 30, 2020, with no such assets at December 31, 2019. Our three sources of revenue are disaggregated by type in the accompanying unaudited consolidated income statements.

**Recent Accounting Pronouncements.**

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract* ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Entities will need to consider both the nature of the costs and the phase of development in which the implementation costs are incurred to determine whether the costs should be capitalized or expensed. ASU 2018-15 was effective for us beginning January 1, 2020 on a prospective basis to all implementation costs incurred after the date of adoption. The adoption of ASU 2018-15 did not have a material impact on our financial statement disclosures.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which eliminates, adds, and modifies certain disclosure requirements for fair value measurements. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 was effective for us beginning January 1, 2020. As we currently only have Level 2 financial instruments, the adoption of ASU 2018-13 did not have a material impact on our financial statement disclosures.

## NOTE 2 — REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

|   | As of         |                   |
|---|---------------|-------------------|
|   | June 30, 2020 | December 31, 2019 |
| Homes under contract under construction <sup>(1)</sup>              | \$ 847,606    | \$ 564,762        |
| Unsold homes, completed and under construction <sup>(1)</sup>       | 444,057       | 686,948           |
| Model homes <sup>(1)</sup>  | 101,804       | 121,340           |
| Finished home sites and home sites under development <sup>(2)</sup> | 1,339,961     | 1,371,311         |
| Total   | \$ 2,733,428  | \$ 2,744,361      |

(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, less impairments, if any. 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 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 our real estate development and construction activities. 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, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2020                        | 2019      | 2020                      | 2019      |
| Capitalized interest, beginning of period            | \$ 78,162                   | \$ 89,414 | \$ 82,014                 | \$ 88,454 |
| Interest incurred                                    | 17,550                      | 21,465    | 34,085                    | 42,908    |
| Interest expensed                                    | (2,105)                     | (3,197)   | (2,121)                   | (7,282)   |
| Interest amortized to cost of home and land closings | (20,725)                    | (19,375)  | (41,096)                  | (35,773)  |
| Capitalized interest, end of period                  | \$ 72,882                   | \$ 88,307 | \$ 72,882                 | \$ 88,307 |

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

We enter into purchase and option agreements for land or lots as part of the normal course of business. 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 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 purchase and option 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 so, 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 of the VIE to acquire additional land or dispose of land 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 to determine 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 for subsequent purchase, but on behalf of the land owner, and any budget savings or shortfalls are typically 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, 2020 (dollars in thousands):

|  | Projected Number<br>of Lots | Purchase<br>Price | Option/<br>Earnest Money<br>Deposits—Cash |
|--|-----------------------------|-------------------|---|
| Purchase and option contracts recorded on balance sheet as Real estate not owned | —                           | \$ —              | \$ —                                      |
| Option contracts — non-refundable deposits, committed (1)                        | 6,715                       | 347,701           | 28,393                                    |
| Purchase contracts — non-refundable deposits, committed (1)                      | 6,612                       | 182,935           | 13,084                                    |
| Purchase and option contracts — refundable deposits, committed                   | 3,870                       | 113,119           | 1,375                                     |
| Total committed  | 17,197                      | 643,755           | 42,852                                    |
| Purchase and option contracts — refundable deposits, uncommitted (2)             | 13,354                      | 448,244           | 4,980                                     |
| Total lots under contract or option  | 30,551                      | \$ 1,091,999      | \$ 47,832                                 |
| Total purchase and option contracts not recorded on balance sheet(3)             | 30,551                      | \$ 1,091,999      | \$ 47,832 (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 purchase or option contracts require us to purchase lots.
- (4) Amount is reflected on our unaudited consolidated balance sheet in Deposits on real estate under option or contract as of June 30, 2020.

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 and sales absorptions, during a weakened homebuilding market, we may purchase lots at an absorption level that exceeds our sales and home starts pace in order to meet the pre-established minimum number of lots or we will work to restructure our original contract to include terms that more accurately reflect our revised orders pace expectations.

#### NOTE 4 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

We may enter 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 a primary source of land acquisitions. 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. Based on the structure of each joint venture, it may or may not be consolidated into our results. As of June 30, 2020, we had one active equity-method land venture with limited operations.

As of June 30, 2020, 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, 2020 and December 31, 2019 was \$0.4 million and \$0.7 million, respectively.

Summarized condensed combined financial information related to unconsolidated joint ventures that are accounted for using the equity method was as follows (in thousands):

|  | As of         |                   |
|--|---------------|-------------------|
|  | June 30, 2020 | December 31, 2019 |
| <b>Assets:</b>                         |               |                   |
| Cash                                   | \$ 8,842      | \$ 6,329          |
| Real estate                            | 6,079         | 6,654             |
| Other assets                           | 3,486         | 4,382             |
| Total assets                           | \$ 18,407     | \$ 17,365         |
| <b>Liabilities and equity:</b>         |               |                   |
| Accounts payable and other liabilities | \$ 8,655      | \$ 6,580          |
| Equity of:                             |               |                   |
| Meritage <sup>(1)</sup>                | 4,691         | 5,678             |
| Other                                  | 5,061         | 5,107             |
| Total liabilities and equity           | \$ 18,407     | \$ 17,365         |

|  | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|--|-----------------------------|-----------|---------------------------|-----------|
|  | 2020                        | 2019      | 2020                      | 2019      |
| Revenue  | \$ 10,550                   | \$ 10,846 | \$ 17,273                 | \$ 19,844 |
| Costs and expenses                                     | (7,944)                     | (3,599)   | (13,807)                  | (9,715)   |
| Net earnings of unconsolidated entities                | \$ 2,606                    | \$ 7,247  | \$ 3,466                  | \$ 10,129 |
| Meritage's share of pre-tax earnings <sup>(1)(2)</sup> | \$ 1,048                    | \$ 3,654  | \$ 1,735                  | \$ 5,828  |

- (1) Balance represents Meritage's interest, as reflected in the financial records of the respective joint ventures. This balance may differ from the balance reported 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 Other income, net on our unaudited consolidated income statements and excludes joint venture profit related to lots we purchased from the joint ventures, if any. Such profit is deferred until homes are delivered by us and title passes to a homebuyer.

#### NOTE 5 — LOANS PAYABLE AND OTHER BORROWINGS

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

|  | As of         |                   |
|--|---------------|-------------------|
|  | June 30, 2020 | December 31, 2019 |
| Other borrowings, real estate notes payable <sup>(1)</sup>   | \$ 20,889     | \$ 22,876         |
| \$780.0 million unsecured revolving credit facility with interest approximating LIBOR (approximately 0.16% at June 30, 2020) plus 1.375% or Prime (3.25% at June 30, 2020) plus 0.375% | —             | —                 |
| Total  | \$ 20,889     | \$ 22,876         |

- (1) Reflects balance of non-recourse non-interest bearing notes payable in connection with land purchases

The Company entered into an amended and restated unsecured revolving credit facility ("Credit Facility") in 2014 that has been amended from time to time. In June 2019 the Credit Facility was amended, extending the maturity date to July 2023, along with minor administrative changes. The Credit Facility's aggregate commitment is \$780.0 million with an accordion feature permitting the size of the facility to increase to a maximum of \$880.0 million, subject to certain conditions, including the availability of additional bank commitments. 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 \$1.1 billion (which amount is subject to increase over time based on subsequent earnings and proceeds from equity offerings), and (b) a maximum leverage covenant that prohibits the leverage ratio (as defined therein) from exceeding 60%. In addition, we are required to maintain either (i) an interest coverage ratio (EBITDA to interest expense, as defined therein) of at least 1.50 to 1.00 or (ii) liquidity (as defined therein) of an amount not less than our consolidated interest incurred during the trailing 12 months. We were in compliance with all Credit Facility covenants as of June 30, 2020.

We had no outstanding borrowings under the Credit Facility as of June 30, 2020 and December 31, 2019. During the second quarter of 2020 we repaid the entire \$500.0 million outstanding balance on our Credit Facility, and had no additional borrowings during the three months ended June 30, 2020. There were no borrowings or repayments in the second quarter of 2019. As of June 30, 2020, we had outstanding letters of credit issued under the Credit Facility totaling \$70.5 million, leaving \$709.5 million available under the Credit Facility to be drawn.

#### NOTE 6 — SENIOR NOTES, NET

Senior notes, net consist of the following (in thousands):

|   | As of             |                   |
|---|-------------------|-------------------|
|   | June 30, 2020     | December 31, 2019 |
| 7.00% senior notes due 2022   | 300,000           | 300,000           |
| 6.00% senior notes due 2025. At June 30, 2020 and December 31, 2019 there was approximately \$4,023 and \$4,432 in net unamortized premium, respectively. | 404,023           | 404,432           |
| 5.125% senior notes due 2027  | 300,000           | 300,000           |
| Net debt issuance costs   | (7,475)           | (8,327)           |
| <b>Total</b>  | <b>\$ 996,548</b> | <b>\$ 996,105</b> |

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. We believe we are in compliance with all such covenants as of June 30, 2020.

Obligations to pay principal and interest on the senior 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 non-guarantor 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* ("ASC 820"). This guidance defines fair value, establishes a framework for measuring fair value and addresses required disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from market participants external to the company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions and specific knowledge of the assets/liabilities and related markets. The three levels are defined as follows:

- Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.

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

*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):

|                     | As of               |                      |                     |                      |
|---------------------|---------------------|----------------------|---------------------|----------------------|
|                     | June 30, 2020       |                      | December 31, 2019   |                      |
|                     | Aggregate Principal | Estimated Fair Value | Aggregate Principal | Estimated Fair Value |
| 7.00% senior notes  | \$ 300,000          | \$ 316,140           | \$ 300,000          | \$ 327,390           |
| 6.00% senior notes  | \$ 400,000          | \$ 427,000           | \$ 400,000          | \$ 449,200           |
| 5.125% senior notes | \$ 300,000          | \$ 308,490           | \$ 300,000          | \$ 319,500           |

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, |           |
|---|-----------------------------|-----------|---------------------------|-----------|
|   | 2020                        | 2019      | 2020                      | 2019      |
| Basic weighted average number of shares outstanding | 37,599                      | 38,266    | 37,842                    | 38,136    |
| Effect of dilutive securities:                      |                             |           |                           |           |
| Unvested restricted stock                           | 570                         | 623       | 670                       | 653       |
| Diluted average shares outstanding                  | 38,169                      | 38,889    | 38,512                    | 38,789    |
| Net earnings  | \$ 90,678                   | \$ 50,828 | \$ 161,830                | \$ 76,240 |
| Basic earnings per share                            | \$ 2.41                     | \$ 1.33   | \$ 4.28                   | \$ 2.00   |
| Diluted earnings per share                          | \$ 2.38                     | \$ 1.31   | \$ 4.20                   | \$ 1.97   |

#### NOTE 9 — ACQUISITIONS AND GOODWILL

*Goodwill.* In prior years, we have entered new markets through the acquisition of the homebuilding assets and operations of local/regional homebuilders in Georgia, South Carolina and Tennessee. As a result of these transactions, we recorded approximately \$33.0 million of goodwill. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. Our acquisitions were recorded in accordance with ASC 805, *Business Combinations*, 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 classified as goodwill and is included on our consolidated balance sheet in Prepaids, other assets and goodwill. In accordance with ASC 350, we assess the recoverability of goodwill annually, or more frequently, if impairment indicators are present.

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

|                              | West | Central | East      | Financial Services | Corporate | Total     |
|------------------------------|------|---------|-----------|--------------------|-----------|-----------|
| Balance at December 31, 2019 | \$ — | \$ —    | \$ 32,962 | \$ —               | \$ —      | \$ 32,962 |
| Additions                    | —    | —       | —         | —                  | —         | —         |
| Balance at June 30, 2020     | \$ — | \$ —    | \$ 32,962 | \$ —               | \$ —      | \$ 32,962 |

## NOTE 10 — STOCKHOLDERS' EQUITY

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

|                                  | Six Months Ended June 30, 2020 |                 |                                  |                      |              |
|----------------------------------|--------------------------------|-----------------|----------------------------------|----------------------|--------------|
|                                  | (In thousands)                 |                 |                                  |                      |              |
|                                  | Number of<br>Shares            | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total        |
| Balance at December 31, 2019     | 38,199                         | \$ 382          | \$ 505,352                       | \$ 1,468,256         | \$ 1,973,990 |
| Net earnings                     | —                              | —               | —                                | 71,152               | 71,152       |
| Stock-based compensation expense | —                              | —               | 6,437                            | —                    | 6,437        |
| Issuance of stock                | 398                            | 4               | (4)                              | —                    | —            |
| Share repurchases                | (1,000)                        | (10)            | (60,803)                         | —                    | (60,813)     |
| Balance at March 31, 2020        | 37,597                         | \$ 376          | \$ 450,982                       | \$ 1,539,408         | \$ 1,990,766 |
| Net earnings                     | —                              | —               | —                                | 90,678               | 90,678       |
| Stock-based compensation expense | —                              | —               | 3,157                            | —                    | 3,157        |
| Issuance of stock                | 6                              | 1               | (1)                              | —                    | —            |
| Balance at June 30, 2020         | 37,603                         | \$ 377          | \$ 454,138                       | \$ 1,630,086         | \$ 2,084,601 |

|                                  | Six Months Ended June 30, 2019 |                 |                                  |                      |              |
|----------------------------------|--------------------------------|-----------------|----------------------------------|----------------------|--------------|
|                                  | (In thousands)                 |                 |                                  |                      |              |
|                                  | Number of<br>Shares            | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Total        |
| Balance at December 31, 2018     | 38,073                         | \$ 381          | \$ 501,781                       | \$ 1,218,593         | \$ 1,720,755 |
| Net earnings                     | —                              | —               | —                                | 25,412               | 25,412       |
| Stock-based compensation expense | —                              | —               | 5,861                            | —                    | 5,861        |
| Issuance of stock                | 400                            | 4               | (4)                              | —                    | —            |
| Share repurchases                | (209)                          | (2)             | (8,955)                          | —                    | (8,957)      |
| Balance at March 31, 2019        | 38,264                         | \$ 383          | \$ 498,683                       | \$ 1,244,005         | \$ 1,743,071 |
| Net earnings                     | —                              | —               | —                                | 50,828               | 50,828       |
| Stock-based compensation expense | —                              | —               | 4,201                            | —                    | 4,201        |
| Issuance of stock                | 3                              | —               | —                                | —                    | —            |
| Balance at June 30, 2019         | 38,267                         | \$ 383          | \$ 502,884                       | \$ 1,294,833         | \$ 1,798,100 |

**NOTE 11 — STOCK BASED AND DEFERRED COMPENSATION**

We have a stock compensation plan, the Meritage Homes Corporation 2018 Stock Incentive Plan (the "2018 Plan"), that was approved by our Board of Directors and our stockholders and adopted in May 2018. The 2018 Plan is administered by our Board of Directors and allows 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. Effective May 2019, our prior stock compensation plan, the Amended and Restated 2006 Stock Incentive Plan (the "2006 Plan") expired, and all available shares from expired, terminated, or forfeited awards that remained under the 2006 Plan and prior plans were merged into and became available for grant under the 2018 Plan. The 2018 Plan authorizes awards to officers, key employees, non-employee directors and consultants. The 2018 Plan authorizes 6,600,000 shares of stock to be awarded, of which 1,303,194 shares remain available for grant at June 30, 2020. 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 for employees, a three-year cliff vesting for both non-vested stock and performance-based awards granted to senior executive officers and either a three-year cliff vesting or one-year vesting for non-employee directors, dependent on their start date.

Compensation cost related to time-based restricted stock awards is measured as of the closing price on the date of grant and is expensed, less forfeitures, 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 recorded on a straight-line basis through the end of the award vesting period. A portion of the performance-based restricted stock awards granted to our executive officers contain market conditions as defined by ASC 718. 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 engage 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 (dollars in thousands):

|   | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|---|-----------------------------|----------|---------------------------|-----------|
|   | 2020                        | 2019     | 2020                      | 2019      |
| Stock-based compensation expense  | \$ 3,157                    | \$ 4,201 | \$ 9,594                  | \$ 10,062 |
| Non-vested shares granted   | —                           | 4,500    | 223,481                   | 382,014   |
| Performance-based non-vested shares granted                                       | —                           | —        | 56,139                    | 94,152    |
| Performance-based shares issued in excess of target shares granted <sup>(1)</sup> | —                           | —        | 24,054                    | 21,039    |
| Restricted stock awards vested (includes performance-based awards)                | 6,060                       | 2,600    | 404,406                   | 402,923   |

- (1) Performance-based shares that vested and were issued as a result of performance achievement exceeding the originally established targeted number of shares related to respective performance metrics.

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

|   | As of         |                   |
|---|---------------|-------------------|
|   | June 30, 2020 | December 31, 2019 |
| Unrecognized stock-based compensation cost        | \$ 28,233     | \$ 22,341         |
| Weighted average years expense recognition period | 2.51          | 1.70              |
| Total equity awards outstanding <sup>(1)</sup>    | 1,111,295     | 1,240,529         |

- (1) Includes unvested restricted stock, performance-based awards (assuming 100% payout) and restricted stock units.

We also offer a non-qualified deferred compensation plan ("deferred compensation plan") to highly compensated employees in order to allow them additional pre-tax income deferrals above and beyond the limits that qualified plans, such as 401(k) 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 six months ended June 30, 2020 or 2019, other than minor administrative costs.



## 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, |           |
|---------|-----------------------------|-----------|---------------------------|-----------|
|         | 2020                        | 2019      | 2020                      | 2019      |
| Federal | \$ 20,528                   | \$ 13,926 | \$ 32,902                 | \$ 19,668 |
| State   | 4,656                       | 2,920     | 7,963                     | 4,136     |
| Total   | \$ 25,184                   | \$ 16,846 | \$ 40,865                 | \$ 23,804 |

The effective tax rate for the three and six months ended June 30, 2020 was 21.7% and 20.2%, and for the three and six months ended June 30, 2019 was 24.9% and 23.8%, respectively. The six months ended June 30, 2020 tax rate reflects the Taxpayer Certainty and Disaster Tax Relief Act of 2019 enacted into law on December 20, 2019. That act extended eligibility for the Internal Revenue Code ("IRC") §45L new energy efficient homes credit for years 2018 through 2020. For the first half of 2020, we recorded a tax benefit from the new law based on estimates for qualifying new energy efficient homes. For the first half of 2019, the tax benefit from the new law was not reflected in the tax rate due to the December enactment date. There is a small amount of §45L tax benefit in the first half of 2019, from our efforts to capture additional energy credits from 2016 and 2017 home closings. In the first half of 2019 and 2020, we recorded tax benefits from equity-based compensation for stock awards vested in the quarter. These tax benefits have a favorable impact on our effective tax rates.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES Act") was enacted into law in response to the widespread economic impact of the COVID-19 pandemic. Although the CARES Act has several provisions which may benefit our company and its employees, these provisions are not expected to have a material impact on our tax rate in 2020. We will continue to monitor the CARES Act and will take advantage of favorable tax-related provisions if and when applicable.

At June 30, 2020 and December 31, 2019, we have no unrecognized tax benefits. 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.

We determine our deferred tax assets and liabilities in accordance with ASC 740 *Income Taxes*. We evaluate our deferred tax assets, including the benefit from net operating losses ("NOLs"), by jurisdiction to determine if a valuation allowance is required. Companies must assess whether a valuation allowance should be established based on the consideration of all available evidence using a "more likely than not" standard with significant weight being given to evidence that can be objectively verified. This assessment considers, among other matters, the nature, frequency and severity of cumulative losses, forecasts of future profitability, the length of statutory carry forward periods, experiences with operating losses and experiences of utilizing tax credit carry forwards and tax planning alternatives. We have no valuation allowance on our deferred tax assets or NOL carryovers at June 30, 2020.

At June 30, 2020, we had no remaining federal NOL carry forward or un-utilized federal tax credits. At June 30, 2020 and December 31, 2019, we had tax benefits for state NOL carry forwards of \$0.8 million, net of federal benefit, that begin to expire in 2030.

At June 30, 2020, we have income taxes payable of \$31.7 million and income taxes receivable of \$5.0 million. The income taxes payable primarily consists of current federal and state tax accruals, net of estimated tax payments. This amount is recorded in Accrued liabilities on the accompanying unaudited balance sheet at June 30, 2020. The income taxes receivable primarily consists of energy tax credits related to homes that closed through 2017 and is recorded in Other receivables on the accompanying unaudited balance sheet at June 30, 2020.

We conduct business and are subject to tax in the U.S. both federally and in 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 2015. We have one state income tax examination being conducted at this time and do not expect it to have a material outcome.

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 IRC §382. Based on our analysis performed as of June 30, 2020 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, |           |
|--|---------------------------|-----------|
|  | 2020                      | 2019      |
| Cash paid during the year for:             |                           |           |
| Interest capitalized, net                  | \$ 1,089                  | \$ 6,179  |
| Income taxes paid                          | \$ —                      | \$ 16,536 |
| Non-cash operating activities:             |                           |           |
| Real estate acquired through notes payable | \$ 402                    | \$ 23     |

**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 reporting segments based on similar long-term economic characteristics and geographical proximity. Our current reportable homebuilding segments are as follows:

|                 |  |
|-----------------|--|
| <i>West:</i>    | Arizona, California and Colorado                               |
| <i>Central:</i> | Texas  |
| <i>East:</i>    | Florida, Georgia, North Carolina, South Carolina and Tennessee |

Management's evaluation of segment performance is based on segment operating income, which we define as home and land closing revenues less cost of home and land closings, 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, |              |
|--|-----------------------------|------------|---------------------------|--------------|
|  | 2020                        | 2019       | 2020                      | 2019         |
| Homebuilding revenue <sup>(1)</sup> :          |                             |            |                           |              |
| West   | \$ 382,245                  | \$ 299,002 | \$ 764,493                | \$ 571,968   |
| Central  | 296,357                     | 290,532    | 556,484                   | 482,138      |
| East   | 354,477                     | 275,076    | 613,115                   | 518,649      |
| Consolidated total                             | \$ 1,033,079                | \$ 864,610 | \$ 1,934,092              | \$ 1,572,755 |
| Homebuilding segment operating income:         |                             |            |                           |              |
| West   | \$ 44,742                   | \$ 24,074  | \$ 86,636                 | \$ 42,382    |
| Central  | 37,895                      | 28,480     | 66,814                    | 40,816       |
| East   | 37,791                      | 19,216     | 59,552                    | 28,909       |
| Total homebuilding segment operating income    | 120,428                     | 71,770     | 213,002                   | 112,107      |
| Financial services segment profit              | 3,789                       | 6,031      | 6,627                     | 10,733       |
| Corporate and unallocated costs <sup>(2)</sup> | (7,764)                     | (9,298)    | (16,938)                  | (18,928)     |
| Interest expense                               | (2,105)                     | (3,197)    | (2,121)                   | (7,282)      |
| Other income, net                              | 1,514                       | 2,368      | 2,125                     | 3,414        |
| Net earnings before income taxes               | \$ 115,862                  | \$ 67,674  | \$ 202,695                | \$ 100,044   |

- (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, |           |
|-----------------------|-----------------------------|----------|---------------------------|-----------|
|                       | 2020                        | 2019     | 2020                      | 2019      |
| Land closing revenue: |                             |          |                           |           |
| West                  | \$ 456                      | \$ 30    | \$ 4,974                  | \$ 30     |
| Central               | 382                         | 693      | 4,600                     | 693       |
| East                  | 650                         | 834      | 2,510                     | 10,329    |
| Total                 | \$ 1,488                    | \$ 1,557 | \$ 12,084                 | \$ 11,052 |

- (2) Balance consists primarily of corporate costs and numerous shared service functions such as finance and treasury that are not allocated to the homebuilding or financial services reporting segments.

|  | At June 30, 2020 |             |            |                    |                           |              |
|--|------------------|-------------|------------|--------------------|---------------------------|--------------|
|  | West             | Central     | East       | Financial Services | Corporate and Unallocated | Total        |
| Deposits on real estate under option or contract | \$ 10,952        | \$ 13,232   | \$ 23,648  | \$ —               | \$ —                      | \$ 47,832    |
| Real estate                                      | 1,205,741        | 718,760     | 808,927    | —                  | —                         | 2,733,428    |
| Investments in unconsolidated entities           | 260              | 2,999       | —          | —                  | 387                       | 3,646        |
| Other assets                                     | 59,928 (1)       | 116,232 (2) | 88,167 (3) | 659                | 491,836 (4)               | 756,822      |
| Total assets                                     | \$ 1,276,881     | \$ 851,223  | \$ 920,742 | \$ 659             | \$ 492,223                | \$ 3,541,728 |

- (1) Balance consists primarily of cash and property and equipment  
(2) Balance consists primarily of development reimbursements from local municipalities and prepaid expenses and other assets.  
(3) Balance consists primarily of goodwill (see Note 9), prepaid expenses and other assets and property and equipment.  
(4) Balance consists primarily of cash, our deferred tax asset and prepaid expenses and other assets.

|  | At December 31, 2019 |             |            |                    |                           |              |
|--|----------------------|-------------|------------|--------------------|---------------------------|--------------|
|  | West                 | Central     | East       | Financial Services | Corporate and Unallocated | Total        |
| Deposits on real estate under option or contract | \$ 10,568            | \$ 10,963   | \$ 29,370  | \$ —               | \$ —                      | \$ 50,901    |
| Real estate                                      | 1,223,949            | 708,786     | 811,626    | —                  | —                         | 2,744,361    |
| Investments in unconsolidated entities           | 260                  | 3,508       | —          | —                  | 675                       | 4,443        |
| Other assets                                     | 58,173 (1)           | 107,791 (2) | 83,475 (3) | 765                | 348,340 (4)               | 598,544      |
| Total assets                                     | \$ 1,292,950         | \$ 831,048  | \$ 924,471 | \$ 765             | \$ 349,015                | \$ 3,398,249 |

- (1) Balance consists primarily of cash and property and equipment  
(2) Balance consists primarily of development reimbursements from local municipalities and prepaid expenses and other assets.  
(3) Balance consists primarily of goodwill, prepaid expenses and other assets, and property and equipment.  
(4) Balance consists primarily of cash.

#### **NOTE 15 — COMMITMENTS AND CONTINGENCIES**

We are involved in various routine legal and regulatory proceedings, including, without limitation, warranty claims and litigation and arbitration proceedings alleging construction defects. In general, the proceedings are incidental to our business, and most exposure is subject to and should be covered by warranty and indemnity obligations of our consultants and subcontractors. Additionally, some such claims are also covered by insurance. With respect to the majority of pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. Historically, most disputes regarding warranty claims are resolved prior to litigation. We believe there are no pending legal or warranty matters as of June 30, 2020 that could have a material adverse impact upon our consolidated financial condition, results of operations or cash flows that have not been sufficiently reserved.

As discussed in Note 1 under the heading “Warranty Reserves”, within our \$21.6 million of total warranty reserves at June 30, 2020 we have case specific reserves related to alleged stucco defects in homes in certain Florida communities we developed prior to 2016 and for water drainage issues in a single community in Florida that we developed in 2016. Our review and handling of these two matters is ongoing and our estimate of and reserves for resolving these matters is based on internal data, our judgement and various assumptions and estimates. Due to the degree of judgment and the potential for variability in our underlying assumptions and estimates, as we obtain additional information, we may revise our estimates and thus our related reserves. As of June 30, 2020, after considering potential recoveries from the consultants and contractors involved and their insurers and the potential recovery under our general liability insurance policies, we believe our reserves are sufficient to cover the above mentioned matters. See Note 1 for information related to our warranty obligations.

### **Special Note of Caution Regarding Forward-Looking Statements/[LEGAL TO UPATE]**

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

The words "believe," "expect," "anticipate," "forecast," "plan," "intend," "may," "will," "should," "could," "estimate," "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. All statements we make other than statements of historical fact are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Forward-looking statements in this Quarterly Report include: statements concerning our expectations for our financial results, business, operations, government imposed restrictions, and the economy and society in general; trends and economic factors in the homebuilding industry in general, and our markets and results specifically, including the impact thereon of COVID-19 and governmental imposed restrictions and reaction thereto; our operating strategy and initiatives, including our actions in light of COVID-19, including our strategy to expand the number of communities that target the first-time and first move-up buyers and the benefits of our virtual tours and solutions; demand and pricing trends in the short-term throughout our geographies; that we may opportunistically repurchase or redeem our debt; the benefits of our land acquisition strategy and structures, including the use and the benefits of option contracts and joint ventures; our expectation that existing guarantees, letters of credit and performance and surety bonds will not be drawn on; the adequacy of our insurance coverage and warranty reserves; the expected outcome of legal proceedings we are involved in and the sufficiency of our reserves relating thereto; the sufficiency of our liquidity and capital resources to support our business strategy and manage throughout the COVID-19 environment; our ability and willingness to acquire land under option or contract; our strategy and trends and expectations concerning sales prices, sales pace, closings, orders, cancellations, material and labor costs for land development and home construction, gross margins, gross profit, revenues, net earnings, operating leverage, backlog and backlog conversion, land prices, changes in and location of active communities, and the amount, type and timing of new community openings; seasonality; our future cash needs; the impact of new accounting standards; that we may seek to raise additional debt and equity capital; our intentions regarding the payment of dividends and the use of derivative contracts; our perceptions about the importance of joint ventures to our business; and the impact of changes in interest rates.

Important factors that could cause actual results to differ materially from those in forward-looking statements, and that could negatively affect our business include, but are not limited to, the following: disruptions to our business by COVID-19, fears of a similar event, and measures that federal, state and local governments and/or health authorities implement to address it; the availability and cost of finished lots and undeveloped land; shortages in the availability and cost of labor; the ability of our potential buyers to sell their existing homes; changes in interest rates and the availability and pricing of residential mortgages; our exposure to information technology failures and security breaches; legislation related to tariffs; inflation in the cost of materials used to develop communities and construct homes; the adverse effect of slow absorption rates; impairments of our real estate inventory; cancellation rates; competition; changes in tax laws that adversely impact us or our homebuyers; a change to the feasibility of projects under option or contract that could result in the write-off of earnest or option deposits; our potential exposure to and impacts from natural disasters or severe weather conditions; home warranty and construction defect claims; failures in health and safety performance; our ability to obtain performance and surety bonds in connection with our development work; the loss of key personnel; failure to comply with laws and regulations; our limited geographic diversification; fluctuations in quarterly operating results; our level of indebtedness; our ability to obtain financing if our credit ratings are downgraded; our compliance with government regulations, the effect of legislative and other governmental actions, orders, policies or initiatives that impact housing, labor availability, construction, mortgage availability, our access to capital, the cost of capital or the economy in general, or other initiatives that seek to restrain growth of new housing construction or similar measures; legislation relating to energy and climate change; the replication of our energy-efficient technologies by our competitors; negative publicity that affects our reputation; and other factors identified in documents filed by the Company with the Securities and Exchange Commission, including those set forth in this Form 10-Q and our Form 10-K for the year ended December 31, 2019 under the caption "Risk Factors."

Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain, especially with respect to the impact of COVID-19, as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. In addition, we disclaim and undertake no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time, except as required by law.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### *Overview and Outlook*

The United States and world economies have been dramatically affected by COVID-19 as there has been inherent uncertainty due to rapidly changing governmental orders, public health concerns, the resulting market reactions, related unemployment and the psychology of potential homebuyers. Such a fluid environment makes it challenging to estimate the impact that this pandemic may have on the future performance of our business. However, the desire to have larger, safer single-family shelter with additional space with technological capabilities to accommodate work-from-home scenarios, coupled with low interest rates have contributed to an unanticipated spike in the demand for new home offerings as a whole, and particularly for readily-available inventory at lower price points, which aligns well with our strategy. We have, therefore, experienced significant increases in demand across our geographies since latter April 2020. We have also made significant progress in accelerating various company-wide digital initiatives that were already in progress to assist and facilitate the marketing, selling and closing of homes during shelter-in-place orders for buyers hesitant to leave their homes.

We believe the digital and online efforts helped us effectively navigate the current situation by allowing us to continue to operate efficiently, through:

- Offering virtual tours in all of our communities to prospective customers;
- Offering extensive online tools such as 3-D tours and dynamic floor plans to mimic the live experience of walking through a model home;
- Offering our homebuyers virtual tours of homes that are pending closing;
- Offering virtual grand opening events to the broker community to introduce our new communities;
- Continuing to pre-qualify buyers for mortgages through digital solutions on our website;
- Collecting earnest money payments remotely through third-party hosted money-transfer solutions; and
- Offering drive-through or fully virtual closings in states where such services are permitted.

Throughout this ever changing environment, our primary concern has and continues to be the health and well-being of our employees, customers, business partners and the communities we serve. We follow all applicable government orders and guidelines of public health agencies, and have been since the inception of this pandemic, modifying our standards and protocols to safeguard all of our stakeholders as conditions change. In order to address the changing environment, we instituted the following operational changes:

- Temporarily closed our corporate and divisional offices with work-from-home requirements in effect for all non-field employees in all of our markets in March 2020; all markets are re-opened to varying degrees based on local requirements;
- Temporarily closed our sales centers and model homes, as well as our Studio M design centers, to the general public, shifting to an appointment-only home sales process in March 2020; all sales centers and Studio M centers are now open;
- Continued with home construction and land development in March 2020 as in nearly all of our markets residential construction has been deemed "essential" by most local governments; and
- Temporarily shifted to an emergency-only model for interior warranty work, for the safety of our employees and owners of our homes in March 2020. We have since opened our warranty work to service all calls as allowed by local authorities.
- We have implemented responsible hygiene, cleaning, social distancing and other processes in all of our operations to safeguard our employees, trade partners, customers and the communities we serve.

As of June 30, 2020 approximately 90% of our communities are targeted to first-time or first move-up buyers and those buyer segments represented approximately 96% of our orders in the second quarter of 2020, effectively completing our strategic shift to cater to entry-level and first-time move up buyers.

## Summary Company Results

Our results for the second quarter of 2020 reflect continued strong growth in closings and orders, compared to the second quarter of 2019 as buyers took advantage of the low interest-rate environment and capitalized on their desire to move out of their existing home and transition to a larger, safer home with indoor space to accommodate work from home needs and outdoor space to enjoy while practicing social distancing. Total home closing revenue was \$1.0 billion on 2,770 homes closed for the three months ended June 30, 2020 compared to \$863.1 million on 2,253 homes closed for the second quarter of 2019, 20.0% and 22.9% increases, respectively. In addition to higher home closing revenue, second quarter results benefited from a 300 basis point increase in home closing gross margin that resulted in a \$61.6 million year-over-year increase in home closing gross profit to \$220.7 million compared to \$159.1 million in the second quarter of 2019. We attribute this gross profit improvement to our simplified product offerings with more efficient product designs which reduce both construction costs and construction cycle times, in addition to construction overhead leverage on higher home closing revenue and some temporary negotiated cost savings in light of COVID-19. The impact from closings of our non-core product was fairly limited and only represented 6% of our closing volume. Interest expense decreased \$1.1 million year-over-year, reflecting a reduction in total interest incurred due to the December 2019 early redemption of \$300 million 7.15% senior notes due in 2020 partially offset by the interest income on the \$500 million credit facility draw in mid-March that was outstanding through May 26, 2020. Earnings before income taxes improved by \$48.2 million year over year to \$115.9 million for the second quarter of 2020. These improved year-over-year results combined with a lower effective income tax rate of 21.7% as compared to 24.9% in 2019 led to net earnings of \$90.7 million in the second quarter of 2020 versus \$50.8 million in the second quarter of 2019. For the six months ended June 30, 2020, home closing revenue was \$1.9 billion on 5,086 homes closed, 23.1% and 26.6% increases, respectively. Similar to the second quarter, year-to-date results reflect an increase in home closing revenue of \$360.3 and a \$123.5 million increase in home closing gross profit versus the six months ended June 30, 2019. Higher gross profit combined with a \$5.2 million decrease in interest expense year-over year led to net income of \$161.8 million for the six months ended June 30, 2019 compared to \$76.2 million for the 2019 period.

Orders for the three and six months of 2020 were up 31.5% and 27.2%, respectively, over the prior year. Our order cancellation rate was 15% for the second quarter of 2020 compared to 12% for the prior year period; cancellation rates peaked at a high of 20% in April 2020 and then declined to 15% and 13% in May and June, 2020, respectively. We ended the second quarter of 2020 with 4,395 homes in backlog valued at \$1.6 billion, a 19.4% increase in units and an 11.6% increase in value over June 30, 2019, reflecting lower average sales prices.

### *Company Positioning*

We believe that our on-going investments in new communities, particularly those designed for the first-time and first move-up homebuyer, and industry-leading innovation in our energy-efficient product offerings, automation, and transformative customer buying experience, create a differentiated strategy that has aided us in our success in the highly-competitive new home market and will continue to do so in the long-term.

Our focus includes the following strategic initiatives:

- Ensuring sufficient speculative/started inventory is available in all communities to accommodate our customers' desire for a quick move-in home;
- Expanding the number of LiVE.NOW® communities that target the growing first-time and first move-up homebuyers. After a short delay in the latter part of the first quarter and the start of the second quarter due to COVID-19 uncertainties, we have been aggressively acquiring and contracting for lots and communities;
- Improving the overall customer experience, most recently through a simplification of the customer home purchase and option selection process for move-up buyers at Studio M;
- Demonstrating our commitment to innovation through digital tours and solutions available to our customers that allow the entire home marketing, sales and in some geographies, the closing process to be conducted on-line;
- Simplifying our production process to allow us to more efficiently build our homes, shorten our construction timeline and reduce our construction costs, which in turn allows us to competitively price our homes; and
- Improving our home closing gross profit by growing closing volume while streamlining our operations, allowing us to better leverage our overhead.

In order to maintain focus on growing our business, we also remain committed to the following:

- Increasing orders and order pace through the use of our consumer and market research to ensure that we build homes that offer our buyers their desired features and amenities;
- Becoming or maintaining our position of at least 5% market share in all of our markets;
- Continuing to innovate and promote our energy efficiency program and our M.Connecte® Automation Suite to create differentiation for the Meritage brand;
- Managing construction efficiencies and costs through national and regional vendor relationships with a focus on quality construction and warranty management;
- Carefully managing our liquidity and a strong balance sheet, we ended the quarter with a 32.8% debt-to-capital ratio and a 20.4% net debt-to-capital ratio;
- Maximizing returns to our shareholders, most recently through our improved financial performance, debt repayment and share repurchase program; and
- Promoting a positive environment for our employees with market-competitive benefits in order to develop and motivate them and to minimize turnover and to maximize recruitment efforts.

### *Critical Accounting Policies*

The accounting policies we deem most critical to us and that involve the most difficult, subjective or complex judgments include revenue recognition, valuation of real estate, warranty reserves and valuation of deferred tax assets. There have been no significant changes to our critical accounting policies during the six months ended June 30, 2020 compared to those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our 2019 Annual Report on Form 10-K.



### Home Closing Revenue, Home Orders and Order Backlog

The composition of our closings, home orders and backlog is constantly changing and is based on a changing mix of communities with various price points between periods as new projects open and existing projects wind down. Further, individual homes within a community can range significantly in price due to differing square footage, option selections, lot sizes and quality and location of lots (e.g. cul-de-sac, view lots, greenbelt lots). These variations result in a lack of meaningful comparability between our home orders, closings and backlog due to the changing mix between periods. The tables on the following pages present operating and financial data that we consider most critical to managing our operations (dollars in thousands):

|                               | Three Months Ended June 30, |            | Quarter over Quarter |          |
|-------------------------------|-----------------------------|------------|----------------------|----------|
|                               | 2020                        | 2019       | Change \$            | Change % |
| <b>Home Closing Revenue</b>   |                             |            |                      |          |
| <b>Total</b>                  |                             |            |                      |          |
| Dollars                       | \$ 1,031,591                | \$ 863,053 | \$ 168,538           | 20.0 %   |
| Homes closed                  | 2,770                       | 2,253      | 517                  | 22.9 %   |
| Average sales price           | \$ 372.4                    | \$ 383.1   | \$ (10.7)            | (2.8) %  |
| <b>West Region</b>            |                             |            |                      |          |
| <b>Arizona</b>                |                             |            |                      |          |
| Dollars                       | \$ 142,359                  | \$ 125,388 | \$ 16,971            | 13.5 %   |
| Homes closed                  | 427                         | 389        | 38                   | 9.8 %    |
| Average sales price           | \$ 333.4                    | \$ 322.3   | \$ 11.1              | 3.4 %    |
| <b>California</b>             |                             |            |                      |          |
| Dollars                       | \$ 150,343                  | \$ 83,454  | \$ 66,889            | 80.2 %   |
| Homes closed                  | 247                         | 132        | 115                  | 87.1 %   |
| Average sales price           | \$ 608.7                    | \$ 632.2   | \$ (23.6)            | (3.7) %  |
| <b>Colorado</b>               |                             |            |                      |          |
| Dollars                       | \$ 89,087                   | \$ 90,130  | \$ (1,043)           | (1.2) %  |
| Homes closed                  | 184                         | 169        | 15                   | 8.9 %    |
| Average sales price           | \$ 484.2                    | \$ 533.3   | \$ (49.1)            | (9.2) %  |
| <b>West Region Totals</b>     |                             |            |                      |          |
| Dollars                       | \$ 381,789                  | \$ 298,972 | \$ 82,817            | 27.7 %   |
| Homes closed                  | 858                         | 690        | 168                  | 24.3 %   |
| Average sales price           | \$ 445.0                    | \$ 433.3   | \$ 11.7              | 2.7 %    |
| <b>Central Region - Texas</b> |                             |            |                      |          |
| <b>Central Region Totals</b>  |                             |            |                      |          |
| Dollars                       | \$ 295,975                  | \$ 289,839 | \$ 6,136             | 2.1 %    |
| Homes closed                  | 914                         | 823        | 91                   | 11.1 %   |
| Average sales price           | \$ 323.8                    | \$ 352.2   | \$ (28.3)            | (8.0) %  |
| <b>East Region</b>            |                             |            |                      |          |
| <b>Florida</b>                |                             |            |                      |          |
| Dollars                       | \$ 138,608                  | \$ 111,736 | \$ 26,872            | 24.0 %   |
| Homes closed                  | 367                         | 281        | 86                   | 30.6 %   |
| Average sales price           | \$ 377.7                    | \$ 397.6   | \$ (20.0)            | (5.0) %  |
| <b>Georgia</b>                |                             |            |                      |          |
| Dollars                       | \$ 58,698                   | \$ 43,317  | \$ 15,381            | 35.5 %   |
| Homes closed                  | 166                         | 122        | 44                   | 36.1 %   |
| Average sales price           | \$ 353.6                    | \$ 355.1   | \$ (1.5)             | (0.4) %  |
| <b>North Carolina</b>         |                             |            |                      |          |
| Dollars                       | \$ 98,738                   | \$ 70,629  | \$ 28,109            | 39.8 %   |
| Homes closed                  | 288                         | 196        | 92                   | 46.9 %   |
| Average sales price           | \$ 342.8                    | \$ 360.4   | \$ (17.5)            | (4.9) %  |
| <b>South Carolina</b>         |                             |            |                      |          |
| Dollars                       | \$ 30,206                   | \$ 23,163  | \$ 7,043             | 30.4 %   |
| Homes closed                  | 98                          | 70         | 28                   | 40.0 %   |
| Average sales price           | \$ 308.2                    | \$ 330.9   | \$ (22.7)            | (6.9) %  |
| <b>Tennessee</b>              |                             |            |                      |          |
| Dollars                       | \$ 27,577                   | \$ 25,397  | \$ 2,180             | 8.6 %    |
| Homes closed                  | 79                          | 71         | 8                    | 11.3 %   |
| Average sales price           | \$ 349.1                    | \$ 357.7   | \$ (8.6)             | (2.4) %  |
| <b>East Region Totals</b>     |                             |            |                      |          |
| Dollars                       | \$ 353,827                  | \$ 274,242 | \$ 79,585            | 29.0 %   |
| Homes closed                  | 998                         | 740        | 258                  | 34.9 %   |
| Average sales price           | \$ 354.5                    | \$ 370.6   | \$ (16.1)            | (4.3) %  |

|                               | Six Months Ended June 30, |              | Quarter over Quarter |         |
|-------------------------------|---------------------------|--------------|----------------------|---------|
|                               | 2020                      | 2019         | Chg \$               | Chg %   |
| <b>Home Closing Revenue</b>   |                           |              |                      |         |
| <b>Total</b>                  |                           |              |                      |         |
| Dollars                       | \$ 1,922,008              | \$ 1,561,703 | \$ 360,305           | 23.1 %  |
| Homes closed                  | 5,086                     | 4,018        | 1,068                | 26.6 %  |
| Average sales price           | \$ 377.9                  | \$ 388.7     | \$ (10.8)            | (2.8) % |
| <b>West Region</b>            |                           |              |                      |         |
| Arizona                       |                           |              |                      |         |
| Dollars                       | \$ 293,603                | \$ 223,842   | \$ 69,761            | 31.2 %  |
| Homes closed                  | 886                       | 686          | 200                  | 29.2 %  |
| Average sales price           | \$ 331.4                  | \$ 326.3     | \$ 5.1               | 1.6 %   |
| California                    |                           |              |                      |         |
| Dollars                       | \$ 285,145                | \$ 169,291   | \$ 115,854           | 68.4 %  |
| Homes closed                  | 455                       | 264          | 191                  | 72.3 %  |
| Average sales price           | \$ 626.7                  | \$ 641.3     | \$ (14.6)            | (2.3) % |
| Colorado                      |                           |              |                      |         |
| Dollars                       | \$ 180,771                | \$ 178,805   | \$ 1,966             | 1.1 %   |
| Homes closed                  | 370                       | 338          | 32                   | 9.5 %   |
| Average sales price           | \$ 488.6                  | \$ 529.0     | \$ (40.4)            | (7.6) % |
| <b>West Region Totals</b>     |                           |              |                      |         |
| Dollars                       | \$ 759,519                | \$ 571,938   | \$ 187,581           | 32.8 %  |
| Homes closed                  | 1,711                     | 1,288        | 423                  | 32.8 %  |
| Average sales price           | \$ 443.9                  | \$ 444.1     | \$ (0.1)             | — %     |
| <b>Central Region - Texas</b> |                           |              |                      |         |
| <b>Central Region Totals</b>  |                           |              |                      |         |
| Dollars                       | \$ 551,884                | \$ 481,445   | \$ 70,439            | 14.6 %  |
| Homes closed                  | 1,688                     | 1,366        | 322                  | 23.6 %  |
| Average sales price           | \$ 326.9                  | \$ 352.4     | \$ (25.5)            | (7.2) % |
| <b>East Region</b>            |                           |              |                      |         |
| Florida                       |                           |              |                      |         |
| Dollars                       | \$ 232,397                | \$ 202,560   | \$ 29,837            | 14.7 %  |
| Homes closed                  | 603                       | 507          | 96                   | 18.9 %  |
| Average sales price           | \$ 385.4                  | \$ 399.5     | \$ (14.1)            | (3.5) % |
| Georgia                       |                           |              |                      |         |
| Dollars                       | \$ 100,696                | \$ 85,456    | \$ 15,240            | 17.8 %  |
| Homes closed                  | 281                       | 241          | 40                   | 16.6 %  |
| Average sales price           | \$ 358.3                  | \$ 354.6     | \$ 3.8               | 1.1 %   |
| North Carolina                |                           |              |                      |         |
| Dollars                       | \$ 178,155                | \$ 127,170   | \$ 50,985            | 40.1 %  |
| Homes closed                  | 510                       | 352          | 158                  | 44.9 %  |
| Average sales price           | \$ 349.3                  | \$ 361.3     | \$ (12.0)            | (3.3) % |
| South Carolina                |                           |              |                      |         |
| Dollars                       | \$ 47,611                 | \$ 42,745    | \$ 4,866             | 11.4 %  |
| Homes closed                  | 151                       | 127          | 24                   | 18.9 %  |
| Average sales price           | \$ 315.3                  | \$ 336.6     | \$ (21.3)            | (6.3) % |
| Tennessee                     |                           |              |                      |         |
| Dollars                       | \$ 51,746                 | \$ 50,389    | \$ 1,357             | 2.7 %   |
| Homes closed                  | 142                       | 137          | 5                    | 3.6 %   |
| Average sales price           | \$ 364.4                  | \$ 367.8     | \$ (3.4)             | (0.9) % |
| <b>East Region Totals</b>     |                           |              |                      |         |
| Dollars                       | \$ 610,605                | \$ 508,320   | \$ 102,285           | 20.1 %  |
| Homes closed                  | 1,687                     | 1,364        | 323                  | 23.7 %  |
| Average sales price           | \$ 361.9                  | \$ 372.7     | \$ (10.7)            | (2.9) % |

|                               | Three Months Ended June 30, |              | Quarter over Quarter |          |
|-------------------------------|-----------------------------|--------------|----------------------|----------|
|                               | 2020                        | 2019         | Change \$            | Change % |
| <b>Home Orders (1)</b>        |                             |              |                      |          |
| <b>Total</b>                  |                             |              |                      |          |
| Dollars                       | \$ 1,290,454                | \$ 1,043,995 | \$ 246,459           | 23.6 %   |
| Homes ordered                 | 3,597                       | 2,735        | 862                  | 31.5 %   |
| Average sales price           | \$ 358.8                    | \$ 381.7     | \$ (23.0)            | (6.0) %  |
| <b>West Region</b>            |                             |              |                      |          |
| <b>Arizona</b>                |                             |              |                      |          |
| Dollars                       | \$ 231,057                  | \$ 188,215   | \$ 42,842            | 22.8 %   |
| Homes ordered                 | 737                         | 582          | 155                  | 26.6 %   |
| Average sales price           | \$ 313.5                    | \$ 323.4     | \$ (9.9)             | (3.1) %  |
| <b>California</b>             |                             |              |                      |          |
| Dollars                       | \$ 224,639                  | \$ 135,519   | \$ 89,120            | 65.8 %   |
| Homes ordered                 | 388                         | 207          | 181                  | 87.4 %   |
| Average sales price           | \$ 579.0                    | \$ 654.7     | \$ (75.7)            | (11.6) % |
| <b>Colorado</b>               |                             |              |                      |          |
| Dollars                       | \$ 70,831                   | \$ 110,314   | \$ (39,483)          | (35.8) % |
| Homes ordered                 | 153                         | 220          | (67)                 | (30.5) % |
| Average sales price           | \$ 462.9                    | \$ 501.4     | \$ (38.5)            | (7.7) %  |
| <b>West Region Totals</b>     |                             |              |                      |          |
| Dollars                       | \$ 526,527                  | \$ 434,048   | \$ 92,479            | 21.3 %   |
| Homes ordered                 | 1,278                       | 1,009        | 269                  | 26.7 %   |
| Average sales price           | \$ 412.0                    | \$ 430.2     | \$ (18.2)            | (4.2) %  |
| <b>Central Region - Texas</b> |                             |              |                      |          |
| <b>Central Region Totals</b>  |                             |              |                      |          |
| Dollars                       | \$ 392,502                  | \$ 275,380   | \$ 117,122           | 42.5 %   |
| Homes ordered                 | 1,215                       | 827          | 388                  | 46.9 %   |
| Average sales price           | \$ 323.0                    | \$ 333.0     | \$ (9.9)             | (3.0) %  |
| <b>East Region</b>            |                             |              |                      |          |
| <b>Florida</b>                |                             |              |                      |          |
| Dollars                       | \$ 136,362                  | \$ 131,958   | \$ 4,404             | 3.3 %    |
| Homes ordered                 | 390                         | 331          | 59                   | 17.8 %   |
| Average sales price           | \$ 349.6                    | \$ 398.7     | \$ (49.1)            | (12.3) % |
| <b>Georgia</b>                |                             |              |                      |          |
| Dollars                       | \$ 65,434                   | \$ 51,977    | \$ 13,457            | 25.9 %   |
| Homes ordered                 | 190                         | 149          | 41                   | 27.5 %   |
| Average sales price           | \$ 344.4                    | \$ 348.8     | \$ (4.4)             | (1.3) %  |
| <b>North Carolina</b>         |                             |              |                      |          |
| Dollars                       | \$ 106,383                  | \$ 89,571    | \$ 16,812            | 18.8 %   |
| Homes ordered                 | 326                         | 240          | 86                   | 35.8 %   |
| Average sales price           | \$ 326.3                    | \$ 373.2     | \$ (46.9)            | (12.6) % |
| <b>South Carolina</b>         |                             |              |                      |          |
| Dollars                       | \$ 29,262                   | \$ 22,806    | \$ 6,456             | 28.3 %   |
| Homes ordered                 | 95                          | 69           | 26                   | 37.7 %   |
| Average sales price           | \$ 308.0                    | \$ 330.5     | \$ (22.5)            | (6.8) %  |
| <b>Tennessee</b>              |                             |              |                      |          |
| Dollars                       | \$ 33,984                   | \$ 38,255    | \$ (4,271)           | (11.2) % |
| Homes ordered                 | 103                         | 110          | (7)                  | (6.4) %  |
| Average sales price           | \$ 329.9                    | \$ 347.8     | \$ (17.9)            | (5.1) %  |
| <b>East Region Totals</b>     |                             |              |                      |          |
| Dollars                       | \$ 371,425                  | \$ 334,567   | \$ 36,858            | 11.0 %   |
| Homes ordered                 | 1,104                       | 899          | 205                  | 22.8 %   |
| Average sales price           | \$ 336.4                    | \$ 372.2     | \$ (35.8)            | (9.6) %  |

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

|                               | Six Months Ended June 30, |              | Quarter over Quarter |         |
|-------------------------------|---------------------------|--------------|----------------------|---------|
|                               | 2020                      | 2019         | Chg \$               | Chg %   |
| <b>Home Orders (1)</b>        |                           |              |                      |         |
| <b>Total</b>                  |                           |              |                      |         |
| Dollars                       | \$ 2,470,391              | \$ 2,020,974 | \$ 449,417           | 22.2 %  |
| Homes ordered                 | 6,699                     | 5,265        | 1,434                | 27.2 %  |
| Average sales price           | \$ 368.8                  | \$ 383.9     | \$ (15.1)            | (3.9)%  |
| <b>West Region</b>            |                           |              |                      |         |
| <b>Arizona</b>                |                           |              |                      |         |
| Dollars                       | \$ 414,428                | \$ 333,613   | \$ 80,815            | 24.2 %  |
| Homes ordered                 | 1,307                     | 1,039        | 268                  | 25.8 %  |
| Average sales price           | \$ 317.1                  | \$ 321.1     | \$ (4.0)             | (1.2)%  |
| <b>California</b>             |                           |              |                      |         |
| Dollars                       | \$ 449,571                | \$ 243,993   | \$ 205,578           | 84.3 %  |
| Homes ordered                 | 740                       | 374          | 366                  | 97.9 %  |
| Average sales price           | \$ 607.5                  | \$ 652.4     | \$ (44.9)            | (6.9)%  |
| <b>Colorado</b>               |                           |              |                      |         |
| Dollars                       | \$ 169,296                | \$ 215,562   | \$ (46,266)          | (21.5)% |
| Homes ordered                 | 352                       | 424          | (72)                 | (17.0)% |
| Average sales price           | \$ 481.0                  | \$ 508.4     | \$ (27.4)            | (5.4)%  |
| <b>West Region Totals</b>     |                           |              |                      |         |
| Dollars                       | \$ 1,033,295              | \$ 793,168   | \$ 240,127           | 30.3 %  |
| Homes ordered                 | 2,399                     | 1,837        | 562                  | 30.6 %  |
| Average sales price           | \$ 430.7                  | \$ 431.8     | \$ (1.1)             | (0.3)%  |
| <b>Central Region - Texas</b> |                           |              |                      |         |
| <b>Central Region Totals</b>  |                           |              |                      |         |
| Dollars                       | \$ 735,492                | \$ 581,645   | \$ 153,847           | 26.5 %  |
| Homes ordered                 | 2,274                     | 1,697        | 577                  | 34.0 %  |
| Average sales price           | \$ 323.4                  | \$ 342.7     | \$ (19.3)            | (5.6)%  |
| <b>East Region</b>            |                           |              |                      |         |
| <b>Florida</b>                |                           |              |                      |         |
| Dollars                       | \$ 255,804                | \$ 258,032   | \$ (2,228)           | (0.9)%  |
| Homes ordered                 | 707                       | 632          | 75                   | 11.9 %  |
| Average sales price           | \$ 361.8                  | \$ 408.3     | \$ (46.5)            | (11.4)% |
| <b>Georgia</b>                |                           |              |                      |         |
| Dollars                       | \$ 120,417                | \$ 102,204   | \$ 18,213            | 17.8 %  |
| Homes ordered                 | 346                       | 293          | 53                   | 18.1 %  |
| Average sales price           | \$ 348.0                  | \$ 348.8     | \$ (0.8)             | (0.2)%  |
| <b>North Carolina</b>         |                           |              |                      |         |
| Dollars                       | \$ 207,638                | \$ 172,556   | \$ 35,082            | 20.3 %  |
| Homes ordered                 | 613                       | 470          | 143                  | 30.4 %  |
| Average sales price           | \$ 338.7                  | \$ 367.1     | \$ (28.4)            | (7.7)%  |
| <b>South Carolina</b>         |                           |              |                      |         |
| Dollars                       | \$ 57,176                 | \$ 48,020    | \$ 9,156             | 19.1 %  |
| Homes ordered                 | 182                       | 150          | 32                   | 21.3 %  |
| Average sales price           | \$ 314.2                  | \$ 320.1     | \$ (6.0)             | (1.9)%  |
| <b>Tennessee</b>              |                           |              |                      |         |
| Dollars                       | \$ 60,569                 | \$ 65,349    | \$ (4,780)           | (7.3)%  |
| Homes ordered                 | 178                       | 186          | (8)                  | (4.3)%  |
| Average sales price           | \$ 340.3                  | \$ 351.3     | \$ (11.1)            | (3.1)%  |
| <b>East Region Totals</b>     |                           |              |                      |         |
| Dollars                       | \$ 701,604                | \$ 646,161   | \$ 55,443            | 8.6 %   |
| Homes ordered                 | 2,026                     | 1,731        | 295                  | 17.0 %  |
| Average sales price           | \$ 346.3                  | \$ 373.3     | \$ (27.0)            | (7.2)%  |

|                               | Three Months Ended June 30, |              |            |              |
|-------------------------------|-----------------------------|--------------|------------|--------------|
|                               | 2020                        |              | 2019       |              |
|                               | Ending                      | Average      | Ending     | Average      |
| <i>Active Communities</i>     |                             |              |            |              |
| <b>Total</b>                  | <b>237</b>                  | <b>239.0</b> | <b>254</b> | <b>257.0</b> |
| <b>West Region</b>            |                             |              |            |              |
| Arizona                       | 38                          | 35.5         | 40         | 37.0         |
| California                    | 28                          | 28.5         | 20         | 20.5         |
| Colorado                      | 13                          | 13.0         | 21         | 22.0         |
| <b>West Region Totals</b>     | <b>79</b>                   | <b>77.0</b>  | <b>81</b>  | <b>79.5</b>  |
| <b>Central Region - Texas</b> |                             |              |            |              |
| <b>Central Region Totals</b>  | <b>68</b>                   | <b>73.0</b>  | <b>73</b>  | <b>78.5</b>  |
| <b>East Region</b>            |                             |              |            |              |
| Florida                       | 36                          | 35.0         | 36         | 34.0         |
| Georgia                       | 17                          | 16.0         | 21         | 20.0         |
| North Carolina                | 21                          | 20.5         | 23         | 24.0         |
| South Carolina                | 5                           | 6.0          | 9          | 10.0         |
| Tennessee                     | 11                          | 11.5         | 11         | 11.0         |
| <b>East Region Totals</b>     | <b>90</b>                   | <b>89.0</b>  | <b>100</b> | <b>99.0</b>  |

|                               | Six Months Ended June 30, |              |            |              |
|-------------------------------|---------------------------|--------------|------------|--------------|
|                               | 2020                      |              | 2019       |              |
|                               | Ending                    | Average      | Ending     | Average      |
| <i>Active Communities</i>     |                           |              |            |              |
| <b>Total</b>                  | <b>237</b>                | <b>240.5</b> | <b>254</b> | <b>263.0</b> |
| <b>West Region</b>            |                           |              |            |              |
| Arizona                       | 38                        | 34.5         | 40         | 40.0         |
| California                    | 28                        | 26.0         | 20         | 18.5         |
| Colorado                      | 13                        | 15.5         | 21         | 20.5         |
| <b>West Region Totals</b>     | <b>79</b>                 | <b>76.0</b>  | <b>81</b>  | <b>79.0</b>  |
| <b>Central Region - Texas</b> |                           |              |            |              |
| <b>Central Region Totals</b>  | <b>68</b>                 | <b>72.5</b>  | <b>73</b>  | <b>84.0</b>  |
| <b>East Region</b>            |                           |              |            |              |
| Florida                       | 36                        | 34.5         | 36         | 33.5         |
| Georgia                       | 17                        | 17.5         | 21         | 21.5         |
| North Carolina                | 21                        | 23.0         | 23         | 24.0         |
| South Carolina                | 5                         | 7.0          | 9          | 10.5         |
| Tennessee                     | 11                        | 10.0         | 11         | 10.5         |
| <b>East Region Totals</b>     | <b>90</b>                 | <b>92.0</b>  | <b>100</b> | <b>100.0</b> |

|  | Three Months Ended June 30, |             | Six Months Ended June 30, |             |
|--|-----------------------------|-------------|---------------------------|-------------|
|  | 2020                        | 2019        | 2020                      | 2019        |
| <b>Cancellation Rates <sup>(1)</sup></b> |                             |             |                           |             |
| <b>Total</b>                             | <b>15 %</b>                 | <b>12 %</b> | <b>14 %</b>               | <b>12 %</b> |
| <b>West Region</b>                       |                             |             |                           |             |
| Arizona                                  | 11 %                        | 10 %        | 12 %                      | 10 %        |
| California                               | 18 %                        | 14 %        | 16 %                      | 14 %        |
| Colorado                                 | 18 %                        | 11 %        | 15 %                      | 9 %         |
| <b>West Region Totals</b>                | <b>14 %</b>                 | <b>11 %</b> | <b>14 %</b>               | <b>11 %</b> |
| <b>Central Region - Texas</b>            |                             |             |                           |             |
| <b>Central Region Totals</b>             | <b>20 %</b>                 | <b>16 %</b> | <b>17 %</b>               | <b>15 %</b> |
| <b>East Region</b>                       |                             |             |                           |             |
| Florida                                  | 15 %                        | 9 %         | 14 %                      | 9 %         |
| Georgia                                  | 9 %                         | 18 %        | 11 %                      | 15 %        |
| North Carolina                           | 9 %                         | 8 %         | 8 %                       | 9 %         |
| South Carolina                           | 11 %                        | 15 %        | 12 %                      | 18 %        |
| Tennessee                                | 14 %                        | 6 %         | 20 %                      | 7 %         |
| <b>East Region Totals</b>                | <b>12 %</b>                 | <b>10 %</b> | <b>12 %</b>               | <b>11 %</b> |

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

|                               | At June 30,  |              | Quarter over Quarter |          |
|-------------------------------|--------------|--------------|----------------------|----------|
|                               | 2020         | 2019         | Change \$            | Change % |
| <b>Order Backlog (1)</b>      |              |              |                      |          |
| <b>Total</b>                  |              |              |                      |          |
| Dollars                       | \$ 1,648,451 | \$ 1,477,007 | \$ 171,444           | 11.6 %   |
| Homes in backlog              | 4,395        | 3,680        | 715                  | 19.4 %   |
| Average sales price           | \$ 375.1     | \$ 401.4     | \$ (26.3)            | (6.6) %  |
| <b>West Region</b>            |              |              |                      |          |
| Arizona                       |              |              |                      |          |
| Dollars                       | \$ 307,302   | \$ 243,449   | \$ 63,853            | 26.2 %   |
| Homes in backlog              | 932          | 696          | 236                  | 33.9 %   |
| Average sales price           | \$ 329.7     | \$ 349.8     | \$ (20.1)            | (5.7) %  |
| California                    |              |              |                      |          |
| Dollars                       | \$ 256,694   | \$ 141,196   | \$ 115,498           | 81.8 %   |
| Homes in backlog              | 430          | 201          | 229                  | 113.9 %  |
| Average sales price           | \$ 597.0     | \$ 702.5     | \$ (105.5)           | (15.0) % |
| Colorado                      |              |              |                      |          |
| Dollars                       | \$ 86,158    | \$ 140,304   | \$ (54,146)          | (38.6) % |
| Homes in backlog              | 178          | 271          | (93)                 | (34.3) % |
| Average sales price           | \$ 484.0     | \$ 517.7     | \$ (33.7)            | (6.5) %  |
| <b>West Region Totals</b>     |              |              |                      |          |
| Dollars                       | \$ 650,154   | \$ 524,949   | \$ 125,205           | 23.9 %   |
| Homes in backlog              | 1,540        | 1,168        | 372                  | 31.8 %   |
| Average sales price           | \$ 422.2     | \$ 449.4     | \$ (27.3)            | (6.1) %  |
| <b>Central Region - Texas</b> |              |              |                      |          |
| <b>Central Region Totals</b>  |              |              |                      |          |
| Dollars                       | \$ 556,787   | \$ 473,968   | \$ 82,819            | 17.5 %   |
| Homes in backlog              | 1,634        | 1,312        | 322                  | 24.5 %   |
| Average sales price           | \$ 340.8     | \$ 361.3     | \$ (20.5)            | (5.7) %  |
| <b>East Region</b>            |              |              |                      |          |
| Florida                       |              |              |                      |          |
| Dollars                       | \$ 187,241   | \$ 220,544   | \$ (33,303)          | (15.1) % |
| Homes in backlog              | 475          | 497          | (22)                 | (4.4) %  |
| Average sales price           | \$ 394.2     | \$ 443.8     | \$ (49.6)            | (11.2) % |
| Georgia                       |              |              |                      |          |
| Dollars                       | \$ 69,559    | \$ 63,158    | \$ 6,401             | 10.1 %   |
| Homes in backlog              | 198          | 175          | 23                   | 13.1 %   |
| Average sales price           | \$ 351.3     | \$ 360.9     | \$ (9.6)             | (2.7) %  |
| North Carolina                |              |              |                      |          |
| Dollars                       | \$ 109,026   | \$ 112,808   | \$ (3,782)           | (3.4) %  |
| Homes in backlog              | 322          | 295          | 27                   | 9.2 %    |
| Average sales price           | \$ 338.6     | \$ 382.4     | \$ (43.8)            | (11.5) % |
| South Carolina                |              |              |                      |          |
| Dollars                       | \$ 34,054    | \$ 37,672    | \$ (3,618)           | (9.6) %  |
| Homes in backlog              | 102          | 112          | (10)                 | (8.9) %  |
| Average sales price           | \$ 333.9     | \$ 336.4     | \$ (2.5)             | (0.7) %  |
| Tennessee                     |              |              |                      |          |
| Dollars                       | \$ 41,630    | \$ 43,908    | \$ (2,278)           | (5.2) %  |
| Homes in backlog              | 124          | 121          | 3                    | 2.5 %    |
| Average sales price           | \$ 335.7     | \$ 362.9     | \$ (27.2)            | (7.5) %  |
| <b>East Region Totals</b>     |              |              |                      |          |
| Dollars                       | \$ 441,510   | \$ 478,090   | \$ (36,580)          | (7.7) %  |
| Homes in backlog              | 1,221        | 1,200        | 21                   | 1.8 %    |
| Average sales price           | \$ 361.6     | \$ 398.4     | \$ (36.8)            | (9.2) %  |

(1) Our backlog represents net sales that have not closed.

## Operating Results

*Companywide.* In the second quarter of 2020, home closing volume improved by 22.9% to 2,770 closings valued at \$1.0 billion compared to 2,253 closings valued at \$863.1 million in the second quarter of 2019. The increase in closings year-over-year was driven primarily by entering the quarter with a higher backlog as compared to prior year, a higher volume of orders in the current quarter as well as increased backlog conversion due to selling and closing more speculative inventory homes in the second quarter of 2020 compared to the prior year. The higher volume of spec sales and a notably higher orders pace year-over-year are due to the heightened demand in today's market for available, new and safe single-family homes at affordable price points as previously discussed. This customer demand is aligned with our focus on the entry level and first move-up buyers, as our entry-level communities offer only spec homes for sale, and in both our entry-level and first move-up communities we have achieved shorter construction cycle times. Home closing revenue increased by 20.0% over the second quarter of 2019 due entirely to the increase in closing volume as our average sales prices declined 2.8%, reflective of a higher percentage of lower-priced entry-level homes in our closing mix. Home order volume improved by 31.5% to 3,597 homes valued at \$1.3 billion in the second quarter of 2020 as compared to 2,735 homes valued at \$1.0 billion in the second quarter of 2019. The improvement in orders was due to a 42.5% increase in orders pace year-over-year to 15.1 homes ordered per average active community, up from 10.6 in the second quarter of 2019. We ended the quarter with 237 actively selling communities, a 6.7% decline from the prior year as communities experienced accelerated close-outs due to higher orders volume and timing of our delayed community openings due to COVID-19. Order cancellation rates were 15% and 14% for the first three and six months of 2020, as compared to 12% during both the three and six month periods in 2019.

For the six months ended June 30, 2020, home closing volume grew by 1,068 units, and home closing revenue improved by \$360.3 million on 5,086 closings valued at \$1.9 billion. Orders also increased by 1,434 units and \$449.4 million to 6,699 orders valued at \$2.5 billion for the six months ended June 30, 2020, 27.2% and 22.2% increases, respectively from prior year results. Similar to second quarter results, demand for our affordable entry-level homes drove the increase in orders, as we experienced a 39.5% higher orders pace than in 2019. We ended the quarter with 4,395 homes in backlog valued at \$1.6 billion, compared to 3,680 units valued at \$1.5 billion at June 30, 2019.

*West.* The West Region closed 858 homes and generated \$381.8 million in home closing revenue in the second quarter of 2020 compared to 690 homes and \$299.0 million in home closing revenue in the comparable 2019 period. The Region ended the second quarter of 2020 with 1,278 orders valued at \$526.5 million versus 1,009 orders valued at \$434.0 million in the second quarter of 2019, despite a slight decline in average active selling communities by 3.1%. The 24.3% and 26.7% improvements in closing and order volume, respectively, were driven by the higher year-over-year orders pace per community, as many of homes that were sold in the second quarter also closed in the second quarter of this year, a direct output of our strategy of focusing on entry-level and first move-up product that have shorter construction cycle times. The exceptionally strong demand in Arizona offset some delays in California, which had the most restrictive COVID-19 measures in our geographic footprint, although community count helped in California as well. In the West Region, approximately 90% of our communities target the first-time or first move-up buyers at June 30, 2020 and we believe the high demand in this Region was directly attributable to the product offerings and desirable locations we have designed for these buyers. The West Region ended the first quarter of 2020 with 1,540 homes in backlog valued at \$650.2 million, up from 1,168 units valued at \$524.9 million in 2019.

Year-to-date results in the West Region were similar to those of the second quarter. The number and value of homes closed versus prior year increased by 32.8%, while the average sales price was flat year over year with additional California volume in the mix. Orders for the Region improved 30.6% year-to-date which resulted in 30.3% higher order value. Orders pace improved by 35.6% despite the average number of actively selling communities declining by 3.8% in the Region for the six months ended June 30, 2020.

*Central.* In the second quarter of 2020, the Central Region, made up of our Texas markets, closed 914 homes and generated \$296.0 million in home closing revenue, up 11.1% and 2.1%, respectively, from prior year comparable period results of 823 homes and \$289.8 million of home closing revenue. Average sales prices in the Region declined 8.0% year-over-year resulting from our focus on the first-time and first move-up buyer. Orders grew by 46.9%, which, partially offset by a 3.0% lower average sales price, led to order value increasing by 42.5%. Order volume improved in the second quarter of 2020 due to a 58.1% increase in orders pace in the Region, more than offsetting the 7.0% decrease in average community count compared to the prior year period. The Region ended the second quarter of 2020 with 1,215 units ordered valued at \$392.5 million compared to 827 units valued at \$275.4 million in the prior year quarter. The fast absorption pace of our communities has resulted in us selling out of communities faster than we have been able to open replacement communities. We have responded to the entry-level demand in this Region with a strong transition to first-time buyer product offerings over the past several years. Over 90% of actively selling communities at June 30, 2020 were targeted toward the first time and first move-up buyers.

We also saw overall improvements in the Region for the six months ended June 30, 2020. Home closings and home closing revenue were up 23.6% and 14.6%, respectively, and orders and order value were up year-over-year by 34.0% and



26.5%, respectively. Orders pace increased by 55.4%, helping the Region end the quarter with 1,634 units in backlog, up 24.5% and backlog value of \$556.8 million, up 17.5%, compared to the prior year.

*East.* During the three months ended June 30, 2020, the East Region delivered 998 closings and \$353.8 million in home closing revenue compared to 740 closings and \$274.2 million in home closing revenue in the comparable prior year period, improvements of 34.9% and 29.0%, respectively. Orders and order value in the East Region improved by 22.8% and 11.0%, respectively, for the second quarter of 2020 with 1,104 units valued at \$371.4 million compared to 899 units valued at \$334.6 million in the prior year period. The improvement in orders is primarily due to a 36.3% increase in orders pace which more than offset the 10% decrease in average active communities.

The year-to-date results of the East Region were similar to those of the second quarter, with 23.7% and 20.1% improvements in home closing volume and revenue, respectively, compared to 2019 providing 1,687 closings and \$610.6 million in home closing revenue for the six month period ending June 30, 2020. The number and value of orders also improved by 17.0% and 8.6%, respectively, due to a 27.2% increase in orders pace for the six months ended June 30, 2020 compared to prior year. The East Region ended the quarter with 1,221 homes in backlog valued at \$441.5 million compared to 1,200 homes valued at \$478.1 million at June 30, 2019, a 1.8% increase in units with a value decline of 7.7% from the shift to more entry-level homes and lower average sales prices.

#### **Land Closing Revenue and Gross Loss**

From time to time, we may sell certain lots or land parcels to other homebuilders, developers or investors if we feel the sale will provide a greater economic benefit to us than continuing home construction or where we are looking to diversify our land positions in the specific geography. As a result of such sales, we recognized land closing revenue of \$1.5 million and \$1.6 million for the three months ending June 30, 2020 and 2019, respectively and losses of \$1.5 million and \$1.7 million for the second quarters of 2020 and 2019, respectively. Year to date land sales resulted in losses of \$1.1 million in 2020 and a \$1.4 million loss in the prior year. Land sales in 2020 primarily reflect the sale of land in communities that do not fit our current focus on entry-level and first move-up product offerings.

#### **Other Operating Information (dollars in thousands)**

|  | Three Months Ended June 30, |                                 |            |                                 | Six Months Ended June 30, |                                 |            |                                 |
|--|-----------------------------|---------------------------------|------------|---------------------------------|---------------------------|---------------------------------|------------|---------------------------------|
|  | 2020                        |                                 | 2019       |                                 | 2020                      |                                 | 2019       |                                 |
|  | Dollars                     | Percent of Home Closing Revenue | Dollars    | Percent of Home Closing Revenue | Dollars                   | Percent of Home Closing Revenue | Dollars    | Percent of Home Closing Revenue |
| <b>Home Closing Gross Profit<sup>(1)</sup></b> |                             |                                 |            |                                 |                           |                                 |            |                                 |
| <b>Total</b>                                   | \$ 220,696                  | 21.4 %                          | \$ 159,118 | 18.4 %                          | \$ 399,056                | 20.8 %                          | \$ 275,580 | 17.6 %                          |
| <b>West</b>                                    | \$ 80,166                   | 21.0 %                          | \$ 53,504  | 17.9 %                          | \$ 154,597                | 20.4 %                          | \$ 98,899  | 17.3 %                          |
| <b>Central</b>                                 | \$ 67,788                   | 22.9 %                          | \$ 57,617  | 19.9 %                          | \$ 121,979                | 22.1 %                          | \$ 91,980  | 19.1 %                          |
| <b>East</b>                                    | \$ 72,742                   | 20.6 %                          | \$ 47,997  | 17.5 %                          | \$ 122,480                | 20.1 %                          | \$ 84,701  | 16.7 %                          |

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

*Companywide.* Home closing gross margin for the second quarter of 2020 improved 300 basis points to 21.4% compared to 18.4% in the second quarter of 2019. The higher margin combined with higher revenue contributed to a \$61.6 million improvement in home closing gross profit to end the quarter with \$220.7 million compared to \$159.1 million in 2019. For the six months ended June 30, 2020, gross margin was up 320 basis points to 20.8% versus 17.6% for the same period in the prior year. Margins for the second quarter 2020 were negatively impacted by 30 basis points due to terminated land contract costs for exiting non-core communities, with a charge of \$3.3 million compared to \$0.5 million of such charges in the 2019 period. As expected with our shift to entry-level and first time move up product offerings, we have improved our backlog conversion and simplified our product which is less costly and more efficient to build all of which are contributing to higher gross margin. Our

higher volume also helped better leverage our fixed costs in gross margin and we also benefited in the quarter from some negotiated temporary cost concessions achieved due to COVID-19.

*West.* Home closing gross margin for the West Region improved by 310 basis points to 21.0% for the second quarter of 2020 versus 17.9% in the second quarter of 2019. For the six months ended June 30, 2020, home closing gross margin also improved by 310 basis points to 20.4% versus 17.3% for the same period in the prior year. Pricing power, particularly in Arizona, contributed significantly to the improved margins year over year, as demand has been very strong in our entry-level and first move-up communities. In addition, greater leverage of our overhead costs on higher revenue combined with construction efficiencies driven by our simplified product offerings and shorter construction cycle times have favorably impacted margins across the West Region.

*Central.* The Central Region continued to provide the highest home closing gross margin in the company at 22.9% for the second quarter of 2020, up 300 basis points from 19.9% in the prior year quarter. Construction efficiencies driven by our simplified product offerings and lower costs combined with higher closing volume have expanded our leverage of overhead costs to improve gross margin. For the six months ended June 30, 2020, gross margin was also up 300 basis points to 22.1% as compared to 19.1% for the same 2019 period.

*East.* Home closing gross margin in the East Region reflect our most notable improvements, up 310 basis points year-over-year to 20.6% in the second quarter of 2020 versus 17.5% for the comparable 2019 period. For the six months ended June 30, 2020, gross margin was up 340 basis points to 20.1% versus 16.7% for the same period in the prior year. The year-over-year improvement in gross margin for the three month period is the result of more efficient plan designs with shorter construction cycle times combined with greater leverage of overhead costs on higher closing volume as compared to the prior year period. We have fully transitioned to our updated product and plan designs in this Region whereas prior years included larger volumes of legacy product and plan designs that were less efficient and more costly to build.

**Financial Services Profit (in thousands)**

|                           | Three Months Ended June 30, |          | Six Months Ended June 30, |           |
|---------------------------|-----------------------------|----------|---------------------------|-----------|
|                           | 2020                        | 2019     | 2020                      | 2019      |
| Financial services profit | \$ 3,789                    | \$ 6,031 | \$ 6,627                  | \$ 10,733 |

Financial services profit represents the net profit of our financial services operations, including: (1) the operating profit generated by our wholly-owned title company, Carefree Title, (2) our portion of earnings from a mortgage joint venture and (3) to a lesser degree, the limited activity from our wholly owned insurance company, which is still in its infancy. Financial services profit declined \$2.2 million in the second quarter of 2020 to \$3.8 million versus \$6.0 million in 2019 and by \$4.1 million for the six months ended June 30, 2020 to \$6.6 million versus \$10.7 million for the same period in 2019. The lower financial services profit year-over-year both for the quarter and year to date results is due to a change in the structure of customer incentives offered by our mortgage joint venture. The profits associated with these incentives in the 2020 periods are captured as part of home closing revenue, whereas in the 2019 periods these incentives were recorded as financial services earnings. This change was effective in the fourth quarter of 2019.

**Selling, General and Administrative Expenses and Other Expenses (dollars in thousands)**

|  | Three Months Ended June 30, |             | Six Months Ended June 30, |              |
|--|-----------------------------|-------------|---------------------------|--------------|
|  | 2020                        | 2019        | 2020                      | 2019         |
| <b>Commissions and other sales costs</b>   |                             |             |                           |              |
| Dollars                                    | \$ (70,408)                 | \$ (60,125) | \$ (131,581)              | \$ (112,680) |
| Percent of home closing revenue            | 6.8 %                       | 7.0 %       | 6.8 %                     | 7.2 %        |
| <b>General and administrative expenses</b> |                             |             |                           |              |
| Dollars                                    | \$ (36,176)                 | \$ (34,779) | \$ (70,346)               | \$ (68,345)  |
| Percent of home closing revenue            | 3.5 %                       | 4.0 %       | 3.7 %                     | 4.4 %        |
| <b>Interest expense</b>                    |                             |             |                           |              |
| Dollars                                    | \$ (2,105)                  | \$ (3,197)  | \$ (2,121)                | \$ (7,282)   |
| <b>Other income, net</b>                   |                             |             |                           |              |
| Dollars                                    | \$ 1,514                    | \$ 2,368    | \$ 2,125                  | \$ 3,414     |
| <b>Provision for income taxes</b>          |                             |             |                           |              |
| Dollars                                    | \$ (25,184)                 | \$ (16,846) | \$ (40,865)               | \$ (23,804)  |

**Commissions and Other Sales Costs.** Commissions and other sales costs are comprised of internal and external commissions and related sales and marketing expenses such as advertising and sales office costs. These costs were \$70.4 million for the three months ended June 30, 2020, \$10.3 million higher than the prior year comparable period, although as a percentage of home closing revenue, decreased 20 basis points to 6.8% for the second quarter of 2020 compared to prior year period. For the six months ended June 30, 2020, commissions and other sales costs decreased 40 basis points, but were \$18.9 million higher than the corresponding prior year period. The increase in commissions and other sales costs in dollars compared to prior year reflects higher home closing revenue as well as certain increased commission incentives that were temporarily offered during COVID-19 sales events. The decline as a percentage of home closing revenue is due to the combination of leverage from higher closing volume and the more efficient sales and marketing structure of our entry-level and first-time move-up communities.

**General and Administrative Expenses.** General and administrative expenses represent corporate and divisional overhead expenses such as salaries and bonuses, occupancy, insurance and travel expenses. For the three months ended June 30, 2020, general and administrative expenses were \$36.2 million, \$1.4 million higher than \$34.8 million for the 2019 period, although as a percentage of home closing revenue, these expenses decreased by 50 basis points. For the six months ended June 30, 2020 and 2019, general and administrative expenses were \$70.3 million or 3.7% of home closing revenue, as compared to \$68.3 million or 4.4% of home closing revenue in 2019. The increased leveraging of costs against higher revenue and the pull-back on certain corporate expenditures due to COVID-19 aided in the improvement. We continually strive to optimize overhead leverage through cost control efforts and expect some long-term improvements to result from the technological enhancements achieved during COVID-19.

**Interest Expense.** Interest expense is comprised of interest incurred, but not capitalized, on our senior notes, other borrowings, and our amended and restated unsecured revolving credit facility ("Credit Facility"). Interest expense for the three months ended June 30, 2020 totaled \$2.1 million compared to \$3.2 million in the corresponding prior year period. We experienced similar decreases in year to date interest expense with \$2.1 million in 2020 compared to \$7.3 million in the prior year. This year-over-year decrease is the result of less interest charges incurred resulting from the early tender of \$300.0 million Senior Notes that were due in the first quarter of 2020, which we redeemed in the fourth quarter of 2019 partially offset by interest charges from our Credit Facility which had \$500.0 million outstanding for the first half of second quarter 2020.

**Other Income, Net.** Other income, net, primarily consists of (i) sublease income, (ii) interest earned on our cash and cash equivalents, (iii) payments and awards related to legal settlements and (iv) our portion of pre-tax income or loss from non-financial services joint ventures. For the three months ended June 30, 2020, Other income, net was \$1.5 million, compared to \$2.4 million in the 2019 comparable period. For the six months ended June 30, 2020, Other income, net was \$2.1 million compared to \$3.4 million in the 2019 period.

**Income Taxes.** Our effective tax rate was 21.7% and 24.9% for the three months ended June 30, 2020 and 2019, respectively, and 20.2% and 23.8% for the six months ended June 30, 2020 and 2019, respectively. The reduced rate at June 30, 2020, is due to availability of the IRC §45L energy efficient homes credits from the enactment of the Taxpayer Certainty and Disaster Tax Relief Act on December 20, 2019, which extended the energy credit tax benefit to 2020. We also recorded a larger amount of tax benefit from equity-based compensation for stock awards that vested in the six months ended June 30, 2020 as compared to the same period in 2019.

#### **Liquidity and Capital Resources**

##### *Overview*

Our principal uses of capital in the first six months of 2020 were acquisition and development of new and strategic lot positions, home construction, operating expenses, the payment of routine liabilities, and repurchases of our common stock. We used funds generated by operations to meet our short-term working capital requirements. We remain focused long-term on acquiring desirable land positions, generating increasing margins in our homebuilding operations and maintaining a strong balance sheet to support future needs and growth, while leveraging land options where possible.

##### *Operating Cash Flow Activities*

During the six months ended June 30, 2020, net cash provided by operating activities totaled \$237.4 million versus \$113.3 million during the six months ended June 30, 2019. Operating cash flows in 2020 and 2019 benefited from cash generated by net earnings of \$161.8 million and \$76.2 million, respectively. For the six months ended June 30, 2020, operating cash flows also benefited from an increase in accounts payable and accrued liabilities of \$34.8 million due to timing of payments for routine transactions.

### *Investing Cash Flow Activities*

During the six months ended June 30, 2020, net cash used in investing activities totaled \$9.1 million as compared to \$5.8 million for the same period in 2019. Cash used in investing activities in the first six months of 2020 and 2019 is mainly attributable to the purchases of property and equipment of \$10.3 million and \$12.1 million for the 2020 and 2019 periods, respectively.

### *Financing Cash Flow Activities*

During the six months ended June 30, 2020, net cash used in financing activities totaled \$63.2 million as compared to \$11.6 million for the same period in 2019. The activity in 2020 is primarily from \$60.8 million in share repurchases. Similarly in 2019, the net cash used in financing activities in 2019 primarily reflects repurchases of our common stock of \$9.0 million.

### *Overview of Cash Management*

Cash flows for each of our communities depend on their stage of the development cycle and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, zoning plat and other approvals, community and lot development, and construction of model homes, roads, utilities, landscape and other amenities. Because these costs are a component of our inventory and not recognized in our income statement until a home closes, we incur significant cash outlays prior to recognition of earnings. In the later stages of a community, cash inflows may significantly exceed earnings reported for financial statement purposes, as the cash outflow associated with home and land construction was previously incurred. From a liquidity standpoint, with the exception of a limited pause due to COVID-19 uncertainties in late first quarter and early second quarter, we are actively acquiring and developing lots in our markets to grow our lot supply and active community count.

During the six months ended June 30, 2020, we closed 5,086 homes, purchased about 5,600 lots for \$240.6 million, spent \$219.4 million on land development and started construction on approximately 5,600 homes. We primarily purchase undeveloped land or partially-finished lots requiring development dollars in order to bring them to a finished status ready for home construction. We exercise strict controls and believe we have a prudent strategy for Company-wide cash management, including those related to cash outlays for land and inventory acquisition and development. We ended the second quarter of 2020 with \$484.6 million of cash and cash equivalents, an increase of \$165.2 million from December 31, 2019. During the six months ended June 30, 2020, we had gross borrowings and repayments on our Credit Facility of \$500 million, each, and had no outstanding borrowings on our Credit Facility at June 30, 2020 and December 31, 2019.

Between our available cash and liquidity in our Credit Facility, we believe that we currently have sufficient liquidity to manage through both our strategic growth goals and the uncertainties of the current COVID-19 environment. Nevertheless, we may seek additional capital to strengthen our liquidity position. Such additional capital may be in the form of equity or debt financing and may be from a variety of sources. There can be no assurances that we would be able to obtain such additional capital on terms acceptable to us, if at all, and such additional equity or debt financing could dilute the interests of our existing stockholders or increase our interest costs. We may also from time to time engage in opportunistic repurchases of our common stock in open market or privately-negotiated transactions as well as repurchase or redeem our outstanding senior notes although we do not currently intend to do so.

On February 13, 2019, the Company's Board of Directors authorized a new stock repurchase program, authorizing the expenditure of up to \$100.0 million to repurchase shares of our common stock. There is no stated expiration for this program. The repurchases of the Company's shares may be made in the open market, in privately negotiated transactions, or otherwise. The timing and amount of repurchases, if any, will be determined by the Company's management at its discretion and be based on a variety of factors such as market price of the Company's common stock, corporate and contractual requirements, prevailing market and economic conditions and legal requirements. The share repurchase program may be modified, suspended or discontinued at any time. The Company intends to retire any shares repurchased. In the six months ended June 30, 2020, we purchased and retired 1,000,000 shares of our common stock at an aggregate purchase price of \$60.8 million and as of June 30, 2020, \$23.2 million remained available under this program.

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

|                                    | As of         |                   |
|------------------------------------|---------------|-------------------|
|                                    | June 30, 2020 | December 31, 2019 |
| Notes payable and other borrowings | \$ 1,017,437  | \$ 1,018,981      |
| Stockholders' equity               | 2,084,601     | 1,973,990         |
| Total capital                      | \$ 3,102,038  | \$ 2,992,971      |
| Debt-to-capital <sup>(1)</sup>     | 32.8 %        | 34.0 %            |
| Notes payable and other borrowings | \$ 1,017,437  | \$ 1,018,981      |
| Less: cash and cash equivalents    | (484,622)     | (319,466)         |
| Net debt                           | 532,815       | 699,515           |
| Stockholders' equity               | 2,084,601     | 1,973,990         |
| Total net capital                  | \$ 2,617,416  | \$ 2,673,505      |
| Net debt-to-capital <sup>(2)</sup> | 20.4 %        | 26.2 %            |

- (1) Debt-to-capital is computed as senior notes, net and loans payable and other borrowings divided by the aggregate of total senior notes, net and loans payable and other borrowings and stockholders' equity.
- (2) Net debt-to-capital is computed as net debt divided by the aggregate of net debt and stockholders' equity. Net debt is comprised of total senior notes, net and loans payable and other borrowings, less cash and cash equivalents. The most directly comparable GAAP financial measure is the ratio of debt-to-capital. We believe the ratio of net debt-to-capital is a relevant financial measure for investors to understand the leverage employed in our operations and as an indicator of our ability to obtain financing.

We have never declared cash dividends, nor do we intend to declare cash dividends in the foreseeable future. We plan to utilize our cash to manage our liquidity and to grow community count. Future cash dividends, if any, will depend upon economic and financial conditions, results of operations, capital requirements, statutory requirements, compliance with certain restrictive debt covenants, as well as other factors considered relevant by our Board of Directors

#### ***Credit Facility Covenants***

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 \$1.1 billion (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 in the credit facility) of at least 1.50 to 1.00 or (ii) liquidity (as defined in the credit facility) of an amount not less than our consolidated interest incurred during the trailing 12 months. We were in compliance with all Credit Facility covenants as of June 30, 2020. Our actual financial covenant calculations as of June 30, 2020 are reflected in the table below.

| Financial Covenant (dollars in thousands):           | Covenant Requirement | Actual      |
|--|----------------------|-------------|
| Minimum Tangible Net Worth                           | >\$1,407,911         | \$2,046,324 |
| Leverage Ratio                                       | < 60%                | 17.6%       |
| Interest Coverage Ratio <sup>(1)</sup>               | > 1.50               | 7.46        |
| Minimum Liquidity <sup>(1)</sup>                     | >\$75,033            | \$1,123,692 |
| Investments other than defined permitted investments | <\$613,897           | \$3,646     |

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

### ***Off-Balance Sheet Arrangements***

Reference is made to Notes 1, 3, 4 and 15 in the accompanying notes to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q, which are incorporated by reference herein. These Notes discuss our off-balance sheet arrangements with respect to land acquisition contracts and option agreements, and land development joint ventures, including the nature and amounts of financial obligations relating to these items. In addition, these Notes discuss the nature and amounts of certain types of commitments that arise in connection with the ordinary course of our land development and homebuilding operations, including commitments of land development joint ventures for which we might be obligated.

### ***Seasonality***

Historically, we have experienced seasonal variations in our quarterly operating results and capital requirements. We typically take orders for more homes in the first half of the fiscal year than in the second half, which creates additional working capital requirements in the second and third quarters to build our inventories to satisfy seasonally higher deliveries in the second half of the year.

### ***Recent Issued Accounting Pronouncements***

See Note 1 to our unaudited consolidated financial statements included in this report for discussion of recently issued accounting standards.

## **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our fixed rate debt is made up primarily of \$1.0 billion in principal of our senior notes. Except in limited circumstances, we do not have an obligation to prepay our fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value should not have a significant impact on our fixed rate borrowings until we would be required to repay such debt and access the capital markets to issue new debt. Our Credit Facility is subject to interest rate changes as the borrowing rates are based on LIBOR or Prime (see Note 5 in the accompanying notes to the unaudited consolidated financial statements included in this Form 10-Q).

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

## **Item 4. Controls and Procedures**

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

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

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

We are involved in various routine legal and regulatory proceedings, including, without limitation, warranty claims and litigation and arbitration proceedings alleging construction defects. In general, the proceedings are incidental to our business, and most exposure is subject to and should be covered by warranty and indemnity obligations of our consultants and subcontractors. Additionally, some such claims are also covered by insurance. We have only limited legal reserves not related to warranty or construction defect matters. See Note 1 and Note 15 of the accompanying unaudited consolidated financial statements for additional information related to construction defect and warranty related reserves. With respect to the majority of pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. Historically, most disputes regarding warranty claims are resolved prior to litigation.

We believe there are no pending legal or warranty matters that have not been sufficiently reserved that could have a material adverse impact upon our unaudited consolidated financial condition, results of operations or cash flows.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item IA "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may eventually prove to materially adversely affect our business, financial condition and/or operating results. There has been no material change in our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 except as described below.

***Our business could be materially disrupted by an epidemic or pandemic (such as the present COVID-19 pandemic), or fear of such an event, and the measures that federal, state and local governments and/or health authorities implement to address it.***

Demand for our homes is dependent on a variety of macroeconomic factors, such as employment levels, interest rates, changes in stock market valuations, consumer confidence, housing demand, availability of financing for home buyers, availability and prices of new homes compared to existing inventory, and demographic trends. These factors can be significantly adversely affected by a variety of factors beyond our control. The COVID-19 pandemic and the measures undertaken by governmental authorities to address it, initially disrupted or prevented us from operating our business in the ordinary course. Future disruptions and governmental actions combined with any associated economic and/or social instability or distress, can be expected to have an adverse impact on our results of operations, financial condition and cash flows.

On March 11, 2020, the World Health Organization characterized the outbreak of COVID-19 as a global pandemic and recommended containment and mitigation measures. On March 13, 2020, the United States declared a national emergency concerning the outbreak, and since that date most states and municipalities have declared public health emergencies. As a result, there have been extraordinary and wide-ranging actions taken by federal, state and local public health and governmental authorities to contain and combat the outbreak and spread of COVID-19 across the United States, including quarantines and "shelter-in-place" ("SIP") orders which substantially restricted daily activities. Although many have since been at least partially lifted, many state and local governments may pause their efforts to re-open and may re-implement various closure and restrictive measures. During the initial SIP orders, in nearly all of the markets in which we build homes, construction operations were deemed "essential" by the local governments and we had been able to maintain our operations.

While we are currently experiencing exceptionally high traffic and orders pace, we are uncertain of the potential full magnitude or duration of the business and economic impacts from COVID-19, which could include:

- declining orders and declining closing volume and associated revenues;
- declining sales prices thereby reducing home closing margin, which if severe and sustained could result in potential real estate impairments;
- tightening of mortgage lending thereby reducing the number of potential homebuyers;

- disruptions in our supply chain which would delay construction and completion of our homes;
- intensifying public health efforts to such an extent that we will not be able to conduct any business operations in certain of our served markets or at all for an indefinite period;
- a change in the classification of our business as “essential” in one or more of our markets that would preclude us from continuing our development and construction activities;
- inefficiencies and increased costs in our development, construction and administrative processes due to social distancing and personal protective equipment requirements;
- limitations on employee resources and availability, including due to sickness, school closures, government restrictions or the desire of employees to avoid contact with large groups of people;
- should any key employees become ill with COVID-19 and unable to work, the attention of management could be diverted, and
- significant volatility in financial markets and a sharp decrease in the value of equity securities, including our common stock.

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

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

***Issuer Purchases of Equity Securities***

On February 13, 2019, the Company's Board of Directors authorized a new stock repurchase program, authorizing the expenditure of up to \$100.0 million to repurchase shares of our common stock. There is no stated expiration for this program. The repurchases of the Company's shares may be made in the open market, in privately negotiated transactions, or otherwise. The timing and amount of repurchases, if any, will be determined by the Company's management at its discretion and be based on a variety of factors such as the market price of the Company's common stock, corporate and contractual requirements, prevailing market and economic conditions and legal requirements. The share repurchase program may be modified, suspended or discontinued at any time. As of June 30, 2020 there was \$23.2 million available under this program to repurchase shares. There were no share repurchases during the three months ended June 30, 2020.



**Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description</b>   | <b>Page or Method of Filing</b>  |
|-----------------------|--|--|
| 3.1                   | Restated Articles of Incorporation of Meritage Homes Corporation   | Incorporated by reference to Exhibit 3 of Form 8-K dated June 20, 2002   |
| 3.1.1                 | Amendment to Articles of Incorporation of Meritage Homes Corporation   | Incorporated by reference to Exhibit 3.1 of Form 8-K dated September 15, 2004  |
| 3.1.2                 | Amendment to Articles of Incorporation of Meritage Homes Corporation   | Incorporated by reference to Appendix A of the Proxy Statement for the Registrant's 2006 Annual Meeting of Stockholders                        |
| 3.1.3                 | Amendment to Articles of Incorporation of Meritage Homes Corporation   | Incorporated by reference to Appendix B of Proxy Statement for the Registrant's 2008 Annual Meeting of Stockholders                            |
| 3.1.4                 | Amendment to Articles of Incorporation of Meritage Homes Corporation   | Incorporated by reference to Appendix A of the Definitive Proxy Statement filed with the Securities and Exchange Commission on January 9, 2009 |
| 3.2                   | Amended and Restated Bylaws of Meritage Homes Corporation  | Incorporated by reference to Exhibit 3.1 of Form 8-K dated May 10, 2017  |
| 31.1                  | Rule 13a-14(a)/15d-14(a) Certification of Steven J. Hilton, Chief Executive Officer  | Filed herewith   |
| 31.2                  | Rule 13a-14(a)/15d-14(a) Certification of Hilla Sferruzza, Chief Financial Officer   | Filed herewith   |
| 32.1                  | Section 1350 Certification of Chief Executive Officer and Chief Financial Officer  | Furnished herewith   |
| 101.0                 | The following financial statements from the Meritage Homes Corporation Quarterly Report on Form 10-Q as of and for the three months and six months ended June 30, 2020 were formatted in Inline XBRL (Extensible Business Reporting Language); (i) Unaudited Consolidated Balance Sheets, (ii) Unaudited Consolidated Income Statements, (iii) Unaudited Consolidated Statements of Cash Flows, and (iv) Notes to Unaudited Consolidated Financial Statements. |  |
| 104.0                 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL.   |  |

## SIGNATURES

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

MERITAGE HOMES CORPORATION,  
a Maryland corporation

By: /s/ HILLA SFERRUZZA

Hilla Sferruzza  
*Chief Financial Officer and Chief Accounting Officer*  
*(Duly Authorized Officer and Principal Financial Officer)*

Date: July 27, 2020

## INDEX OF EXHIBITS

- 3.1 [Restated Articles of Incorporation of Meritage Homes Corporation](#)
- 3.1.1 [Amendment to Articles of Incorporation of Meritage Homes Corporation](#)
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- 104.0 The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL.

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Steven J. Hilton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meritage Homes Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2020

/s/ Steven J. Hilton

Steven J. Hilton  
Chief Executive Officer  
(Principal Executive Officer)

**RULE 13a-14(a)/15d-14(a) CERTIFICATION**

I, Hilla Sferruzza, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Meritage Homes Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 27, 2020

/s/ Hilla Sferruzza

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Hilla Sferruzza  
Executive Vice President and Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Meritage Homes Corporation (the "Company") for the period ending June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, the undersigned, certify, to the best of our knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

MERITAGE HOMES CORPORATION,  
a Maryland Corporation

By: /s/ Steven J. Hilton

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Steven J. Hilton  
*Chief Executive Officer*  
*(Principal Executive Officer)*

July 27, 2020

By: /s/ Hilla Sferruzza

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Hilla Sferruzza  
*Executive Vice President and Chief Financial Officer (Principal Financial Officer)*

July 27, 2020