

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, 2021

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 Data 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 26, 2021: 37,646,856

MERITAGE HOMES CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2021
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<u>Unaudited Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020</u>	<u>3</u>
<u>Unaudited Consolidated Income Statements for the Three and Six Months Ended June 30, 2021 and 2020</u>	<u>4</u>
<u>Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2021 and 2020</u>	<u>5</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>6</u>

<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
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<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>39</u>
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<u>Item 4. Controls and Procedures</u>	<u>39</u>
---	------------------

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>40</u>
---	------------------

<u>Item 1A. Risk Factors</u>	<u>40</u>
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<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>40</u>
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Items 3-5. Not Applicable

<u>Item 6. Exhibits</u>	<u>41</u>
--------------------------------	------------------

<u>SIGNATURES</u>	<u>42</u>
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<u>INDEX OF EXHIBITS</u>	<u>42</u>
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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, 2021	December 31, 2020
Assets		
Cash and cash equivalents	\$ 684,374	\$ 745,621
Other receivables	131,104	98,573
Real estate	3,251,787	2,778,039
Deposits on real estate under option or contract	74,397	59,534
Investments in unconsolidated entities	3,943	4,350
Property and equipment, net	36,224	38,933
Deferred tax assets, net	33,502	36,040
Prepays, other assets and goodwill	106,222	103,308
Total assets	<u>\$ 4,321,553</u>	<u>\$ 3,864,398</u>
Liabilities		
Accounts payable	\$ 215,221	\$ 175,250
Accrued liabilities	282,762	296,121
Home sale deposits	33,958	25,074
Loans payable and other borrowings	19,534	23,094
Senior notes, net	1,141,934	996,991
Total liabilities	<u>1,693,409</u>	<u>1,516,530</u>
Stockholders' Equity		
Preferred stock, par value \$0.01. Authorized 10,000,000 shares; none issued and outstanding at June 30, 2021 and December 31, 2020	—	—
Common stock, par value \$0.01. Authorized 125,000,000 shares; 37,646,856 and 37,512,127 shares issued and outstanding at June 30, 2021 and December 31, 2020, respectively	376	375
Additional paid-in capital	436,805	455,762
Retained earnings	2,190,963	1,891,731
Total stockholders' equity	<u>2,628,144</u>	<u>2,347,868</u>
Total liabilities and stockholders' equity	<u>\$ 4,321,553</u>	<u>\$ 3,864,398</u>

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,	
	2021	2020	2021	2020
Homebuilding:				
Home closing revenue	\$ 1,264,643	\$ 1,031,591	\$ 2,344,625	\$ 1,922,008
Land closing revenue	12,956	1,488	16,755	12,084
Total closing revenue	1,277,599	1,033,079	2,361,380	1,934,092
Cost of home closings	(919,342)	(810,895)	(1,732,669)	(1,522,952)
Cost of land closings	(13,288)	(2,936)	(16,540)	(13,149)
Total cost of closings	(932,630)	(813,831)	(1,749,209)	(1,536,101)
Home closing gross profit	345,301	220,696	611,956	399,056
Land closing gross (loss)/profit	(332)	(1,448)	215	(1,065)
Total closing gross profit	344,969	219,248	612,171	397,991
Financial Services:				
Revenue	5,665	4,478	10,416	8,390
Expense	(2,367)	(1,758)	(4,538)	(3,493)
Earnings from financial services unconsolidated entities and other, net	1,317	1,069	2,497	1,730
Financial services profit	4,615	3,789	8,375	6,627
Commissions and other sales costs	(73,889)	(70,408)	(141,633)	(131,581)
General and administrative expenses	(43,156)	(36,176)	(81,105)	(70,346)
Interest expense	(77)	(2,105)	(167)	(2,121)
Other income, net	1,377	1,514	2,175	2,125
Loss on early extinguishment of debt	(18,188)	—	(18,188)	—
Earnings before income taxes	215,651	115,862	381,628	202,695
Provision for income taxes	(48,262)	(25,184)	(82,396)	(40,865)
Net earnings	\$ 167,389	\$ 90,678	\$ 299,232	\$ 161,830
Earnings per common share:				
Basic	\$ 4.43	\$ 2.41	\$ 7.93	\$ 4.28
Diluted	\$ 4.36	\$ 2.38	\$ 7.80	\$ 4.20
Weighted average number of shares:				
Basic	37,818	37,599	37,731	37,842
Diluted	38,377	38,169	38,357	38,512

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,	
	2021	2020
Cash flows from operating activities:		
Net earnings	\$ 299,232	\$ 161,830
Adjustments to reconcile net earnings to net cash (used in)/provided by operating activities:		
Depreciation and amortization	13,414	14,551
Stock-based compensation	8,590	9,594
Loss on early extinguishment of debt	18,188	—
Equity in earnings from unconsolidated entities	(1,807)	(1,691)
Distributions of earnings from unconsolidated entities	2,215	1,491
Other	2,266	2,548
Changes in assets and liabilities:		
(Increase)/decrease in real estate	(469,733)	9,655
(Increase)/decrease in deposits on real estate under option or contract	(14,863)	2,225
(Increase)/decrease in other receivables, prepaids and other assets	(36,390)	3,469
Increase in accounts payable and accrued liabilities	26,532	34,772
Increase/(decrease) in home sale deposits	8,884	(999)
Net cash (used in)/provided by operating activities	<u>(143,472)</u>	<u>237,445</u>
Cash flows from investing activities:		
Investments in unconsolidated entities	(1)	(3)
Distributions of capital from unconsolidated entities	—	1,000
Purchases of property and equipment	(10,970)	(10,343)
Proceeds from sales of property and equipment	292	259
Maturities/sales of investments and securities	2,697	632
Payments to purchase investments and securities	(2,697)	(632)
Net cash used in investing activities	<u>(10,679)</u>	<u>(9,087)</u>
Cash flows from financing activities:		
Repayment of loans payable and other borrowings	(5,758)	(2,389)
Repayment of senior notes	(317,690)	—
Proceeds from issuance of senior notes	450,000	—
Payment of debt issuance costs	(6,102)	—
Repurchase of shares	(27,546)	(60,813)
Net cash provided by/(used in) financing activities	<u>92,904</u>	<u>(63,202)</u>
Net (decrease)/increase in cash and cash equivalents	(61,247)	165,156
Cash and cash equivalents, beginning of period	745,621	319,466
Cash and cash equivalents, end of period	<u>\$ 684,374</u>	<u>\$ 484,622</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 for the entry-level 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 financial services reporting segment. In this segment, we offer title and escrow, mortgage, and insurance services. Carefree Title Agency, Inc. ("Carefree Title"), our wholly-owned title company, provides title insurance and closing/settlement services to our homebuyers. Managing our own title operations allows us greater control over the entire escrow and closing cycles in addition to generating additional revenue. Meritage Homes Insurance Agency, Inc. ("Meritage Insurance"), our wholly-owned insurance broker, works in collaboration with insurance companies nationwide to offer homeowners insurance and other insurance products to our homebuyers. Our financial services operations also provide mortgage services to our homebuyers through an unconsolidated joint venture.

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 merged with Monterey Homes in 1996, at which time our name was changed to Monterey Homes Corporation and later ultimately to Meritage Homes Corporation. Since that time, we have engaged in homebuilding and related activities and ceased to operate as a real estate investment trust. Meritage Homes Corporation operates as a holding company and has no independent assets or operations. Its homebuilding construction, development and sales activities are conducted through its subsidiaries. Our homebuilding activities are conducted under the name of Meritage Homes in each of our homebuilding markets. At June 30, 2021, we were actively selling homes in 226 communities, with base prices ranging from approximately \$29,000 to \$869,000.

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 audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020. 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 \$77.0 million and \$61.3 million are included in cash and cash equivalents at June 30, 2021 and December 31, 2020, respectively.

Real Estate. Real estate is stated at cost unless the community or land is determined to be impaired, at which point the inventory is written down to fair value as required by 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 sales.

We rely on certain estimates to determine our construction and land development costs. Construction and land costs are comprised of direct and allocated costs, including estimated future costs. In determining these costs, we compile project budgets that are based on a variety of assumptions, including future construction schedules and costs to be incurred. Actual results can differ from budgeted amounts for various reasons, including construction and weather delays, labor or material shortages, slower absorptions, 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 significantly shorter.

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

Deposits. Deposits paid related to land option and purchase contracts are recorded and classified as Deposits on real estate under option or contract until the related land is purchased. Deposits are reclassified as a component of real estate inventory at the time the deposit is used to offset the acquisition price of the lots based on the terms of the underlying agreements. To the extent they are non-refundable, deposits are charged to expense if the land acquisition is terminated or no longer considered probable. Since our acquisition contracts typically do not require specific performance, we do not consider such contracts to be contractual obligations to purchase the land and our total exposure under such contracts is limited to the loss of any nonrefundable deposits and any ancillary capitalized costs. Our Deposits on real estate under option or contract were \$74.4 million and \$59.5 million as of June 30, 2021 and December 31, 2020, 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. ASC 350 states that an entity may assess qualitative factors 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, labor costs, etc., 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, a two-step impairment test 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 unaudited consolidated balance sheets as right-of-use ("ROU") assets and lease liabilities. ROU assets are classified within Prepaids, other assets and goodwill on our unaudited consolidated balance sheets, while lease liabilities are classified within Accrued liabilities on our unaudited consolidated balance sheets.

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

	As of	
	June 30, 2021	December 31, 2020
ROU assets	\$ 18,546	\$ 21,624
Lease liabilities	24,439	28,254

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, optimizing deal structure for the impacted parties 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 provide surety bonds or letters of credit in support of our obligations relating to the development of our projects and other corporate purposes in lieu of cash deposits. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. Bonds are generally not wholly released until all development activities under the bond are complete. In the event a bond or letter of credit is drawn upon, we would be obligated to reimburse the issuer for any amounts advanced under the bond 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, 2021		December 31, 2020	
	Outstanding	Estimated work remaining to complete	Outstanding	Estimated work remaining to complete
Sureties:				
Sureties related to owned projects and lots under contract	\$ 612,942	\$ 326,213	\$ 478,788	\$ 216,708
Total Sureties	\$ 612,942	\$ 326,213	\$ 478,788	\$ 216,708
Letters of Credit ("LOCs"):				
LOCs for land development	70,745	N/A	93,661	N/A
LOCs for general corporate operations	3,375	N/A	3,750	N/A
Total LOCs	\$ 74,120	N/A	\$ 97,411	N/A

Accrued Liabilities. Accrued liabilities at June 30, 2021 and December 31, 2020 consisted of the following (in thousands):

	As of	
	June 30, 2021	December 31, 2020
Accruals related to real estate development and construction activities	\$ 106,766	\$ 92,701
Payroll and other benefits	68,150	88,337
Accrued interest	7,280	8,457
Accrued taxes	29,695	34,373
Warranty reserves	25,065	23,743
Lease liabilities	24,439	28,254
Other accruals	21,367	20,256
Total	\$ 282,762	\$ 296,121

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 our 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, 2021 or 2020. Included in the warranty reserve balances at June 30, 2021 and December 31, 2020 reflected in the table below are case-specific reserves for a warranty matter related to alleged stucco defects in certain Florida homes we constructed between 2006 and 2016 and water drainage issues in a single community in Florida. See Note 15 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,	
	2021	2020	2021	2020
Balance, beginning of period	\$ 23,767	\$ 22,090	\$ 23,743	\$ 22,015
Additions to reserve from new home deliveries	4,514	4,218	8,324	8,028
Warranty claims	(3,216)	(4,730)	(7,002)	(8,465)
Adjustments to pre-existing reserves	—	—	—	—
Balance, end of period	\$ 25,065	\$ 21,578	\$ 25,065	\$ 21,578

Warranty reserves are included in Accrued liabilities on the accompanying unaudited consolidated balance sheets, and additions and adjustments to the reserves are included in Cost of home closings within the accompanying unaudited consolidated income statements. These reserves are intended to cover costs associated with our contractual and statutory warranty obligations, which include, among other items, claims involving defective workmanship and materials, as discussed previously. We believe that our total reserves, coupled with our contractual relationships and rights with our trades and the insurance we and our trades 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 obligations. The performance obligations 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 the associated 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 future insurance policy renewal commissions as our performance obligations are satisfied upon issuance of the initial policy with a third party broker. The related contract assets for these estimated future renewal commissions are not material at June 30, 2021 and December 31, 2020. Our three sources of revenue are disaggregated by type in the accompanying unaudited consolidated income statements.

Recent Accounting Pronouncements.

In December 2019, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2019-12 *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplifies the accounting for income taxes by eliminating certain exceptions within Accounting Standards Codification Topic 740, Income Taxes, and clarifying other areas of existing guidance. ASU 2019-12 was effective for us on January 1, 2021, and the adoption did not have a material impact on our financial statements or financial statement disclosures.

NOTE 2 — REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

	As of	
	June 30, 2021	December 31, 2020
Homes under contract under construction ⁽¹⁾	\$ 1,069,511	\$ 873,365
Unsold homes, completed and under construction ⁽¹⁾	353,047	357,861
Model homes ⁽¹⁾	73,846	82,502
Finished home sites and home sites under development ^{(2) (3)}	1,755,383	1,464,311
Total	\$ 3,251,787	\$ 2,778,039

- (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 represents 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.
- (3) Includes land held for sale of \$29.9 million and \$72.7 million as of June 30, 2021 and December 31, 2020, respectively.

Subject to sufficient qualifying assets, we capitalize our development period interest costs incurred to applicable qualifying assets 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,	
	2021	2020	2021	2020
Capitalized interest, beginning of period	\$ 57,540	\$ 78,162	\$ 58,940	\$ 82,014
Interest incurred	16,321	17,550	32,413	34,085
Interest expensed	(77)	(2,105)	(167)	(2,121)
Interest amortized to cost of home and land closings	(17,074)	(20,725)	(34,476)	(41,096)
Capitalized interest, end of period	\$ 56,710	\$ 72,882	\$ 56,710	\$ 72,882

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. In accordance with ASC 810, *Consolidation*, we evaluate all purchase and option agreements for land to determine whether they are a variable interest entity ("VIE"), and if so, whether we are the primary beneficiary. Although we do not have legal title to the underlying land, if we are the primary beneficiary we are required to consolidate the VIE in our financial statements and reflect such assets and liabilities as Real estate not owned. As a result of our analyses, we determined that as of June 30, 2021 and December 31, 2020, we were not the primary beneficiary of any VIEs from which we have acquired rights to land or lots under option contracts.

The table below presents a summary of our lots under option at June 30, 2021 (dollars in thousands):

	Projected Number of Lots	Purchase Price	Option/ Earnest Money Deposits—Cash
Purchase and option contracts recorded on balance sheet as Real estate not owned	—	\$ —	\$ —
Option contracts — non-refundable deposits, committed (1)	8,901	469,798	38,094
Purchase contracts — non-refundable deposits, committed (1)	11,871	359,331	28,600
Purchase and option contracts — refundable deposits, committed	2,650	89,326	886
Total committed	23,422	918,455	67,580
Purchase and option contracts — refundable deposits, uncommitted (2)	27,311	733,026	6,817
Total lots under contract or option	50,733	\$ 1,651,481	\$ 74,397
Total purchase and option contracts not recorded on balance sheet(3)	50,733	\$ 1,651,481	\$ 74,397

(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 unaudited consolidated balance sheets 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 sheets in Deposits on real estate under option or contract as of June 30, 2021.

Generally, our options to purchase lots remain effective so long as we purchase a pre-established minimum number of lots each month or quarter, as determined by the respective agreement. Although the pre-established number is typically structured to approximate our expected rate of home construction starts, during a weakened homebuilding market, we may purchase lots at an absorption level that exceeds our sales and home starts pace needed to meet the pre-established minimum number of lots or restructure our original contract to terms that more accurately reflect our revised orders pace expectations. During a strong homebuilding market, we may accelerate our pre-established minimum purchases if allowed by the contract.

NOTE 4 - INVESTMENTS IN UNCONSOLIDATED ENTITIES

We may enter into joint ventures as a means of accessing larger parcels of land, expanding our market opportunities, managing our risk profile, optimizing deal structure for the impacted parties and leveraging our capital base. While purchasing land through a joint venture can be beneficial, currently we do not view joint ventures as critical to the success of our homebuilding operations. 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, 2021, we had one active equity-method land joint venture with limited operations.

As of June 30, 2021, we also participated in one mortgage joint venture, which is engaged in mortgage activities and primarily provides services to our homebuyers. Our investment in this mortgage joint venture as of June 30, 2021 and December 31, 2020 was \$0.7 million and \$1.0 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, 2021	December 31, 2020
Assets:		
Cash	\$ 3,949	\$ 4,656
Real estate	5,729	5,745
Other assets	4,524	5,118
Total assets	<u>\$ 14,202</u>	<u>\$ 15,519</u>
Liabilities and equity:		
Accounts payable and other liabilities	\$ 4,525	\$ 5,588
Equity of:		
Meritage ⁽¹⁾	5,195	5,330
Other	4,482	4,601
Total liabilities and equity	<u>\$ 14,202</u>	<u>\$ 15,519</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue	\$ 10,108	\$ 10,550	\$ 19,103	\$ 17,273
Costs and expenses	(8,404)	(7,944)	(16,529)	(13,807)
Net earnings of unconsolidated entities	<u>\$ 1,704</u>	<u>\$ 2,606</u>	<u>\$ 2,574</u>	<u>\$ 3,466</u>
Meritage's share of pre-tax earnings ⁽¹⁾⁽²⁾	<u>\$ 1,057</u>	<u>\$ 1,048</u>	<u>\$ 1,807</u>	<u>\$ 1,735</u>

- (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 unaudited 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, 2021	December 31, 2020
Other borrowings, real estate notes payable ⁽¹⁾	\$ 19,534	\$ 23,094
\$780.0 million unsecured revolving credit facility with interest approximating LIBOR (approximately 0.10% at June 30, 2021) plus 1.375% or Prime (3.25% at June 30, 2021) plus 0.375%	—	—
Total	<u>\$ 19,534</u>	<u>\$ 23,094</u>

- (1) Reflects balance of non-recourse 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 December 2020, the Credit Facility was amended to extend the maturity date to December 22, 2025 and provide for the replacement of LIBOR in the event such reference rate is no longer available. 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 \$1.5 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 .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, 2021.

We had no outstanding borrowings under the Credit Facility as of June 30, 2021 and December 31, 2020. There were no borrowings or repayments during the three and six months ended June 30, 2021. During the first quarter of 2020 we borrowed \$500.0 million on our Credit Facility in connection with the perceived potential instability of the financial markets around the COVID-19 pandemic, which we repaid in full during the second quarter of 2020. As of June 30, 2021, we had outstanding letters of credit issued under the Credit Facility totaling \$74.1 million, leaving \$705.9 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, 2021	December 31, 2020
7.00% senior notes due 2022	\$ —	\$ 300,000
6.00% senior notes due 2025. At June 30, 2021 and December 31, 2020 there was approximately \$,204 and \$3,614 in net unamortized premium, respectively.	403,204	403,614
5.125% senior notes due 2027	300,000	300,000
3.875% senior notes due 2029	450,000	—
Net debt issuance costs	(11,270)	(6,623)
Total	\$ 1,141,934	\$ 996,991

The indentures for all of our senior notes contain non-financial covenants including, among others, limitations on the amount of secured debt we may incur, and limitations on sale and leaseback transactions and mergers. We were in compliance with all such covenants as of June 30, 2021.

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.

In April 2021, we completed an offering of \$450.0 million aggregate principal amount of 3.875% Senior Notes due 2029. We used a portion of the net proceeds from this offering to redeem all \$300.0 million aggregate principal outstanding of our 7.00% Senior Notes due 2022, incurring \$18.2 million in early debt extinguishment charges in the three and six months ended June 30, 2021, reflected as Loss on early extinguishment of debt in the accompanying unaudited consolidated income statements.

NOTE 7 — FAIR VALUE DISCLOSURES

ASC 820-10, *Fair Value Measurement* ("ASC 820"), defines fair value, establishes a framework for measuring fair value and addresses required disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from market participants external to the Company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions and specific knowledge of the assets/liabilities and related markets. The three levels are defined as follows:

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

If the only observable inputs are from inactive markets or for transactions which the Company evaluates as "distressed", the use of Level 1 inputs should be modified by the Company to properly address these factors, or the reliance of such inputs may be limited, with a greater weight attributed to Level 3 inputs.

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, 2021		December 31, 2020	
	Aggregate Principal	Estimated Fair Value	Aggregate Principal	Estimated Fair Value
7.00% senior notes due 2022	\$ —	\$ —	\$ 300,000	\$ 319,758
6.00% senior notes due 2025	\$ 400,000	\$ 456,800	\$ 400,000	\$ 451,913
5.125% senior notes due 2027	\$ 300,000	\$ 337,140	\$ 300,000	\$ 333,328
3.875% senior notes due 2029	\$ 450,000	\$ 465,750	\$ —	\$ —

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,	
	2021	2020	2021	2020
Basic weighted average number of shares outstanding	37,818	37,599	37,731	37,842
Effect of dilutive securities:				
Unvested restricted stock	559	570	626	670
Diluted average shares outstanding	38,377	38,169	38,357	38,512
Net earnings	\$ 167,389	\$ 90,678	\$ 299,232	\$ 161,830
Basic earnings per share	\$ 4.43	\$ 2.41	\$ 7.93	\$ 4.28
Diluted earnings per share	\$ 4.36	\$ 2.38	\$ 7.80	\$ 4.20

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 was 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 unaudited consolidated balance sheets 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, 2020	\$ —	\$ —	\$ 32,962	\$ —	\$ —	\$ 32,962
Additions	—	—	—	—	—	—
Balance at June 30, 2021	\$ —	\$ —	\$ 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, 2021				
	(In thousands)				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance at December 31, 2020	37,512	\$ 375	\$ 455,762	\$ 1,891,731	\$ 2,347,868
Net earnings	—	—	—	131,843	131,843
Stock-based compensation expense	—	—	5,367	—	5,367
Issuance of stock	435	4	(4)	—	—
Share repurchases	(100)	(1)	(8,384)	—	(8,385)
Balance at March 31, 2021	37,847	\$ 378	\$ 452,741	\$ 2,023,574	\$ 2,476,693
Net earnings	—	—	—	167,389	167,389
Stock-based compensation expense	—	—	3,223	—	3,223
Share repurchases	(200)	(2)	(19,159)	—	(19,161)
Balance at June 30, 2021	37,647	\$ 376	\$ 436,805	\$ 2,190,963	\$ 2,628,144

	Six Months Ended June 30, 2020				
	(In thousands)				
	Number of Shares	Common Stock	Additional Paid-In Capital	Retained 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

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. All available shares from expired, terminated, or forfeited awards that remained under 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 1,029,153 shares remain available for grant at June 30, 2021. 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,	
	2021	2020	2021	2020
Stock-based compensation expense	\$ 3,223	\$ 3,157	\$ 8,590	\$ 9,594
Non-vested shares granted	—	—	221,552	223,481
Performance-based non-vested shares granted	—	—	46,593	56,139
Performance-based shares issued in excess of target shares granted ⁽¹⁾	—	—	37,425	24,054
Restricted stock awards vested (includes performance-based awards)	—	6,060	434,729	404,406

- (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 compensation plan (dollars in thousands):

	As of	
	June 30, 2021	December 31, 2020
Unrecognized stock-based compensation cost	\$ 35,022	\$ 22,687
Weighted average years expense recognition period	2.15	2.01
Total equity awards outstanding ⁽¹⁾	932,589	1,098,545

- (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 three or six months ended June 30, 2021 or 2020, 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,	
	2021	2020	2021	2020
Federal	\$ 38,713	\$ 20,528	\$ 67,826	\$ 32,902
State	9,549	4,656	14,570	7,963
Total	\$ 48,262	\$ 25,184	\$ 82,396	\$ 40,865

The effective tax rate for the three and six months ended June 30, 2021 was 22.4% and 21.6%, and for the three and six months ended June 30, 2020 was 21.7% and 20.2%, respectively. The tax rate for the three and six months ended June 30, 2021 reflects credits earned under the Internal Revenue Code ("IRC") §45L new energy efficient homes credit, which was enacted into law under the Taxpayer Certainty and Disaster Tax Relief Act of 2019 and subsequently extended through the end of 2021 by enactment of the Taxpayer Certainty and Disaster Tax Relief Act of 2020. The tax rate at June 30, 2021 also reflects higher non-deductible senior executive officer stock-based compensation.

At June 30, 2021 and December 31, 2020, 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, 2021.

At June 30, 2021, we have income taxes payable of \$21.0 million and income taxes receivable of \$0.7 million. The income taxes payable primarily consists of current federal and state tax accruals, net of current energy tax credits and estimated tax payments. This amount is recorded in Accrued liabilities on the accompanying unaudited consolidated balance sheets at June 30, 2021. The income taxes receivable primarily consists of additional energy tax credits claimed by amending prior year tax returns and is recorded in Other receivables on the accompanying unaudited consolidated balance sheets at June 30, 2021.

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 2016. We have no federal or state income tax examinations being conducted at this time.

The future 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, 2021 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,	
	2021	2020
Cash paid during the year for:		
Interest, net of interest capitalized	\$ 227	\$ 1,089
Income taxes paid	\$ 83,127	\$ —
Non-cash operating activities:		
Real estate acquired through notes payable	\$ 2,198	\$ 402

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,	
	2021	2020	2021	2020
Homebuilding revenue ⁽¹⁾ :				
West	\$ 452,165	\$ 382,245	\$ 845,595	\$ 764,493
Central	403,838	296,357	726,022	556,484
East	421,596	354,477	789,763	613,115
Consolidated total	\$ 1,277,599	\$ 1,033,079	\$ 2,361,380	\$ 1,934,092
Homebuilding segment operating income:				
West	\$ 78,938	\$ 44,742	\$ 143,189	\$ 86,636
Central	84,965	37,895	141,958	66,814
East	73,477	37,791	123,656	59,552
Total homebuilding segment operating income	237,380	120,428	408,803	213,002
Financial services segment profit	4,615	3,789	8,375	6,627
Corporate and unallocated costs ⁽²⁾	(9,456)	(7,764)	(19,370)	(16,938)
Interest expense	(77)	(2,105)	(167)	(2,121)
Other income, net	1,377	1,514	2,175	2,125
Loss on early extinguishment of debt	(18,188)	—	(18,188)	—
Net earnings before income taxes	\$ 215,651	\$ 115,862	\$ 381,628	\$ 202,695

- (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,	
	2021	2020	2021	2020
Land closing revenue:				
West	\$ 1,956	\$ 456	1,956	4,974
Central	—	382	3,799	4,600
East	—	650	—	2,510
Total	\$ 1,956	\$ 488	16,755	12,084

- (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, 2021					
	West	Central	East	Financial Services	Corporate and Unallocated	Total
Deposits on real estate under option or contract	27,918	14,214	32,265	\$—	—	74,397
Real estate	1,395,152	952,733	903,902	—	—	3,251,787
Investments in unconsolidated entities	207	3,002	—	—	734	3,943
Other assets	59,079	162,843	75,700	641	693,193 (4)	991,426
Total assets	\$ 1,482,355	1,132,762	1,011,868	641	693,927 \$	4,321,553

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

	At December 31, 2020					
	West	Central	East	Financial Services	Corporate and Unallocated	Total
Deposits on real estate under option or contract	22,493	11,154	25,887	\$—	—	59,534
Real estate	1,154,488	814,919	808,632	—	—	2,778,039
Investments in unconsolidated entities	261	3,090	—	—	999	4,350
Other assets	51,270	122,963	81,600	612	766,058 (4)	1,022,475
Total assets	\$ 1,228,513	952,096	916,120	612	767,057 \$	3,864,398

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

NOTE 15 — COMMITMENTS AND CONTINGENCIES

We are involved in various routine legal and regulatory proceedings, including, without limitation, claims and litigation alleging construction defects. In general, the proceedings are incidental to our business, and most exposure is subject to and should be covered by warranty and indemnity obligations of our consultants and subcontractors. Additionally, some such claims are also covered by insurance. With respect to the majority of pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. Historically, most disputes regarding warranty claims are resolved prior to litigation. We believe there are no pending legal or warranty matters as of June 30, 2021 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”, we have case specific reserves within our \$25.1 million of total warranty reserves related to alleged stucco defects in certain Florida homes we constructed between 2006 and 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 data, as we obtain additional information, we may revise our estimates and thus our related reserves. As of June 30, 2021, 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

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, housing demand 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; our goals, strategies and strategic initiatives and the anticipated benefits relating thereto; our intentions and the expected benefits and advantages of our product and land positioning strategies, including with respect to our focus on the entry-level and first move-up buyer and housing demand for affordable homes; supply chain constraints and construction cycle times; the timing and targeted number of new community openings in 2021 and beyond; 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; 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; seasonality; 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, land investments and spend, material and labor costs for land development and home construction, gross margins, gross profit, revenues, general and administrative expenses, 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; 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: changes in interest rates and the availability and pricing of residential mortgages; inflation in the cost of materials used to develop communities and construct homes; supply chain constraints; our ability to obtain performance and surety bonds in connection with our development work; the ability of our potential buyers to sell their existing homes; legislation related to tariffs; the adverse effect of slow absorption rates; impairments of our real estate inventory; cancellation rates; competition; home warranty and construction defect claims; failures in health and safety performance; fluctuations in quarterly operating results; our level of indebtedness; our ability to obtain financing if our credit ratings are downgraded; our potential exposure to and impacts from natural disasters or severe weather conditions; the availability and cost of finished lots and undeveloped land; the success of our strategy to offer and market entry-level and first move-up homes; a change to the feasibility of projects under option or contract that could result in the write-down or write-off of earnest or option deposits; our limited geographic diversification; the replication of our energy-efficient technologies by our competitors; shortages in the availability and cost of subcontract labor; our exposure to information technology failures and security breaches and the impact thereof; the loss of key personnel; changes in tax laws that adversely impact us or our homebuyers; our inability to prevail on contested tax positions; failure to comply with laws and regulations; our compliance with government regulations; negative publicity that affects our reputation; disruptions to our business by COVID-19, fear of a similar event, and measures that federal, state and local governments and/or health authorities implement to address it; 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, 2020 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

Housing market conditions in the second quarter of 2021 remained strong, driven by the demand created by continuing low interest rates, a limited supply of available homes, and an increased desire for healthier, safer homes with indoor space to accommodate work and school from home needs. We believe the needs of both the millennial and baby boomer generations support a continued elevated level of demand over the next several years, although individual market results will vary in response to each respective market's economic factors but will likely taper to a normalized pace in the near term. Our strategy to provide buyers with affordable, quick move-in ready homes has positioned us to take full advantage of the current market, resulting in the highest second quarter closing volume and the highest quarterly home closing gross margin in the Company's history.

In addition to our strong growth in closings and profitability during the second quarter of 2021, we made notable progress on our goals for community count growth. As of June 30, 2021, we had 226 active communities, up from 203 at March 31, 2021, although down from June 30, 2020 due to the sustained accelerated orders pace throughout 2020 and into 2021. Ongoing pandemic-related supply chain disruptions combined with over a year of sustained demand have resulted in some production constraints for the homebuilding industry. As a result of these constraints, we experienced construction cycle delays of approximately four weeks from our typical construction cycle times during the current quarter, which impacted both orders and closings. We were able to successfully navigate these supply-chain challenges by working with our long-term trade partners to minimize the impact on our production, where possible, and were able to close 3,273 homes, our highest second quarter closing volume in history, while also seeing an increase in our average absorption pace year-over-year, even as we metered the number of homes available for sale to align with the current production constraints.

Summary Company Results

Total home closing revenue was \$1.3 billion on 3,273 homes closed for the three months ended June 30, 2021 compared to \$1.0 billion on 2,770 homes closed for the second quarter of 2020, 22.6% and 18.2% increases, respectively. In addition to higher home closing revenue, we achieved our highest home closing gross margin in Company history of 27.3%, a 590 basis point increase year-over-year that resulted in a \$124.6 million increase in home closing gross profit to \$345.3 million compared to \$220.7 million in the second quarter of 2020. This improvement was due to pricing power from strong buyer demand, combined with leverage of overhead costs on higher volumes, which have more than offset the impact of rising material costs, particularly lumber. As a result of rising sales prices, our consolidated average sales price ("ASP") on home closings is up 3.8% year-over-year, despite our shift in product mix toward entry-level homes. Interest expense decreased year-over-year by \$2.0 million as we benefited from lower interest rates as a result of our debt refinancing in April 2021. As a result of this refinancing transaction, we recognized an \$18.2 million loss on early extinguishment of debt (see Note 6 in the accompanying unaudited financial statements for additional information). Earnings before income taxes improved by \$99.8 million year-over-year to \$215.7 million for the second quarter of 2021. These improved year-over-year results combined with our effective income tax rate of 22.4% as compared to 21.7% in the prior year period led to net earnings of \$167.4 million in the second quarter of 2021 versus \$90.7 million in the second quarter of 2020. For the six months ended June 30, 2021, home closing revenue was \$2.3 billion on 6,163 homes closed, 22.0% and 21.2% increases over 2020, respectively. Similar to the second quarter, year-to-date results reflect an increase of \$212.9 million in home closing gross profit versus the six months ended June 30, 2020. Higher gross profit and lower interest expense were partially offset by the loss on early extinguishment of debt and a slightly higher effective tax rate of 21.6%, leading to net income of \$299.2 million for the six months ended June 30, 2021 compared to \$161.8 million for the 2020 period.

Order volume declined slightly by 1.5% in the three months ended June 30, 2021 compared to the same period in 2020, due to 10.3% fewer active communities open for sales, which was almost fully offset by an increase in per community orders pace of 5.5 in the second quarter 2021 compared to 5.0 in the second quarter 2020. Due to an 18.0% increase in ASP, order value increased \$209.2 million, or 16.2%. Our order cancellation rate dropped to 8% for the second quarter of 2021 compared to 15% for the prior year period. For the six months ended June 30, 2021, home orders and home order value increased 4.5% and 15.3%, respectively, over the prior year, and our order cancellation rate dropped to 9% compared to 14% for the prior year period. We ended the second quarter of 2021 with 5,509 homes in backlog valued at \$2.3 billion, a 25.3% increase in units and a 40.6% increase in value over June 30, 2020.

Company Positioning

We believe that our ongoing investments in new communities designed for the entry-level and first move-up homebuyer, our commitment to an all-spec strategy for our entry-level homes, our simplified first move-up design studio process, 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 strategies:

- Expanding our community count and market share;
- Continuously improving the overall home buying experience through simplification and innovation. Studio M streamlines the option selection process for move-up buyers, while all of our LIVE.NOW® communities feature interactive technology tools offering homebuyers the ability to electronically search for available homes with their desired home features and based on their preferred availability or move-in dates;
- Leveraging and expanding on technological solutions through digital offerings, including virtual tours in all of our communities for both prospective buyers and home closing walkthroughs, 3-D tours and dynamic floor plans, partial or fully virtual closings in states where such services are permitted, and online scheduling for in-person model home tours and self-guided tours in select locations. Our website also provides a comprehensive online suite of financial services such as mortgage pre-qualifications, on-demand homeowners' insurance quotes and a warranty portal for our homeowners to submit and track warranty-related matters;
- Increasing homeowner satisfaction by setting industry standards for energy-efficiency and offering healthier homes with enhanced security features. Every new home we construct meets or exceeds ENERGY STAR® standards and comes standard with the MERV-13 air filter, one of the most advanced air filtration systems offered today for residential construction, and a multispeed HVAC system, allowing owners to better manage the comfort of their home while reducing their environmental impact and operating costs. In addition, each of our newly constructed homes includes home automation features through our M.Connected Home™ Automation Suite which includes the Honeywell Pro Series Hub ("the Hub") that allows homeowners to monitor and control key components of their homes, such as Wi-Fi enabled thermostats, garage doors, a video doorbell and smart door locks. We recently partnered with SafeStreets to provide our homebuyers professional installation of various smart home technologies and connectivity to the Hub, training and expanded security options.
- Simplifying our production process to allow us to more efficiently build our homes and reduce our construction costs, which in turn allows us to competitively price our homes and deliver them on a shortened timeline; 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 remain committed to the following:

- Maintaining a healthy order pace through the use of our consumer and market research to build homes that offer our buyers their desired features and amenities;
- Achieving or maintaining a position of at least 5% market share in all of our markets;
- Continuing to innovate and promote our energy efficiency program and our M.Connected Home™ 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 30.6% debt-to-capital ratio and a 15.4% net debt-to-capital ratio;
- Maximizing returns to our shareholders, most recently through our improved financial performance and share repurchase program; and

- Promoting a positive environment for our employees through our commitment to drive diversity, equity, and inclusion and providing market-competitive benefits in order to develop and motivate our employees 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, 2021 compared to those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our 2020 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 and close-out. 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	
	2021	2020	Change \$	Change %
Home Closing Revenue				
Total				
Dollars	\$ 1,264,643	\$ 1,031,591	\$ 233,052	22.6 %
Homes closed	3,273	2,770	503	18.2 %
Average sales price	\$ 386.4	\$ 372.4	\$ 14.0	3.8 %
West Region				
Arizona				
Dollars	\$ 165,990	\$ 142,359	\$ 23,631	16.6 %
Homes closed	481	427	54	12.6 %
Average sales price	\$ 345.1	\$ 333.4	\$ 11.7	3.5 %
California				
Dollars	\$ 198,232	\$ 150,343	\$ 47,889	31.9 %
Homes closed	318	247	71	28.7 %
Average sales price	\$ 623.4	\$ 608.7	\$ 14.7	2.4 %
Colorado				
Dollars	\$ 74,987	\$ 89,087	\$ (14,100)	(15.8) %
Homes closed	145	184	(39)	(21.2) %
Average sales price	\$ 517.2	\$ 484.2	\$ 33.0	6.8 %
West Region Totals				
Dollars	\$ 439,209	\$ 381,789	\$ 57,420	15.0 %
Homes closed	944	858	86	10.0 %
Average sales price	\$ 465.3	\$ 445.0	\$ 20.3	4.6 %
Central Region - Texas				
Central Region Totals				
Dollars	\$ 403,838	\$ 295,975	\$ 107,863	36.4 %
Homes closed	1,154	914	240	26.3 %
Average sales price	\$ 349.9	\$ 323.8	\$ 26.1	8.1 %
East Region				
Florida				
Dollars	\$ 160,377	\$ 138,608	\$ 21,769	15.7 %
Homes closed	443	367	76	20.7 %
Average sales price	\$ 362.0	\$ 377.7	\$ (15.7)	(4.2) %
Georgia				
Dollars	\$ 62,477	\$ 58,698	\$ 3,779	6.4 %
Homes closed	171	166	5	3.0 %
Average sales price	\$ 365.4	\$ 353.6	\$ 11.8	3.3 %
North Carolina				
Dollars	\$ 119,838	\$ 98,738	\$ 21,100	21.4 %
Homes closed	330	288	42	14.6 %
Average sales price	\$ 363.1	\$ 342.8	\$ 20.3	5.9 %
South Carolina				
Dollars	\$ 28,209	\$ 30,206	\$ (1,997)	(6.6) %
Homes closed	81	98	(17)	(17.3) %
Average sales price	\$ 348.3	\$ 308.2	\$ 40.1	13.0 %
Tennessee				
Dollars	\$ 50,695	\$ 27,577	\$ 23,118	83.8 %
Homes closed	150	79	71	89.9 %
Average sales price	\$ 338.0	\$ 349.1	\$ (11.1)	(3.2) %
East Region Totals				
Dollars	\$ 421,596	\$ 353,827	\$ 67,769	19.2 %
Homes closed	1,175	998	177	17.7 %
Average sales price	\$ 358.8	\$ 354.5	\$ 4.3	1.2 %

	Six Months Ended June 30,		Quarter over Quarter	
	2021	2020	Change \$	Change %
Home Closing Revenue				
Total				
Dollars	\$ 2,344,625	\$ 1,922,008	\$ 422,617	22.0 %
Homes closed	6,163	5,086	1,077	21.2 %
Average sales price	\$ 380.4	\$ 377.9	\$ 2.5	0.7 %
West Region				
Arizona				
Dollars	\$ 303,258	\$ 293,603	\$ 9,655	3.3 %
Homes closed	891	886	5	0.6 %
Average sales price	\$ 340.4	\$ 331.4	\$ 9.0	2.7 %
California				
Dollars	\$ 370,131	\$ 285,145	\$ 84,986	29.8 %
Homes closed	595	455	140	30.8 %
Average sales price	\$ 622.1	\$ 626.7	\$ (4.6)	(0.7) %
Colorado				
Dollars	\$ 159,250	\$ 180,771	\$ (21,521)	(11.9) %
Homes closed	320	370	(50)	(13.5) %
Average sales price	\$ 497.7	\$ 488.6	\$ 9.1	1.9 %
West Region Totals				
Dollars	\$ 832,639	\$ 759,519	\$ 73,120	9.6 %
Homes closed	1,806	1,711	95	5.6 %
Average sales price	\$ 461.0	\$ 443.9	\$ 17.1	3.9 %
Central Region - Texas				
Central Region Totals				
Dollars	\$ 722,223	\$ 551,884	\$ 170,339	30.9 %
Homes closed	2,117	1,688	429	25.4 %
Average sales price	\$ 341.2	\$ 326.9	\$ 14.3	4.4 %
East Region				
Florida				
Dollars	\$ 301,205	\$ 232,397	\$ 68,808	29.6 %
Homes closed	860	603	257	42.6 %
Average sales price	\$ 350.2	\$ 385.4	\$ (35.2)	(9.1) %
Georgia				
Dollars	\$ 117,616	\$ 100,696	\$ 16,920	16.8 %
Homes closed	317	281	36	12.8 %
Average sales price	\$ 371.0	\$ 358.3	\$ 12.7	3.5 %
North Carolina				
Dollars	\$ 226,851	\$ 178,155	\$ 48,696	27.3 %
Homes closed	629	510	119	23.3 %
Average sales price	\$ 360.7	\$ 349.3	\$ 11.4	3.3 %
South Carolina				
Dollars	\$ 56,055	\$ 47,611	\$ 8,444	17.7 %
Homes closed	166	151	15	9.9 %
Average sales price	\$ 337.7	\$ 315.3	\$ 22.4	7.1 %
Tennessee				
Dollars	\$ 88,036	\$ 51,746	\$ 36,290	70.1 %
Homes closed	268	142	126	88.7 %
Average sales price	\$ 328.5	\$ 364.4	\$ (35.9)	(9.9) %
East Region Totals				
Dollars	\$ 789,763	\$ 610,605	\$ 179,158	29.3 %
Homes closed	2,240	1,687	553	32.8 %
Average sales price	\$ 352.6	\$ 361.9	\$ (9.3)	(2.6) %

	Three Months Ended June 30,		Quarter over Quarter	
	2021	2020	Change \$	Change %
Home Orders ⁽¹⁾				
Total				
Dollars	\$ 1,499,672	\$ 1,290,454	\$ 209,218	16.2 %
Homes ordered	3,542	3,597	(55)	(1.5) %
Average sales price	\$ 423.4	\$ 358.8	\$ 64.6	18.0 %
West Region				
Arizona				
Dollars	\$ 256,804	\$ 231,057	\$ 25,747	11.1 %
Homes ordered	624	737	(113)	(15.3) %
Average sales price	\$ 411.5	\$ 313.5	\$ 98.0	31.3 %
California				
Dollars	\$ 217,228	\$ 224,639	\$ (7,411)	(3.3) %
Homes ordered	344	388	(44)	(11.3) %
Average sales price	\$ 631.5	\$ 579.0	\$ 52.5	9.1 %
Colorado				
Dollars	\$ 104,134	\$ 70,831	\$ 33,303	47.0 %
Homes ordered	181	153	28	18.3 %
Average sales price	\$ 575.3	\$ 462.9	\$ 112.4	24.3 %
West Region Totals				
Dollars	\$ 578,166	\$ 526,527	\$ 51,639	9.8 %
Homes ordered	1,149	1,278	(129)	(10.1) %
Average sales price	\$ 503.2	\$ 412.0	\$ 91.2	22.1 %
Central Region - Texas				
Central Region Totals				
Dollars	\$ 428,375	\$ 392,502	\$ 35,873	9.1 %
Homes ordered	1,101	1,215	(114)	(9.4) %
Average sales price	\$ 389.1	\$ 323.0	\$ 66.1	20.5 %
East Region				
Florida				
Dollars	\$ 176,118	\$ 136,362	\$ 39,756	29.2 %
Homes ordered	468	390	78	20.0 %
Average sales price	\$ 376.3	\$ 349.6	\$ 26.7	7.6 %
Georgia				
Dollars	\$ 77,309	\$ 65,434	\$ 11,875	18.1 %
Homes ordered	193	190	3	1.6 %
Average sales price	\$ 400.6	\$ 344.4	\$ 56.2	16.3 %
North Carolina				
Dollars	\$ 153,032	\$ 106,383	\$ 46,649	43.9 %
Homes ordered	390	326	64	19.6 %
Average sales price	\$ 392.4	\$ 326.3	\$ 66.1	20.3 %
South Carolina				
Dollars	\$ 32,595	\$ 29,262	\$ 3,333	11.4 %
Homes ordered	88	95	(7)	(7.4) %
Average sales price	\$ 370.4	\$ 308.0	\$ 62.4	20.3 %
Tennessee				
Dollars	\$ 54,077	\$ 33,984	\$ 20,093	59.1 %
Homes ordered	153	103	50	48.5 %
Average sales price	\$ 353.4	\$ 329.9	\$ 23.5	7.1 %
East Region Totals				
Dollars	\$ 493,131	\$ 371,425	\$ 121,706	32.8 %
Homes ordered	1,292	1,104	188	17.0 %
Average sales price	\$ 381.7	\$ 336.4	\$ 45.3	13.5 %

(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 or a mortgage pre-approval as a sales contract until the contingency is removed.

	Six Months Ended June 30,		Quarter over Quarter	
	2021	2020	Change \$	Change %
Home Orders ⁽¹⁾				
Total				
Dollars	\$ 2,848,802	\$ 2,470,391	\$ 378,411	15.3 %
Homes ordered	7,000	6,699	301	4.5 %
Average sales price	\$ 407.0	\$ 368.8	\$ 38.2	10.4 %
West Region				
Arizona				
Dollars	\$ 479,239	\$ 414,428	\$ 64,811	15.6 %
Homes ordered	1,226	1,307	(81)	(6.2) %
Average sales price	\$ 390.9	\$ 317.1	\$ 73.8	23.3 %
California				
Dollars	\$ 390,619	\$ 449,571	\$ (58,952)	(13.1) %
Homes ordered	630	740	(110)	(14.9) %
Average sales price	\$ 620.0	\$ 607.5	\$ 12.5	2.1 %
Colorado				
Dollars	\$ 193,913	\$ 169,296	\$ 24,617	14.5 %
Homes ordered	350	352	(2)	(0.6) %
Average sales price	\$ 554.0	\$ 481.0	\$ 73.0	15.2 %
West Region Totals				
Dollars	\$ 1,063,771	\$ 1,033,295	\$ 30,476	2.9 %
Homes ordered	2,206	2,399	(193)	(8.0) %
Average sales price	\$ 482.2	\$ 430.7	\$ 51.5	12.0 %
Central Region - Texas				
Central Region Totals				
Dollars	\$ 820,343	\$ 735,492	\$ 84,851	11.5 %
Homes ordered	2,216	2,274	(58)	(2.6) %
Average sales price	\$ 370.2	\$ 323.4	\$ 46.8	14.5 %
East Region				
Florida				
Dollars	\$ 355,227	\$ 255,804	\$ 99,423	38.9 %
Homes ordered	947	707	240	33.9 %
Average sales price	\$ 375.1	\$ 361.8	\$ 13.3	3.7 %
Georgia				
Dollars	\$ 138,866	\$ 120,417	\$ 18,449	15.3 %
Homes ordered	357	346	11	3.2 %
Average sales price	\$ 389.0	\$ 348.0	\$ 41.0	11.8 %
North Carolina				
Dollars	\$ 310,719	\$ 207,638	\$ 103,081	49.6 %
Homes ordered	809	613	196	32.0 %
Average sales price	\$ 384.1	\$ 338.7	\$ 45.4	13.4 %
South Carolina				
Dollars	\$ 58,997	\$ 57,176	\$ 1,821	3.2 %
Homes ordered	164	182	(18)	(9.9) %
Average sales price	\$ 359.7	\$ 314.2	\$ 45.5	14.5 %
Tennessee				
Dollars	\$ 100,879	\$ 60,569	\$ 40,310	66.6 %
Homes ordered	301	178	123	69.1 %
Average sales price	\$ 335.1	\$ 340.3	\$ (5.2)	(1.5) %
East Region Totals				
Dollars	\$ 964,688	\$ 701,604	\$ 263,084	37.5 %
Homes ordered	2,578	2,026	552	27.2 %
Average sales price	\$ 374.2	\$ 346.3	\$ 27.9	8.1 %

(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 or a mortgage pre-approval as a sales contract until the contingency is removed.

	Three Months Ended June 30,			
	2021		2020	
	Ending	Average	Ending	Average
<i>Active Communities</i>				
Total	226	214.5	237	239.0
West Region				
Arizona	38	35.5	38	35.5
California	20	19.5	28	28.5
Colorado	17	14.5	13	13.0
West Region Totals	75	69.5	79	77.0
Central Region - Texas				
Central Region Totals	64	61.5	68	73.0
East Region				
Florida	34	32.0	36	35.0
Georgia	10	11.0	17	16.0
North Carolina	26	25.0	21	20.5
South Carolina	7	6.5	5	6.0
Tennessee	10	9.0	11	11.5
East Region Totals	87	83.5	90	89.0

	Six Months Ended June 30,			
	2021		2020	
	Ending	Average	Ending	Average
<i>Active Communities</i>				
Total	226	207.8	237	240.5
West Region				
Arizona	38	34.6	38	34.5
California	20	18.3	28	26.0
Colorado	17	13.3	13	15.5
West Region Totals	75	66.2	79	76.0
Central Region - Texas				
Central Region Totals	64	62.0	68	72.5
East Region				
Florida	34	31.6	36	34.5
Georgia	10	9.7	17	17.5
North Carolina	26	23.7	21	23.0
South Carolina	7	6.3	5	7.0
Tennessee	10	8.3	11	10.0
East Region Totals	87	79.6	90	92.0

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cancellation Rates ⁽¹⁾				
Total	8 %	15 %	9 %	14 %
West Region				
Arizona	7 %	11 %	9 %	12 %
California	6 %	18 %	9 %	16 %
Colorado	6 %	18 %	8 %	15 %
West Region Totals	7 %	14 %	9 %	14 %
Central Region - Texas				
Central Region Totals	9 %	20 %	10 %	17 %
East Region				
Florida	8 %	15 %	9 %	14 %
Georgia	6 %	9 %	10 %	11 %
North Carolina	6 %	9 %	7 %	8 %
South Carolina	9 %	11 %	13 %	12 %
Tennessee	13 %	14 %	11 %	20 %
East Region Totals	8 %	12 %	9 %	12 %

(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	
	2021	2020	Change \$	Change %
Order Backlog ⁽¹⁾				
Total				
Dollars	\$ 2,317,534	\$ 1,648,451	\$ 669,083	40.6 %
Homes in backlog	5,509	4,395	1,114	25.3 %
Average sales price	\$ 420.7	\$ 375.1	\$ 45.6	12.2 %
West Region				
Arizona				
Dollars	\$ 520,034	\$ 307,302	\$ 212,732	69.2 %
Homes in backlog	1,328	932	396	42.5 %
Average sales price	\$ 391.6	\$ 329.7	\$ 61.9	18.8 %
California				
Dollars	\$ 295,198	\$ 256,694	\$ 38,504	15.0 %
Homes in backlog	479	430	49	11.4 %
Average sales price	\$ 616.3	\$ 597.0	\$ 19.3	3.2 %
Colorado				
Dollars	\$ 139,437	\$ 86,158	\$ 53,279	61.8 %
Homes in backlog	238	178	60	33.7 %
Average sales price	\$ 585.9	\$ 484.0	\$ 101.9	21.1 %
West Region Totals				
Dollars	\$ 954,669	\$ 650,154	\$ 304,515	46.8 %
Homes in backlog	2,045	1,540	505	32.8 %
Average sales price	\$ 466.8	\$ 422.2	\$ 44.6	10.6 %
Central Region - Texas				
Central Region Totals				
Dollars	\$ 670,583	\$ 556,787	\$ 113,796	20.4 %
Homes in backlog	1,729	1,634	95	5.8 %
Average sales price	\$ 387.8	\$ 340.8	\$ 47.0	13.8 %
East Region				
Florida				
Dollars	\$ 268,971	\$ 187,241	\$ 81,730	43.6 %
Homes in backlog	637	475	162	34.1 %
Average sales price	\$ 422.2	\$ 394.2	\$ 28.0	7.1 %
Georgia				
Dollars	\$ 79,207	\$ 69,559	\$ 9,648	13.9 %
Homes in backlog	196	198	(2)	(1.0) %
Average sales price	\$ 404.1	\$ 351.3	\$ 52.8	15.0 %
North Carolina				
Dollars	\$ 247,292	\$ 109,026	\$ 138,266	126.8 %
Homes in backlog	634	322	312	96.9 %
Average sales price	\$ 390.1	\$ 338.6	\$ 51.5	15.2 %
South Carolina				
Dollars	\$ 44,175	\$ 34,054	\$ 10,121	29.7 %
Homes in backlog	118	102	16	15.7 %
Average sales price	\$ 374.4	\$ 333.9	\$ 40.5	12.1 %
Tennessee				
Dollars	\$ 52,637	\$ 41,630	\$ 11,007	26.4 %
Homes in backlog	150	124	26	21.0 %
Average sales price	\$ 350.9	\$ 335.7	\$ 15.2	4.5 %
East Region Totals				
Dollars	\$ 692,282	\$ 441,510	\$ 250,772	56.8 %
Homes in backlog	1,735	1,221	514	42.1 %
Average sales price	\$ 399.0	\$ 361.6	\$ 37.4	10.3 %

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

Operating Results

Companywide. In the second quarter of 2021, we achieved our highest second quarter home closing volume in Company history, with an 18.2% improvement over the second quarter of 2020, to 3,273 closings valued at \$1.3 billion compared to 2,770 closings valued at \$1.0 billion. The increase in closings year-over-year was driven by entering the quarter with a higher backlog as compared to prior year, as well as an accelerated orders pace of spec homes during the quarter that were able to close by June 30, 2021. Home closing revenue increased by 22.6% over the second quarter of 2020 due to the higher closing volume and a 3.8% increase in ASP. Home order volume declined slightly by 1.5% to 3,542 homes as compared to 3,597 homes in the second quarter of 2020, due to a 10.3% decrease in average active communities that was partially offset by an increased orders pace. Higher ASP on orders as we continue to experience pricing power drove a 16.2% increase in order value to \$1.5 billion in the second quarter of 2021, up from \$1.3 billion in the second quarter of 2020. Orders pace improved by 9.3% year-over-year to 5.5 homes ordered per average active community per month during the second quarter of 2021, up from 5.0 homes in the second quarter of 2020. This increase demonstrates the continuing demand for homes in the current market. Our focus on entry level and first move-up buyers, with our entry-level communities offering only spec homes for sale and shorter construction cycle times than other higher-end product, allows for quicker move-ins for our customers, increasing the desirability of our products, as reflected in our higher orders and closing volumes. Although community count is down 4.6% year-over-year due to sustained high orders pace over the last 12 months, community count grew sequentially, ending the second quarter with 226 actively selling communities at June 30, 2021, up from 203 at March 31, 2021. Our order cancellation rate improved to 8% and 9% for the three and six month periods in 2021, respectively, as compared to 15% and 14% during the three and six month periods in 2020, respectively, a further indication of strong demand in the market.

For the six months ended June 30, 2021, home closing volume grew by 1,077 units, or 21.2%, and home closing revenue improved by \$422.6 million on 6,163 closings valued at \$2.3 billion. Orders also increased year-over-year by 301 units and \$0.4 billion to 7,000 orders valued at \$2.8 billion for the six months ended June 30, 2021, 4.5% and 15.3% higher, respectively from prior year results. Demand for our affordable entry-level homes drove the increase in orders, resulting in a 20.8% higher orders pace than in 2020. We ended the quarter with 5,509 homes in backlog valued at \$2.3 billion, compared to 4,395 units valued at \$1.6 billion at June 30, 2020. The year-over-year increase in backlog value was positively impacted by rising ASP on orders as discussed above.

West. The West Region closed 944 homes and generated \$439.2 million in home closing revenue in the second quarter of 2021, compared to 858 homes and \$381.8 million in home closing revenue in the comparable 2020 period. Order volume decreased 10.1% to 1,149 homes in the second quarter of 2021 compared to 1,278 in 2020, due almost entirely to the 9.7% decline in average active community count. Strong demand and pricing power resulted in a 22.1% increase in ASP and contributed to the overall 9.8% higher order value in the second quarter of 2021 of \$578.2 million, up from \$526.5 million in the 2020 period. Orders pace was consistent year-over-year at 5.5 homes per average community per month during both the three months ended June 30, 2021 and 2020. As discussed previously, the year-over-year drop in community count is due to the accelerated close-out of communities in 2020. The West Region ended the second quarter of 2021 with 2,045 homes in backlog valued at \$954.7 million, up from 1,540 units valued at \$650.2 million at June 30, 2020. Despite the decrease in order volume, backlog increased year-over-year due to entering the period with a higher backlog and some closing delays caused by supply chain constraints.

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 5.6% and 9.6%, respectively, and ASP increased 3.9%. Order volumes for the Region declined 8.0% year-to-date, due to a 12.9% decline in the average number of actively selling communities, partially offset by a 5.4% year-to-date orders pace improvement. Order value was positively impacted by a 12.0% increase in ASP, which resulted in 2.9% higher order value for the six months ended June 30, 2021.

Central. In the second quarter of 2021, the Central Region, made up of our Texas markets, closed 1,154 homes and generated \$403.8 million in home closing revenue, up 26.3% and 36.4%, respectively, from prior year comparable period results of 914 homes and \$296.0 million of home closing revenue. Order volume declined 9.4% due to a 15.8% decrease in average community count, offset by an increase in orders pace of 7.8%. Despite the lower volume, order value increased 9.1% to \$428.4 million in the second quarter of 2021, compared to \$392.5 million in the prior year quarter, due to pricing power that drove ASP up by 20.5% in the Region.

We also experienced improvements in the Region for the six months ended June 30, 2021. Home closings and home closing revenue were up 25.4% and 30.9%, respectively. Order value and ASP on orders was up 11.5% and 14.5%, respectively, year-over-year. Similar to the second quarter, order volume decreased 2.6% due to a lower average active community count, mostly offset by increased orders pace. The Region ended the quarter with 1,729 units in backlog, up 5.8%, and backlog value of \$670.6 million, up 20.4% compared to the prior year.

East. During the three months ended June 30, 2021, the East Region delivered 1,175 closings and \$421.6 million in home closing revenue compared to 998 closings and \$353.8 million in home closing revenue in the comparable prior year period, improvements of 17.7% and 19.2%, respectively. The East Region also generated an increase in order volume in the second quarter of 2021, with an improvement in both volume and value of 17.0% and 32.8%, respectively, with 1,292 units valued at \$493.1 million compared to 1,104 units valued at \$371.4 million in the prior year period. The improvement in orders reflected a 25.0% increase in orders pace per community which more than offset the 6.2% decrease in average active communities, while the improvement in order value benefited from both the increase in volume as well as a 13.5% higher ASP.

The year-to-date results of the East Region were similar to those of the second quarter, with 32.8% and 29.3% improvements in home closing volume and revenue, respectively, compared to 2020, providing 2,240 closings and \$789.8 million in home closing revenue for the six month period ending June 30, 2021. The number and value of orders improved by 27.2% and 37.5%, respectively, due to a 47.3% increase in orders pace for the six months ended June 30, 2021 compared to prior year, which more than offset the 13.5% decrease in average active communities. The East Region ended the quarter with 1,735 homes in backlog valued at \$692.3 million compared to 1,221 homes valued at \$441.5 million at June 30, 2020, a 42.1% increase in units and 56.8% in order value from strong demand and pricing power.

Land Closing Revenue and Gross (Loss)/Profit

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 \$13.0 million and \$1.5 million for the three months ending June 30, 2021 and 2020, respectively, and losses of \$0.3 million and \$1.4 for the second quarter of 2021 and 2020, respectively. Year-to-date land sales resulted in a profit of \$0.2 million for the six months ended June 30, 2021 and a loss of \$1.1 million loss in the prior year.

Other Operating Information (dollars in thousands)

	Three Months Ended June 30,				Six Months Ended June 30,							
	2021		2020		2021		2020					
	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue	Dollars	Percent of Home Closing Revenue				
Home Closing Gross Profit												
Total	\$ 345,301	27.3 %	\$ 220,696	21.4 %	\$ 611,956	26.1 %	\$ 399,056	20.8 %				
West	\$ 114,184	26.0 %	\$ 80,166	21.0 %	\$ 211,241	25.4 %	\$ 154,597	20.4 %				
Central	\$ 119,415	29.6 %	\$ 67,788	22.9 %	\$ 204,788	28.4 %	\$ 121,979	22.1 %				
East	\$ 111,702	26.5 %	\$ 72,742	20.6 %	\$ 195,927	24.8 %	\$ 122,480	20.1 %				

- (1) Home closing gross profit represents home closing revenue less cost of home closings, including impairments. Cost of home closings includes land and associated 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 2021 improved 590 basis points to our highest quarterly home closing gross margin in company history of 27.3%, compared to 21.4% in the second quarter of 2020. The higher margin combined with higher revenue contributed to a \$124.6 million improvement in home closing gross profit to end the quarter with \$345.3 million compared to \$220.7 million in 2020. Gross margin was up 530 basis points to 26.1% versus 20.8% for the six months ended June 30, 2021 and 2020, respectively. The improved margins in 2021 are due to pricing power from strong buyer demand and leverage of overhead costs on our all-spec strategy for entry-level homes, which have more than offset the impact of rising material costs, particularly lumber. 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 \$0.6 million of such charges in the 2021 period.

West. Home closing gross margin for the West Region improved by 500 basis points to 26.0% for the second quarter of 2021 versus 21.0% in the second quarter of 2020. For the six months ended June 30, 2021, home closing gross margin also improved by 500 basis points to 25.4% versus 20.4% for the same period in the prior year. The improvements in the West Region's gross margins are due to pricing power from strong market demand and streamlined operations which allowed us to leverage our overhead costs on higher revenue and offset the impact of rising commodity costs.

Central. The Central Region provided the highest home closing gross margin in the Company, which at 29.6% for the second quarter of 2021 was our most notable improvement and was up 670 basis points from 22.9% in the prior year quarter. Pricing power generated higher ASP combined with higher closing volume which expanded our leverage of overhead costs to improve gross margin. For the six months ended June 30, 2021, gross margin was up 630 basis points to 28.4% as compared to 22.1% for the same 2020 period.

East. Home closing gross margin in the East Region was up 590 basis points year-over-year to 26.5% in the second quarter of 2021 versus 20.6% for the comparable 2020 period. For the six months ended June 30, 2021, gross margin was up 470 basis points to 24.8% versus 20.1% for the same period in the prior year. The improvement in gross margin for both the three and six months ended June 30, 2021 compared to the respective 2020 periods, is the result of pricing power and greater leverage of overhead costs on higher closing volume.

Financial Services Profit (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Financial services profit	\$ 4,615	\$ 3,789	\$ 8,375	\$ 6,627

Financial services profit represents the net profit of our financial services operations, including the operating profit generated by our wholly-owned title and insurance companies, Carefree Title Agency, Inc. and Meritage Homes Insurance Agency, Inc., as well as our portion of earnings from our mortgage joint venture. Financial services profit increased \$0.8 million in the second quarter of 2021 to \$4.6 million versus \$3.8 million in 2020, and by \$1.8 million for the six months ended June 30, 2021 to \$8.4 million versus \$6.6 million for the same period in 2020, due to the year-over-year higher closing volumes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Commissions and other sales costs	\$ (73,889)	\$ (70,408)	\$ (141,633)	\$ (131,581)
Percent of home closing revenue	5.8 %	6.8 %	6.0 %	6.8 %
General and administrative expenses	\$ (43,156)	\$ (36,176)	\$ (81,105)	\$ (70,346)
Percent of home closing revenue	3.4 %	3.5 %	3.5 %	3.7 %
Interest expense	\$ (77)	\$ (2,105)	\$ (167)	\$ (2,121)
Other income, net	\$ 1,377	\$ 1,514	\$ 2,175	\$ 2,125
Loss on early extinguishment of debt	\$ (18,188)	\$ —	\$ (18,188)	\$ —
Provision for income taxes	\$ (48,262)	\$ (25,184)	\$ (82,396)	\$ (40,865)

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 \$73.9 million for the three months ended June 30, 2021, \$3.5 million higher than the prior year comparable period, although as a percentage of home closing revenue, decreased 100 basis points to 5.8% for the second quarter of 2021 compared to the prior year period. For the six months ended June 30, 2021, commissions and other sales costs decreased 80 basis points and were \$10.1 million higher than the corresponding prior year period. For both the three and six month comparative periods, the increase in commissions and other sales costs in dollars compared to prior year is due to higher home closing volume, partially offset by savings in advertising costs as we continued to leverage more digital technologies and incurred fewer expenses associated with active communities, such as sales office and model home maintenance expenses. In addition, the second quarter of 2020 commissions and other sales costs was negatively impacted by additional commission incentives that were 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, the efficiencies integrated into our sales and marketing structure, and the decrease in costs associated with a lower number of active 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, 2021, general and administrative expenses were \$43.2 million, \$7.0 million higher than \$36.2 million for the 2020 period, although as a percentage of home closing revenue, decreased by 10 basis points. For the six months ended June 30, 2021 and 2020, general and administrative expenses were \$81.1 million or 3.5% of home closing revenue, as compared to \$70.3 million or 3.7% of home closing revenue in 2020. The increased leveraging of costs against higher revenue and the continued pull-back on certain corporate expenditures, including those due to COVID-19 precautions, aided in the improvement. As COVID-19 restrictions ease, we expect a portion of these costs to gradually return as employees return to the office and resume travel. We continually strive to optimize overhead leverage through cost control efforts and expect some long-term efficiencies as we start to generate higher revenue from our increased community count in the coming quarters.

Interest Expense. Interest expense is comprised of interest incurred, but not capitalized, on our senior notes, other borrowings, and our Credit Facility. Interest expense for the three and six months ended June 30, 2021 totaled \$0.1 million and \$0.2 million, respectively, compared to \$2.1 million in both the three and six months ended June 30, 2020. The decrease in both quarter-to-date and year-to-date interest expense is due to lower interest rates on our senior notes, increased capitalization of interest incurred with development and construction activities, and interest charges incurred in the first half of 2020 on our Credit Facility which had \$500.0 million outstanding for several weeks during that period.

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, 2021, Other income, net was \$1.4 million, compared to \$1.5 million in the 2020 comparable period. For the six months ended June 30, 2021, Other income, net was \$2.2 million compared to \$2.1 million in the 2020 period.

Loss on Early Extinguishment of Debt. Loss on early extinguishment of debt of \$18.2 million for the three and six months ended June 30, 2021 is related to the early redemption of our \$300.0 million 7.00% Senior Notes due 2022 during the second quarter of 2021. There were no similar charges for the three and six months ended June 30, 2020. See Note 6 in the accompanying unaudited consolidated financial statements for more information related to the early redemption of our Senior Notes due 2022.

Income Taxes. Our effective tax rate was 22.4% and 21.7% for the three months ended June 30, 2021 and 2020, respectively, and 21.6% and 20.2% for the six months ended June 30, 2021 and 2020, respectively. The tax rates for the three and six months ended June 30, 2021, reflect credits earned under IRC §45L new energy efficient homes and higher non-deductible senior executive officer stock-based compensation. The tax rates for the three and six months ended June 30, 2020, reflect credits earned under Internal Revenue Code §45L new energy efficient homes.

Liquidity and Capital Resources

Overview

Our principal uses of capital in the first six months of 2021 were acquisition and development of new 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. In addition, in the second quarter of 2021, we received proceeds from issuing new 3.875% senior notes due 2029, which were used in part to pay off existing 7.00% senior notes due 2022. See Note 6 in the accompanying unaudited consolidated financial statements for more information. We remain focused long-term on acquiring desirable land positions, generating favorable 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, 2021, net cash used in operating activities totaled \$143.5 million versus cash provided by operating activities of \$237.4 million during the six months ended June 30, 2020. Operating cash flows in 2021 and 2020 benefited from cash generated by net earnings of \$299.2 million and \$161.8 million, respectively. For the six months ended June 30, 2021, operating cash flows generated by net earnings were offset by a \$469.7 million increase in real estate assets due to our increased home construction land acquisition and development activities. 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, 2021, net cash used in investing activities totaled \$10.7 million as compared to \$9.1 million for the same period in 2020. Cash used in investing activities in the first six months of 2021 and 2020 is mainly attributable to the purchases of property and equipment of \$11.0 million and \$10.3 million for the 2021 and 2020 periods, respectively.

Financing Cash Flow Activities

During the six months ended June 30, 2021, net cash provided by financing activities totaled \$92.9 million as compared to net cash used of \$63.2 million for the same period in 2020. The net cash provided by financing activities in 2021 primarily reflects the net proceeds of \$450.0 million from the issuance of our Senior Notes due 2029, offset by the early redemption of our Senior Notes due 2022 of \$300.0 million principal and associated early tender fees of \$17.7 million, along with share repurchases of \$27.5 million. An additional \$0.5 million of non-cash charges associated with the early redemption of our Senior Notes due 2022 were recognized as Loss on early extinguishment of debt in the accompanying unaudited consolidated income statements. The activity in 2020 was primarily due to \$60.8 million of share repurchases.

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, we are currently acquiring and developing lots in our markets to grow our lot supply and active community count. We intend to increase our land and development spending over the next several years, consistent with our growth initiatives. We are also using our cash on hand to fund operations.

During the six months ended June 30, 2021, we closed 6,163 homes, purchased approximately 15,000 lots for \$539.3 million, spent \$382.0 million on land development and started construction on 7,147 homes. We primarily purchase undeveloped land or partially-finished lots requiring development 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 2021 with \$684.4 million of cash and cash equivalents, a decrease of \$61.2 million from December 31, 2020, with no outstanding borrowings on our Credit Facility. We expect to generate cash from the sale of our inventory, but we intend to redeploy that cash primarily to acquire and develop strategic and well-positioned lots to grow our business.

Between our available cash and liquidity in our Credit Facility, we believe that we currently have sufficient liquidity to manage through our strategic growth goals. 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. In April 2021, we completed an offering of \$450.0 million aggregate principal amount of 3.875% Senior Notes due 2029. The proceeds were used to redeem all \$300.0 million aggregate principal amount outstanding of our 7.00% Senior Notes due 2022. See Note 6 in the accompanying unaudited consolidated financial statements for more information related to the early redemption of our 7.00% Senior Notes due 2022.

On February 13, 2019, our 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. On November 13, 2020, the Board of Directors authorized the expenditure of an additional \$100.0 million to repurchase shares of our common stock under this program. 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, 2021, we purchased and retired 300,000 shares of our common stock at an aggregate purchase price of \$27.5 million and as of June 30, 2021, \$86.8 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, 2021	December 31, 2020
Senior notes, net, loans payable and other borrowings	\$ 1,161,468	\$ 1,020,085
Stockholders' equity	2,628,144	2,347,868
Total capital	\$ 3,789,612	\$ 3,367,953
Debt-to-capital ⁽¹⁾	30.6 %	30.3 %
Senior notes, net, loans payable and other borrowings	\$ 1,161,468	\$ 1,020,085
Less: cash and cash equivalents	(684,374)	(745,621)
Net debt	477,094	274,464
Stockholders' equity	2,628,144	2,347,868
Total net capital	\$ 3,105,238	\$ 2,622,332
Net debt-to-capital ⁽²⁾	15.4 %	10.5 %

- (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. Currently, 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 \$1.5 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, 2021. Our actual financial covenant calculations as of June 30, 2021 are reflected in the table below.

Financial Covenant (dollars in thousands):	Covenant Requirement	Actual
Minimum Tangible Net Worth	>\$1,739,099	\$2,587,767
Leverage Ratio	< 60%	13%
Interest Coverage Ratio ⁽¹⁾	> 1.50	13.68
Minimum Liquidity ⁽¹⁾	>\$64,617	\$1,316,133
Investments other than defined permitted investments	<\$776,330	\$3,943

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

Off-Balance Sheet Arrangements

Reference is made to Notes 1, 3, and 4 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 sell more homes in the first half of the fiscal year than in the second half, which creates additional working capital requirements in the second and third quarters to build our inventories to satisfy the deliveries in the second half of the year. We typically benefit from the cash generated from home closings more in the third and fourth quarters than in the first and second quarters. In 2020, historical cycles were impacted by COVID-19 and its impact on consumer behavior, particularly as it relates to the homebuilding market. However, we expect our historical seasonal pattern to continue over the long term although it may continue to be affected by short-term volatility in the homebuilding industry and in the overall economy.

Recent Issued Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our fixed rate debt is made up primarily of \$1.2 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 its future substitute) 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 interest rate swap 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 June 30, 2021 (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

See Note 15 of the accompanying notes to the unaudited consolidated financial statements in this report for a discussion of our legal proceedings.

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, 2020, which could materially affect our business, financial condition or future results. The risks described below and 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. Except as described below, 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, 2020.

Supply shortages and other risks related to the demand for building materials could materially disrupt our operations and increase costs.

We depend on continued availability of building materials in order to timely construct our homes. The availability of these materials can be significantly impacted by a variety of factors outside of our control. Constraints of raw materials and finished goods or in the distribution channels of our construction inputs can delay delivery of our homes to customers and can increase our building costs or lead to sales orders cancellations. For example, in 2021, supply chain constraints for various construction materials related to sustained demand amid the backdrop of a global pandemic have delayed our construction cycle times. These delays impact the timing of our expected home closings and may also result in cost increases that we may not be able to pass to our current or future customers. Sustained increases in construction costs may, over time, erode our margins.

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

We have never declared cash dividends. Currently, 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, our 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. On November 13, 2020, the Board of Directors authorized the expenditure of an additional \$100.0 million to repurchase shares of our common stock under this program. 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, 2021 there was \$86.8 million available under this program to repurchase shares. We purchased 200,000 shares under the program during the three months ended June 30, 2021.

Period	Total Number of Shares Purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
April 1, 2021 - April 30, 2021	—	\$ —	—	\$ 105,988,761
May 1, 2021 - May 31, 2021	—	\$ —	—	\$ 105,988,761
June 1, 2021 - June 30, 2021	200,000	\$ 95.80	200,000	\$ 86,827,896
Total	200,000		200,000	

Item 6. Exhibits

Exhibit Number	Description	Page or Method of Filing
3.1	Restated Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3 of Form 8-K dated June 20, 2002
3.1.1	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated September 15, 2004
3.1.2	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Appendix A of the 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
10.1	Form of Director and Officer Indemnification Agreement*	Filed herewith
10.2	Meritage Homes Corporation 2015 Nonqualified Deferred Compensation Plan*	Filed herewith
22	List of Guarantor Subsidiaries	Incorporated by reference to Exhibit 22 of Form 10-K for the year ended December 31, 2020
31.1	Rule 13a-14(a)/15d-14(a) Certification of Phillippe Lord, 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, 2021 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, 2021, formatted in Inline XBRL.	

* Indicates a management contract or compensation plan.

INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (“Agreement”) is made and entered into as of the 20th day of May, 2020, by and between Meritage Homes Corporation, a Maryland corporation (the “Company”), and _____ (“Indemnitee”).

WHEREAS, at the request of the Company, Indemnitee currently serves as **[a director] [and] [an officer]** of the Company and may, therefore, be subjected to claims, suits or proceedings arising as a result of such service;

WHEREAS, as an inducement to Indemnitee to serve or continue to serve in such capacity, the Company has agreed to indemnify Indemnitee and to advance expenses and costs incurred by Indemnitee in connection with any such claims, suits or proceedings, to the maximum extent permitted by law; and

WHEREAS, the parties by this Agreement desire to set forth their agreement regarding indemnification and advance of expenses;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

a. Definitions. For purposes of this Agreement:

i. “Change in Control” means a change in control of the Company occurring after the Effective Date of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if, after the Effective Date (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of all of the Company’s then-outstanding securities entitled to vote generally in the election of directors without the prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person’s attaining such percentage interest; (ii) the Company is a party to a merger, consolidation, sale of assets, plan of liquidation or other reorganization not approved by at least two-thirds of the members of the Board of Directors then in office, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; or (iii) at any time, a majority of the members of the Board of Directors are not individuals (A) who were directors as of the Effective Date or (B) whose election by the Board of Directors or nomination for election by the Company’s stockholders was approved by the affirmative vote of at least two-thirds of the directors then in office who were directors as of the Effective Date or whose election or nomination for election was previously so approved.

ii. "Corporate Status" means the status of a person as a present or former director (including as a member of a committee of the Board of Directors, chairman of the Board of Directors or lead independent director), officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company. As a clarification and without limiting the circumstances in which Indemnitee may be serving at the request of the Company, service by Indemnitee shall be deemed to be at the request of the Company: (i) if Indemnitee serves or served as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any corporation, partnership, limited liability company, joint venture, trust or other enterprise (1) of which a majority of the voting power or equity interest is or was owned directly or indirectly by the Company or (2) the management of which is controlled directly or indirectly by the Company and (ii) if, as a result of Indemnitee's service to the Company or any of its affiliated entities, Indemnitee is subject to duties to, or required to perform services for, an employee benefit plan or its participants or beneficiaries, including as a deemed fiduciary thereof.

iii. "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification and/or advance of Expenses is sought by Indemnitee.

iv. "Effective Date" means the date set forth in the first paragraph of this Agreement.

v. "Expenses" means any and all reasonable and out-of-pocket attorneys' fees and costs, retainers, court costs, arbitration and mediation costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties and any other disbursements or expenses incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in or otherwise participating in a Proceeding. Expenses shall also include Expenses incurred in connection with any appeal resulting from any Proceeding, including, without limitation, the premium for, security for and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent.

vi. "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement or of other indemnitees under similar indemnification agreements), or (ii) any other party to or participant or witness in the Proceeding giving rise to a claim for indemnification or advance of Expenses hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a

conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

vii. "Proceeding" means any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing, claim, demand or discovery request or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative (formal or informal) nature, including any appeal therefrom, except one pending or completed on or before the Effective Date, unless otherwise specifically agreed in writing by the Company and Indemnitee. If Indemnitee reasonably believes that a given situation may lead to or culminate in the institution of a Proceeding, such situation shall also be considered a Proceeding.

b. Services by Indemnitee. Indemnitee serves or will serve in the capacity or capacities set forth in the first WHEREAS clause above. However, this Agreement shall not impose any independent obligation on Indemnitee or the Company to continue Indemnitee's service to the Company. This Agreement shall not be deemed an employment contract between the Company (or any other entity) and Indemnitee.

c. General. The Company shall indemnify, and advance Expenses to, Indemnitee (a) as provided in this Agreement, (b) as provided in the charter or Bylaws of the Company and (c) otherwise to the maximum extent permitted by Maryland law in effect on the Effective Date and as amended from time to time; provided, however, that no change in Maryland law shall have the effect of reducing the benefits available to Indemnitee hereunder based on Maryland law as in effect on the Effective Date. The rights of Indemnitee provided in this Section 3 shall include, without limitation, the rights set forth in the other sections of this Agreement, and any additional indemnification permitted by the Maryland General Corporation Law (the "MGCL"), including, without limitation, Section 2-418 of the MGCL.

d. Standard for Indemnification. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall indemnify Indemnitee against all judgments, penalties, fines and amounts paid in settlement and all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding unless it is established that (a) the act or omission of Indemnitee was material to the matter giving rise to the Proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) Indemnitee actually received an improper personal benefit in money, property or services or (c) in the case of any criminal Proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

e. Certain Limits on Indemnification. Notwithstanding any other provision of this Agreement (other than Section 6), Indemnitee shall not be entitled to:

i. indemnification hereunder if the Proceeding was one by or in the right of the Company and Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable to the Company;

ii. indemnification hereunder if Indemnitee is adjudged, in a final adjudication of the Proceeding not subject to further appeal, to be liable on the basis that personal benefit in money, property or services was improperly received in any Proceeding charging improper personal benefit to Indemnitee, whether or not involving action in Indemnitee's Corporate Status; or

iii. indemnification or advance of Expenses hereunder if the Proceeding was brought by Indemnitee, unless: (i) the Proceeding was brought to enforce indemnification under this Agreement, and then only to the extent in accordance with and as authorized by Section 12 of this Agreement, or (ii) the Company's charter or Bylaws, a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors or an agreement approved by the Board of Directors to which the Company is a party expressly provide otherwise.

f. Court-Ordered Indemnification. Notwithstanding any other provision of this Agreement, a court of appropriate jurisdiction, upon application of Indemnitee and such notice as the court shall require, may order indemnification of Indemnitee by the Company in the following circumstances:

i. if such court determines that Indemnitee is entitled to reimbursement under Section 2-418(d)(1) of the MGCL, the court shall order indemnification, in which case Indemnitee shall be entitled to recover the Expenses of securing such reimbursement; or

ii. if such court determines that Indemnitee is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not Indemnitee (i) has met the standards of conduct set forth in Section 2-418(b) of the MGCL or (ii) has been adjudged liable for receipt of an improper personal benefit under Section 2-418(c) of the MGCL, the court may order such indemnification as the court shall deem proper without regard to any limitation on such court-ordered indemnification contemplated by Section 2-418(d)(2)(ii) of the MGCL.

g. Indemnification for Expenses of an Indemnitee Who is Wholly or Partially Successful. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, made a party to (or otherwise becomes a participant in) any Proceeding and is successful, on the merits or otherwise, in the defense of such Proceeding, the Company shall indemnify Indemnitee for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee under this Section 7 for all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each such claim, issue or matter, allocated on a reasonable and proportionate basis. For purposes of this Section 7 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

h. Advance of Expenses for Indemnitee. If, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be, made a party to any Proceeding, the Company shall,

without requiring a preliminary determination of Indemnatee's ultimate entitlement to indemnification hereunder, advance all Expenses incurred by or on behalf of Indemnatee in connection with such Proceeding. The Company shall make such advance of incurred Expenses within ten days after the receipt by the Company of a statement or statements requesting such advance from time to time, whether prior to or after final disposition of such Proceeding, which advance may be in the form of, in the reasonable discretion of Indemnatee (but without duplication), (a) payment of such Expenses directly to third parties on behalf of Indemnatee, (b) advance of funds to Indemnatee in an amount sufficient to pay such Expenses or (c) reimbursement to Indemnatee for Indemnatee's payment of such Expenses. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnatee and shall include or be preceded or accompanied by a written affirmation by Indemnatee and a written undertaking by or on behalf of Indemnatee, in substantially the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of the execution thereof. To the extent that Expenses advanced to Indemnatee do not relate to a specific claim, issue or matter in the Proceeding, such Expenses shall be allocated on a reasonable and proportionate basis. The undertaking required by this Section 8 shall be an unlimited general obligation by or on behalf of Indemnatee and shall be accepted without reference to Indemnatee's financial ability to repay such advanced Expenses and without any requirement to post security therefor.

i. Indemnification and Advance of Expenses as a Witness or Other Participant. Notwithstanding any other provision of this Agreement, to the extent that Indemnatee is or may be, by reason of Indemnatee's Corporate Status, made a witness or otherwise asked to participate in any Proceeding, whether instituted by the Company or any other person (including, without limitation, any governmental body or agency), and to which Indemnatee is not a party, Indemnatee shall be advanced and indemnified against all Expenses actually and reasonably incurred by Indemnatee or on Indemnatee's behalf in connection therewith within ten days after the receipt by the Company of a statement or statements requesting any such advance or indemnification from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnatee. In connection with any such advance of Expenses, the Company may require Indemnatee to provide an undertaking and affirmation substantially in the form attached hereto as Exhibit A or in such form as may be required under applicable law as in effect at the time of execution thereof.

j. Procedure for Determination of Entitlement to Indemnification.

i. To obtain indemnification under this Agreement, Indemnatee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnatee and is reasonably necessary or appropriate to determine whether and to what extent Indemnatee is entitled to indemnification. Indemnatee may submit one or more such requests from time to time and at such time(s) as Indemnatee deems appropriate in Indemnatee's sole discretion. The officer of the Company receiving any such request from Indemnatee shall, promptly upon receipt of such a request for indemnification, advise the Board of Directors in writing that Indemnatee has requested indemnification.

ii. Upon written request by Indemnitee for indemnification pursuant to Section 10(a) above, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control has occurred, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee, which Independent Counsel shall be selected by Indemnitee and approved by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL, which approval shall not be unreasonably withheld; or (ii) if a Change in Control has not occurred, (A) by a majority vote of the Disinterested Directors or by the majority vote of a group of Disinterested Directors designated by the Disinterested Directors to make the determination, (B) if Independent Counsel has been selected by the Board of Directors in accordance with Section 2-418(e)(2)(ii) of the MGCL and approved by Indemnitee, which approval shall not be unreasonably withheld or delayed, by Independent Counsel, in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee or (C) if so directed by the Board of Directors, by the stockholders of the Company, other than directors or officers who are parties to the Proceeding. If it is so determined that Indemnitee is entitled to indemnification, the Company shall make payment to Indemnitee within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary or appropriate to such determination in the discretion of the Board of Directors or Independent Counsel if retained pursuant to clause (ii)(B) of this Section 10(b). Any Expenses incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company shall indemnify and hold Indemnitee harmless therefrom.

iii. The Company shall pay the reasonable fees and expenses of Independent Counsel, if one is appointed.

k. Presumptions and Effect of Certain Proceedings.

i. In making any determination with respect to entitlement to indemnification hereunder, the person or persons (including any court having jurisdiction over the matter) making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall have the burden of overcoming that presumption in connection with the making of any determination contrary to that presumption.

ii. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, upon a plea of *nolo contendere* or its equivalent, or entry of an order of probation prior to judgment, does not create a presumption that Indemnitee did not meet the requisite standard of conduct described herein for indemnification.

iii. The knowledge and/or actions, or failure to act, of any other director, officer, employee or agent of the Company or any other director, trustee, officer, partner, manager, managing

member, fiduciary, employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise shall not be imputed to Indemnatee for purposes of determining any other right to indemnification under this Agreement.

1. Remedies of Indemnatee.

i. If (i) a determination is made pursuant to Section 10(b) of this Agreement that Indemnatee is not entitled to indemnification under this Agreement, (ii) advance of Expenses is not timely made pursuant to Sections 8 or 9 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10(b) of this Agreement within 60 days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Sections 7 or 9 of this Agreement within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification pursuant to any other section of this Agreement or the charter or Bylaws of the Company is not made within ten days after a determination has been made that Indemnatee is entitled to indemnification, Indemnatee shall be entitled to an adjudication in an appropriate court located in the State of Maryland, or in any other court of competent jurisdiction, or in an arbitration conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association, of Indemnatee's entitlement to indemnification or advance of Expenses. Indemnatee shall commence a proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnatee first has the right to commence such proceeding pursuant to this Section 12(a); provided, however, that the foregoing clause shall not apply to a proceeding brought by Indemnatee to enforce Indemnatee's rights under Section 7 of this Agreement. Except as set forth herein, the provisions of Maryland law (without regard to its conflicts of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnatee's right to seek any such adjudication or award in arbitration.

ii. In any judicial proceeding or arbitration commenced pursuant to this Section 12, Indemnatee shall be presumed to be entitled to indemnification or advance of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proving that Indemnatee is not entitled to indemnification or advance of Expenses, as the case may be. If Indemnatee commences a judicial proceeding or arbitration pursuant to this Section 12, Indemnatee shall not be required to reimburse the Company for any advances pursuant to Section 8 of this Agreement until a final determination is made with respect to Indemnatee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed). The Company shall, to the fullest extent not prohibited by law, be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all of the provisions of this Agreement.

iii. If a determination shall have been made pursuant to Section 10(b) of this Agreement that Indemnatee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent a

misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification that was not disclosed in connection with the determination.

iv. In the event that Indemnitee is successful in seeking, pursuant to this Section 12, a judicial adjudication of or an award in arbitration to enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company for, any and all Expenses actually and reasonably incurred by Indemnitee in such judicial adjudication or arbitration. If it shall be determined in such judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advance of Expenses sought, the Expenses incurred by Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

v. Interest shall be paid by the Company to Indemnitee at the maximum rate allowed to be charged for judgments under the Courts and Judicial Proceedings Article of the Annotated Code of Maryland for amounts which the Company pays or is obligated to pay for the period (i) commencing with either the tenth day after the date on which the Company was requested to advance Expenses in accordance with Sections 8 or 9 of this Agreement or the 60th day after the date on which the Company was requested to make the determination of entitlement to indemnification under Section 10(b) of this Agreement, as applicable, and (ii) ending on the date such payment is made to Indemnitee by the Company.

m. Defense of the Underlying Proceeding.

i. Indemnitee shall notify the Company promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, request or other document relating to any Proceeding which may result in the right to indemnification or the advance of Expenses hereunder and shall include with such notice a description of the nature of the Proceeding and a summary of the facts underlying the Proceeding. The failure to give any such notice shall not disqualify Indemnitee from the right, or otherwise affect in any manner any right of Indemnitee, to indemnification or the advance of Expenses under this Agreement unless the Company's ability to defend in such Proceeding or to obtain proceeds under any insurance policy is materially and adversely prejudiced thereby, and then only to the extent the Company is thereby actually so prejudiced.

ii. Subject to the provisions of the last sentence of this Section 13(b) and of Section 13(c) below, the Company shall have the right to defend Indemnitee in any Proceeding which may give rise to indemnification hereunder; provided, however, that the Company shall notify Indemnitee of any such decision to defend within 15 days following receipt of notice of any such Proceeding under Section 13(a) above. The Company shall not, without the prior written consent of Indemnitee, which shall not be unreasonably withheld or delayed, consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise with respect to Indemnitee which (i) includes an admission of fault of Indemnitee, (ii) does not include, as an unconditional term thereof, the full release of Indemnitee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnitee,

or (iii) would impose any Expense, judgment, fine, penalty or limitation on Indemnitee. This Section 13(b) shall not apply to a Proceeding brought by Indemnitee under Section 12 of this Agreement.

iii. Notwithstanding the provisions of Section 13(b) above, if in a Proceeding to which Indemnitee is a party by reason of Indemnitee's Corporate Status, (i) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that Indemnitee may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with other defendants in such Proceeding, (ii) Indemnitee reasonably concludes, based upon an opinion of counsel approved by the Company, which approval shall not be unreasonably withheld or delayed, that an actual or apparent conflict of interest or potential conflict of interest exists between Indemnitee and the Company, or (iii) if the Company fails to assume the defense of such Proceeding in a timely manner, Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any Proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, subject to the prior approval of the Company, which approval shall not be unreasonably withheld or delayed, at the expense of the Company (subject to Section 12(d) of this Agreement), to represent Indemnitee in connection with any such matter.

n. Non-Exclusivity; Survival of Rights; Subrogation.

i. The rights of indemnification and advance of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the charter or Bylaws of the Company, any agreement or a resolution of the stockholders entitled to vote generally in the election of directors or of the Board of Directors, or otherwise. Unless consented to in writing by Indemnitee, no amendment, alteration or repeal of the charter or Bylaws of the Company, this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal, regardless of whether a claim with respect to such action or inaction is raised prior or subsequent to such amendment, alteration or repeal. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right or remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion of any right or remedy hereunder, or otherwise, shall not prohibit the concurrent assertion or employment of any other right or remedy.

ii. In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

o. Insurance.

i. The Company will use its reasonable best efforts to acquire directors and officers liability insurance, on terms and conditions deemed appropriate by the Board of Directors, with the advice of counsel, covering Indemnitee or any claim made against Indemnitee by reason of Indemnitee's Corporate Status and covering the Company for any indemnification or advance of Expenses made by the Company to Indemnitee for any claims made against Indemnitee by reason of Indemnitee's Corporate Status. In the event of a Change in Control, the Company shall maintain in force any and all directors and officers liability insurance policies that were maintained by the Company immediately prior to the Change in Control for a period of six years with the insurance carrier or carriers and through the insurance broker in place at the time of the Change in Control; provided, however, (i) if the carriers will not offer the same policy and an expiring policy needs to be replaced, a policy substantially comparable in scope and amount shall be obtained and (ii) if any replacement insurance carrier is necessary to obtain a policy substantially comparable in scope and amount, such insurance carrier shall have an AM Best rating that is the same or better than the AM Best rating of the existing insurance carrier; provided, further, however, in no event shall the Company be required to expend in the aggregate in excess of 250% of the annual premium or premiums paid by the Company for directors and officers liability insurance in effect on the date of the Change in Control. In the event that 250% of the annual premium paid by the Company for such existing directors and officers liability insurance is insufficient for such coverage, the Company shall spend up to that amount to purchase such lesser coverage as may be obtained with such amount.

ii. Without in any way limiting any other obligation under this Agreement, the Company shall indemnify Indemnitee for any payment by Indemnitee which would otherwise be indemnifiable hereunder arising out of the amount of any deductible or retention and the amount of any excess of the aggregate of all judgments, penalties, fines, settlements and Expenses incurred by Indemnitee in connection with a Proceeding over the coverage of any insurance referred to in Section 15(a). The purchase, establishment and maintenance of any such insurance shall not in any way limit or affect the rights or obligations of the Company or Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights or obligations of the Company under any such insurance policies. If, at the time the Company receives notice from any source of a Proceeding to which Indemnitee is a party or a participant (as a witness or otherwise) the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies.

iii. The Indemnitee shall cooperate with the Company or any insurance carrier of the Company with respect to any Proceeding.

p. Coordination of Payments. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable or payable or reimbursable as Expenses hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

q. Contribution. If the indemnification provided in this Agreement is unavailable in whole or in part and may not be paid to Indemnitee for any reason, other than for failure to satisfy the standard of conduct set forth in Section 4 or due to the provisions of Section 5, then, with respect to any Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such Proceeding), to the fullest extent permissible under applicable law, the Company, in lieu of indemnifying and holding harmless Indemnitee, shall pay, in the first instance, the entire amount incurred by Indemnitee, whether for Expenses, judgments, penalties, and/or amounts paid or to be paid in settlement, in connection with any Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have at any time against Indemnitee.

r. Reports to Stockholders. To the extent required by the MGCL, the Company shall report in writing to its stockholders the payment of any amounts for indemnification of, or advance of Expenses to, Indemnitee under this Agreement arising out of a Proceeding by or in the right of the Company with the notice of the meeting of stockholders of the Company next following the date of the payment of any such indemnification or advance of Expenses or prior to such meeting.

s. Duration of Agreement; Binding Effect.

i. This Agreement shall continue until and terminate on the later of (i) the date that Indemnitee shall have ceased to serve as a director, officer, employee or agent of the Company or as a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company and (ii) the date that Indemnitee is no longer subject to any actual or possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement).

ii. The indemnification and advance of Expenses provided by, or granted pursuant to, this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or a director, trustee, officer, partner, manager, managing member, fiduciary, employee or agent of any other foreign or domestic corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise that such person is or was serving in such capacity at the request of the Company, and shall inure to the benefit of Indemnitee and Indemnitee's spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

iii. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and

to the same extent that the Company would be required to perform if no such succession had taken place.

iv. The Company and Indemnitee agree that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which Indemnitee may be entitled. Indemnitee shall further be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertakings in connection therewith. The Company acknowledges that, in the absence of a waiver, a bond or undertaking may be required of Indemnitee by a court, and the Company hereby waives any such requirement of such a bond or undertaking.

t. Severability. If any provision or provisions of this Agreement shall be held to be invalid, void, illegal or otherwise unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, void, illegal or otherwise unenforceable that is not itself invalid, void, illegal or otherwise unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, void, illegal or otherwise unenforceable, that is not itself invalid, void, illegal or otherwise unenforceable) shall be construed so as to give effect to the intent manifested thereby.

u. Counterparts. This Agreement may be executed in one or more counterparts, (delivery of which may be by facsimile, or via e-mail as a portable document format (.pdf) or other electronic format), each of which will be deemed to be an original, and it will not be necessary in making proof of this Agreement or the terms of this Agreement to produce or account for more than one such counterpart. One such counterpart signed by the party against whom enforceability is sought shall be sufficient to evidence the existence of this Agreement.

v. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

w. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any

other provisions hereof (whether or not similar) nor, unless otherwise expressly stated, shall such waiver constitute a continuing waiver.

x. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, on the day of such delivery, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

i. If to Indemnitee, to the address set forth on the signature page hereto.

ii. If to the Company, to:

Meritage Homes Corporation
8800 East Raintree Drive
Suite 300
Scottsdale, Arizona 85260
[Attn: Tim White, General Counsel]

or to such other address as may have been furnished in writing to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

y. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without regard to its conflicts of laws rules.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

MERITAGE HOMES CORPORATION

By: _____
Name:
Title:

Name:
Address:

EXHIBIT A

AFFIRMATION AND UNDERTAKING TO REPAY EXPENSES ADVANCED

To: The Board of Directors of Meritage Homes Corporation.

Re: Affirmation and Undertaking

Ladies and Gentlemen:

This Affirmation and Undertaking is being provided pursuant to that certain Indemnification Agreement dated the ____ day of _____, 20____, by and between Meritage Homes Corporation, a Maryland corporation (the "Company"), and the undersigned Indemnitee (the "Indemnification Agreement"), pursuant to which I am entitled to advance of Expenses in connection with **[Description of Proceeding]** (the "Proceeding").

Terms used herein and not otherwise defined shall have the meanings specified in the Indemnification Agreement.

I am subject to the Proceeding by reason of my Corporate Status or by reason of alleged actions or omissions by me in such capacity. I hereby affirm my good faith belief that at all times, insofar as I was involved as a director of the Company, in any of the facts or events giving rise to the Proceeding, I (1) did not act with bad faith or active or deliberate dishonesty, (2) did not receive any improper personal benefit in money, property or services and (3) in the case of any criminal proceeding, had no reasonable cause to believe that any act or omission by me was unlawful.

In consideration of the advance by the Company for Expenses incurred by me in connection with the Proceeding (the "Advanced Expenses"), I hereby agree that if, in connection with the Proceeding, it is established that (1) an act or omission by me was material to the matter giving rise to the Proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty or (2) I actually received an improper personal benefit in money, property or services or (3) in the case of any criminal proceeding, I had reasonable cause to believe that the act or omission was unlawful, then I shall promptly reimburse the portion of the Advanced Expenses relating to the claims, issues or matters in the Proceeding as to which the foregoing findings have been established.

IN WITNESS WHEREOF, I have executed this Affirmation and Undertaking on this ____ day of _____, 20 ____.

Name: _____

MERITAGE HOMES CORPORATION

2015 NONQUALIFIED DEFERRED COMPENSATION PLAN

This document is drafted with the intent that it comply with Internal Revenue Code Section 409A and regulations promulgated thereunder.

**Meritage Homes Corporation
2015 Nonqualified Deferred Compensation Plan**

Table of Contents

Article 1	Definitions	1
1.1	Account	1
1.2	Administrator	1
1.3	Board	1
1.4	Bonus	1
1.5	Change-in-Control	1
1.6	Code	2
1.7	Compensation	2
1.8	Deferrals	2
1.9	Deferral Election	2
1.10	Disability	2
1.11	Effective Date	2
1.12	Eligible Employee	2
1.13	Employee	3
1.14	Employer	3
1.15	Employer Discretionary Contribution	3
1.16	Employer Stock	3
1.17	ERISA	3
1.18	Investment Fund	3
1.19	Participant	3
1.20	Performance-based Compensation	3
1.21	Plan Year	3
1.22	Retirement	3
1.23	Salary	3
1.24	Separation from Service	3
1.25	Service Recipient	4
1.26	Trust	4
1.27	Trustee	4
1.28	Years of Service	4
Article 2	Participation	4
2.1	Commencement of Participation	4
2.2	Loss of Eligible Employee Status	4
Article 3	Contributions	4
3.1	Deferral Elections - General	4
3.2	Time of Election	5
3.3	Distribution Elections	5
3.4	Additional Requirements	5
3.5	Cancellation of Deferral Election due to Disability	5
3.6	Employer Discretionary Contribution	6
3.7	Crediting of Contributions	6
Article 4	Vesting	6
4.1	Vesting of Deferrals	6
4.2	Vesting of Employer Discretionary Contributions	6
4.3	Vesting due to Certain Events	6
4.4	Amounts Not Vested	6

4.5	Forfeitures	7
Article 5	Accounts	7
5.1	Accounts	7
5.2	Investments, Gains and Losses	7
Article 6	Distributions	8
6.1	Distribution Election	8
6.2	Distributions upon an In-Service Account Triggering Date	8
6.3	Distributions upon Retirement	8
6.4	Substantially Equal Annual Installments	8
6.5	Distributions due to other Separation from Service	9
6.6	Distributions due to Disability	9
6.7	Distributions upon Death	9
6.8	Changes to Distribution Elections	9
6.9	Acceleration or Delay in Payments	9
6.10	Unforeseeable Emergency	9
6.11	Minimum Distribution	10
6.12	Distributions Relating to Change-in-Control	10
6.13	Employer Stock	10
6.14	Form of Payment	10
Article 7	Beneficiaries	10
7.1	Beneficiaries	10
7.2	Lost Beneficiary	10
Article 8	Funding	11
8.1	Prohibition against Funding	11
8.2	Deposits in Trust	11
8.3	Withholding of Employee Contributions	11
Article 9	Claims Administration	11
9.1	General	11
9.2	Claims Procedure	11
9.3	Right of Appeal	12
9.4	Review of Appeal	12
9.5	Designation	12
Article 10	General Provisions	12
10.1	Administrator	12
10.2	No Assignment	13
10.3	No Employment Rights	13
10.4	Incompetence	13
10.5	Identity	13
10.6	Other Benefits	13
10.7	Expenses	14
10.8	Insolvency	14
10.9	Amendment or Modification	14
10.10	Plan Suspension	14
10.11	Plan Termination	14
10.12	Plan Termination due to a Change-in-Control	14
10.13	Construction	14
10.14	Governing Law	15
10.15	Severability	15
10.16	Headings	15
10.17	Terms	15
10.18	Code Section 409A Fail Safe Provision	15

**Meritage Homes Corporation
2015 Nonqualified Deferred Compensation Plan**

Meritage Homes Corporation hereby adopts the Meritage Homes Corporation 2015 Nonqualified Deferred Compensation Plan (the "Plan"), effective July 1, 2015, for the benefit of a select group of management and highly compensated employees. This Plan is an unfunded arrangement and is intended to be exempt from the participation, vesting, funding, and fiduciary requirements set forth in Title I of the Employee Retirement Income Security Act of 1974, as amended. It is intended to comply with Internal Revenue Code Section 409A.

This Plan applies to contributions to the Plan (Deferrals, Employer Discretionary Contributions or otherwise) on account of (i) a Participant's service on or after January 1, 2015 only for purposes of Deferrals of Performance-based Compensation to the Plan and (ii) a Participant's service on or after January 1, 2016 for all other contributions to the Plan. The Meritage Homes Corporation Deferred Compensation Plan adopted July 1, 2013 (the "Prior Plan") remains in full force and effect and will continue to apply to and govern contributions to that Prior Plan with respect to (i) a Participant's service on or before December 31, 2014 for purposes of Deferrals of performance-based compensation to the Prior Plan and (ii) a Participant's service on or before December 31, 2015 for all other deferrals and contributions to the Prior Plan.

Article 1 Definitions

1.1 Account

The sum of all the bookkeeping sub-accounts as may be established for each Participant as provided in Section 5.1 hereof.

1.2 Administrator

The Employer or individuals serving on an administrative committee appointed by the Employer shall serve as the Administrator of the Plan. The Administrator shall serve as the agent for the Employer with respect to the Trust

1.3 Board

The Board of Directors of the Employer.

1.4 Bonus

Compensation which is designated as such by the Employer and which relates to services performed during an incentive period by an Eligible Employee in addition to his or her Salary, including any pretax elective deferrals from said Bonus to any Employer sponsored plan that includes amounts deferred under a Deferral Election or any elective deferral as defined in Code Section 402(g)(3) or any amount contributed or deferred at the election of the Eligible Employee in accordance with Code Section 125 or 132(f)(4).

1.5 Change-in-Control

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, a "Change-in-Control" of the Employer (which, for purpose of this Section 1.5 shall mean Meritage Homes Corporation but not any of its affiliates or subsidiaries) shall mean the first to occur of any of the following:

(a) the date that any one person or persons acting as a group acquires ownership of stock of the Employer constituting more than fifty percent (50%) of the total fair market value or total voting power of the Employer;

(b) the date that any one person or persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of the stock of the Employer constituting thirty percent (30%) or more of the total voting power of the stock of the Employer;

(c) the date that any one person or persons acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Employer that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the Employer immediately prior to such acquisition; or

(d) the date that a majority of members of the Employer's Board is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or elections.

1.6 Code

The Internal Revenue Code of 1986, as amended.

1.7 Compensation

The Participant's Salary, Bonus, Performance-based Compensation and other cash or equity-based compensation from the Employer as may be included as Compensation that may be deferred under this Plan.

1.8 Deferrals

The portion of Compensation that a Participant elects to defer in accordance with Section 3.1 hereof.

1.9 Deferral Election

The separate agreement, submitted to the Administrator, by which an Eligible Employee agrees to participate in the Plan and make Deferrals thereto.

1.10 Disability

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, and except as provided in Section 3.5 below, a Participant shall be considered to have incurred a Disability if: (i) the Participant is unable to engage in any comparable and substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; (ii) the Participant is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant's Employer; or (iii) determined to be totally disabled by the Social Security Administration.

1.11 Effective Date

July 1, 2015

1.12 Eligible Employee

An Employee shall be considered an Eligible Employee if such Employee (i) is a member of a "select group of management or highly compensated employees," within the meaning of Sections 201, 301 and 401 of ERISA, (ii) is in the corporate department with a job title of Corporate VP or above, or is a regional president or division president (and any other VP position the Administrator may hereafter elect to designate as "Eligible Employees") and (iii) is designated as an Eligible Employee by the Administrator. The Administrator may at any time, in its sole discretion, change the eligible criteria for an Eligible Employee or determine that one or more Participants will cease to be an Eligible Employee. The

designation of an Employee as an Eligible Employee in any year shall not confer upon such Employee any right to be designated as an Eligible Employee in any future Plan Year.

1.13 Employee

Any person employed by the Employer.

1.14 Employer

Meritage Homes Corporation and its subsidiaries and affiliates.

1.15 Employer Discretionary Contribution

A discretionary contribution made by the Employer that is credited to one or more Participant's Accounts in accordance with the terms of Section 3.6 hereof.

1.16 Employer Stock

Employer Stock means phantom shares of common stock of the Employer as elected and designated pursuant to this Plan.

1.17 ERISA

The Employee Retirement Income Security Act of 1974, as amended.

1.18 Investment Fund

Each investment(s) which serves as a means to measure value, increases or decreases with respect to a Participant's Accounts.

1.19 Participant

An Eligible Employee who is a Participant as provided in Article 2.

1.20 Performance-based Compensation

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, "Performance-based Compensation" shall mean compensation that (i) meets the definition of Code Section 409A(a)(4)(B)(iii) and related guidance and regulations, and (ii) is designated as such by the Employer and relates to services performed during a performance period of at least twelve months by an Eligible Employee, including any pretax elective deferrals from said Performance-based Compensation to any Employer sponsored plan that includes amounts deferred under a Deferral Election or any elective deferral as defined in Code Section 402(g)(3) or any amount contributed or deferred at the election of the Eligible Employee in accordance with Code Section 125 or 132(f)(4).

1.21 Plan Year

January 1 through December 31.

1.22 Retirement

Retirement shall mean a Participant's Separation from Service on, or subsequent to, the applicable Participant attaining fifty-five (55) years of age and completing ten (10) Years of Service.

1.23 Salary

An Eligible Employee's base salary earned during a Plan Year, including any pretax elective deferrals from said Salary to any Employer sponsored plan that includes amounts deferred under a Deferral Election or any elective deferral as defined in Code Section 402(g)(3) or any amount contributed or deferred at the election of the Eligible Employee in accordance with Code Section 125 or 132(f)(4).

1.24 Separation from Service

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, a Participant shall incur a Separation from Service with a Service Recipient due to death, retirement or other termination of employment with the Service Recipient unless the employment relationship is treated as continuing intact while the individual is on military leave, sick leave, or other

bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the individual retains a right to reemployment with the Service Recipient under an applicable statute or by contract. Upon a sale or other disposition of the assets of the Employer to an unrelated purchaser, the Administrator reserves the right, to the extent permitted by Code section 409A to determine whether Participants providing services to the purchaser after and in connection with the purchase transaction have experienced a Separation from Service.

1.25 Service Recipient

Provided that such term shall be interpreted within the meaning of regulations promulgated under Code Section 409A, Service Recipient shall mean the Employer or person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Code Section 414(b) (employees of controlled group of corporations), and all persons with whom such person would be considered a single employer under Code Section 414(c) (employees of partnerships, proprietorships, etc., under common control).

1.26 Trust

The agreement between the Employer and the Trustee under which the assets of the Plan are held, administered and managed, which shall conform to the terms of Rev. Proc. 92-64.

1.27 Trustee

Matrix Trust Company, or such other successor that shall become trustee pursuant to the terms of the Plan.

1.28 Years of Service

A Participant's "Years of Service" shall mean the total number of full twelve (12) month periods in which an individual has been employed by Employer.

Article 2 Participation

2.1 Commencement of Participation

Each Eligible Employee shall become a Participant at the earlier of the date on which his or her Deferral Election first becomes effective or the date on which an Employer Discretionary Contribution is first credited to his or her Account.

2.2 Loss of Eligible Employee Status

A Participant who is no longer an Eligible Employee shall not be permitted to submit a Deferral Election and all Deferrals for such Participant shall cease as of the end of the Plan Year in which such Participant is determined to no longer be an Eligible Employee. Amounts credited to the Account of a Participant who is no longer an Eligible Employee shall continue to be held pursuant to the terms of the Plan and shall be distributed as provided in Article 6.

Article 3 Contributions

3.1 Deferral Elections - General

A Participant's Deferral Election for a Plan Year, is irrevocable for that applicable Plan Year; provided, however that a cessation of Deferrals shall be allowed if required by the terms of the Employer's qualified 401(k) plan in order for the Participant to obtain a hardship withdrawal from the 401(k) plan, or if required under Section 6.10 (Unforeseeable Emergency) of this Plan. Notwithstanding the foregoing, the Employer may, in its sole discretion, permit a Participant to change his/her initial Deferral Election for Performance-based Compensation in accordance with the timing set forth in Section 3.2(c). Such amounts deferred under the Plan shall not be made available to such Participant, except as provided in Article 6, and shall reduce such Participant's Compensation from the Employer in accordance with the provisions of the applicable Deferral Election; provided, however, that all such amounts shall be subject to the rights of the general creditors of the Employer as provided in Article 8. The Deferral Election, in

addition to the requirements set forth below, must designate: (i) the amount of Compensation to be deferred, (ii) the time of the distribution, and (iii) the form of the distribution. Deferrals shall be subject to all required income and employment tax, 401(k) and other employee benefit deductions, and other deductions required by law.

3.2 Time of Election

A Deferral Election shall be void if it is not made in a timely manner as follows:

(a) Except as allowed under Section 3.2 (c) below, a Deferral Election with respect to any Compensation must be submitted to the Administrator before the beginning of the calendar year during which the amount to be deferred will be earned. As of December 31 of each calendar year, said Deferral Election is irrevocable for the calendar year.

(b) Notwithstanding the foregoing and in the discretion of the Employer, in a year in which an Employee is first eligible to participate, and provided that such Employee is not eligible to participate in any other similar account balance arrangement subject to Code Section 409A, such Deferral Election shall be submitted within thirty (30) days after the date on which an Employee is first eligible to participate, and such Deferral Election shall apply to Compensation to be earned during the remainder of the calendar year after such election is made.

(c) Notwithstanding the foregoing and in the discretion of the Employer, a Deferral Election with respect to any Performance-based Compensation may be submitted by the Eligible Employee or Participant provided that such Deferral Election is submitted at least six (6) months prior to the end of the performance period on which the Performance-based Compensation is based.

3.3 Distribution Elections

At the time a Participant makes a Deferral Election, he or she must also elect the time and form of the distribution by establishing one or more In-Service Account or Retirement Account(s) as provided in Sections 5.1 and 6.1. If the Participant fails to properly designate the time and form of a distribution, the Participant's Account shall be designated as a Retirement Account and shall be paid in a lump sum.

3.4 Additional Requirements

The Deferral Election, subject to the limitations set forth in Sections 3.1 and 3.2 hereof, shall comply with the following additional requirements, or as otherwise required by the Administrator in its sole discretion:

(a) Deferrals may be made in whole percentages or stated dollar amounts as determined by the Administrator.

(b) The maximum amount that may be deferred each Plan Year is seventy-five percent (75%) of the Participant's Salary and one-hundred percent (100%) of the Participant's Bonus, Performance-based Compensation and equity-based Compensation.

(c) The distribution year for an In-Service Account must be at least three (3) Plan Years subsequent to the Plan Year in which the Participant first establishes the In-Service subaccount to be credited with contributions.

3.5 Cancellation of Deferral Election due to Disability

Notwithstanding anything to the contrary, if a Participant incurs a disability as defined in this Section 3.5, said Participant may file an election to stop Deferrals as of the date the election is received by the Administrator, provided that such cancellation occurs by the later of the end of the calendar year or the 15th day of the third month following the date the Participant incurs a disability. Disability for purposes of this Section 3.5 only means that a Participant incurs a medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be

expected to last for a continuous period of not less than six months, as determined by the Administrator in its sole discretion.

3.6 Employer Discretionary Contribution

The Employer may make discretionary contributions to some or all Participants' Accounts in such amount and in such manner as may be determined by the Employer. Such Employer Discretionary Contribution, at the option of the Employer, shall be credited to such sub-account as may be elected by the Participant in accordance with Sections 3.1 and 5.1 and procedures established by the Administrator. In the event no such election is made by the Participant or if Employer desires to direct Employer Discretionary Contributions to a particular Participant sub-account, the Employer, in its sole discretion, may determine which sub-account will be credited with such Employer Discretionary Contribution. In the event the Employer does not designate which Participant sub-account shall be credited, such Employer Discretionary Contribution shall be credited to a lump-sum Separation/Retirement sub-account.

3.7 Crediting of Contributions

(a) Deferrals shall be credited to a Participant's Account in accordance with the Employer's general payroll practices.

(b) Employer Discretionary Contributions, if any, shall be credited to a Participant's Account, and if applicable transferred to the Trust, at such time as the Employer shall determine.

Article 4 Vesting

4.1 Vesting of Deferrals

A Participant shall be one-hundred percent (100%) vested in his or her Account attributable to Deferrals and any earning or losses on the investment of such Deferrals, provided, however, that any Deferral of unvested equity-based compensation shall retain the same vesting schedule as such compensation had prior to such Deferral.

4.2 Vesting of Employer Discretionary Contributions

A Participant shall have a vested right to the portion of his or her Account attributable to Employer Discretionary Contribution(s) and any earnings or losses on the investment of such Employer Discretionary Contribution(s) according to such vesting schedule as the Employer shall determine at the time an Employer Discretionary Contribution is made.

4.3 Vesting due to Certain Events

(a) A Participant who incurs a Disability shall be fully vested in the amounts credited or required to be contributed to his or her Account as of the date of Disability.

(b) Upon a Participant's death, the Participant shall be fully vested in the amounts credited or required to be credited to his or her Account.

(c) A Participant who incurs a Separation from Service due to Retirement shall be fully vested in the amounts credited or required to be credited to his or her Account as of the date of Retirement.

(d) Upon a Change-in-Control, all Participants shall be fully vested in the amounts credited or required to be credited to their Accounts for all periods prior to the Change-in-Control.

4.4 Amounts Not Vested

Any amounts credited to a Participant's Account that are not vested at the time of his or her Separation from Service shall be forfeited.

4.5 Forfeitures

At the discretion of the Employer, any forfeitures from a Participant's Account (i) may continue to be held in the Trust, may be separately invested, and may be used to reduce succeeding Deferrals and any Employer Contributions, or (ii) may be returned to the Employer as soon as administratively feasible.

Article 5 Accounts

5.1 Accounts

The Administrator shall establish and maintain a bookkeeping account in the name of each Participant. The Administrator shall also establish sub-accounts as provided in subsection (a) and (b), below, as elected by the Participant pursuant to Article 3. A Participant may have a maximum of ten (10) sub-accounts at any time.

(a) A Participant may establish one or more Retirement Account ("Retirement sub-account") by designating as such on the Participant's Deferral Election. Each Participant's Retirement sub-account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Employer Discretionary Contributions, and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's Retirement sub-account shall be reduced by any distributions made plus any federal and state tax withholding, and any social security withholding tax as may be required by law.

(b) A Participant may elect to establish one or more In-Service Account ("In-Service sub-account") by designating as such in the Participant's Deferral Election the year in which payment shall be made. Each Participant's In-Service sub-account shall be credited with Deferrals (as specified in the Participant's Deferral Election), any Employer Discretionary Contributions, and the Participant's allocable share of any earnings or losses on the foregoing. Each Participant's In-Service sub-account shall be reduced by any distributions made plus any federal and state tax withholding on distributions as may be required by law.

5.2 Investments, Gains and Losses

(a) A Participant may direct that his or her Retirement sub-accounts and or In-Service sub-accounts established pursuant to Section 5.1 may be valued as if they were invested in one or more Investment Funds as selected by the Employer in multiples of one percent (1%). The Employer may from time to time, at the discretion of the Administrator, change the Investment Funds for purposes of this Plan.

(b) The Administrator shall adjust the amounts credited to each Participant's Account to reflect Deferrals, any Employer Discretionary Contributions, investment experience, distributions and any other appropriate adjustments. Such adjustments shall be made as frequently as is administratively feasible.

(c) A Participant may change his or her selection of Investment Funds with respect to his or her Account or sub-accounts by filing a new election in accordance with procedures established by the Administrator. An election shall be effective as soon as administratively feasible following the date the change is submitted on a form prescribed by the Administrator.

(d) Notwithstanding the Participant's ability to designate the Investment Fund in which his or her deferred Compensation shall be deemed invested, the Employer shall have no obligation to invest any funds in accordance with the Participant's election. Participants' Accounts shall merely be bookkeeping entries on the Employer's books, and no Participant shall obtain any property right or interest in any Investment Fund.

Article 6 Distributions

6.1 Distribution Election

Each Participant shall designate in his or her Deferral Election the form and timing of his or her distribution by indicating the type of sub-account as described under Section 5.1, and by designating the form in which payments shall be made from the choices available under Section 6.2 and 6.3 hereof. Notwithstanding anything to the contrary contained herein provided, no acceleration of the time or schedule of payments under the Plan shall occur except as permitted under both this Plan and Code Section 409A.

6.2 Distributions upon an In-Service Account Triggering Date

In-Service sub-account distributions shall begin as soon as administratively feasible but no later than sixty (60) days following June 1 of the calendar year designated by the Participant on a properly submitted Deferral Election, and are payable (i) in a lump-sum payment or (ii) in substantially equal annual installments, as defined in Section 6.4 below, over a period of up to five (5) years as elected by the Participant in his or her Deferral Election. If the Participant fails to designate the form of the distribution, the sub-account shall be paid in a lump-sum payment. Distributions of In-Service sub-accounts are valued as of June 1 or the first business day thereafter of the calendar year designated by the Participant on a properly submitted Deferral Election (and on each anniversary thereof for installments).

6.3 Distributions upon Retirement

If the Participant has a Separation from Service due to Retirement, the Participant's Retirement sub-account(s) shall be valued at the six month anniversary (or first business day thereafter) of the Retirement and commence no earlier than six months following Retirement (or, if earlier, the date of death of the Participant) and no later than nine months following Retirement. If distributions are to be made in annual installments, the second installment and all those thereafter will be valued and made on or around the applicable anniversaries of the date on which the Participant's initial installment was payable.

Distribution shall be made, as timely designated by the Participant, (i) in a lump-sum payment, (ii) in substantially equal annual installments, as defined in Section 6.4 below, over a period of up to fifteen (15) years as elected by the Participant or (iii) in a lump sum payment of a percentage of the applicable sub-account(s), with the remaining balance paid in substantially equal annual installments, as defined in Section 6.4 below, over a period of up to fifteen (15) years as elected by the Participant in his or her Deferral Election. If the Participant fails to designate the form of the distribution, the sub-account shall be paid in a lump-sum payment. If a Participant has any In-Service sub-accounts at the time of his or her Retirement, said sub-accounts shall be valued at the six month anniversary (or first business day thereafter) of the Retirement and paid in a lump sum no earlier than six months following Retirement (or, if earlier, the date of death of the Participant) and no later than nine months following Retirement.

6.4 Substantially Equal Annual Installments

(a) The amount of the substantially equal payments shall be determined by multiplying the Participant's Account or sub-account by a fraction, the denominator of which in the first year of payment equals the number of years over which benefits are to be paid, and the numerator of which is one (1). The amounts of the payments for each succeeding year shall be determined by multiplying the Participant's Account or sub-account as of the applicable anniversary of the applicable valuation date by a fraction, the denominator of which equals the number of remaining years over which benefits are to be paid, and the numerator of which is one (1). Installment payments made pursuant to this Section 6.4 shall be made as soon as administratively feasible but no later than sixty (60) days following the anniversary of the distribution event.

(b) For purposes of the Plan pursuant to Code Section 409A and regulations thereunder, a series of annual installments from a particular subaccount shall be considered a single payment.

6.5 Distributions due to other Separation from Service

Upon a Participant's Separation from Service for any reason other than Retirement, death or Disability, all vested amounts credited to his or her Account shall be valued at the six month anniversary (or first business day thereafter) of the Separation from Service and commence no earlier than six months following Separation from Service (or, if earlier, the date of death of the Participant) and no later than nine months following Separation from Service. If distributions are to be made in annual installments, the second installment and all those thereafter will be valued and made on or around the applicable anniversaries of the date on which the Participant's initial installment was payable.

6.6 Distributions due to Disability

Upon a Participant's Disability, all amounts credited to his or her Account shall be valued as of the date of Disability or first business day thereafter and paid to the Participant in a lump sum as soon as administratively feasible but no later than sixty (60) days following the date of Disability.

6.7 Distributions upon Death

Upon the death of a Participant, all amounts credited to his or her Account shall be valued as of the date of death or first business day thereafter and paid, as soon as administratively feasible but no later than sixty (60) days following Participant's date of death, to his or her beneficiary or beneficiaries, as determined under Article 7 hereof, in a lump sum.

6.8 Changes to Distribution Elections

A Participant will be permitted to elect to change the form or timing of the distribution of the balance of his or her one or more sub-accounts within his or her Account to the extent permitted and in accordance with the requirements of Code Section 409A(a)(4)(C), including the requirement that (i) a redeferral election may not take effect until at least twelve (12) months after such election is filed with the Employer, (ii) an election to further defer a distribution (other than a distribution upon death, Disability or an unforeseeable emergency) must result in the first distribution subject to the election being made at least five (5) years after the previously elected date of distribution, and (iii) any redeferral election affecting a distribution at a fixed date must be filed with the Employer at least twelve (12) months before the first scheduled payment under the previous fixed date distribution election.

6.9 Acceleration or Delay in Payments

To the extent permitted by Code Section 409A, and notwithstanding any provision of the Plan to the contrary, the Administrator, in its sole discretion, may elect to (i) accelerate the time or form of payment of a benefit owed to a Participant hereunder in accordance with the terms and subject to the conditions of Treasury Regulations Section 1.409A-3(j)(4), or (ii) delay the time of payment of a benefit owed to a Participant hereunder in accordance with the terms and subject to the conditions of Treasury Regulations Section 1.409A-2(b)(7). By way of example, and at the sole discretion of the Administrator, if a Participant's entire Account balance is less than the applicable Code Section 402(g) annual limit, the Employer may distribute the Participant's Account in a lump sum provided that the distribution results in the termination of the participant's entire interest in the Plan, subject to the plan aggregation rules of Code Section 409A and regulations thereunder. By way of example, the Administrator may permit such acceleration of the time or schedule of a payment under the arrangement to an individual other than a Participant as may be necessary to fulfill a domestic relations order (as defined in Code Section 414(p)(1)(B)).

6.10 Unforeseeable Emergency

The Administrator may permit an early distribution of part or all of any deferred amounts; provided, however, that such distribution shall be made only if the Administrator, in its sole discretion, determines that the Participant, or the Participant's beneficiary, has experienced an Unforeseeable Emergency. An Unforeseeable Emergency is defined as a severe financial hardship resulting from an illness or accident of the Participant, the Participant's spouse, the Participant's beneficiary, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant's property due to casualty or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. If an Unforeseeable Emergency is determined to exist, a

distribution may not exceed the amounts necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

6.11 Minimum Distribution

Notwithstanding any provision to the contrary, if the balance of a Participant's Account or sub-account at the time of a distribution event is \$10,000 or less, then the Participant shall be paid his or her Account or sub-account as a single lump sum.

6.12 Distributions Relating to Change-in-Control

Except as provided in Section 10.12, and notwithstanding anything herein to the contrary, upon a Participant's Separation from Service within twenty-four (24) months following a Change-in-Control, such Participant will receive the balance of his or her Account or sub-account(s), valued at the six or twelve month anniversary (or first business day thereafter), as selected by the Participant, of the Separation from Service and paid in a single lump sum six months or twelve months, as selected by the Participant, following Separation from Service (or first business day thereafter) or, if earlier, the date of death of the Participant.

6.13 Employer Stock

The Administrator may include Employer Stock as one of the Investment Fund options described in Section 5.2. The Administrator may, in its sole discretion, limit the investment allocation of all or some of the Employer Discretionary Contributions to Employer Stock. Deferrals of equity-based Compensation shall only be allocated to Employer Stock and shall only be payable upon a Participant's Separation from Service or Disability.

A Participant may not re-allocate an investment in Employer Stock pursuant to this Plan into another investment option. The portion of an Account that is invested in Employer Stock will be paid under Article 6 only in the form of cash based on the value of Employer Stock as of the applicable valuation date.

6.14 Form of Payment

All distributions shall be made in the form of cash.

Article 7 Beneficiaries

7.1 Beneficiaries

Each Participant may from time to time designate one or more persons (who may be any one or more members of such person's family or other persons, administrators, trusts, foundations or other entities) as his or her beneficiary under the Plan. Such designation shall be made in a form prescribed by the Administrator. Each Participant may at any time and from time to time, change any previous beneficiary designation, without notice to or consent of any previously designated beneficiary, by amending his or her previous designation in a form prescribed by the Administrator. If the beneficiary does not survive the Participant (or is otherwise unavailable to receive payment), or if no beneficiary is validly designated then the amounts payable under this Plan shall be paid to the Participant's estate. If more than one person is the beneficiary of a deceased Participant, each such person shall receive a pro rata share of any death benefit payable unless otherwise designated in the applicable form. If a beneficiary who is receiving benefits dies, all benefits that were payable to such beneficiary shall then be payable to the estate of that beneficiary.

7.2 Lost Beneficiary

All Participants and beneficiaries shall have the obligation to keep the Administrator informed of their current address until such time as all benefits due have been paid. If a Participant or beneficiary cannot be located by the Administrator exercising due diligence, then, in its sole discretion, the

Administrator may presume that the Participant or beneficiary is deceased for purposes of the Plan and all unpaid amounts (net of due diligence expenses) owed to the Participant or beneficiary shall be paid accordingly or, if a beneficiary cannot be so located, then such amounts may be forfeited. Any such presumption of death shall be final, conclusive and binding on all parties.

Article 8 Funding

8.1 Prohibition against Funding

Should any investment be acquired in connection with the liabilities assumed under this Plan, it is expressly understood and agreed that the Participants and beneficiaries shall not have any right with respect to, or claim against, such assets nor shall any such purchase be construed to create a trust of any kind or a fiduciary relationship between the Employer and the Participants, their beneficiaries or any other person. Any such assets shall be and remain a part of the general, unpledged, unrestricted assets of the Employer, subject to the claims of its general creditors. It is the express intention of the parties hereto that this arrangement shall be unfunded for tax purposes and for purposes of Title I of the ERISA. Each Participant and beneficiary shall be required to look to the provisions of this Plan and to the Employer itself for enforcement of any and all benefits due under this Plan, and to the extent any such person acquires a right to receive payment under this Plan, such right shall be no greater than the right of any unsecured general creditor of the Employer. The Employer or the Trust shall be designated the owner and beneficiary of any investment acquired in connection with its obligation under this Plan.

8.2 Deposits in Trust

Notwithstanding Section 8.1, or any other provision of this Plan to the contrary, the Employer may deposit into the Trust any amounts it deems appropriate to pay the benefits under this Plan. The amounts so deposited may include all contributions made pursuant to a Deferral Election by a Participant and any Employer Discretionary Contributions.

8.3 Withholding of Employee Contributions

The Administrator is authorized to make any and all necessary arrangements with the Employer in order to withhold the Participant's Deferrals under Section 3.1 hereof from his or her Compensation. The Administrator shall determine the amount and timing of such withholding.

Article 9 Claims Administration

9.1 General

If a Participant, beneficiary or his or her representative is denied all or a portion of an expected Plan benefit for any reason and the Participant, beneficiary or his or her representative desires to dispute the decision of the Administrator, he or she must file a written notification of his or her claim with the Administrator.

9.2 Claims Procedure

Upon receipt of any written claim for benefits, the Administrator shall be notified and shall give due consideration to the claim presented. If any Participant or beneficiary claims to be entitled to benefits under the Plan and the Administrator determines that the claim should be denied in whole or in part, the Administrator shall, in writing, notify such claimant within ninety (90) days (forty-five (45) days if the claim is on account of Disability) of receipt of the claim that the claim has been denied. The Administrator may extend the period of time for making a determination with respect to any claim for a period of up to ninety (90) days (thirty (30) days if claim is on account of Disability), provided that the Administrator determines that such an extension is necessary because of special circumstances and notifies the claimant, prior to the expiration of the initial ninety (90) day (or forty-five (45) day) period, of the circumstances requiring the extension of time and the date by which the Plan expects to render a decision. If the claim is denied to any extent by the Administrator, the Administrator shall furnish the claimant with a written notice setting forth:

- (a) the specific reason or reasons for denial of the claim;

- (b) a specific reference to the Plan provisions on which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (d) an explanation of the provisions of this Article.

Under no circumstances shall any failure by the Administrator to comply with the provisions of this Section 9.2 be considered to constitute an allowance of the claimant's claim.

9.3 Right of Appeal

A claimant who has a claim denied wholly or partially under Section 9.2 may appeal to the Administrator for reconsideration of that claim. A request for reconsideration under this Section must be filed by written notice within sixty (60) days (one-hundred and eighty (180) days if the claim is on account of Disability) after receipt by the claimant of the notice of denial under Section 9.2.

9.4 Review of Appeal

Upon receipt of an appeal the Administrator shall promptly take action to give due consideration to the appeal. Such consideration may include a hearing of the parties involved, if the Administrator feels such a hearing is necessary. In preparing for this appeal, the claimant shall be given the right to review pertinent documents and the right to submit in writing a statement of issues and comments. After consideration of the merits of the appeal, the Administrator shall issue a written decision, which shall be binding on all parties. The decision shall specifically state its reasons and pertinent Plan provisions on which it relies. The Administrator's decision shall be issued within sixty (60) days (forty-five (45) days if the claim is on account of Disability) after the appeal is filed, except that the Administrator may extend the period of time for making a determination with respect to any claim for a period of up one-hundred and twenty (120) days (ninety (90) days if the claim is on account of Disability), provided that the Administrator determines that such an extension is necessary because of special circumstances and notifies the claimant, prior to the expiration of the initial one-hundred and twenty (120) day (or, if the claim is on account of Disability, initial ninety (90) day) period, of the circumstances requiring the extension of time and the date by which the Plan expects to render a decision. Under no circumstances shall any failure by the Administrator to comply with the provisions of this Section 9.4 be considered to constitute an allowance of the claimant's claim. In the case of a claim on account of Disability: (i) the review of the denied claim shall be conducted by an employee who is neither the individual who made the initial determination or a subordinate of such person; and (ii) no deference shall be given to the initial determination. For issues involving medical judgment, the employee must consult with an independent health care professional who may not be the health care professional who rendered the initial claim.

9.5 Designation

The Administrator may designate any other person of its choosing to make any determination otherwise required under this Article. Any person so designated shall have the same authority and discretion granted to the Administrator hereunder.

Article 10 General Provisions

10.1 Administrator

(a) The Administrator is expressly empowered to limit the amount of Compensation that may be deferred; to deposit amounts into the Trust in accordance with Section 8.2 hereof; to interpret the Plan, and to determine all questions arising in the administration, interpretation and application of the Plan; to employ actuaries, accountants, counsel, and other persons it deems necessary in connection with the administration of the Plan; to request any information from the Employer it deems necessary to determine whether the Employer would be considered insolvent or subject to a proceeding in bankruptcy; and to take all other necessary and proper actions to fulfill its duties as Administrator.

(b) The Administrator shall not be liable for any actions by it hereunder, unless due to its own negligence, willful misconduct or lack of good faith.

(c) The Administrator shall be indemnified and saved harmless by the Employer from and against all personal liability to which it may be subject by reason of any act done or omitted to be done in its official capacity as Administrator in good faith in the administration of the Plan and Trust, including all expenses reasonably incurred in its defense in the event the Employer fails to provide such defense upon the request of the Administrator. The Administrator is relieved of all responsibility in connection with its duties hereunder to the fullest extent permitted by law, short of breach of duty to the beneficiaries.

10.2 No Assignment

Benefits or payments under this Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Participant or the Participant's beneficiary, whether voluntary or involuntary, and any attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish the same shall not be valid, nor shall any such benefit or payment be in any way liable for or subject to the debts, contracts, liabilities, engagement or torts of any Participant or beneficiary, or any other person entitled to such benefit or payment pursuant to the terms of this Plan, except to such extent as may be required by law. If any Participant or beneficiary or any other person entitled to a benefit or payment pursuant to the terms of this Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish any benefit or payment under this Plan, in whole or in part, or if any attempt is made to subject any such benefit or payment, in whole or in part, to the debts, contracts, liabilities, engagements or torts of the Participant or beneficiary or any other person entitled to any such benefit or payment pursuant to the terms of this Plan, then such benefit or payment, in the discretion of the Administrator, shall cease and terminate with respect to such Participant or beneficiary, or any other such person.

10.3 No Employment Rights

Participation in this Plan shall not be construed to confer upon any Participant the legal right to be retained in the employ of the Employer, or give a Participant or beneficiary, or any other person, any right to any payment whatsoever, except to the extent of the benefits provided for hereunder. Each Participant shall remain subject to discharge to the same extent as if this Plan had never been adopted.

10.4 Incompetence

If the Administrator determines that any person to whom a benefit is payable under this Plan is incompetent by reason of physical or mental disability, the Administrator shall have the power to cause the payments becoming due to such person to be made to another for his or her benefit without responsibility of the Administrator or the Employer to see to the application of such payments. Any payment made pursuant to such power shall, as to such payment, operate as a complete discharge of the Employer, the Administrator and the Trustee.

10.5 Identity

If, at any time, any doubt exists as to the identity of any person entitled to any payment hereunder or the amount or time of such payment, the Administrator shall be entitled to hold such sum until such identity or amount or time is determined or until an order of a court of competent jurisdiction is obtained. The Administrator shall also be entitled to pay such sum into court in accordance with the appropriate rules of law. Any expenses incurred by the Employer, Administrator, and Trust incident to such proceeding or litigation shall be charged against the Account of the affected Participant.

10.6 Other Benefits

The benefits of each Participant or beneficiary hereunder shall be in addition to any benefits paid or payable to or on account of the Participant or beneficiary under any other pension, disability, annuity or retirement plan or policy whatsoever.

10.7 Expenses

All expenses incurred in the administration of the Plan, whether incurred by the Employer or the Plan, shall be paid by the Employer.

10.8 Insolvency

Should the Employer be considered insolvent (as defined by the Trust), the Employer, through its Board and chief executive officer, shall give immediate written notice of such to the Administrator of the Plan and the Trustee. Upon receipt of such notice, the Administrator or Trustee shall cease to make any payments to Participants who were Employees of the Employer or their beneficiaries and shall hold any and all assets attributable to the Employer for the benefit of the general creditors of the Employer.

10.9 Amendment or Modification

The Employer may, at any time, in its sole discretion, amend or modify the Plan in whole or in part, except that no such amendment or modification shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that such amendment or modification complies with Code Section 409A and related regulations thereunder.

10.10 Plan Suspension

The Employer further reserves the right to suspend the Plan in whole or in part, except that no such suspension shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that the distribution of the vested Participant Accounts shall not be accelerated but shall be paid at such time and in such manner as determined under the terms of the Plan immediately prior to suspension as if the Plan had not been suspended.

10.11 Plan Termination

The Employer further reserves the right to terminate the Plan in whole or in part, in the following manner, except that no such termination shall have any retroactive effect to reduce any amounts allocated to a Participant's Accounts, and provided that such termination complies with Code Section 409A and related regulations thereunder:

(a) The Employer, in its sole discretion, may terminate the Plan and distribute all vested Participants' Accounts no earlier than twelve (12) calendar months from the date of the Plan termination and no later than twenty-four (24) calendar months from the date of the Plan termination, provided however that all other similar arrangements are also terminated by the Employer for any affected Participant and no other similar arrangements are adopted by the Employer for any affected Participant within a three (3) year period from the date of termination; or

(b) The Employer may decide, in its sole discretion, to terminate the Plan in the event of a corporate dissolution taxed under Code Section 331, or with the approval of a bankruptcy court, provided that the Participants vested Account balances are distributed to Participants and are included in the Participants' gross income in the latest of: (i) the calendar year in which the termination occurs; (ii) the calendar year in which the amounts deferred are no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which payment is administratively practicable.

10.12 Plan Termination due to a Change-in-Control

The Employer may decide, in its discretion, to terminate the Plan in the event of a Change-in-Control and distribute all vested Participants Account balances no earlier than thirty (30) days prior to the Change-in-Control and no later than twelve (12) months after the effective date of the Change-in-Control, provided however that the Employer terminates all other similar arrangements for any affected Participant.

10.13 Construction

All questions of interpretation, construction or application arising under or concerning the terms of this Plan shall be decided by the Administrator, in its sole and final discretion, whose decision shall be final, binding and conclusive upon all persons.

10.14 Governing Law

This Plan shall be governed by, construed and administered in accordance with the applicable provisions of ERISA, Code Section 409A, and any other applicable federal law, provided, however, that to the extent not preempted by federal law this Plan shall be governed by, construed and administered under the laws of the State of Arizona, other than its laws respecting choice of law.

10.15 Severability

If any provision of this Plan is held invalid or unenforceable, its invalidity or unenforceability shall not affect any other provision of this Plan and this Plan shall be construed and enforced as if such provision had not been included therein. If the inclusion of any Employee (or Employees) as a Participant under this Plan would cause the Plan to fail to comply with the requirements of sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, then the Plan shall be severed with respect to such Employee or Employees, who shall be considered to be participating in a separate arrangement.

10.16 Headings

The Article headings contained herein are inserted only as a matter of convenience and for reference and in no way define, limit, enlarge or describe the scope or intent of this Plan nor in any way shall they affect this Plan or the construction of any provision thereof.

10.17 Terms

Capitalized terms shall have meanings as defined herein. Singular nouns shall be read as plural, masculine pronouns shall be read as feminine, and vice versa, as appropriate.

10.18 Code Section 409A Fail Safe Provision

If any provision of this Plan violates Code Section 409A, the regulations promulgated thereunder, regulatory interpretations, announcements or mandatory judicial precedent construing Code Section 409A (collectively "Applicable Law"), then such provision shall be void and have no effect. At all times, this Plan shall be interpreted in such manner that it complies with Applicable Law.

IN WITNESS WHEREOF, Meritage Homes Corporation has caused this instrument to be executed by its duly authorized officer, effective as of this 22nd day of June 2015.

Meritage Homes Corporation

By: /s/ C. Timothy White__

Title: General Counsel, Executive Vice President and Secretary__

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

I, Phillippe Lord, 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 30, 2021

/s/ Phillippe Lord

Phillippe Lord
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 30, 2021

/s/ Hilla Sferruzza

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, 2021, 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/ Phillippe Lord

Phillippe Lord
Chief Executive Officer
(Principal Executive Officer)

July 30, 2021

By: /s/ Hilla Sferruzza

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

July 30, 2021