

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM S-1  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

MONTEREY HOMES CORPORATION  
(Exact name of registrant as specified in its charter)  
Maryland 86-0611231  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

1531

(Primary Standard Industrial Classification Code Number)

6613 North Scottsdale Road, Suite 200  
Scottsdale, Arizona 85250  
(602) 998-8700

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Larry W. Seay  
Vice President-Finance and Chief Financial Officer  
Monterey Homes Corporation  
6613 North Scottsdale Road, Suite 200  
Scottsdale, Arizona 85250  
(602) 998-8700

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Steven D. Pidgeon  
Snell & Wilmer L.L.P.  
One Arizona Center  
400 E. Van Buren  
Phoenix, Arizona 85004-0001  
(602) 382-6000

Approximate date of commencement of proposed sale to public: From time to time after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If delivery of the Prospectus is expected to be made pursuant to Rule 434, please check the following box:

CALCULATION OF REGISTRATION FEE

<TABLE>  
<CAPTION>

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1) (2)	Amount of Registration Fee
<S>	<C>	<C>	<C>	<C>
Warrants to Purchase Common Shares	212,398 Warrants	\$4.0634	\$863,058	\$262

(1) The number of shares into which the Warrants are exercisable and the exercise price thereof are subject to adjustment under certain antidilution provisions. Any increase in the Warrants deemed to result from the operation of such provisions are registered hereunder pursuant to Rule 416(a) under the Securities Act of 1933.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(g) based on the exercise price of the Warrants.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

</TABLE>

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JUNE 20, 1997

PROSPECTUS

MONTEREY HOMES CORPORATION

212,398 WARRANTS TO PURCHASE AN AGGREGATE OF 256,345 SHARES OF COMMON STOCK

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This Prospectus relates to the offering from time to time by certain holders (the "Selling Security Holders") of 212,398 warrants (the "Warrants") to purchase an aggregate of 256,345 shares, subject to adjustment under certain antidilution provisions (the "Warrant Shares"), of common stock, par value \$.01 per share (the "Common Stock"), of Monterey Homes Corporation, a Maryland corporation (the "Company"). The Warrants were acquired by the Selling Security Holders in connection with the merger (the "Merger"), effective December 31, 1996, of Monterey Homes Construction II, Inc., an Arizona corporation ("MHC II"), and Monterey Homes Arizona II, Inc., an Arizona corporation ("MHA II" and collectively with MHC II, the "Monterey Entities" or "Monterey"), with and into Homeplex Mortgage Investments Corporation, a Maryland corporation ("Homeplex"), with Homeplex surviving and changing its name to Monterey Homes Corporation. See "Prospectus Summary -- The Merger" and "The Merger." The Warrant Shares obtainable upon exercise of the Warrants and covered by this Prospectus are subject to adjustment under certain antidilution provisions and may be increased or decreased in accordance with such provisions. The Warrants became exercisable on the effective date of the Merger and will continue to be exercisable at any time on or prior to October 15, 2001 or such earlier date that the Warrants terminate in accordance with their terms. Each Warrant may be exercised for the purchase of 1.2069 shares of Common Stock at an exercise price of \$4.0634 per Warrant. The exercise price of the Warrants will be reduced to \$3.4634 per Warrant, if during the eighteen months following the Merger the closing price of the Common Stock on the New York Stock Exchange (the "NYSE") does not exceed \$9.00 per share for five consecutive trading days. See "Prospectus Summary," "The Merger - The Merger Consideration," and "Description of the Warrants."

The Warrants may be offered by the Selling Security Holders in transactions in the over-the-counter market at prices obtainable at the time of sale or in privately negotiated transactions at prices determined by negotiation. The Selling Security Holders may effect such transactions by selling the Warrants to or through securities broker-dealers, and such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the Selling Security Holders and/or the purchasers of the Warrants for whom such broker-dealers may act as agent or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). Additionally,

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agents or dealers may acquire Warrants or interests therein as a pledgee and may, from time to time, effect distributions of the Warrants or interests therein in such capacity. See "Selling Security Holders" and "Plan of Distribution." The Selling Security Holders, the brokers and dealers through whom sales of the Warrants are made and any agent or dealer who distributes Warrants acquired as pledgee may be deemed "underwriters" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), and any profits realized by them on the sale of the Warrants may be considered to be underwriting compensation.

The Company is not selling any of the Warrants and will not receive any of the proceeds from the sale of the Warrants being offered by the Selling Security Holders nor from the exercise of the Warrants. William W. Cleverly and Steven J. Hilton (the "Monterey Stockholders") will receive proceeds of \$863,058, subject to adjustment pursuant to the antidilution provisions of the Warrants, if all of the Warrants are exercised. See "Prospectus Summary" and "The Merger - The Merger Consideration." The cost of registering the Warrants is being borne by the Company.

The Company's Common Stock is traded on the NYSE under the symbol "MTH." On June 13, 1997, the last sale price for the Common Stock as reported by the NYSE was \$7 3/4 per share. See "Price of Common Stock and Dividend Policy." There is no market for the Warrants and no assurance can be given that a market will develop. See "Risk Factors -- Absence of Public Trading Market."

SEE "RISK FACTORS" BEGINNING ON PAGE 7 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Company since the date hereof.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities offered hereby in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is \_\_\_\_\_, 1997.

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#### AVAILABLE INFORMATION

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (herein, together with all amendments and exhibits thereto, referred to as the "Registration Statement") under the Securities Act with respect to the securities offered hereby. This Prospectus, which forms a part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto, certain parts of which are omitted in accordance with the rules and regulations of the Commission. For further information with respect to the Company and securities offered hereby, reference is made to the Registration Statement.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements, information statements, and other information with the Commission. The Registration Statement and the exhibits thereto, and the reports, proxy statements, information statements, and other information, filed by the Company with the Commission pursuant to the Exchange Act may be inspected and copied at the public reference facilities of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street N.W., Washington, D.C. 20549 and at the Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048, and Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such materials can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates, and can also be obtained electronically through the Commission's Electronic Data Gathering, Analysis and Retrieval system at the Commission's Web Site (<http://www.sec.gov>). The Company's Common Stock is listed on the NYSE and copies of the Registration Statement and the exhibits thereto, and of such reports, proxy statements, information statements, and other information, can also be inspected at the offices of the NYSE at 20 Broad Street, 17th Floor, New York, New York 10005.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Commission or otherwise. The words "believe," "expect," "anticipate," and "project," and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act and Section 21E of the Exchange Act. Such statements may include, but not be limited to, projections of revenues, income or loss, home sales, housing permits, backlog, inventory, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation, and plans relating to products or services of the Company, as well as assumptions relating to the foregoing. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Potential risks and uncertainties include such factors as the strength and competitive pricing environment of the single-family housing market, changes in the availability and pricing of residential mortgages, changes in the availability and pricing of real estate in the markets in which the Company operates, demand for and acceptance of the Company's products, the success of planned marketing and promotional campaigns, and the ability of the Company and acquisition candidates to successfully integrate their operations. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this Prospectus, including under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" below, describe additional factors, among others, that could contribute to or cause such differences.

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## PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this Prospectus.

### The Merger

Upon effectuation of the Merger on December 31, 1996, the Monterey Entities merged with and into Homeplex, with Homeplex surviving and changing its name to Monterey Homes Corporation. The Company also effected a one-for-three reverse stock split concurrent with the Merger.

As consideration for the Merger, the Monterey Stockholders, who together owned 100% of the outstanding capital stock of the Monterey Entities, received 1,288,726 shares of Common Stock of the Company (the "Exchange Shares"). Although all of the Exchange Shares were issued in the name of the Monterey Stockholders, the Company will hold approximately 16.5% of the Exchange Shares for release to holders of the Warrants upon exercise of the Warrants, and the Company will remit the exercise price paid upon such exercise to the Monterey Stockholders. Upon expiration of unexercised Warrants, the Company will distribute the Exchange Shares allocable to such unexercised Warrants to the Monterey Stockholders. The Monterey Stockholders are entitled to vote the Exchange Shares issued in their names but allocated to the Warrants, prior to the time the Warrants are exercised.

In addition to the Exchange Shares, the Company has reserved for issuance 266,667 shares of Common Stock, subject to certain contingencies (the "Contingent Stock"). Approximately 16.5% or 43,947 shares of the Contingent Stock are allocable to the Warrants upon their exercise. When a Warrant is exercised, a portion of the Contingent Stock will be distributed to the exercising holder without additional consideration being paid therefor. For more detailed information concerning the Merger and the Merger consideration, see "The Merger."

### Business of the Company

Prior to the Merger, the Company was engaged in the business of making short-term and intermediate-term mortgage loans on improved and unimproved real property ("Real Estate Loans") and owned mortgage assets. In 1993, the Company decided to shift its focus to making Real Estate Loans from the ownership of mortgage assets consisting of mortgage instruments, including residential mortgage loans and mortgage certificates representing interest in pools of residential mortgage loans ("Mortgage Instruments") and mortgage interests, commonly known as residual interests, representing the right to receive the net cash flows on Mortgage Instruments ("Mortgage Interests"). Substantially all of the Company's Mortgage Instruments and the Mortgage Instruments underlying the Company's Mortgage Interests currently secure or underlie mortgage-collateralized bonds, mortgage pass-through certificates, or other mortgage securities issued by various institutions.

Prior to the Merger, the Company had elected to be taxed as a real estate investment trust (a "REIT") pursuant to Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, the Company generally was not subject to tax on its income to the extent that it distributed at least 95% of its taxable earnings to stockholders and maintained its qualification as a REIT. As part of the Merger, however, the Company

discontinued its status as a REIT because it would no longer be able to meet certain tests with respect to the nature of its assets, share ownership and the amount of

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distributions, among other things, which are required to be met in order to qualify as a REIT. As a result, any future distributions to the Company's stockholders will not be deductible by the Company in computing its taxable income. In that regard, the Company's Board of Directors intends to retain earnings to finance the growth of the Company's business. The future payment of cash dividends, if any, will depend upon the financial condition, results of operations, and capital requirements of the Company, as well as other factors deemed relevant by the Board.

The Company's business has changed substantially as a result of the Merger. The Company is no longer engaged primarily in the business of making Real Estate Loans, but instead is engaged primarily in the homebuilding business - -- the business engaged in by Monterey prior to the Merger.

Monterey designs, builds, and sells single-family, move-up and semi-custom, luxury homes in the Phoenix and Tucson, Arizona metropolitan areas. Monterey achieved revenue growth from \$20.4 million in 1991 to \$86.8 million in 1996 and achieved pre-tax income of \$6 million in 1996. Monterey attributes this growth principally to the market knowledge and experience of its management team and strong economic conditions in the Phoenix metropolitan area. For the year ended December 31, 1996, Monterey closed 307 homes generating revenues of \$86.8 million and as of that date had a backlog of 120 homes under contract.

The Company is a Maryland corporation headquartered in Scottsdale, Arizona. The Company's principal executive offices are located at 6613 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85250, and its telephone number is (602) 998-8700.

For additional information concerning the Company, see "Business of the Company" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### The Offering

Securities Offered..... 212,398 Warrants, which, when exercised, would entitle the holders thereof to purchase, in the aggregate, 256,345 shares of Common Stock including the Contingent Stock issuable upon exercise of the Warrants (equal to approximately 5.6% of the outstanding Common Stock of the Company, after giving effect to the exercise of the Warrants but not to the exercise or conversion of any other stock options, convertible securities, or warrants), subject to adjustment under certain antidilution provisions.

Transfer Restrictions..... Certain transfer restrictions apply to the ownership of Common Stock of the Company and will also apply to the ownership of the Warrants. See "The Merger - Amendment to the Articles of Incorporation" and "The Merger - NOL Carryforward" for a description of such restrictions.

Warrants Outstanding..... 212,398 Warrants are outstanding.

Common Stock Outstanding..... As of June 13, 1997, 4,580,611 shares of Common Stock were outstanding.

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Use of Proceeds..... There will be no proceeds to the Company from the sale of the Warrants by the Selling Security Holders or from the exercise of the Warrants by the Selling Security Holders. Upon the exercise of the Warrants, the Company will remit the exercise price of \$4.0634 per Warrant (subject to adjustment), or aggregate gross proceeds of approximately \$863,058 if all of the Warrants are exercised, to the Monterey Stockholders. See "Use of Proceeds" and "The Merger."

#### Description of Warrants:

Expiration of Warrants..... October 15, 2001 or such earlier date that the Warrants terminate in accordance with their terms (the "Expiration Date").

Exercise..... Each Warrant entitles the holder thereof to purchase 1.2069 shares of Common Stock (including the Contingent Stock

issuable upon exercise of a Warrant) for \$4.0634 (subject to adjustment as described herein). The Warrants may be exercised at any time on or prior to the Expiration Date.

Adjustments..... The number of shares of Common Stock for which a Warrant is exercisable and the purchase price thereof are subject to adjustment from time to time upon the occurrence of certain events, including, among other things, certain issuances of stock, options, or other securities, certain dividends and distributions, and certain subdivisions, combinations, and reclassifications of Common Stock. A Warrant does not entitle the holder thereof to receive any dividends paid on Common Stock.

For additional information concerning the Warrants, see "The Merger - The Merger Consideration" and "Description of the Warrants." For additional information concerning the Warrant Shares, see "Description of Common Stock."

#### RISK FACTORS

The Company's future operating results and financial condition are dependent on the Company's ability to successfully design, develop, construct and sell homes that satisfy dynamic customer demand patterns. Inherent in this process are a number of factors that the Company must successfully manage in order to achieve favorable future operating results and financial condition. In addition, the price of the Company's Common Stock and the Warrants could be affected not only by such operating and financial conditions, but also by other factors. Potential risks and uncertainties that could affect the Company's future operating results and financial condition and the performance of its Common Stock and the Warrants include, without limitation, the factors discussed below.

Restrictions on Transfer; Influence by Principal Stockholders. In order to preserve maximum utility of certain net operating loss carryforwards, the Company's charter, among other transfer limitations, precludes (i) any person from transferring such shares if the effect thereof would be to make any person

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or group an owner of 4.9% or more of the outstanding shares of Common Stock, or (ii) an increase in the ownership position of any person or group that already owns 4.9% or more of such outstanding shares. As a result of the foregoing factors, Messrs. Cleverly and Hilton should have working control of the Company for the foreseeable future. One or more of the foregoing factors could delay or prevent a future change of control of the Company, which could depress the price of the Common Stock. In addition, such restrictions will also apply to the Warrants. Ownership of the Warrants will be aggregated with ownership of shares of Common Stock otherwise held by a holder of Warrants to determine if the allowable ownership percentage is exceeded. See "The Merger - Amendment to Articles of Incorporation" and "The Merger - NOL Carryforward."

Possible Volatility of Stock Price. The market price of the Company's Common Stock could be subject to significant fluctuations in response to certain factors, such as, among others, variations in anticipated or actual results of operations of the Company or other companies in the homebuilding industry, changes in conditions affecting the economy generally, analysts' reports, and general trends in the industry, as well as other factors unrelated to the Company's operating results.

Absence of Public Trading Market for Warrants. The Company has not and does not intend to apply for the listing of the Warrants on any national securities exchange or to seek the admission thereof to trading in the NASDAQ Stock Market, and there can be no assurance as to the liquidity of any market for the Warrants.

Homebuilding Industry Factors. The homebuilding industry is cyclical and is significantly affected by changes in national and local economic and other conditions, such as employment levels, availability of financing, interest rates, consumer confidence and housing demand. Although the Company believes that its customers (particularly purchasers of luxury homes) are somewhat less price sensitive than generally is the case for other homebuilders, such uncertainties could adversely affect the Company's performance. In addition, homebuilders are subject to various risks, many of which are outside the control of the homebuilders, including delays in construction schedules, cost overruns, changes in government regulation, increases in real estate taxes and other local government fees, and availability and cost of land, materials, and labor. Although the principal raw materials used in the homebuilding industry generally are available from a variety of sources, such materials are subject to periodic price fluctuations. There can be no assurance that the occurrence of any of the foregoing will not have a material adverse effect on the Company.

Customer demand for new housing also impacts the homebuilding industry. Real estate analysts predict that new home sales in the Phoenix metropolitan area may slow significantly during 1997 and 1998 and that such sales in the Tucson metropolitan area will remain relatively flat in 1997. Any such slowing

in new home sales would have a material adverse affect on the Company's business and operating results.

The homebuilding industry further is subject to the potential for significant variability and fluctuations in real estate values, as evidenced by the changes in real estate values in recent years in Arizona. Although the Company believes that its projects are currently reflected on its balance sheet at appropriate values, no assurance can be given that write-downs of some or all of the Company's projects will not occur if market conditions deteriorate, or that such write-downs will not be material in amount.

Fluctuations in Operating Results. Monterey historically has experienced, and in the future the Company expects to continue to experience, variability in home sales and net earnings on a quarterly basis.

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Factors expected to contribute to this variability include, among others (i) the timing of home closings and land sales, (ii) the Company's ability to continue to acquire additional land or options to acquire additional land on acceptable terms, (iii) the condition of the real estate market and the general economy in Arizona and in other areas into which the Company may expand its operations, (iv) the cyclical nature of the homebuilding industry and changes in prevailing interest rates and the availability of mortgage financing, (v) costs or shortages of materials and labor, and (vi) delays in construction schedules due to strikes, adverse weather conditions, acts of God or the availability of subcontractors or governmental restrictions. As a result of such variability, Monterey's historical financial performance may not be a meaningful indicator of the Company's future results.

Expansion into Tucson Market. The Company began operations in the Tucson, Arizona area in April 1996. Such operations are in the early stage and, accordingly, there can be no assurance that the Company's Tucson operations will be successful.

Interest Rates and Mortgage Financing. The Company believes that its customers (particularly purchasers of luxury homes) have been somewhat less sensitive to interest rates than many homebuyers. However, many purchasers of the Company's homes finance their acquisition through third-party lenders providing mortgage financing. In general, housing demand is adversely affected by increases in interest rates and housing costs and the unavailability of mortgage financing. If mortgage interest rates increase and the ability of prospective buyers to finance home purchases is consequently adversely affected, the Company's home sales, gross margins, and net income may be adversely impacted and such adverse impact may be material. In any event, the Company's homebuilding activities are dependent upon the availability and costs of mortgage financing for buyers of homes owned by potential customers so those customers ("move-up buyers") can sell their homes and purchase a home from the Company. Any limitations or restrictions on the availability of such financing could adversely affect the Company's home sales. Furthermore, changes in federal income tax laws may affect demand for new homes. From time to time, proposals have been publicly discussed to limit mortgage interest deductions and to eliminate or limit tax-free rollover treatment provided under current law where the proceeds of the sale of a principal residence are reinvested in a new principal residence. Enactment of such proposals may have an adverse effect on the homebuilding industry in general, and on demand for the Company's products in particular. No prediction can be made whether any such proposals will be enacted and, if enacted, the particular form such laws would take.

Competition. The homebuilding industry is highly competitive and fragmented. Homebuilders compete for desirable properties, financing, raw materials, and skilled labor. The Company competes for residential home sales with other developers and individual resales of existing homes. The Company's competitors include large homebuilding companies, some of which have greater financial resources than the Company, and smaller homebuilders, who may have lower costs than the Company. Competition is expected to continue and become more intense and there may be new entrants in the markets in which the Company currently operates. Further, the Company will face a variety of competitors in other new markets it may enter in the future.

Lack of Geographic Diversification; Limited Product Diversification. The Company's operations are presently localized in the metropolitan Phoenix, Arizona area, particularly in the City of Scottsdale. The Company began operations in Tucson, Arizona in April 1996. The Company currently operates in two primary market segments: the semi-custom, luxury market and the move-up buyer market. Failure to be geographically or economically diversified could have a material adverse impact on the Company if

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the homebuilding market in Arizona should decline, because there would not be a balancing opportunity in a healthier market in other geographic regions or market segments. In this regard, although housing permits in the Phoenix metropolitan area were at record levels during 1996, real estate analysts predict that new home sales will slow significantly during 1997 and 1998. Housing permits in the City of Scottsdale decreased moderately from 1995 to 1996. Housing permits in the Tucson metropolitan area have remained relatively flat from 1995 to 1996, and are expected to remain flat in 1997. In addition, the Company's limited product line could have an adverse impact on the Company compared to homebuilders who might have a variety of homes in different price ranges such that the results in one product line could offset changes in another. The Company is currently considering an acquisition that will expand its geographic markets. See "Current Events."

**Additional Financing; Limitations.** The homebuilding industry is capital intensive and requires significant up-front expenditures to acquire land and begin development. Accordingly, the Company incurs substantial indebtedness to finance its homebuilding activities. At December 31, 1996 and March 31, 1997, the Company's liabilities totaled approximately \$45,876,000 and \$43,023,000, respectively. The Company may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including bank financing and/or securities offerings. In addition, lenders are increasingly requiring developers to invest significant amounts of equity in a project both in connection with origination of new loans as well as the extension of existing loans. If the Company is not successful in obtaining sufficient capital to fund its planned capital and other expenditures, new projects planned or begun may be delayed or abandoned. Any such delay or abandonment could result in a reduction in home sales and may adversely affect the Company's operating results. There can be no assurance that additional debt or equity financing will be available in the future or on terms acceptable to the Company.

In addition, the amount and types of indebtedness that the Company can incur is limited by the terms and conditions of its current indebtedness. The Company must comply with numerous operating and financial maintenance covenants and there can be no assurance that the Company will be able to maintain compliance with such financial and other covenants. Failure to comply with such covenants would result in a default and resulting cross defaults under the Company's other indebtedness, and could result in acceleration of all such indebtedness. Any such acceleration would have a material adverse affect on the Company.

**Government Regulations; Environmental Considerations.** The Company is subject to local, state, and federal statutes and rules regulating certain developmental matters, as well as building and site design. In addition, the Company is subject to various fees and charges of governmental authorities designed to defray the cost of providing certain governmental services and improvements. The Company may be subject to additional costs and delays or may be precluded entirely from building projects because of "no growth" or "slow growth" initiatives, building permit allocation ordinances, building moratoriums, or similar government regulations that could be imposed in the future due to health, safety, welfare, or environmental concerns. The Company must also obtain certain licenses, permits, and approvals from certain government agencies to engage in certain of its activities, the granting or receipt of which are beyond the Company's control.

The Company and its competitors are subject to a variety of local, state, and federal statutes, ordinances, rules, and regulations concerning the protection of health and the environment. Environmental laws or permit restrictions may result in project delays, may cause the Company to incur substantial compliance and other costs, and may also prohibit or severely restrict development in certain

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environmentally sensitive regions or areas. In addition, environmental regulations can have an adverse impact on the availability and price of certain raw materials such as lumber.

**Planned Expansion.** The Company is currently considering expansion into other areas of the Southwestern and Western United States. To date, the Company has had no operating experience in areas other than its current markets. Operations in new locations may result in certain operating inefficiencies and higher costs. Further, the Company may experience problems with certain matters in new markets which it has not historically had, such as zoning matters, environmental matters, other regulations and higher costs. There can be no assurance that the Company can expand into new markets on a profitable basis or that it can successfully manage its expansion in such new markets, if any. For a description of a significant acquisition currently being considered by the Company, see "Current Events."

**Future Acquisitions.** The Company may acquire other homebuilding companies to expand its operations. There is no assurance that the Company will identify acquisition candidates that would result in successful combinations or that any such acquisitions will be consummated on acceptable terms. The magnitude, timing and nature of any future acquisitions will depend on a number of factors, including suitable acquisition candidates, the negotiation of acceptable terms, the Company's financial capabilities, and general economic and business conditions. Any future acquisitions by the Company may result in potentially dilutive issuances of equity securities, the incurrence of additional debt and/or amortization of expenses related to goodwill and intangible assets that could adversely affect the Company's profitability. In addition, acquisitions involve numerous risks, including difficulties in the assimilation of operations of the acquired company, the diversion of management's attention from other business concerns, risks of entering markets in which the Company has had no or only limited direct experience and the potential loss of key employees of the acquired company. For a description of a significant acquisition currently being considered by the Company, see "Current Events."

**Dependence on Key Personnel.** The Company's success is largely dependent on the continuing services of certain key persons, including William W. Cleverly and Steven J. Hilton, and the ability of the Company to attract new personnel required to continue the development of the Company. The Company has entered into five-year employment agreements with each of Messrs. Cleverly and Hilton. A loss by the Company of the services of Messrs. Cleverly or Hilton, or certain other key persons, could have a material adverse effect on the Company.



Dependence on Subcontractors. The Company conducts its business only as a general contractor in connection with the design, development and construction of its communities. Virtually all architectural and construction work is performed by subcontractors of the Company. As a consequence, the Company is dependent upon the continued availability and satisfactory performance by unaffiliated third-party subcontractors in designing and building its homes. There is no assurance that there will be sufficient availability of such subcontractors to the Company, and the lack of availability of subcontractors could have a material adverse affect on the Company.

Mortgage Asset Considerations. As of December 31, 1996 and March 31, 1997, the Company's portfolio of residual interests had a net balance of approximately \$3,909,000 and \$3,817,000, respectively. The results of the Company's operations will depend, in part, on the level of net cash flows generated by the Company's mortgage assets. Net cash flows vary primarily as a result of changes in mortgage prepayment rates, short-term interest rates, reinvestment income and borrowing costs, all of which involve various risks and uncertainties. Prepayment rates, interest rates, reinvestment income and borrowing costs

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depend upon the nature and terms of the mortgage assets, the geographic location of the properties securing the mortgage loans included in or underlying the mortgage assets, conditions in financial markets, the fiscal and monetary policies of the United States Government and the Board of Governors of the Federal Reserve System, international economic and financial conditions, competition and other factors, none of which can be predicted with any certainty.

The rates of return to the Company on its mortgage assets will be based upon the levels of prepayments on the mortgage loans included in or underlying such mortgage instruments, the rates of interest or pass-through rates on such mortgage securities that bear variable interest or pass-through rates, and rates of reinvestment income and expenses with respect to such mortgage securities.

Prepayment Risk. Mortgage prepayment rates vary from time to time and may cause declines in the amount and duration of the Company's net cash flows. Prepayments of fixed-rate mortgage loans included in or underlying mortgage instruments generally increase when then current mortgage interest rates fall below the interest rates on the fixed-rate mortgage loans included in or underlying such mortgage instruments. Conversely, prepayments of such mortgage loans generally decrease when then current mortgage interest rates exceed the interest rates on the mortgage loans included in or underlying such mortgage instruments. Prepayment experience also may be affected by the geographic location of the mortgage loan included in or underlying mortgage instruments, the types (whether fixed or adjustable rate) and assumability of such mortgage loans, conditions in the mortgage loan, housing and financial markets, and general economic conditions.

No assurance can be given as to the actual prepayment rate of mortgage loans included in or underlying the mortgage instruments in which the Company has an interest.

Interest Rate Fluctuation Risks. Changes in interest rates affect the performance of the Company's mortgage assets. A portion of the mortgage securities secured by the Company's mortgage instruments and a portion of the mortgage securities with respect to which the Company holds mortgage interests bear variable interest or pass-through rates based on short-term interest rates (primarily LIBOR). Consequently, changes in short-term interest rates significantly influence the Company's net cash flows.

Increases in short-term interest rates increase the interest cost on variable rate mortgage securities and, thus, tend to decrease the Company's net cash flows from its mortgage assets. Conversely, decreases in short-term interest rates decrease the interest cost on the variable rate mortgage securities and, thus, tend to increase such net cash flows. As stated above, increases in mortgage interest rates generally tend to increase the Company's net cash flows by reducing mortgage prepayments, and decreases in mortgage interest rates generally tend to decrease the Company's net cash flows by increasing mortgage prepayments. Therefore, the negative impact on the Company's net cash flows of an increase in short-term interest rates generally will be offset in whole or in part by a corresponding decrease in mortgage interest rates. However, although short-term interest rates and mortgage interest rates normally change in the same direction and therefore generally offset each other as described above, they may not change proportionally or may even change in opposite directions during a given period of time with the result that the adverse effect from an increase in short-term interest rates may not be offset to a significant extent by a favorable effect on prepayment experience and vice versa. Thus, the net effect of changes in short-term and mortgage interest rates may vary significantly between periods resulting in significant fluctuations in net cash flows from the Company's mortgage assets.

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No assurances can be given as to the amount or timing of changes in interest rates or their effect on the Company's mortgage assets or income therefrom.

Inability to Predict Effects of Market Risks. Because none of the above factors, including changes in prepayment rates, interest rates, expenses and borrowing costs, are susceptible to accurate projection, the net cash flows generated by the Company's mortgage assets cannot be predicted.

CURRENT EVENTS

On May 29, 1997, the Company signed a definitive agreement with Legacy Homes, Ltd., Legacy Enterprises, Inc., and John and Eleanor Landon (together, the "Legacy Entities"), to acquire the homebuilding and related mortgage service business of Legacy Homes, Ltd. and its affiliates. Legacy Homes is a builder of entry-level and move-up homes headquartered in the Dallas/Fort Worth metropolitan area and was founded in 1988 by its current President, John Landon. In 1996 Legacy Homes had pre-tax income of \$8.8 million on sales of \$84 million, compared to pre-tax income of \$5.7 million on sales of \$62 million in 1995. Legacy Homes closed escrow on 623 homes in 1996, a 32% increase over 1995, a year in which Legacy was recognized as one of the top ten homebuilders in the Dallas/Fort Worth area.

At Closing, the Company will pay an amount equal to the book value of the acquired assets, plus \$623,000 in cash and will issue approximately \$4 million of Company common stock. The Company will also assume substantially all the liabilities of the Legacy Entities, including indebtedness that will be incurred prior to Closing to fund distributions to the current shareholders of Legacy Homes that are expected to reduce its book value to \$5 million. The transactions are subject to normal closing conditions, including certain third party consents. The transactions are expected to be consummated on or about June 30, 1997.

Additionally, the purchase price will include deferred contingent payments for the four years following the closing of the transactions. The deferred contingent payments will be equal to 12% of the pre-tax income of the Company and 20% of the pre-tax income of the Texas division of the Company. In no event will the total of the deferred contingent payments exceed \$15 million.

In connection with the transactions, John Landon will enter into a four-year employment agreement with the Company. He will be appointed Chief Operating Officer and Co-Chief Executive Officer of the Company and President and Chief Executive Officer of the Company's Texas division. Mr. Landon will also be granted an option to purchase 166,667 shares of the Company's common stock. In addition, the Company has agreed to use reasonable best efforts to cause Mr. Landon to be elected to its Board of Directors.

USE OF PROCEEDS

There will be no proceeds to the Company from the sale of the Warrants by the Selling Security Holders or from the exercise of the Warrants. Upon the exercise of the Warrants and the issuance of the Warrant Shares, the Company will remit the exercise price of \$4.0634 per Warrant, or aggregate gross proceeds of approximately \$863,058 if all of the Warrants are exercised, to the Monterey Stockholders. See "The Merger - The Merger Consideration."

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SELLING SECURITY HOLDERS

Certain Selling Security Holders may sell their Warrants on a delayed or continuous basis. The Registration Statement has been filed pursuant to Rule 415 under the Securities Act to afford holders of the Warrants the opportunity to sell such securities in public transactions rather than pursuant to exemptions from the registration and prospectus delivery requirements of the Securities Act.

The following table sets forth certain information as of June 13, 1997, with respect to the number of Warrants held by each Selling Security Holder. None of the Selling Security Holders has had a material relationship with the Company within the past three years other than as a result of the ownership of the Warrants except as noted herein. The Selling Security Holders may offer all or some of the Warrants that they hold pursuant to the offering contemplated by this Prospectus at various times. Therefore, no estimate can be given as to the amount of Warrants that will be held by the Selling Security Holders upon completion of such offering. The Warrants may be offered from time to time by the Selling Security Holders named below:

<TABLE>  
<CAPTION>

OWNER PRIOR TO THIS OFFERING	WARRANTS OFFERED FOR SALE	SHARES OF COMMON STOCK INTO WHICH THE WARRANTS ARE EXERCISABLE	
		NUMBER	PERCENT OF COMMON STOCK OUTSTANDING(1)
<S>	<C>	<C>	<C>
AC Leadbetter & Sons Inc. Profit-Sharing Plan U/A DTD 6-1-84	2,655	3,204	.07%
Thomas Baer & Michelle Baer Jt. Ten	26,550	32,043	.70%
Bear Stearns Securities Corp. Maverick Capital LP	13,275	16,021	.35%
Boston Provident Partners LP	21,240	25,634	.56%

Capital Investments Inc	26,550	32,043	.70%
DDM Associates	5,310	6,409	.14%
Kindy French	7,965	9,613	.21%
Meslrow Alternative Strategies Fund LP	5,310	6,409	.14%
Max Palevsky	2,655	3,204	.07%
Perry Partners	53,100	64,086	1.40%
Rath Foundation Inc	26,550	32,043	.70%
Value Partners Ltd	21,240	25,634	.56%

(1) As of June 13, 1997, 4,580,611 shares of Common Stock of the Company were outstanding.  
</TABLE>

Information concerning the Selling Security Holders may change from time to time and may be set forth in supplements to this Prospectus if required. The number of Warrant Shares underlying the

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Warrants is subject to adjustment in certain events (See "Description of the Warrants" below). Accordingly, the number of Warrants offered hereby may increase or decrease.

#### PLAN OF DISTRIBUTION

The Selling Security Holders or their nominees or pledgees may sell or distribute some or all of the Warrants from time to time through dealers, brokers, or other agents or directly to one or more purchasers, including pledgees in brokerage transactions, in a combination of such transactions or by any other legally available means. Such transactions may be effected by the Selling Security Holders at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at negotiated prices, or at fixed prices, which may be changed. Brokers, dealers, or agents participating in such transactions as agent may receive compensation in the form of discounts, concessions, or commissions from the Selling Security Holders (and, if they act as agent for the purchaser of such shares, from such purchaser). Such discounts, concessions, or commissions as to a particular broker, dealer, or agent might be in excess of those customary in the type of transaction involved. This Prospectus also may be used, with the Company's consent, by donees of the Selling Security Holders, or by other persons acquiring Warrants and who wish to offer and sell such Warrants under circumstances requiring or making desirable its use. To the extent required, the Company will file, during any period in which offers or sales are being made, one or more supplements to this Prospectus to set forth the names of donees of the Selling Security Holders and any other material information with respect to the plan of distribution not previously disclosed. In addition, Warrants which qualify for sale pursuant to Section 4 of, or Rules 144 or 144A under, the Securities Act may be sold under such provisions rather than pursuant to this Prospectus.

The Selling Security Holders and any such brokers, dealers, or agents that participate in such distribution may be deemed to be "underwriters" within the meaning of the Securities Act, and any discounts, commissions, or concessions received by any such underwriters, brokers, dealers, or agents might be deemed to be underwriting discounts and commissions under the Securities Act. Neither the Company nor the Selling Security Holders can presently estimate the amount of such compensation. The Company knows of no existing arrangements between any Selling Security Holder and any other Selling Security Holder, underwriter, broker, dealer, or other agent relating to the sale or distribution of the shares of Common Stock.

The Selling Security Holder will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including without limitation Regulation M, which provisions may limit the timing of purchases and sales of any of the shares of Common Stock by the Selling Security Holders. All of the foregoing may affect the marketability of the Common Stock.

The Company will pay substantially all of the expenses incident to this offering of the Warrants by the Selling Security Holders to the public other than commissions and discounts of brokers, dealers, or agents. Each Selling Security Holder may indemnify any broker, dealer, or agent that participates in transactions involving sales of the Warrants against certain liabilities, including liabilities arising under the Securities Act. The Company has agreed to indemnify the Selling Security Holders against certain liabilities including certain liabilities under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the Company, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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#### THE MERGER

The Merger was effected on December 31, 1996, and was completed pursuant to the terms of an Agreement and Plan of Reorganization, dated September 13, 1996, by and among Homeplex, the Monterey Entities, and the Monterey Stockholders (the "Merger Agreement"). Upon consummation of the Merger,

the Company's name was changed to Monterey Homes Corporation and the Company's NYSE ticker symbol was changed to MTH. In addition, a one-for-three reverse stock split of the Company's issued and outstanding Common Stock was effected. Except as otherwise indicated, the share information contained herein reflects the one-for-three reverse stock split.

#### The Merger Consideration

Prior to the Merger, all of the outstanding common stock of Monterey was owned by the Monterey Stockholders, William W. Cleverly and Steven J. Hilton. As consideration for the Merger, the Monterey Stockholders received 1,288,726 shares of Common Stock of the Company (the Exchange Shares), such number being equal to (i) the book value of the Monterey Entities on the effective date of the Merger (\$2.5 million after the effectuation of certain distributions) determined in accordance with generally accepted accounting principles ("GAAP") consistent with the historical combined financial statements of the Monterey Entities, but reflecting adjustments for certain costs and reserves agreed to by the parties prior to the date of the Merger Agreement, multiplied by (ii) a factor of 3.0, and divided by (iii) the fully diluted book value (after giving effect to any outstanding stock options, whether vested or not, which dilute book value and after consideration of any amounts accrued for the related dividend equivalent rights) per share of Homeplex common stock on the effective date of the Merger, determined in accordance with GAAP consistent with the historical consolidated financial statements of Homeplex.

Prior to the Merger, the Monterey Entities had issued and had outstanding warrants to purchase 400,000 shares of common stock of such companies (the "Monterey Warrants") at an exercise price of \$6.25 per share. The Monterey Warrants represented approximately 16.5% of the fully diluted capitalization of the Monterey Entities (2,427,776 shares). On the effective date of the Merger, the Monterey Warrants were converted into the Warrants based on a formula that would allow the Warrants to purchase a number of shares of Common Stock of the Company determined by multiplying 400,000 by the ratio of (i) the total number of Exchange Shares issued in the Merger (as calculated above but without giving effect to the one-for-three reverse stock split) divided by (ii) 2,427,776 (the "Warrant Conversion Ratio"). The exercise price of the Warrants was adjusted by dividing the exercise price of the Monterey Warrants immediately prior to the Merger by the Warrant Conversion Ratio. In addition, the exercise price of the Warrants was adjusted by a factor designed to compensate for certain distributions made to the Monterey Stockholders in connection with the Merger. This adjustment resulted in a reduction in the exercise price per share of the Warrants in an amount determined by dividing such distributions by the number of outstanding common shares of the Monterey Entities (2,027,776). There was also an additional \$0.15 per share reduction (pre-split) in the exercise price of the Warrants beyond the other reductions described above. The number of Warrants into which the Monterey Warrants were converted and the exercise price thereof was finally determined following completion of audited financials for the year ended December 31, 1996. The exercise price of the Warrants will be further reduced by \$0.60 per share if during the eighteen (18) month period following the Merger the closing price of the Monterey Homes Common Stock on the NYSE does not exceed \$9.00 per share for five (5) consecutive trading days.

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Although all of the Exchange Shares were issued in the name of the Monterey Stockholders, the Company will hold approximately 16.5% of the Exchange Shares issued in the names of the Monterey Stockholders for release to holders of the Warrants upon exercise of the Warrants, and the Company will remit the exercise price paid upon such exercises to the Monterey Stockholders. Upon expiration of unexercised Warrants, the Company will distribute the appropriate amount of Exchange Shares to the Monterey Stockholders. The Monterey Stockholders are entitled to vote the Exchange Shares issued in their names but allocated to the Warrants, prior to the time the Warrants are exercised. Including the Exchange Shares allocated to the Warrants, Mr. Cleverly owns 647,696 shares or 14.3% of the outstanding Common Stock of the Company and Mr. Hilton owns 644,363 shares or 14.2%. If all of the Warrants were exercised, Mr. Cleverly would own 541,497 shares or 12% of the outstanding Common Stock of the Company and Mr. Hilton would own 538,164 shares or 11.9% of the outstanding Common Stock of the Company. These numbers exclude the Employment Options and the Contingent Stock described below.

In addition to the Exchange Shares, the Company has reserved for issuance 266,667 shares (post-split) of common stock, subject to certain contingencies (the "Contingent Stock"). Of such stock, approximately 16.5% (the "Contingent Warrant Stock") or approximately 43,947 shares are being reserved pending exercise of the Warrants. When a Warrant is exercised, the holder will receive not only the Exchange Shares into which the Warrant is exercisable, but also his proportionate share of the Contingent Warrant Stock. The remaining approximately 83.5% of the original 266,667 shares of Contingent Stock will be issued to the Monterey Stockholders only if certain Common Stock average trading price thresholds are reached at any time during the five years following the effective date of the Merger as described below, provided that at the time of any such issuance to a Monterey Stockholder, such Monterey Stockholder is still employed with the Company. The average trading price thresholds and employment restrictions will not apply to the Contingent Warrant Stock. The Contingent Stock will be issued to the Monterey Stockholders as follows:

(i) if the closing price of the Common Stock on the NYSE (the "Stock Price") averages \$5.25 or more for twenty consecutive trading days at any time during the five year period following the effective date of the Merger, then 44,943 shares of the Contingent Stock will be issued

but only after the first anniversary of such effective date;

(ii) if the Stock Price averages \$7.50 or more for twenty consecutive trading days at any time during the five year period following the effective date of the Merger, then an additional 88,888 shares of the Contingent Stock will be issued but only after the second anniversary of such effective date; and

(iii) if the Stock Price averages \$10.50 or more for twenty consecutive trading days at any time during the five year period following the effective date of the Merger, then the remaining 88,889 shares of the Contingent Stock will be issued but only after the third anniversary of such effective date.

To illustrate the above, if the Stock Price averages \$5.25 or more for twenty consecutive trading days during the second quarter of 1997, 44,943 shares of the Contingent Stock will be issued to the Monterey Stockholders on January 1, 1998. If, instead, the Stock Price first averages \$5.25 or more for twenty consecutive trading days in June of 1999, 44,943 shares of the Contingent Stock will be issued on that date or as soon thereafter as is practicable. If the Stock Price averages \$10.50 or more for twenty consecutive trading days in the second quarter of 1997, then 44,943 shares of the Contingent Stock will

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be issued on January 1, 1998, 88,888 shares will be issued on January 1, 1999, and the remaining 88,889 shares will be issued on January 1, 2000.

#### The Indemnification Fund

The Company also retained from the Merger consideration 70,176 of the Exchange Shares issued in the names of the Monterey Stockholders, equal to \$500,000 divided by the average closing price for the last five trading days ending with the effective date of the Merger, such shares to be utilized as security for the indemnification obligations in favor of the Company provided under the Merger Agreement with respect to any breach of a representation or covenant therein by the Monterey Entities or the Monterey Stockholders (the "Indemnification Fund"). See "The Merger- Indemnification Rights." The Indemnification Fund will be adjusted each six months to maintain its \$500,000 value less any amount previously applied to a loss. Cash can be deposited with the Company at any time by the Monterey Stockholders to replace all or any portion of the Common Stock in the Indemnification Fund. Amounts remaining in the Indemnification Fund will be released to the Monterey Stockholders on the second anniversary of the effective date of the Merger; provided, that if the Monterey Stockholders are notified prior to the second anniversary of the effective date of the Merger of a loss or claim, the amount of which is uncertain or contingent, the Company will be entitled to retain an amount of cash or a number of Exchange Shares that would be adequate to indemnify and hold harmless the Company for each such loss or claim. The Monterey Stockholders will be entitled to vote the shares of Common Stock held in the Indemnification Fund. Holders of the Warrants will not bear a pro rata portion of any reduction in Exchange Shares resulting from an indemnification claim.

#### Monterey Stockholder Employment Agreements and Employment Options

In connection with the Merger, the Company and the Monterey Stockholders executed employment agreements (the "Employment Agreements"), each with a term ending on December 31, 2001 and providing for an initial base salary of \$200,000 per year (increasing by 5% of the prior year's base salary per year), and an annual bonus for the first two years of the lesser of 4% of the pre-tax consolidated net income of the Company or \$200,000. Thereafter, the bonus percentage payout of consolidated net income would be determined by the then-existing compensation committee of the board of directors of the Company, provided that in no event will the bonus payable in any year exceed \$200,000 for each Monterey Stockholder. Under the Employment Agreements, the Monterey Stockholders will serve as co-Chief Executive Officers and will also serve as Chairman and President. If a Monterey Stockholder voluntarily terminates his employment or is discharged for "Cause," the Company will have no obligation to pay him his current annual salary or bonus. If a Monterey Stockholder is terminated during the term of the Employment Agreement without "Cause" or as a result of his death or permanent disability, the Company will be obligated to pay such Monterey Stockholder (a) his current annual salary through the term of the Employment Agreement if terminated without "Cause," or for six months after termination in the event of death or disability, plus (b) a pro rated bonus. "Cause" is defined to mean only an act or acts of dishonesty by a Monterey Stockholder constituting a felony and resulting or intended to result directly or indirectly in substantial personal gain or enrichment at the expense of the Company.

The Employment Agreements contain non-compete provisions that restrict the Monterey Stockholders until December 31, 2001, from, except in connection with the performance of their duties under the Employment Agreements, (i) engaging in the homebuilding business, (ii) recruiting, hiring, or discussing employment with any person who is, or within the past six months was, an employee of the

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Company, (iii) soliciting any customer or supplier to discontinue its relationship with the Company, or (iv) except solely as a limited partner with no management or operating responsibilities, engaging in the land banking or lot development business; provided, however, the foregoing provisions shall not restrict (A) the ownership of less than 5% of a publicly-traded company, or (B) in the event the employment of such Monterey Stockholder is terminated under the

Employment Agreement, engaging in the custom homebuilding business, engaging in the production homebuilding business outside a 100 mile radius of any project of the Company or outside Northern California, or engaging in the land banking or lot development business. The non-compete provisions will survive the termination of the Employment Agreement unless such Monterey Stockholder is terminated by the Company without Cause.

The Employment Agreements also provide for the grant to each Monterey Stockholder of options to purchase an aggregate of 166,667 shares of Common Stock per Monterey Stockholder at an exercise price of \$5.25 per share (the "Employment Options"). The Employment Options expire on December 31, 2002 and will vest annually over three years in equal increments beginning on the first anniversary of the effective date of the Merger; provided, however, the Employment Options will vest in full and will be exercisable upon a change of control of the Company prior to the third anniversary of the effective date of the Merger. If a Monterey Stockholder voluntarily terminates his employment with the Company, the Employment Options will be exercisable for a period of six months following such termination. If a Monterey Stockholder is terminated without Cause, the Employment Options will be immediately vested in full and will be exercisable until December 31, 2002. If a Monterey Stockholders' employment with the Company is terminated as a result of death or disability, the Employment Options will be exercisable for a period of one year following such termination. If the Company terminates a Monterey Stockholders' employment for Cause, the Employment Options will terminate immediately.

#### Registration Rights

The Company has entered into a Registration Rights Agreement dated December 31, 1996 with each of the Monterey Stockholders (the "Registration Rights Agreements") pursuant to which it granted registration rights to the Monterey Stockholders with respect to the Exchange Shares, the Contingent Stock, and the Common Stock underlying the Employment Options. Pursuant to such rights, subject to certain conditions and limitations, at any time after the first anniversary of the effective date of the Merger, the Monterey Stockholders may require the Company to register such shares under the Securities Act for resale by the Monterey Stockholders. The Company has also agreed to take any action required to be taken under applicable state securities or "blue sky" laws in connection with such registration. The Company will pay all expenses relating to the registration of shares pursuant to the Registration Rights Agreements. Each Monterey Stockholder will pay any fees and expenses of counsel to the stockholder, underwriting discounts and commissions, and transfer taxes, if any, relating to the resale of the Monterey Stockholder's Common Stock.

#### Board of Directors

The board of directors of the Company currently consists of William W. Cleverly, Steven J. Hilton, Alan Hamberlin, Robert G. Sarver, and C. Timothy White. In connection with the Merger, the Articles of Incorporation of the Company were amended to, among other things, provide for two classes of its directors, designated as Class I and Class II. Each Class will consist of one-half of the directors or as close an approximation thereto as possible. The Class I directors were elected in December of 1996 for a two-year term. The Class II directors were elected in December of 1996 for a one-year term. Messrs.

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Cleverly, Hilton, and Hamberlin are Class I directors and Messrs. Sarver and White are Class II directors. At each annual meeting of stockholders, commencing with the annual meeting to be held during the 1997 fiscal year of the Company, each of the successors to the directors of the Class whose term has expired at such annual meeting will be elected for a term running until the second annual meeting next succeeding his or her election and until his or her successor is duly elected and qualified.

Pursuant to the Merger Agreement, if any of the current board members of the Company cease to serve as a director of the Company at any time prior to the first anniversary of the effective date of the Merger, the vacancy will be filled by the remaining board members then serving as directors of the Company. However, if either of the Monterey Stockholders ceases to serve as a director, the vacancy will be filled by a person selected by the remaining Monterey Stockholder. Prior to the Merger, the Company also amended its Bylaws to provide that the Company will have five directors and that any change in the number of directors must be approved by the shareholders of the Company.

#### Hamberlin Stock Options

Pursuant to an employment agreement entered into on December 21, 1995, in lieu of an annual base salary in cash, Homeplex and Mr. Hamberlin entered into a Stock Option Agreement dated December 21, 1995 (the "Hamberlin Stock Option Agreement") pursuant to which Homeplex granted an option to Mr. Hamberlin to purchase 750,000 shares (pre-split) of Homeplex common stock at \$1.50 per share, which was the fair market value per share on December 21, 1995 (the "Hamberlin Stock Options"). Following the one-for-three reverse stock split effected in connection with the Merger, the Hamberlin Stock Options reflect options to purchase 250,000 shares of the Company common stock at \$4.50 per share. The Hamberlin Stock Options vest as follows: (i) 66,666 on December 21, 1995, (ii) 91,667 on December 21, 1996 and (iii) 91,667 on December 21, 1997; provided, however, all options will vest in full if a change in control occurs on or before December 20, 1998 that has not been unanimously agreed to by the board of directors or upon a termination of Mr. Hamberlin's employment (without his consent) by the Company for any reason other than death, disability, or "Cause." "Cause" means an act or acts of dishonesty by Mr. Hamberlin

constituting a felony and resulting or intended to result directly or indirectly in substantial gain or personal enrichment at the expense of the Company. In addition, the Hamberlin Stock Options will vest in their entirety prior to any merger or consolidation in which the Company is not the surviving entity or any reverse merger in which the Company is the surviving entity. An amendment to the Hamberlin Stock Option Agreement was executed in connection with the Merger to eliminate the acceleration of vesting of the Hamberlin Stock Options that may otherwise have resulted upon consummation of the Merger. The Hamberlin Stock Options are exercisable until December 21, 2000. In addition, Mr. Hamberlin has also been granted other options to purchase 103,101 shares (post-split) of Common Stock of the Company.

#### Amendment to Articles of Incorporation

In connection with the Merger, the Articles of Incorporation of the Company were amended to, among other things, (i) change the name of Homeplex to "Monterey Homes Corporation," (ii) reclassify and change each share of Homeplex common stock issued and outstanding into one-third of a share of Common Stock, (iii) amend and make more restrictive the limitations on the transfer of Common Stock to preserve maximum utility of the Company's net operating loss carryforward (the "NOL Carryforward") (see "NOL Carryforward" below), and (iv) provide for the Class I and Class II Directors (see "Board of Directors" above).

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With respect to the restrictions on transfer of the Common Stock, the Articles of Incorporation of the Company generally prohibit concentrated ownership of the Company which might jeopardize its NOL Carryforward. The amended transfer restrictions generally preclude for a period of up to five years any person from transferring shares of Common Stock (or any other subsequently issued voting or participating stock) or rights to acquire Common Stock, if the effect of the transfer would be to (a) make any person or group an owner of 4.9% or more of the outstanding shares of such stock (by value), (b) increase the ownership position of any person or group that already owns 4.9% or more of the outstanding shares of such stock (by value), or (c) cause any person or group to be treated like the owner of 4.9% or more of the outstanding shares of such stock (by value) for tax purposes. Direct and indirect ownership of Common Stock and rights to acquire Common Stock are taken into consideration for purposes of the transfer restrictions. These transfer restrictions will not apply to (i) the exercise of any stock option issued by the Company that was outstanding on the effective date of and immediately following the Merger, (ii) exercise of the Hamberlin Stock Options, (iii) issuance of the Contingent Shares, or (iv) exercise of the Employment Options. The board of directors of the Company has the authority to waive the transfer restrictions under certain conditions. The board of directors may also accelerate or extend the period of time during which such transfer restrictions are in effect or modify the applicable ownership percentage that will trigger the transfer restrictions if there is a change in law making such action necessary or desirable. The board of directors also has the power to make such other changes not in violation of law as may be necessary or appropriate to preserve the Company's tax benefits. The transfer restrictions discussed herein will apply to the transfer and exercise of the Warrants. Ownership of Warrants will be aggregated with shares of Common Stock otherwise owned by a holder to determine if the applicable ownership percentage has been exceeded. The transfer restrictions described herein may impede a change of control of the Company.

#### NOL Carryforward

The Company has a federal income tax net operating loss carryforward of approximately \$53 million, which expires at various times beginning in 2007 and ending in 2009. It is anticipated that future income taxes paid by the Company will be minimized and will consist primarily of state income taxes (since utilization of the Company's state net operating loss may be significantly limited) and the federal alternative minimum tax.

The ability of the Company to use the NOL Carryforward to offset future taxable income would be substantially limited under Section 382 of the Code if an "ownership change," within the meaning of Section 382 of the Code has occurred or occurs with respect to the Company before expiration of the NOL Carryforward. The Company believes that (i) there has not been an "ownership change" of the Company prior to the effective date of the Merger and (ii) the Merger did not cause an "ownership change" to occur on the effective date. The amendments to the Articles of Incorporation of the Company, which became effective on the effective date of the Merger, include restrictions on the transfer of Common Stock designed to prevent an "ownership change" with respect to the Company after the Merger. See "Amendment to Articles of Incorporation" above. Pursuant to Section 384 of the Code, the Company may not be permitted to use the NOL Carryforward to offset taxable income resulting from sales of assets owned by the Monterey Entities at the time of the Merger to the extent that the fair market value of such assets at the time of the Merger exceeded their tax basis. There is no assurance that the Company will have sufficient earnings after the Merger to fully utilize the NOL Carryforward.

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#### Indemnification Rights

The Company and its officers, directors, and agents are entitled to indemnification for damage, loss, liability, and expense (collectively, the "Losses") incurred or suffered by such parties arising out of any action, suit, claim, or demand arising out of, relating to, or based on the Monterey Entities' or the Monterey Stockholders' breach or failure to perform in any material respect any of their representations, warranties, covenants, or agreements under the Merger Agreement or the transactions contemplated thereby; provided,

however, that such action, suit, claim, or demand must be first asserted prior to the second anniversary of the effective date of the Merger. The Monterey Stockholders are entitled to indemnification for their pro rata share of any Loss incurred or suffered by the Monterey Stockholders arising out of any action, suit, claim, or demand arising out of, relating to, or based on the Company's breach or failure to perform in any material respect any of its representations, warranties, covenants, or agreements under the Merger Agreement or the transactions contemplated thereby; provided, however, that such action, suit, claim or demand must be first asserted prior to the second anniversary of the effective date of the Merger.

A committee to be comprised of the independent directors of the Company serving after the effective date of the Merger (the "Committee") was appointed irrevocably pursuant to the Merger Agreement to exercise the Company's indemnification rights and was authorized to act, as the Committee may deem appropriate, as the Company's agent in respect of receiving all notices, documents, and certificates and making all determinations required with respect to the indemnification provided for in the Merger Agreement.

The maximum aggregate amount of indemnification that may be required of the Monterey Stockholders, on the one hand, and the Company, on the other, pursuant to the Merger Agreement is \$500,000 each. The Indemnification Fund is the sole and exclusive source of reimbursement and indemnification for the amount of any Loss or claim of the Company.

#### DESCRIPTION OF THE WARRANTS

The Warrants were issued in October 1994 and are governed by the Warrant Agreement effective as of October 17, 1994 among certain predecessors of Monterey and Norwest Bank Minnesota, N.A. (the "Warrant Agent"), as modified by the Assumption Agreement dated as of December 31, 1996 among certain predecessors of Monterey and the Warrant Agent (the "Warrant Agreement"). Holders of Warrants are referred to the Warrant Agreement which is included as an exhibit to the Registration Statement for a complete statement of the terms of the Warrants. The following summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Warrant Agreement. Capitalized terms used in this "Description of the Warrants" and not defined herein have the meanings given to them in the Warrant Agreement.

Each Warrant entitles the holder to purchase one share of the Company's Common Stock for \$4.0634 per share (the "Purchase Price"), subject to adjustment as described herein. At the time of exercise of a Warrant, the Warrant holder will also receive an additional .2069 shares of the Contingent Warrant Stock for each Warrant exercised, without the payment of any additional consideration or exercise price. See "The Merger - The Merger Consideration." Moreover, the per share exercise price of a Warrant will be reduced by an additional \$0.60 if the closing price for the Company's Common Stock on the NYSE does not reach or exceed \$9.00 per share for five consecutive days during the eighteen months

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following the effective date of the Merger (December 31, 1996). The Warrants currently entitle the holders thereof to acquire, in the aggregate and including the Contingent Warrant Stock that will be acquired on exercise of the Warrants, 256,345 shares of Common Stock. The Warrants became exercisable on the effective date of the Merger and will continue to be exercisable through October 15, 2001 except as provided in the next sentence below. In the event that notice is given in accordance with the Warrant Agreement in connection with the liquidation, dissolution, or winding up of the Company, the right to exercise the Warrants will expire at the close of business on the third full business day before the date specified in such notice as the record date for determining registered holders entitled to receive any distribution upon such liquidation, dissolution, or winding up. The Company may not redeem the Warrants.

On the effective date of the Merger, the Monterey Warrants were converted into Warrants of the Company, and the Company assumed all of the rights and obligations of the Monterey Entities under the Warrant Agreement.

The Warrants may be exercised in whole or in part by surrendering at the office of the Warrant Agent in Minneapolis, Minnesota, the Warrant Certificate evidencing such Warrants, together with a subscription in the form set forth on the reverse of the Warrant Certificate, duly executed and accompanied by payment of the Purchase Price, in U.S. dollars, by tender of federal funds or a certified or bank cashier's check, payable to the order of the Warrant Agent. As soon as practicable after such exercise, the Company will cause to be issued and delivered to the holder or upon his order, in such name or names as may be directed by him, a certificate or certificates for the number of full shares of Common Stock to which he is entitled. If fewer than all of the Warrants evidenced by a Warrant Certificate are exercised, the Warrant Agent will deliver to the exercising Warrant holder a new Warrant Certificate representing the unexercised portion of the Warrant Certificate. Fractional shares will not be issued upon exercise of a Warrant, and in lieu thereof, the Company will pay to the holder an amount in cash equal to such fraction multiplied by the Current Market Price Per Share, determined in accordance with the Warrant Agreement as described below.

Irrespective of the date that certificates for Common Stock are actually issued and delivered upon exercise of Warrants, the person in whose name the certificate is to be issued will be deemed to have become the holder of record of the stock represented thereby on the date when the Warrant Certificate with the subscription duly executed and completed as described above is surrendered and payment of the Purchase Price is made, unless the stock transfer



books of the Company are closed on such date, in which case, such person will be deemed the record holder of the shares at the close of business on the next succeeding date on which the stock transfer books are opened.

No service charge will be made for registration of transfer or exchange upon surrender of any Warrant Certificate at the office of the Warrant Agent maintained for that purpose. The Company may require payment of a sum sufficient to cover any stamp or other tax or governmental charge that may be imposed in connection with any registration of transfer or exchange of Warrant Certificates.

Subject to certain conditions and limitations, and except in certain specified cases, the number of Warrant Shares issuable upon the exercise of the Warrants and/or the Purchase Price are subject to adjustment in certain events including: (i) the issuance of Common Stock (including in certain cases the issuance in a public offering of any stock, securities, obligation, option, or other right or warrant that may be converted into, exchanged for, or satisfied in shares of Common Stock) for consideration per share less

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than the Purchase Price prior to such issue, (ii) the declaration of a dividend on Common Stock payable in Common Stock or the subdivision, combination, or issuance of capital stock in connection with a reclassification of Common Stock, (iii) any distribution of the Company's assets upon or with respect to its Common Stock as a liquidating or partial liquidating dividend, and (iv) the issuance of stock, securities, rights, options, or warrants to all holders of the Common Stock or in an integrated transaction where more than 99% of such instruments or securities are acquired by persons who, prior to the transaction, were not security holders of the Company, entitling them to subscribe for or purchase Common Stock or securities convertible into Common Stock at a price per share less than the Current Market Price Per Share on the record date for the issuance of such securities, instruments, or rights or the granting of such securities, options, or warrants. The Current Market Price Per Share of the Company's Common Stock on any date is determined in reference to (i) the average of the daily closing prices (or if no sale is made on any trading date, the average of the closing bid and asked prices) for the thirty consecutive trading days commencing thirty-five trading days before such date, if the Company's Common Stock is listed on an exchange, (ii) the average of the last reported sale price or prices or the mean of the last reported bid and asked prices reported by the National Association of Securities Dealers Automated Quotations System ("NASDAQ"), or if not so quoted on NASDAQ, as quoted on the National Quotations Bureau, Inc., for the thirty consecutive trading days commencing thirty-five days before such date, or (iii) if neither (i) or (ii) is applicable, the fair market value of the Common Stock as determined in good faith by the Board of Directors of the Company.

In the event that the Company consolidates with, merges with or into, or sells all or substantially all of its assets (for a consideration consisting primarily of securities) to, another corporation, each Warrant thereafter shall entitle the holder to receive upon exercise, the number of shares of common stock or other securities or property which the holder would have received had the Warrant been exercised immediately prior to the consolidation, merger, or sale of assets.

In the event a bankruptcy or reorganization is commenced by or against the Company, a bankruptcy court may hold that unexercised Warrants are executory contracts which may be subject to rejection by the Company with approval of the bankruptcy court. As a result, holders of the Warrants may, even if sufficient funds are available, not be entitled to receive any consideration or may receive an amount less than they would be entitled to if they had exercised their Warrants prior to the commencement of any such bankruptcy or reorganization.

The holders of unexercised Warrants are not entitled, by virtue of being such holders to exercise any rights whatsoever as stockholders of the Company.

Subject to certain requirements, from time to time the Company and the Warrant Agent, without the consent of the holders of the Warrants, may amend or supplement the Warrant Agreement for certain purposes, including curing ambiguities, defects, inconsistencies, or manifest errors, provided that such amendments and supplements are not prejudicial to the rights of the Warrant holders as indicated by the general sense or intent of the original language.

#### DESCRIPTION OF COMMON STOCK

The following summary of certain provisions of the Company's Common Stock describes all material provisions of, but does not purport to be complete and is subject to, and qualified in its entirety by, the Company's articles of incorporation and by-laws and by the provisions of applicable law.

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The Company is authorized to issue up to 50,000,000 shares of Common Stock, \$0.01 par value. As of June 13, 1997, there were 4,580,611 shares of Common Stock outstanding, held of record by 512 holders. Holders of Common Stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Accordingly, holders of a majority of the shares of Common Stock entitled to vote in any election of directors may elect all of the directors standing for election. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of funds legally available therefor, subject to any preferential dividend rights of any outstanding preferred stock. Upon the liquidation, dissolution or winding up of the Company, the holders of

Common Stock are entitled to receive ratably the net assets of the Company available after the payment of all debts and other liabilities and subject to the prior rights of any outstanding preferred stock. Holders of Common Stock have no preemptive (other than as determined in the sole discretion of the board of directors of the Company), subscription, redemption or conversion rights. The outstanding shares of Common Stock are, and the shares subject to Warrants will be, when issued and paid for, fully-paid and nonassessable. The rights, preferences, and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock which the Company may issue in the future. The Company is not currently authorized to issue preferred stock under its articles of incorporation.

The Company's articles of incorporation contain a provision allowing action to be authorized by the affirmative vote of the holders of a majority of the total number of shares of Common Stock outstanding and entitled to vote thereon notwithstanding any provision of law requiring the authorization of the action by a greater proportion than such a majority. This provision may allow authorization of certain extraordinary transactions and amendment of the Company's articles of incorporation, including an amendment changing the terms or contract rights of any of its outstanding Common Stock by classification, reclassification, or otherwise, by the affirmative vote of the holders of a majority of the shares of Common Stock outstanding. But for such provision, under Maryland law, such extraordinary transactions and amendment of the articles of incorporation of the Company, with certain limited exceptions, would require the affirmative vote of the holders of two-thirds of the outstanding Common Stock entitled to vote thereon. The Common Stock is also subject to significant restrictions on transfer. See "The Merger - Amendment to Articles of Incorporation" and "The Merger - NOL Carryforward."

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#### MARYLAND LAW AND CERTAIN CHARTER PROVISIONS

The Company is incorporated in Maryland and is subject to the provisions of the Maryland General Corporations Law (the "MGCL"), certain of which provisions are discussed herein.

**Business Combinations.** The MGCL prohibits certain "business combinations" (including, in certain circumstances and subject to certain exceptions, a merger, consolidation, share exchange, asset transfer, issuance of equity securities, or reclassification of securities) between a Maryland corporation and an Interested Stockholder or any affiliate of an Interested Stockholder. Subject to certain qualifications, an "Interested Stockholder" is a person (a) who beneficially owns 10% or more of the voting power of the corporation's shares after the date on which the corporation had 100 or more beneficial owners of its stock, or (b) is an affiliate or associate of the corporation and was the beneficial owner of 10% or more of the voting power of the corporation's shares, at any time within the two-year period immediately prior to the date in question and after the date on which the corporation had 100 or more beneficial owners of its stock. Unless an exemption applies, such business combinations are prohibited for five years after the most recent date on which the Interested Stockholder became an Interested Stockholder. Unless an exemption applies, any business combination that is not so prohibited must be recommended by the board of directors and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by outstanding voting shares of the corporation, and (b) 66 2/3% of the votes entitled to be cast by the holders of voting shares of the corporation, other than voting shares held by the Interested Stockholder, or an affiliate or associate of the Interested Stockholder, with whom the business combination is to be effected. The MGCL specifies a number of situations in which the business combination restrictions described above would not apply. For example, such restrictions would not apply to a business combination with a particular Interested Shareholder that is approved or exempted by the board of directors of a corporation prior to the time that the Interested Stockholder becomes an Interested Stockholder. A Maryland corporation also may adopt an amendment to its charter electing not to be subject to the special voting requirements of the foregoing legislation. Any such amendment would have to be approved by the affirmative vote of the same percentages and groups of the outstanding shares of voting stock of the corporation as described above for approval of a business combination. No such amendment to the charter of the Company has been effected.

**Control Share Acquisitions.** The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock owned by the acquiror or by officers or directors who are employees of the corporation. "Control shares" are voting shares of stock which, if aggregated with all other shares of stock previously acquired by such a person or which that person is entitled to vote (other than by revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power: (a) 20% or more but less than 33 1/3%; (b) 33 1/3% or more but less than a majority; or (c) a majority of all voting power. Control shares do not include shares of stock an acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means, subject to certain exceptions, the acquisition of, ownership of, or the power to direct the exercise of voting power with respect to, control shares.

A person who has made or proposed to make a "control share acquisition," upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the Board of Directors to call a special meeting of stockholders to be held within 50 days of demand therefor to consider the voting

of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders' meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as permitted by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to voting rights, as of the date of the last acquisition of control shares by the acquiring person in a control share acquisition or if any meeting of stockholders was held at which the rights of such shares were considered, as of the date of such meeting. If voting rights for "control shares" are approved at a stockholders' meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the stock as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquiring person in the control share acquisition, and certain limitations and restrictions otherwise applicable to the exercise of dissenters' rights do not apply in the context of a "control share acquisition."

The control share acquisition statute does not apply to stock acquired in a merger, consolidation or stock exchange if the corporation is a party to the transaction, or to acquisitions previously approved or excepted by a provision in the charter or bylaws of the corporation. Neither the Company's charter nor its Bylaws has provisions exempting any control share acquisitions.

Limitation of Liability and Indemnification of Directors. Under the MGCL, a corporation's articles may, with certain exceptions, include any provision expanding or limiting the liability of its directors and officers to the corporation or its stockholders for money damages, but may not include any provision that restricts or limits the liability of its directors or officers to the corporation or its stockholders to the extent that (i) it is proved that the person actually received an improper benefit or profit in money, property, or services for the amount of the benefit or profit in money, property, or services actually received; or (ii) a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. The Company's charter contains a provision limiting the personal liability of officers and directors to the Company and its stockholders for money damages to the fullest extent permitted under Maryland law.

In addition, with certain exceptions, the MGCL permits a corporation to indemnify its present and former directors and officers, among others, against liability incurred, unless it is established that (i) the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, or (ii) the director or officer actually received an improper personal benefit in money, property, or services, or (iii) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. The Company's charter provides that it will indemnify (i) its directors to the full extent allowed under Maryland law, (ii) its officers to the same extent it shall indemnify its directors, and (iii) its officers who are not directors to such further extent as shall be authorized by the board of directors and be consistent with law.

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## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock is ChaseMellon Shareholder Services.

## PRICE OF COMMON STOCK AND DIVIDEND POLICY

## Price of Common Stock

The Company's Common Stock is publicly traded on the NYSE under the ticker symbol "MTH." The following table sets forth the high and low closing sales prices, adjusted for stock splits, of the Common Stock, as reported by the NYSE, for the periods indicated below.

	High ----	Low ---
1997		
First Quarter	\$7 1/4	\$5 1/2
1996		
Fourth Quarter	7 7/8	6 3/4
Third Quarter	8 1/4	6
Second Quarter	8 5/8	4 7/8
First Quarter	6	4 1/8
1995		
Fourth Quarter	5 5/8	4 1/8
Third Quarter	6 3/8	4 1/2
Second Quarter	6 3/8	3 3/4
First Quarter	5 1/4	3

On June 13, 1997, the closing sales price of the Company's Common Stock as reported by the NYSE was \$7 3/4 per share. At that date, the number of stockholder accounts of record of the Company's Common Stock was 512. The Company believes that there are approximately 3,400 beneficial owners of Common Stock.

#### Dividend Policy

Cash dividends per share paid by the Company were \$.06 in 1996, \$.09 in 1995, \$.06 in 1994, \$.09 in 1993, and \$1.20 in 1992, representing distributions of taxable income arising out of the Company's status as a REIT. The foregoing amounts reflect the one-for-three reverse stock split which occurred on December 31, 1996. The Company's loan and debt agreements contain certain covenants that restrict the payment of dividends if the financial condition, results of operation, and capital requirements of the Company fail to meet certain specified levels. In addition, the Company's board of directors has indicated that the Company will not pay any permitted cash dividends for the foreseeable future. Instead, the Company's board intends to retain earnings to finance the growth of the Company's business. The future payment of cash dividends, if any, will depend upon the financial condition, results of operations, and capital requirements of the Company, as well as other factors deemed relevant by the board.

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#### SELECTED FINANCIAL AND OPERATING DATA

The following table sets forth selected historical consolidated financial data of the Company for the quarter ended March 31, 1997 and each of the years in the five-year period ended December 31, 1996. The selected annual historical consolidated financial data for 1996 is derived from the Company's Consolidated Financial Statements audited by KPMG Peat Marwick LLP, independent auditors. The selected annual historical consolidated financial data for 1995, 1994, 1993 and 1992 is derived from the Company's Consolidated Financial Statements audited by Ernst & Young LLP, independent auditors. For additional information, see the Consolidated Financial Statements of the Company included elsewhere in this Prospectus. The following table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. Due to the Merger, the historical results are not indicative of future results. Pro forma financial information reflecting the Merger is set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Pro-Forma Results of Operations."

<TABLE>

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Historical Consolidated Financial Data  
(Dollars in Thousands, Except Per Share Data)

	Quarter Ended	Years Ended December 31,				
	March 31, 1997 (Unaudited)	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income Statement Data:						
Home sales (net)	\$1,626	--	--	--	--	--
Income (loss) from mortgage assets.....	359	\$2,244	\$3,564	\$(1,203)	\$(21,814)	\$(14,068)
Interest expense.....	--	238	868	1,383	2,274	2,750
General, administrative and other expense.....	1,697	1,710	1,599	1,938	1,822	2,315
Income (loss) before effect of accounting change and extraordinary loss.....	288	296	1,097	(4,524)	(25,910)	(19,133)
Cumulative effect of accounting change(1).....	--	--	--	--	(6,078)	--
Extraordinary loss(2).....	--	(149)	--	--	--	--
Net income (loss).....	\$288	\$147	\$1,097	\$(4,524)	\$(31,988)	\$(19,133)
Income (loss) per share before effect of accounting change/extraordinary loss.....	\$0.06	\$0.09	\$0.34	\$(1.40)	\$(7.98)	\$(5.79)
Cumulative effect of accounting change per share.....	--	--	--	--	(1.89)	--
Extraordinary loss per share.....	--	(.05)	--	--	--	--
Net income (loss) per share.....	\$0.06	\$0.04	\$0.34	\$(1.40)	\$(9.87)	\$(5.79)
Cash dividends per share(3).....	--	\$0.06	\$0.09	\$0.06	\$0.09	\$1.20

	At March 31, 1997	At December 31,				
	(Unaudited)	1996(4)	1995	1994	1993	1992
Balance Sheet Data:						
Real estate loans.....	\$1,491	\$1,696	\$4,048	\$9,260	\$320	\$0
Residual interests.....	3,817	3,909	5,457	7,654	17,735	66,768
Total assets.....	70,430	72,821	27,816	31,150	43,882	87,063
Notes payable.....	29,846	30,542	7,819	11,783	19,926	31,000
Total liabilities.....	43,023	45,876	9,368	13,508	21,505	32,357
Stockholders' equity.....	27,407	26,945	18,448	17,642	22,377	54,706

</TABLE>

(1) Reflects the cumulative effect of adoption of Statement of Financial

- Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."
- (2) Reflects extraordinary loss from early extinguishment of long-term debt.
- (3) For any taxable year in which the Company qualified and elected to be treated as a REIT under the Code, the Company was not subject to federal income tax on that portion of its taxable income that was distributed to stockholders in or with respect to that year. Regardless of such distributions, however, the Company may
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- be subject to tax on certain types of income. Due to the Merger, the Company did not qualify as a REIT in 1996.
- (4) Reflects the Merger consummated on December 31, 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

As a result of the Merger, the primary business of the Company has changed from the making of real estate loans to homebuilding. Accordingly, this Prospectus includes discussion and analysis of the financial condition and results of operation for the Company, as well as a discussion and analysis of the pro forma results of operations of the Company.

Historical Results of Operations

Quarter ended March 31, 1997 Compared to 1996:

The Company had net income of \$288,338 or \$.06 per share for the first three months of 1997 compared to \$84,333 or \$.03 per share for the first three months of 1996. Home sales revenue, cost of home sales, commissions, and other sales costs all increased in 1997, as the Company had no homebuilding operations prior to the Merger in December of 1996.

Residual and real estate loan interest income was less in 1997 than in 1996 due to the decreasing residual and loan portfolio balances. The increase in general, administrative, and other costs to \$1,091,686 in 1997 from \$388,073 in 1996 was caused mainly by higher corporate costs, including compensation expense that was related to the Merger transaction. All interest incurred was capitalized in 1997, with \$93,000 amortized through costs of home sales, and not expensed directly as in 1996.

Year Ended December 31, 1996 Compared to 1995

The Company had net income of \$147,000 or \$.04 per share in 1996 compared to income of \$1,097,000 or \$.34 per share in 1995. Results for the year ended December 31, 1996 include an extraordinary loss from the early extinguishment of debt of \$148,000 or \$.05 per share.

The Company's income from Mortgage Assets was \$2,244,000 in 1996 compared to income of \$3,565,000 in 1995. Interest income on real estate loans decreased from \$1,618,000 in 1995 to \$571,000 in 1996 due to the reduction of the Company's real estate lending program.

The Company's interest expense declined from \$868,000 in 1995 to \$238,000 in 1996 due to a reduction of the average aggregate long-term debt.

Year Ended December 31, 1995 Compared to 1994

The Company had net income of \$1,097,000 or \$.34 per share in 1995 compared to a net loss of \$4,523,000 or \$1.40 per share in 1994.

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The Company's income from Mortgage Assets was \$3,565,000 in 1995 compared to a loss of \$1,202,000 in 1994. The 1994 loss included a net charge of \$3,343,000 to write down the Company's investments in several of its residual interests.

Interest income on real estate loans increased from \$1,112,000 in 1994 to \$1,618,000 in 1995 due to the expansion of the Company's real estate lending program.

The Company's interest expense declined from \$1,383,000 in 1994 to \$868,000 in 1995 due to a reduction of the average aggregate long-term debt.

General and administrative expenses in 1994 include \$340,000 of legal and investment banking expenses related to merger negotiations with a privately held company which were subsequently terminated.

Liquidity, Capital Resources, and Commitments

Liquidity, capital resources, and commitments should be viewed for the combined Company in light of the Merger. As a result, the following discusses the liquidity, capital resources, and commitments of the combined Company as a result of the Merger.

The Company uses a combination of existing cash, unused borrowing capacity, internally generated funds, and customer deposits to meet its working capital requirements. At December 31, 1996, the Company had \$20 million in short-term, secured, revolving construction loan agreements of which

approximately \$7.3 million was outstanding. The Company also had outstanding approximately \$9.6 million at December 31, 1996 of secured construction loan agreements.

At March 31, 1997, the Company had \$20 million in a short-term, secured, revolving construction loan facility and \$20 million in an acquisition and development guidance facility, of which \$10.5 million and \$7.3 million were outstanding, respectively. The Company also had outstanding \$4.1 million at March 31, 1997 on a term loan to refinance an existing note, as well as \$8 million in unsecured, senior subordinated notes due October 15, 2001 (the "Notes"), which were issued in October 1994. The Company had available but unborrowed funds under its credit facilities of \$2.1 million at March 31, 1997.

In the first quarter of 1997, the Company used \$8.2 million of cash to purchase land for future development at the Gainey Ranch site in Scottsdale, Arizona. Subsequent to March 31, 1997, the Company added this property to its acquisition and development guidance facility generating \$4.3 million in available but unborrowed funds.

The Indenture relating to the Notes and the Company's various loan agreements contain restrictions which could, depending on the circumstances, affect the Company's ability to obtain additional financing in the future. If the Company at any time is not successful in obtaining sufficient capital to fund its then-planned development and expansion costs, some or all of its projects may be significantly delayed or abandoned. Any such delay or abandonment could result in cost increases or the loss of revenues and could have a material adverse effect on the Company's results of operation and ability to repay its indebtedness.

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The cash flow for each of the Company's communities can differ substantially from reported earnings, depending on the status of the development cycle. The early stages of development or expansion require significant cash outlays for, among other things, land acquisition, obtaining plat and other approvals, and construction of amenities, which may include community tennis courts, swimming pools and ramadas, model homes, roads, certain utilities, and general landscaping. Since these costs are capitalized, this can result in income reported for financial statement purposes during those early stages significantly exceeding cash flow. After the early stages of development and expansion when these expenditures are made, cash flow can significantly exceed income reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs.

At March 31, 1997 and December 31, 1996, the Company had a net operating loss carryforward, for income tax purposes, of approximately \$53,000,000. This tax loss may be carried forward, with certain restrictions, for up to 13 years to offset future taxable income, if any.

#### Pro Forma Results of Operations

As a result of the Merger, the primary business of the Company has shifted from the making of real estate loans and holding residual interests to homebuilding. Due to this change, management believes that the analysis of the activities and operations of the Company should be considered in light of the operations of Monterey. To assist in the understanding of those operations, management has prepared pro forma condensed combined operating results for the periods discussed below. These results are not meant to be indicative of future results of operations.

Monterey's results of operations for any period are affected by many factors such as the number of development projects under construction, the length of the development cycle of each project, product mix and design, weather, availability of financing, suitable development sites, material and labor, and national and local economic conditions. Historically, Monterey has operated primarily in the semi-custom, luxury segment of the homebuilding industry. Monterey's expansion into the move-up segment of the market has resulted in product mix and design becoming more influential factors affecting the average home sales price and gross margins. Monterey experiences greater competition from other homebuilders in the move-up segment of the market that can affect its ability to increase sales prices even if costs are rising. The average sales price of homes is further influenced by home size and desirability of project locations. See "Risk Factors" above.

During the past several years the demand for homes and availability of capital for land acquisition, development and home construction in Arizona has increased. In response to these conditions, Monterey has expanded its operations to acquire additional sites for development of new projects. As of March 31, 1997, Monterey was actively selling homes in eleven communities, was sold out in one community, and was in various stages of preparation to open for sales in two communities. As of December 31, 1996, Monterey was actively selling homes in twelve communities and preparing to open for sales in one new community. At December 31, 1995, Monterey was actively selling homes in five communities. There can be no assurance that the favorable conditions in Arizona will continue, and although housing demand in the Phoenix metropolitan area during 1996 was at record levels, recent reports indicate that there will be a significant slowing in new home sales in the Phoenix metropolitan area and that new home sales in the Tucson metropolitan area will remain relatively flat in 1997. In addition, housing permits in the Tucson metropolitan area remained relatively flat from 1995 to 1996.

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Due to faster than anticipated sales and closing rates occurring in

certain Monterey subdivisions during 1995 and the slower than anticipated completion of lot development in four new subdivisions in late 1995, Monterey's inventory of finished lots entering 1996 was lower than expected. In spite of the low beginning lot inventory, Monterey was able to complete and begin sales of these lots in 1996, and along with sales in new communities, increased unit sales and home closing revenue in the Scottsdale area in 1996. Start up costs incurred by in the Tucson area and merger related costs negatively impacted Monterey's net income in 1996. The continuation of Monterey's past revenue and profitability levels is dependent on its ability to identify and obtain competitively priced and well located replacement land inventory.

Results Of Operations for the Quarters  
Ended March 31, 1997 and 1996 (Pro Forma)

Management has prepared proforma condensed combined operating results for the three months ended March 31, 1996, which reflect the impact of combining the pre-merger companies as though the acquisition had taken place on January 1, 1996.

Results of Operations		
For the Three Months ended March 31,		
	1997	1996
		(Pro Forma)
(Dollars in thousands, except per share data)		
Home sales revenue	\$12,573	\$14,767
Cost of home sales	10,947	12,924
	-----	-----
Gross profit	1,626	1,843
Selling, general and administrative	1,847	2,180
	-----	-----
Operating loss	(221)	(337)
Other income	535	638
	---	---
Earnings before income taxes	314	301
Income tax expense	26	33
	--	--
Net earnings	\$288	\$268
	====	====
Earnings per share	\$ .06	\$ .06
	=====	=====

The key assumptions in the pro forma results of operations relate to the following:

- (1) The transaction was consummated on January 1, 1996.
- (2) Compensation expense was adjusted to add the new employees' cost and to deduct the terminated employees' cost.
- (3) The net operating loss was utilized to reduce the maximum amount of taxable income possible.

The following discussion and analysis provides information regarding results of operations of the Company and its subsidiaries for the three months ended March 31, 1997 and pro forma operations for the three months ended March 31, 1996. All material balances and transactions between Monterey Homes Corporation and its subsidiaries have been eliminated. This discussion should be read in conjunction with the Company's and Subsidiaries' financial statements contained elsewhere in this Prospectus. In the

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opinion of management, the unaudited interim data reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company's financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

Home Sales Revenue

Home sales revenue for any period is the product of the number of units closed during the period and the average sales price per unit. The following table presents comparative first quarter 1997 and 1996 housing revenues (dollars in thousands):

(Dollars in Thousands)	Quarter Ended		Dollar/Unit	Percentage
	March 31			
	1997	1996	Increase (Decrease)	Increase (Decrease)
	----	----	-----	-----
Dollars.....	\$12,573	\$14,767	(\$2,194)	(14.9%)
Units Closed.....	40	53	(13)	(24.5%)
Average Sales Price.....	\$314.3	\$278.6	\$35.7	12.8%

Home sales revenue decreased 14.9% due to 13 fewer closings during the

first quarter of 1997. The average sales price increased 12.8% due to closing higher priced homes in 1997. In the first quarter of 1996, 23 lower priced condominium units were closed. There were no condominium closings in the first quarter of 1997 as this project was sold out in 1996.

#### Gross Profit

Gross profit equals home sales revenue, net of housing cost of sales, which include developed lot costs, units construction costs, amortization of common community costs (such as the cost of model complex and architectural, legal, and zoning costs), interest, sales tax, warranty, construction overhead, and closing costs. The following table presents comparative first quarter 1997 and 1996 housing gross profit (dollars in thousands):

(Dollars in Thousands)	Quarter Ended March 31,		Dollar	Percentage
	1997	1996	Increase (Decrease)	Increase (Decrease)
Dollars.....	\$1,626	\$1,843	(\$217)	(11.8%)
Percent of Housing Revenues.....	12.9%	12.5%	.4%	3.2%

The 11.8% decrease in dollar gross profit is a result of 13 fewer closings in the first quarter of 1997.

#### Selling, General, and Administrative Expenses

Selling, general, and administrative expenses, which include advertising, model and sales office, sales administration, commissions, and corporate overhead costs, were \$1.8 million for the first quarter of 1997, as compared to \$2.2 million for the same period in 1996, a decrease of 8%. This change was caused mainly by fewer home closings and higher administrative and corporate costs paid in 1996 than in 1997.

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#### Development Projects

At March 31, 1997, the Company had 14 subdivisions under various stages of development. The Company was actively selling in 11 subdivisions, was sold out in one subdivision, and was in various stages of preparation to open for sales in two subdivisions. The Company owns the underlying land in seven subdivisions subject to bank acquisition financing, and the underlying land in two subdivisions free from any acquisition financing. The lots in the remaining five subdivisions are purchased from developers on a rolling option basis. During the first quarter of 1997, the Company purchased one new subdivision and entered into one new rolling lot option contract to increase the lots available to the Company in one existing subdivision. Depending on market conditions, management may elect to make additional selective property acquisitions throughout the remainder of the current year.

#### Net Orders

Net orders for any period represent the number of units ordered by customers (net of units canceled) multiplied by the average sales price per units ordered. The following table presents comparative first quarter 1997 and 1996 net orders (dollars in thousands):

(Dollars in Thousands)	Quarter Ended March 31,		Dollar/Unit	Percentage
	1997	1996	Increase	Increase
Dollars.....	\$27,868	\$15,490	\$12,378	79.9%
Units Ordered.....	81	59	22	37.3%
Average Sales Price.....	\$344.1	\$262.5	\$81.6	31.1%

The dollar volume of net orders increased by 79.9% over the 1996 first quarter due primarily to an increase in average sales price and higher unit sales. The increase in average sales price was caused by activity in a new semi-custom subdivision with higher priced homes. The increase in net orders has generally been caused by an increase in the number of subdivisions actively open for sales to eleven in 1997 from six in 1996.

Monterey does not include sales which are contingent on the sale of the customer's existing home as orders until the contingency is removed. Historically, Monterey has experienced a cancellation rate of less than 16% of gross sales.

#### Net Sales Backlog

Backlog represents net orders of Monterey which have not closed. The following table presents comparative March 31, 1997 and 1996 net sales backlog (dollars in thousands):

(Dollars in Thousands)	Quarter Ended March 31,		Dollar/Unit	Percentage
	1997	1996	Increase	Increase
Dollars.....	\$61,224	\$40,602	\$20,622	50.8%
Units in Backlog.....	161	150	11	7.3%



Average Sales Price..... \$380.3      \$270.7      \$109.6      40.5%

Dollar backlog increased 50.8% over the prior year due to an increase in units in backlog and by an increase in average sales price. Average sales price has increased due to the sell out of lower priced Vintage Condominium subdivision and the opening of a higher priced semi-custom subdivision. Units in backlog have increased 7.3% over the prior year due to the increase in net orders.

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Seasonality

Monterey has historically closed more units in the second half of the fiscal year than in the first half, due in part to the slightly seasonal nature of the market for their semi-custom, luxury product homes. Management expects that this seasonal trend will continue in the future, but may change slightly as operations expand within the move-up segment of the market.

Pro Forma Results of Operations for the Years Ended  
December 31, 1996 and 1995

To assist in the understanding of those operations of the Company considered in light of the operations of Monterey, management has prepared pro forma condensed combined operating results for the years ended December 31, 1996 and 1995 and they reflect the impact of combining Monterey with the Company as though the acquisition occurred on January 1, 1995. These results are presented only for purposes of analysis and they are not meant to be indicative of future results of operations, nor are they meant to be considered for purposes other than additional information.

	Pro Forma Results of Operations For the Year Ended December 31,	
	1996	1995
	(Dollars in thousands, except per share data)	
Sales revenue	\$87,754	\$71,491
Cost of sales	75,099	60,557
	-----	-----
Gross profit	12,655	10,934
Selling, general and administrative	7,777	6,792
	-----	-----
Operating income	4,878	4,142
Other income	1,998	2,836
	-----	-----
Earnings before income taxes	6,876	6,978
Income tax expense	756	768
	-----	-----
Net earnings	\$6,120	\$6,210
	=====	=====
	\$1.27	\$1.28
	=====	=====
Earnings per share		

The key assumptions in the pro forma results of operations relate to the following:

- (1) The transaction was consummated on January 1, 1995.
- (2) Compensation expense was adjusted to add the new employees' cost and to deduct the terminated employees' cost.
- (3) The net operating loss was utilized to reduce the maximum amount of taxable income possible.

Home Sales Revenue

The following table presents comparative 1996 and 1995 home sales revenue.

	36		Dollar/Unit	Percentage
(Dollars in Thousands)	Year Ending December 31,		Increase	Increase
	1996	1995	(Decrease)	(Decrease)
	-----	-----	-----	-----
Dollars.....	\$86,829	\$67,926	\$18,903	27.8%
Units Closed.....	307	239	68	28.5%
Average Sales Price.....	\$282.8	\$284.2	(\$1.4)	(1.0%)

The increase in revenues of approximately \$19 million during 1996 over the previous year was caused by the increase in unit closings partially offset by lower average sales prices. The average sales price decreased from the prior year due to an increase in closings produced by Monterey's lower priced move-up subdivisions, which made up approximately 55% of the homes closed in 1996. The average sales price of Monterey's luxury, semi-custom product line is in excess of \$300,000 and Monterey's move-up product line averages \$205,000. Unit closings increased due to the growth in the number of subdivisions producing home closings from nine in the prior year to fifteen in 1996.

Land Sales Revenue

Monterey closed one land sale during 1996, which produced revenue of \$925,000 and gross profit of \$506,000 and sold one land parcel during 1995, which produced revenue of \$3,565,000 and gross profit of \$433,000.

Gross Profit

The following table presents comparative 1996 and 1995 gross profit.

(Dollars in Thousands)	Year Ending		Dollar Increase (Decrease)	Percentage Increase (Decrease)
	December 31, 1996	December 31, 1995		
Dollars.....	\$12,665	\$10,934	\$1,721	15.7%
Percent of Housing Revenues.....	14.6%	16.1%	(1.5%)	(9.3%)

The increase in gross profit is primarily attributable to a 27.8% increase in dollar revenues offset slightly by a 1.5% decrease in the gross profit margin. The gross profit margin decreased slightly mainly due to higher lot costs and capitalized interest in cost of sales which was mostly offset by lower direct construction costs and construction overhead.

Interest incurred and capitalized by Monterey was \$3,700,000 and \$2,240,000 in 1996 and 1995, respectively. Interest amortized and included in cost of sales in 1996 was \$2,600,000 compared to \$1,700,000 in 1995. As a percentage of revenue the amortized amounts in 1996 and 1995 were 2.8% and 2.4%, respectively.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses were approximately \$7.8 million for the year ended December 31, 1996 compared to approximately \$6.8 million for 1995. Sales commissions paid in 1996 were \$2,581,000 compared to \$2,039,000 in 1995, an increase of 27%, based on greater sales volume. There were also increased advertising and overhead expenses generated in supporting a greater number of active subdivisions.

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Net Earnings

Net earnings decreased to approximately \$6.1 million for the year ended December 31, 1996 from approximately \$6.2 million for the prior year. This decrease is primarily the result of a \$1 million decrease in interest income from real estate loans along with increased selling, general, and administrative expenses offset by greater gross profit recognized from housing revenues.

Net Orders

The following table presents comparative 1996 and 1995 net orders.

(Dollars in Thousands)	Year Ending		Dollar/Unit Increase	Percentage Increase
	December 31, 1996	December 31, 1995		
Dollars.....	\$90,182	\$59,933	\$30,249	50.5%
Units Ordered.....	283	241	42	17.4%
Average Sales Price.....	\$318.6	\$248.7	\$69.9	28.1%

The dollar volume of net orders increased by 50.5% over the prior year due to an increase in average sales prices and higher unit sales. The average sales price increased due to a greater portion of sales occurring in Monterey's lower-priced move-up communities during the prior year. The increase in net orders is primarily attributable to a greater number of subdivisions open for sale.

Monterey does not include sales which are contingent upon the sale of the customer's existing home as orders until the contingency is removed. Historically Monterey has experienced a cancellation rate of less than 16% of gross sales.

Net Sales Backlog

The following table presents comparative 1996 and 1995 net sales backlog.

(Dollars in Thousands)	Year Ending		Dollar/Unit Increase	Percentage Increase
	December 31, 1996	December 31, 1995		
Dollars.....	\$42,661	\$37,891	\$4,770	12.6%
Units Ordered.....	120	144	(24)	(16.7%)
Average Sales Price.....	\$355.5	\$263.1	\$92.4	35.1%

Dollar backlog increased 12.6% over the December 31, 1995 amount due to an increase in average sales price. Average sales price has increased due to the sell out of Monterey's lower-priced Vintage Condominium subdivision and greater

sales in the other move-up communities. Units in backlog decreased due to seasonal fluctuations which cause year-end backlog to typically be lower than at other times during the year.

Financial and Operating Data of Monterey Prior to the Merger

As a result of the Merger, management believes that the Combined Financial Data for Monterey for the year ended December 31, 1996, and for each of the years in the five-year period then ended, are also relevant in evaluating the Company's operating results on a going forward basis. Accordingly, the table below sets forth certain financial and operating data regarding Monterey.

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Monterey Combined Financial Data  
(Dollars In Thousands, Except Per Share Data)  
Year Ended December 31,

	1996	1995	1994	1993	1992
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
Operating Statement Data:					
Total revenues.....	\$87,754	\$71,491	\$60,941	\$40,543	\$35,111
Cost of sales.....	74,874	60,332	50,655	34,664	29,544
Selling, general and administrative expenses.....	6,863	4,899	4,123	3,267	3,383
	-----	-----	-----	-----	-----
Operating income.....	6,017	6,260	6,163	2,612	2,184
Other income (expense).....	(49)	141	102	(92)	32
	----	---	---	----	--
Net earnings.....	\$5,968	\$6,401	\$6,265	\$2,520	\$2,216
	=====	=====	=====	=====	=====
		Year Ended December 31,			
	1996	1995	1994	1993	1992
	----	----	----	----	----
Operating Data: (Unaudited)					
Unit sales contracts (net of cancellations).....	283	241	243	167	151
Units closed.....	307	239	201	142	133
Units in backlog at end of period.....	120	144	142	100	75
Aggregate sales value of homes in backlog.....	\$42,661	\$37,891	\$43,981	\$30,826	\$19,970
Average sales price per home closed.....	\$283	\$284	\$299	\$285	\$264
		At December 31,			
	1996 (1)	1995	1994	1993	1992
	-----	----	----	----	----
Balance Sheet Data:					
Real estate under development.....	\$36,501	\$33,929	\$17,917	\$13,736	\$9,553
Total assets.....	45,741	42,654	28,820	19,227	12,366
Notes payable.....	30,542	24,316	12,255	7,632	3,463
Stockholders' equity.....	1,783	9,108	6,898	3,121	2,193
- - - - -					

(1) Does not reflect the Merger consummated on December 31, 1996

</TABLE>

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BUSINESS OF THE COMPANY

The Company's business has changed substantially as a result of the Merger. The Company will no longer be engaged primarily in the business of making Real Estate Loans, but instead will be engaged primarily in the homebuilding business -- the business engaged in by Monterey. Accordingly, this section will focus primarily on the operators of Monterey for the periods discussed.

History of Monterey and Background

Monterey Management, Inc., an Arizona corporation ("MMI"), and Monterey Homes Corporation, an Arizona corporation ("MHC"), were originally formed by the Monterey Stockholders in 1986 and 1992, respectively. These companies originally operated only in Scottsdale, Arizona and nearby areas. In June of 1996, the Monterey Stockholders formed Monterey Management - Tucson, Inc., an Arizona corporation ("MM-TI"), and Monterey Homes-Tucson Corporation, an Arizona corporation ("MH-TC"), to operate in the area of Tucson, Arizona. In September of 1996, MMI was merged with and into its Tucson counterpart MM-TI, with MM-TI surviving and changing its name to Monterey Homes Construction II, Inc. (MHC-II), and MHC was merged with and into its Tucson counterpart MH-TC, with MH-TC surviving and changing its name to Monterey Homes Arizona II, Inc. (MHA II).

On December 31, 1996, immediately prior to the Merger, MHC II contributed all of its assets and its liabilities and obligations to Monterey Homes Construction I, Inc., an Arizona corporation ("MHC I"), a newly-formed, wholly-owned subsidiary of MHC II, and MHA II contributed all of its assets and its liabilities and obligations to Monterey Homes Arizona I, Inc., an Arizona corporation ("MHA I"), a newly-formed, wholly-owned subsidiary of MHA II. Upon the Merger of MHC II and MHA II into Homeplex, with Homeplex surviving and changing its name to Monterey Homes Corporation, MHC I and MHA I continued as wholly-owned subsidiaries of the Company.

Monterey designs, builds, and sells single-family, move-up and semi-custom, luxury homes in the Phoenix and Tucson, Arizona metropolitan areas. Monterey achieved revenue growth from \$20.4 million in 1991 to \$86.8 million in 1996 and achieved pre-tax income of \$6 million in 1996. For the quarter ended March 31, 1997, the Company had pre-tax income of \$314,000. Monterey attributes this growth principally to the market knowledge and experience of its management team and strong economic conditions in the Phoenix metropolitan area. For the year ended December 31, 1996, Monterey closed 307 homes generating revenues of \$86.8 million and as of that date had a backlog of 120 homes under contract. For the quarter ended March 31, 1997, Monterey closed 40 homes generating revenues of \$12,573,000 and as of that date had a backlog of 161 homes under contract.

#### Industry

The homebuilding industry is highly competitive and extremely fragmented, and is greatly affected by a number of factors, on both a national and regional level. Among the most vital factors on a national level are interest rates and the influence of the Federal Reserve Board on interest rates. The homebuilding industry's sensitivity to interest rate fluctuations is two-pronged: an increase or decrease in interest rates affects (i) the homebuilding company directly in connection with its cost of borrowed funds for land and project development and working capital and (ii) home buyers' ability and desire to obtain long-term mortgages at rates favorable enough to service a long-term mortgage obligation. Monterey believes that the availability of less expensive mortgage financing vehicles such as variable rate mortgage loans have

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encouraged potential home buyers moving to high growth areas to be more willing to purchase a new home now and refinance at a later date.

#### Business Strategy

Monterey's business strategy is to provide its customers with quality move-up and semi-custom, luxury homes in prime locations while catering to customers' desires to customize Monterey's offered floor plans. Monterey seeks to distinguish itself from other production homebuilders by offering homes that it believes have distinctive designs and by offering custom home features at prices that offer a better value than generally available.

Monterey's business strategy focuses on the following elements:

**Quality Product - Distinctive Design Features.** Monterey seeks to maximize customer satisfaction by offering homes that are built with quality materials and craftsmanship, exhibit distinctive design, and are situated in premium locations. Its competitive edge in the selling process focuses on the home's features, design, and available custom options. Monterey believes that its homes generally offer higher quality and more distinguished designs within a defined price range or category than those built by its competitors.

**Service.** Monterey attempts to involve the customer in every phase of the building process through a series of conferences with the sales staff, project managers, and construction superintendents. This procedure is designed to give the buyer the opportunity to add custom design features and monitor development of the home, creating a sense of participation in and control over the end product.

**Product Breadth.** Monterey has two major product lines: luxury and move-up. The luxury market segment is characterized by unique communities in which Monterey builds semi-custom homes. Monterey rarely duplicates its semi-custom floor plans from one community to another, providing customers within each specific community distinctive luxury homes. The move-up market segment is characterized by lower-priced production homes for which floor plans can be used from community to community. Monterey's expansion into the move-up buyer segment of the market reflects its desire to increase its share of the overall housing market in the Phoenix and Tucson metropolitan areas.

**Target Market.** Particularly in its luxury home operations, Monterey focuses on the affluent buyer, including professionals and those purchasing second homes and who may live in the Phoenix or Tucson metropolitan areas on a part-time basis. Because of its customer profile and the nature of the semi-custom, luxury segment of the market, Monterey believes that the demand for this product is less cyclical and less sensitive to the adverse effects of interest rate fluctuation than other segments of the homebuilding industry, and is somewhat less affected by economic downturns. For the quarter ended March 31, 1997 approximately 42% and 58% of the Company's revenues were derived from the sale of move-up and semi-custom luxury homes, respectively. For the years ended December 31, 1996, 1995, and 1994, approximately 45% and 55%, 32% and 68%, and 15% and 85%, of Monterey's revenues were derived from the sale of move-up and semi-custom, luxury homes, respectively. Although semi-custom, luxury home sales as a percentage of the Company's total revenues have declined over the last three years due to a greater emphasis on increasing sales of move-up homes, the Company currently expects to continue to derive a significant portion of its revenues from sales of semi-custom, luxury homes.

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**Penetration of New Markets.** Depending on existing market conditions, Monterey may explore expansion opportunities in other parts of the Western and Southwestern United States. Its strategy in this regard will be to expand first into similar market niches in areas where it perceives an ability to exploit a competitive advantage. The expansion may be effected through acquisitions of homebuilders operating in such geographic markets.

Conservative Land Acquisition Policy. Monterey has historically pursued, and will continue to pursue, a conservative land acquisition policy. It generally purchases land subject to complete entitlement, including zoning and utilities services, focusing on development sites which it expects will have less than a three-year inventory of lots. These strategies reduce the risks associated with investments in land. Moreover, it controls lots on a non-recourse, rolling option basis in those circumstances in which it is economically advantageous to do so. To date, Monterey has not speculated in raw land held for investment.

#### Markets and Products

Overview. Monterey's operations primarily serve Scottsdale, Northeast Phoenix and Fountain Hills, Arizona (the "Scottsdale Area") and, beginning in the first half of 1996, Tucson and Oro Valley, Arizona (the "Tucson Area"). Monterey believes that both of these areas represent attractive homebuilding markets with opportunity for long-term growth. Monterey also believes that its operations in Scottsdale are well established and that it has developed a reputation for building quality move-up and semi-custom, luxury homes with distinctive designs.

Monterey's semi-custom, luxury homes are single-story, two to five bedroom homes, ranging in base price from approximately \$244,900 to \$505,900. Basements are available on some plans. The homes vary in size from 2,540 square feet to 4,530 square feet and are constructed on lots ranging from 5,500 square feet to one acre.

Monterey also builds single-family, move-up homes on subdivided lots. These are one and two-story detached homes, with two to five bedrooms, ranging in base price from approximately \$169,900 to \$227,900. The homes range from 1,970 square feet to 3,050 square feet and are constructed on lots ranging from 6,500 square feet to 10,000 square feet.

The average sales price for all homes closed during the first quarter of 1997 was \$314,300. At March 31, 1997, the Company had a total of 81 home purchase contracts in backlog totaling \$27,868,000, with an average sales price of \$344,100. The average sales price for all homes closed during 1996 and 1995 was \$282,800 and \$284,200, respectively. At December 31, 1995, Monterey had a total of 144 home purchase contracts in backlog totaling \$38 million, with an average sales price of \$263,100, while at December 31, 1996, Monterey had 120 home purchase contracts in backlog totaling \$43 million, with an average sales price of \$355,500.

Scottsdale, Arizona. For 1995 and prior years, Monterey derived its revenues from operations in the Scottsdale Area. Scottsdale is a relatively affluent city within the Phoenix metropolitan area. In addition, Scottsdale has developed detailed master planning and zoning regulations and the Scottsdale Area has typically appealed to the type of higher-income 144 buyer which Monterey generally targets.

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From 1995 to 1996, permits issued for single-family residential units in the City of Scottsdale decreased 3% from 3,194 to 3,077. Permits issued in the Phoenix metropolitan area increased 8.6% from 24,697 to 26,811 for the same time period. Moreover, although single-family housing permits in the Phoenix metropolitan area were at record levels in 1996, real estate analysts are predicting that new home sales in the Phoenix metropolitan area will slow significantly in 1997 and 1998. Any such slowing in new home sales could have a material adverse affect on the Company's operating results.

The following table presents information relating to the current communities in the Scottsdale Area served by the Company.

<TABLE>  
<CAPTION>

	Total	Number of Homes	Number of Homes	Number of Homes in	Number of Homes Remaining
Estimated	Number	Sold as of	Closed at	Backlog at	at
Average	of Home	March 31,	March 31,	March 31,	March 31,
Sales	Sites	1997	1997	1997	1997 (1)
Price (2)	-----	----	----	----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Luxury:					
Canada Vistas	41	32	20	12	9
\$294,400					
DC Ranch (3)	64	-0-	-0-	-0-	64
Eagle Mountain	29	15	1	14	14
\$432,900					
Gainey Village - Casitas	76	-0-	-0-	-0-	76
Gainey Village - Villas	101	-0-	-0-	-0-	101
Lincoln Place	56	41	1	40	15
\$449,150					
Portales	72	67	64	3	5
\$364,900					
Scottsdale Country Club	23	23	18	5	-0-
\$379,900					

(Estates)					
Scottsdale Country Club	43	43	43	-0-	-0-
\$307,600					
(Fairway)					
SunRidge Canyon	75	32	12	20	43
\$297,100					
Tierra Bella	35	19	9	10	16
\$382,500					
The Preserve (3)	143	-0-	-0-	-0-	143
	-----	-----	-----	-----	-----
Luxury Subtotal:	758	272	168	104	486
	-----	-----	-----	-----	-----
Move-up:					
	-----	-----	-----	-----	-----
Grayhawk	147	60	52	8	87
\$207,500					
Palos Verdes	72	50	37	13	22
\$194,100					
	-----	-----	-----	-----	-----
Move-up Subtotal:	219	110	89	21	109
	-----	-----	-----	-----	-----
Total Scottsdale Area:	977	382	257	125	595
	=====	=====	=====	=====	=====

</TABLE>

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- (1) The "Number of Homes Remaining" is the number of homes that could be built on both the remaining lots available for sale and land to be developed into lots as estimated by Monterey.
- (2) "Estimated Average Sales Price" is the current average base sales price of homes offered for sale in each respective community.
- (3) Escrow is scheduled to close in the third quarter of 1997 and marketing is currently expected to begin in the fourth quarter of 1997.

Tucson, Arizona. Monterey began offering homes for sale in the Tucson Area in April 1996. The Tucson Area also has experienced growth over the last five years. Annual building permits issued for single-family residential units in the Tucson Area increased moderately from approximately 5,000 in 1995

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to approximately 5,200 in 1996, a 4% increase. Real estate analysts are predicting that new home sales in the Tucson metropolitan area will remain relatively flat in 1997.

The following table presents information relating to the current communities in the Tucson Area served by the Company.

<TABLE>

<CAPTION>

Community	Total Number of Home Sites	Number of Homes Sold as of March 31, 1997	Number of Homes Closed at March 31, 1997	Number of Homes in Backlog at March 31, 1997	Number of Homes Remaining at March 31, 1997(1)	Estimated Average Sales Price(2)
-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
The Lakes at Castle Rock (The Estates)	46	15	6	9	31	\$354,200
The Lakes at Castle Rock (The Park)	66	19	9	10	47	\$290,700
The Lakes at Castle Rock (The Retreat)	56	38	22	16	18	\$193,300
Rancho Vistoso (3)	144	-0-	-0-	-0-	144	--
	-----	-----	-----	-----	-----	-----
Total Tucson Area	312	72	37	35	240	
	=====	=====	=====	=====	=====	=====

</TABLE>

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- (1) The "Number of Homes Remaining" is the number of homes that could be built on both the remaining lots available for sale and land to be developed into lots as estimated by Monterey.
- (2) "Estimated Average Sales Price" is the current average base sales price of homes offered for sale in each respective community.
- (3) Sales currently scheduled to open in the second quarter of 1997.

#### Land Acquisition and Development

Most of the land acquired by Monterey is purchased only after necessary entitlements have been obtained so that Monterey has certain rights to begin development or construction as market conditions dictate. The term "entitlements" refers to development agreements, tentative maps, or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give the developer the right to obtain building permits upon compliance with conditions that are usually within the developer's control. Even after entitlements are obtained, Monterey is still required to obtain a variety of other governmental approvals and permits during the development process. The process of obtaining such governmental approvals and permits can substantially delay the development process. In certain situations in the

future, Monterey may consider purchasing unentitled property where it perceives an opportunity to build on such property in a manner consistent with its business strategy.

Monterey selects land for development based upon a variety of factors, including (i) internal and external demographic and marketing studies; (ii) suitability of the projects, which generally are

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developments with fewer than 150 lots; (iii) suitability for development within a one to three year time period from the beginning of the development process to the delivery of the last house; (iv) financial review as to the feasibility of the proposed project, including projected profit margins, return on capital employed, and the capital payback period; (v) the ability to secure governmental approvals and entitlements; (vi) results of environmental and legal due diligence; (vii) proximity to local traffic corridors and amenities; and (viii) management's judgment as to the real estate market, economic trends, and experience in a particular market. Monterey may consider purchasing larger properties consisting of 200 to 500 lots or more if it deems the situation to have an attractive profit potential and acceptable risk limitation.

Due to the strong market in the Scottsdale area, the availability of land in the Scottsdale area has decreased and the cost of such land has increased. There can be no assurance that the Company will be able to continue to acquire land in the Scottsdale area on terms that are favorable to the Company. The Company's inability to acquire land in the Scottsdale Area on favorable terms could have a material adverse effect on the Company's business and operating results.

Monterey effects its land acquisition through purchases and rolling option contracts. Purchases are financed through traditional bank financing or through working capital. To control its investment in land and land acquisition costs, Monterey often utilizes non-recourse, rolling option contracts. Under the terms of such rolling option contracts, Monterey generally pays a non-refundable deposit of approximately 10% of the total option price at the inception of the option and an additional non-refundable deposit each time it purchases lots in a particular subdivision in the form of lot purchase price premiums above the contractual lot purchase price for a certain number of the lots in the development. Under all of its option contracts, Monterey is required to purchase a certain number of lots on a monthly or quarterly basis. In this way, Monterey pays the non-refundable deposit over time as it purchases lots under its option. As a result, Monterey's risk is limited to having paid a higher price in the form of an additional deposit for the lots which it has purchased if it determines not to exercise its option to purchase the remaining lots subject to the option agreement. Monterey's failure to purchase the lots as required under such agreements would result only in Monterey having paid a lot premium in the form of an additional deposit for those lots purchased as of the date of the contract's termination. At March 31, 1997, Monterey was buying lots under five rolling option contracts totaling 323 lots. The option contracts have expiration dates ranging from June 30, 1997 to August 9, 1999.

Once the land is acquired, Monterey undertakes, where required, development activities, through contractual arrangements with subcontractors, that include site planning and engineering, as well as constructing road, sewer, water, utilities, drainage, and recreational facilities, and other amenities.

Monterey builds homes in master planned communities with home sites that are along or close in proximity to a major amenity, such as a golf course. These master planned communities are designed and developed by major land developers who develop groups of lots commonly referred to as "super pads" which are sold to a single homebuilder. Monterey typically purchases super pads which contain between 60 and 100 fully entitled lots which are roughly graded and have all utilities and paving brought up to the boundaries of the super pad. Monterey completes the development of each super pad by finishing paving, final grading, and installing all utilities.

Monterey also develops its own subdivisions by purchasing entitled property and commencing site planning and development activities. In such cases, its employees supervise the land development process.

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Monterey has occasionally used partnerships or joint ventures to purchase and develop land where such arrangements were necessary to acquire the property or appeared to be otherwise economically advantageous to Monterey. Monterey may continue to consider such arrangements where management perceives an opportunity to acquire land upon favorable terms, minimize risk, and exploit opportunities through seller financing.

Monterey strives to develop a design and marketing concept for each of its projects, which includes determination of size, style, and price range of the homes, layout of streets, size and layout of individual lots, and overall community design. The product line offered in a particular project depends upon many factors, including the housing generally available in the area, the needs of a particular market, and Monterey's cost of lots in the project. Monterey has utilized an extensive number of floor plans throughout the years, but has offered only about 30 plans in any one year.

At March 31, 1997, Monterey owned 203 finished lots and had 177 lots under development in the Scottsdale Area. Monterey also had under contract or subject to the satisfaction of purchase contingencies, 99 finished lots and 241 lots under development in the Scottsdale Area.

At March 31, 1997, Monterey owned 149 finished lots and 55 lots under development in the Tucson Area. At March 31, 1997, Monterey also had under contract or subject to the satisfaction of purchase contingencies, 71 finished lots in the Tucson Area.

The following table sets forth by project Monterey's land inventory as of March 31, 1997.

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<TABLE>  
<CAPTION>

Projects -----	Land Owned -----		Land Under Contract or ----- Option -----		Total -----
	Finished Lots -----	Lots Under Development (estimate) -----	Finished Lots -----	Lots Under Development (estimate) -----	
<S>	<C>	<C>	<C>	<C>	<C>
Scottsdale Area:					
Canada Vistas	21	-	-	-	21
DC Ranch (1)	-	-	-	64	64
Eagle Mountain	11	-	17	-	28
Gainey Village - Casitas	0	76	-	-	76
Gainey Village - Villas	0	101	-	-	101
Grayhawk	24	-	71	-	95
Lincoln Place	55	-	-	-	55
Palos Verdes	35	-	-	-	35
Portales	8	-	-	-	8
Scottsdale Country Club (Estates)	5	-	-	-	5
Scottsdale Country Club (Fairway)	-	-	-	-	-
SunRidge Canyon	18	-	11	34	63
Tierra Bella	26	-	-	-	26
The Preserve (1)	-	-	-	143	143
Total Scottsdale Area:	203	177	99	241	720
Tucson Area:					
The Lakes at Castle Rock (The Estates)	40	-	-	-	40
The Lakes at Castle Rock (The Park)	9	-	48	-	57
The Lakes at Castle Rock (The Retreat)	11	-	23	-	34
Rancho Vistoso	89	55	-	-	144
Total Tucson Area:	149	55	71	-0-	275
Total:	352	232	170	241	995

</TABLE>

(1) Escrow is scheduled to close in the third quarter of 1997, and marketing currently is expected to begin in the fourth quarter of 1997.

Construction

Monterey acts as the general contractor for the construction of its projects. Subcontractors typically are retained on a subdivision-by-subdivision basis to complete construction at a fixed price. Agreements with subcontractors and materials suppliers are generally entered into after competitive bidding on an individual basis. Monterey obtains information from prospective subcontractors and suppliers with respect to their financial condition and ability to perform their agreements prior to commencement of the formal bidding process. From time to time, Monterey enters into longer term contracts with subcontractors and suppliers if management believes that more favorable terms can be secured.

Contracts are awarded to subcontractors, who are supervised by Monterey's project managers and field superintendents. Such project managers and field superintendents coordinate the activities of subcontractors and suppliers, subject their work to quality and cost controls, and assure compliance with zoning and building codes.

Monterey specifies that quality, durable materials be used in constructing its homes. Monterey does not maintain significant inventory of construction materials. When possible, Monterey negotiates

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price and volume discounts with manufacturers and suppliers on behalf of subcontractors to take advantage of its volume of production. Generally, access to Monterey's principal subcontracting trades, materials, and supplies continue to be readily available in each of its markets; however, prices for these goods and services may fluctuate due to various factors, including supply and demand shortages which may be beyond the control of Monterey or its vendors. Monterey believes that its relations with its suppliers and subcontractors are good.

Monterey generally clusters the homes sold within a project, which management believes creates efficiencies in land development and construction and improves customer satisfaction by reducing the number of vacant lots surrounding a completed home. Typically, the construction of a home by Monterey is completed within four to eight months from commencement of construction,



although construction schedules may vary depending on the availability of labor, materials and supplies, product type, and location. Monterey strives to design homes which promote efficient use of space and materials, and to minimize construction costs and time.

Monterey generally provides a one-year limited warranty on workmanship and building materials with each of its homes. Monterey's subcontractors generally provide an indemnity and a certificate of insurance prior to receiving payments for their work and, therefore, claims relating to workmanship and materials are usually the primary responsibility of Monterey's subcontractors.

Historically, Monterey has not incurred any material costs relating to any warranty claims or defects in construction.

#### Marketing and Sales

Monterey believes that it has an established reputation for developing high quality homes, which helps generate interest in each new project. In addition, Monterey makes extensive use of advertising and other promotional activities, including magazine and newspaper advertisements, brochures, direct mail, and the placement of strategically located sign boards in the immediate areas of its developments.

Monterey believes that the effective use of model homes plays an integral part in demonstrating the competitive advantages of its home designs and features to prospective home buyers. Monterey generally employs or contracts with interior designers who are responsible for creating an attractive model home for each product line within a project which is designed to appeal to the preferences of potential home buyers. Monterey generally builds between two and four model homes for each active community depending upon the number of homes to be built within each community and the product to be offered. At March 31, 1997, Monterey owned five model homes in the Scottsdale area, with no model units under construction. There were no model homes under construction nor any owned in the Tucson area at March 31, 1997. Monterey attempts, to the extent possible, to sell its model homes and to lease them back from purchasers who own the models for investment purposes or who do not intend to live in the home immediately, either because they are moving from out of state or for other reasons. At March 31, 1997, Monterey had sold and was leasing back 23 model homes at a total monthly lease amount of \$62,200.

Monterey tailors its product offerings, including size, style, amenities, and price, to attract higher income home buyers. Monterey offers a broad array of options and distinctive designs and provides a home buyer with the option of customizing many features of their new home.

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Most of Monterey's homes are sold by full-time, commissioned sales employees who typically work from the sales office located in the model homes for each project. Monterey's goal is to ensure that its sales force has extensive knowledge of Monterey's operating policies and housing products. To achieve this goal, all sales personnel are trained and attend periodic meetings to be updated on sales techniques, competitive products in the area, the availability of financing, construction schedules, marketing and advertising plans, and the available product lines, pricing, options, and warranties offered by Monterey. Monterey also requires its sales personnel to be licensed real estate agents where required by law. Further, Monterey utilizes independent brokers to sell its homes and generally pays approximately a 3% sales commission on the base price of the home.

From time to time, Monterey offers various sales incentives, such as landscaping and certain interior home improvements, in order to attract buyers. The use and type of incentives depends largely on prevailing economic conditions and competitive market conditions.

#### Backlog

Although Monterey generally constructs one or two homes per project in advance of obtaining a sales contract, Monterey's homes are generally offered for sale in advance of their construction. The vast majority of the homes sold but not closed in fiscal year 1996 and first quarter 1997 were sold pursuant to standard sales contracts entered into prior to commencement of construction. Such sales contracts are usually subject to certain contingencies such as the buyer's ability to qualify for financing. Homes covered by such sales contracts but not yet closed are considered as "backlog." For a detailed itemization of Monterey's backlog at March 31, 1997, see "Business--Homebuilding Operations of Monterey - Markets and Products." Monterey does not recognize revenue on homes covered by such contracts until the sales are closed and the risk of ownership has been legally transferred to the buyer.

The Company's backlog in number of units decreased to 120 at December 31, 1996 from 144 at December 31, 1995. The dollar value of such backlog, however, increased to \$42,661,000 at December 31, 1996 from \$37,891,000 at December 31, 1995. The decrease in the number of units in backlog at December 31, 1996, due to strong fourth quarter 1996 deliveries may result in lower closings in the first quarter of 1997, which will have an adverse effect on the Company's operating results in that quarter. The Company's backlog in number of units increased to 161 at March 31, 1997 from 150 at March 31, 1996. The dollar value of such backlog increased to \$61,224,000 at March 31, 1997 from \$40,602,000 at March 31, 1996. The increase in the number of units in backlog at March 31, 1997 is due to strong first quarter 1997 sales.

For more information concerning the Company's backlog, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Pro Forma Results of Operations."

#### Customer Financing

With respect to those purchasers requiring financing, Monterey seeks to assist home buyers in obtaining such financing from unaffiliated mortgage lenders offering qualified buyers a variety of financing options. Monterey may pay a portion of the closing costs and discount mortgage points to assist home buyers with financing. Since many home buyers utilize long-term mortgage financing to purchase a home, adverse economic conditions, increases in unemployment, and high mortgage interest rates may deter and/or reduce the number of potential home buyers.

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#### Customer Relations and Quality Control

Management believes that strong customer relations and an adherence to stringent quality control standards are fundamental to Monterey's continued success. Monterey believes that its commitment to customer relations and quality control have significantly contributed to its reputation as a high quality builder.

Generally, for each development, representatives of Monterey, who may be a project manager or project superintendent, and a customer relations representative, oversee compliance with Monterey's quality control standards. These representatives allocate responsibility for (i) overseeing home construction; (ii) overseeing performance by subcontractors and suppliers; (iii) reviewing the progress of each home and conducting formal inspections as specific stages of construction are completed; and (iv) regularly updating each buyer on the progress of his or her home.

Monterey strives to inform and involve the customer in all phases of the building process in most of its communities. Monterey usually holds a pre-construction conference with the customer, sales person, and construction superintendent to review the house plans and design features selected by the customer. A second conference is held at the completion of the framing of the house to review the progress and answer any questions the customer may have. Upon completion of the house, a new home orientation manager meets with the customer for a new home orientation.

#### Competition and Market Factors

The development and sale of residential property is a highly competitive and fragmented industry. Monterey competes for residential sales with national, regional, and local developers and homebuilders, resales of existing homes, and, to a lesser extent, condominiums and available rental housing. Some of the homebuilders with whom Monterey competes have significantly greater financial resources and/or lower costs than Monterey. Competition among both small and large residential homebuilders are based on a number of interrelated factors, including location, reputation, amenities, design, quality, and price. Monterey believes that it compares favorably to other homebuilders in the markets in which it operates due primarily to (i) its experience within its specific geographic markets which allows it to develop and offer new products to potential home buyers which reflect, and adapt to, changing market conditions; (ii) its ability, from a capital and resource perspective, to respond to market conditions and to exploit opportunities to acquire land upon favorable terms; and (iii) its reputation for outstanding service and quality products.

The homebuilding industry is cyclical and affected by consumer confidence levels, prevailing economic conditions in general, and by job availability and interest rate levels in particular. A variety of other factors affect the homebuilding industry and demand for new homes, including changes in costs associated with home ownership such as increases in property taxes and energy costs, changes in consumer preferences, demographic trends, the availability of and changes in mortgage financing programs, and the availability and cost of land and building materials. Real estate analysts are predicting that new home sales in the Phoenix metropolitan area may slow significantly in 1997 and 1998 and that sales in the Tucson metropolitan area will remain relatively flat in 1997. Such a slowing in new home sales would increase competition among homebuilders in these areas. There can be no assurance that the Company will be able to compete successfully against other homebuilders in the Phoenix and Tucson metropolitan areas in a more competitive business environment that would result from such a slowing in new home sales or that such

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increased competition will not have a material adverse affect on the Company's business and operating results.

#### Government Regulation and Environmental Matters

Most of Monterey's land is purchased with entitlements, providing for zoning and utility service to project sites and giving it the right to obtain building permits and begin construction almost immediately upon compliance with specified conditions, which generally are within Monterey's control. The length of time necessary to obtain such permits and approvals affects the carrying costs of unimproved property acquired for the purpose of development and construction. In addition, the continued effectiveness of permits already granted is subject to factors such as changes in policies, rules, and regulations, and their interpretation and application. To date, the government

approval processes discussed above have not had a material adverse effect on the development activities of Monterey. There can be no assurance, however, that these and other restrictions will not adversely affect Monterey in the future.

Because most of Monterey's land is entitled, construction moratoriums generally would only adversely affect Monterey if they arose from health, safety, and welfare issues, such as insufficient water or sewage facilities. Local and state governments also have broad discretion regarding the imposition of development fees for projects in their jurisdiction. These fees are normally established when Monterey receives recorded final maps and building permits. However, as Monterey expands it may also become increasingly subject to periodic delays or may be precluded entirely from developing communities due to building moratoriums, "slow-growth" initiatives, or building permit allocation ordinances which could be implemented in the future in the states and markets in which Monterey may then operate.

Monterey is also subject to a variety of local, state, and federal statutes, ordinances, rules, and regulations concerning the protection of health and the environment. In the principal market of Scottsdale, Monterey is subject to several environmentally sensitive land ordinances which mandate open space areas with public easements in housing developments. Monterey must also comply with flood plain concerns in certain desert wash areas, native plant regulations, and view restrictions. These and similar laws may result in delays, cause Monterey to incur substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas. To date, however, compliance with such ordinances has not materially affected Monterey's operations. No assurance can be given that such a material adverse effect will not occur in the future.

#### Bonds and Other Obligations

Monterey generally is not required, in connection with the development of its projects, to obtain letters of credit and performance, maintenance, and other bonds in support of its related obligations with respect to such development. Such bonds are usually provided by subcontractors.

#### Employees and Subcontractors

At March 31, 1997, Monterey had 92 employees, of which 16 were in management and administration, 27 in sales and marketing, and 49 in construction operations. The employees are not unionized and Monterey believes that its relations with its employees are good. Monterey acts solely as a general contractor and all of its construction operations are conducted through project managers and field

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superintendents who manage third party subcontractors. Monterey utilizes independent contractors for construction, architectural, and advertising services.

#### Real Estate Loan Business Prior to Merger

Prior to the Merger, the Company made or acquired short-term and intermediate-term Real Estate Loans. A short-term loan generally has a maturity of one year or less and an intermediate-term loan generally has a maturity of not more than three years.

In the latter half of 1995, in anticipation of a potential acquisition transaction, the Company slowed its origination of Real Estate Loans. The following table sets forth information relating to the Company's only outstanding Real Estate Loan at December 31, 1996 and March 31, 1997.

Description	Interest Rate	Payment Terms	Amount	Amount
			Outstanding at December 31, 1996	Outstanding at March 31, 1997
First Deed of Trust on 41 acres of land in Gilbert, Arizona, face value of \$2,800,000.	16%	Interest only monthly, principal due October 18, 1997.	\$1,696,000	\$1,491,000

The above loan was current at March 31, 1997. The Company does not intend to make any additional Real Estate Loans in the future.

#### Mortgage Assets Acquired Prior to Merger

Prior to the Merger, the Company acquired a number of mortgage assets as described herein, consisting of mortgage interests (commonly known as "residuals") and mortgage instruments. Mortgage instruments consist of mortgage certificates representing interests in pools of residential mortgage loans ("Mortgage Certificates").

Mortgage interests entitle the Company to receive net cash flows (as described below) on mortgage instruments securing or underlying Mortgage Securities and are treated for federal income tax purposes as interests in real estate mortgage investments conduits ("REMICs") under the Code. Substantially all of the Company's mortgage instruments and the mortgage instruments underlying the Company's mortgage interests currently secure or underlie

mortgage-collateralized bonds ("CMOs"), mortgage pass-through certificates ("MPCs"), or other mortgage securities (collectively, "Mortgage Securities").

The Company's mortgage assets generate net cash flows ("Net Cash Flows") which result primarily from the difference between (i) the cash flows on mortgage instruments (including those securing or underlying various series of Mortgage Securities as described herein) together with reinvestment income thereon and (ii) the amount required for debt service payments on such Mortgage Securities, the costs of issuance and administration of such Mortgage Securities, and other borrowing and financing costs of the Company. The revenues received by the Company are derived from the Net Cash Flows received directly by the Company as well as any Net Cash Flows received by trusts in which the Company has a beneficial interest to the extent of distributions to the Company as the owner of such beneficial interest.

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Mortgage Certificates consist of fully-modified pass-through mortgage-backed certificates guaranteed by GNMA ("GNMA Certificates"), mortgage participation certificates issued by FHLMC ("FHLMC Certificates"), guaranteed mortgage pass-through certificates issued by FNMA ("FNMA Certificates"), and certain other types of mortgage certificates and mortgage-collateralization obligations ("Other Mortgage Certificates").

Mortgage Securities consisting of CMOs and MPCs typically are issued in series. Each such series generally consists of several serially maturing classes secured by or representing interests in mortgage instruments. Generally, payments of principal and interest received on the mortgage instruments (including prepayments on such mortgage instruments) are applied to payments. Certain Classes of the Mortgage Securities will be subject to redemption at the option of the issuer of such series or upon the instruction of the Company (as the holder of the residual interest in the REMICs with respect to the other Mortgage Securities Classes subject to redemption) on the dates specified herein in accordance with the specific terms of the related Indenture, Pooling Agreement, or Trust Agreement, as applicable. Certain Classes which represent the residual interest in the REMIC with respect to a series of Mortgage Securities (referred to as "Residual Interest Classes") generally also are entitled to additional amounts, such as the remaining assets in the REMIC after the payment in full of the other Classes of the same series of Mortgage Securities and any amount remaining on each payment date in the account in which distributions on the mortgage instruments securing or underlying the Mortgage Securities are invested after the payment of principal and interest on the related Mortgage Securities and the payment of expenses.

As of March 31, 1997, the Company owned mortgage interests with respect to eight separate series of Mortgage Securities with a net amortized cost balance of approximately \$3,817,000. This cost represents the aggregate purchase price paid for such mortgage interests less the amount of distributions on such mortgage interests received by the Company representing a return of investment.

As a result of the Merger and the termination of the Company's REIT status, the Company does not intend to acquire any additional mortgage assets. The Company may elect in the future to (i) hold the mortgage assets to maturity, (ii) redeem the mortgage assets on or after the allowable redemption dates specified in the controlling agreement, or (iii) sell the mortgage assets. The impact of each of the foregoing actions on the Company's operating results is set forth under "Risk Factors -- Mortgage Asset Considerations" above.

#### PROPERTIES

The Company leases approximately 11,000 square feet of office space for its corporate headquarters from a limited liability company ("LLC") owned by Messrs. Cleverly and Hilton in an approximately 14,000 square foot office building in Scottsdale, Arizona. Monterey leases the space on a five-year lease (ending September 1, 1999), net of taxes, insurance and utilities, at an annual rate which management believes is competitive with lease rates for comparable space in the Scottsdale area. Rents paid to the LLC totaled \$173,160 and \$164,394 during fiscal years 1996 and 1995, respectively. For the first quarter of 1997, rent paid to the LLC totaled \$46,011. The Company has an option to expand its space in the building and to renew the lease for additional terms at rates which are competitive with those in the market at such time. Management believes that the terms of the lease are no less favorable than those which it could obtain in an arm's length negotiated transaction. The Company leases approximately 1,500 square feet of office space in Tucson, Arizona. The lease term is for 37 months commencing on

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October 1, 1995 at an initial annual rent of \$13.74 per square foot, increasing during the term of the lease to an ending rate of \$15.74 per square foot.

The Company also leases, on a triple net basis, 23 model homes. Such leases are for terms ranging from 2 months to 27 months, with renewal options ranging from 30 days to over 1 year, on a month-to-month basis. The lease rates are typically equal to 7% to 12% of the sales price of the homes per annum.

#### LEGAL PROCEEDINGS

The Company is involved in various routine legal proceedings incidental to its business. Management believes that none of these legal proceedings, certain of which are covered by insurance, will have a material adverse impact on the financial condition or results of operations of the Company.

MANAGEMENT OF THE COMPANY

The Articles of Incorporation of the Company divide the Board of Directors into two classes serving staggered two-year terms. Class I consists of three directors whose terms expire at the 1998 Annual Meeting of Stockholders. Class II consists of two directors whose terms expire at the 1997 Annual Meeting of Stockholders.

Information concerning the Company's directors and executive officers is set forth below.

Name	Age	Position with the Company
William W. Cleverly	41	Chairman of the Board, Class I Director and Co-Chief Executive Officer
Steven J. Hilton	35	President, Class I Director and Co-Chief Executive Officer
Larry W. Seay	41	Vice President-Finance, Chief Financial Officer, Secretary and Treasurer
Anthony C. Dinnell	45	Vice President-Marketing and Sales
Irene Carroll	41	Vice President-Land Acquisition and Development
Christopher T. Graham	33	Vice President-Construction Operations
Jeffrey R. Grobstein	37	Vice President-Tucson Division
Alan D. Hamberlin(2)	48	Class I Director
Robert G. Sarver(1)	35	Class II Director
C. Timothy White(1)(2)	36	Class II Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

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William W. Cleverly has served as Chairman of the Board and Co-Chief Executive Officer of the Company since the Merger on December 31, 1996. Mr. Cleverly co-founded the Monterey Entities in 1986 and served as President and director of the Monterey Entities until the Merger on December 31, 1996. From 1983 to 1986, Mr. Cleverly was the President and founder of a real estate development company which developed and marketed multi-family projects. Mr. Cleverly received his undergraduate degree from the University of Arizona, and is a member of the Central Arizona Homebuilders' Association of Arizona and the National Homebuilders' Association.

Steven J. Hilton has served as President, Co-Chief Executive Officer and Director of the Company since the Merger on December 31, 1996. Mr. Hilton co-founded the Monterey Entities in 1986 and served as Treasurer, Secretary and director of the Monterey Entities until the Merger on December 31, 1996. From 1985 to 1986, Mr. Hilton served as a project manager for Premier Community Homes, a residential homebuilder. From 1984 to 1985, Mr. Hilton served as a project manager for Mr. Cleverly's real estate development company. Mr. Hilton received his undergraduate degree from the University of Arizona, and is a member of the Central Arizona Homebuilders' Association, the National Homebuilders' Association, the National Board of Realtors and the Scottsdale Board of Realtors.

Larry W. Seay has served as the Vice President-Finance and Chief Financial Officer of the Company since the Merger on December 31, 1996 and as Secretary and Treasurer of the Company since January 1997. Mr. Seay was appointed Vice President-Finance and Chief Financial Officer of the Monterey Entities in April 1996 and served in that capacity until the Merger on December 31, 1996. From 1990 to 1996, Mr. Seay served as the Vice President-Treasurer of UDC Homes, Inc., a homebuilding company based in Phoenix, Arizona. In May 1995, while Mr. Seay served as Vice President-Treasurer, UDC Homes, Inc. filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. UDC Homes, Inc. emerged from reorganization proceedings in November 1995. From 1986 to 1990, Mr. Seay served as Treasurer and Chief Financial Officer of Emerald Homes, Inc., also a Phoenix, Arizona-based homebuilding company. Prior to 1986, Mr. Seay worked as a staff accountant and audit manager at Deloitte & Touche LLP. Mr. Seay graduated with undergraduate degrees in finance and accounting and with a Masters in Business Administration from Arizona State University. Mr. Seay is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Anthony C. Dinnell has served as the Vice President-Marketing and Sales of the Company since the Merger on December 31, 1996. Mr. Dinnell served as Vice President-Marketing and Sales of the Monterey Entities from 1992 until the Merger. From 1991 to 1992, Mr. Dinnell was Regional Sales Manager for M/I Schottenstein Homes and from 1988 to 1991 he was Division Manager for NV Homes, both of which are Maryland-based, national homebuilding companies. Prior to 1988, Mr. Dinnell served as Vice President of Sales and Marketing with Coscan Homes, a residential homebuilder in Phoenix, Arizona, and as Director of Marketing for Dell Trailor Homes, also a homebuilder in Phoenix, Arizona. He is

on the Sales and Marketing Council for the Central Arizona Homebuilders' Association and a member of the National Homebuilders' Association.

Irene Carroll has served as the Vice President-Land Acquisition and Development of the Company since the Merger on December 31, 1996. Ms. Carroll served as Vice President-Land Acquisition and Development of the Monterey Entities from 1994 until the Merger on December 31, 1996. From 1992 to 1994, Ms. Carroll served as a Division Manager for Richmond American Homes, a residential homebuilder in Phoenix, Arizona. From 1983 to 1992, Ms. Carroll held a number of other positions with Richmond American Homes and its predecessor, Wood Brothers Homes, including Vice President of

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Operations (1992-1994), Vice President of Finance (1987-1992), Division Controller (1984-1987), and Corporate Cash Manager (1983-1984). Ms. Carroll graduated from the University of Texas, is a certified public accountant, and is a member of the Central Arizona Homebuilders' Association and the National Homebuilders' Association.

Christopher T. Graham has served as the Vice President-Construction Operations of the Company since the Merger on December 31, 1996. Mr. Graham was appointed Vice President- Construction Operations of the Monterey Entities in 1996 and served in that capacity until the Merger on December 31, 1996. From 1993 to 1996, Mr. Graham served as a Project Manager in Phoenix, Arizona, and as Director of Construction in Salt Lake City, Utah, for Pulte Home Corporation, a residential homebuilder. Prior to 1993, Mr. Graham worked in various positions of increasing responsibility with Continental Homes, a residential homebuilder, most recently as Purchasing Manager. Mr. Graham represents the Company in the Central Arizona Homebuilders Association.

Jeffrey R. Grobstein has served as the Vice President-Tucson Division of the Company since the Merger on December 31, 1996. Mr. Grobstein joined the Monterey Entities in 1988 as Community Manager in Monterey's Sales and Marketing Department. From 1995 to 1996, Mr. Grobstein served as Vice President-Marketing and Sales for Monterey's Tucson Division, and in 1996 was promoted to Vice President-Tucson Division and served in that capacity until the Merger on December 31, 1996. From 1984 to 1988, Mr. Grobstein was employed in the sales and marketing department of the Dix Corporation, a residential homebuilder. Mr. Grobstein is a member of the Southern Arizona Homebuilders' Association, the Tucson Association of Realtors and the National Homebuilders' Association.

Alan D. Hamberlin has served as a director of the Company since the Company's organization in July 1988. Mr. Hamberlin served as Chief Executive Officer of the Company from July 1988 until the Merger on December 31, 1996, and as Chairman of the Board of Directors from January 1990 until the Merger. He also served as the President of the Company from its organization until September 1995. Mr. Hamberlin served as the President and Chief Executive Officer of the managing general partner of the Company's former Manager and has been President of Courtland Homes, Inc., a Phoenix, Arizona single-family residential homebuilder, since July 1983. Mr. Hamberlin has served as a director of American Southwest Financial Corporation and American Southwest Finance Co., Inc. since their organization in September 1982, as a Director of American Southwest Affiliated Companies since its organization in March 1985 and of American Southwest Holdings, Inc. since August 1994.

Robert G. Sarver has served as a director of the Company since the Merger on December 31, 1996. Mr. Sarver has served as the Chairman and Chief Executive Officer of GB Bancorporation, a bank holding company for Grossmont Bank, San Diego's largest community bank, since 1995. Mr. Sarver currently serves as a director of Zion's Bancorporation, a publicly held bank holding company. In 1990, Mr. Sarver was a co-founder and currently serves as the Executive Director of Southwest Value Partners and Affiliates, a real estate investment company. In 1984, Mr. Sarver founded National Bank of Arizona, Inc. and served as President until it was acquired by Zion's Bancorporation in 1993. Mr. Sarver received his undergraduate degree from the University of Arizona and is a certified public accountant.

C. Timothy White has served as a director of the Company since the Merger on December 31, 1996. Mr. White served as a director of the Monterey Entities from February 1995 until the Merger on December 31, 1996. Since 1989, Mr. White has been an attorney with the law firm of Tiffany & Bosco, P.A. in Phoenix, Arizona. During 1996 and 1995, the Monterey Entities paid Tiffany & Bosco, P.A.

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approximately \$100,000 and \$206,000, respectively, for legal services rendered. Mr. White received his undergraduate degree from the University of Arizona and his law degree from Arizona State University.

#### COMMITTEES OF THE BOARD OF DIRECTORS

Compensation Committee. In 1996, the Compensation Committee of the Board of Directors consisted of the entire Board of Directors. Since the Merger on December 31, 1996 the Compensation Committee has consisted of Messrs. Hamberlin and White. The Compensation Committee reviews all aspects of compensation of executive officers of the Company and makes recommendations on such matters to the full Board of Directors.

Audit Committee. The Audit Committee, which met once during 1996, makes recommendations to the Board concerning the selection of outside auditors, reviews the financial statements of the Company and considers such other matters in relation to the external audit of the financial affairs of the Company as may

be necessary or appropriate in order to facilitate accurate and timely financial reporting. Mr. Sarver and Mr. White are the members of the Audit Committee.

Other Committees. The Company does not maintain a standing nominating committee or other committee performing similar functions.

Compensation Committee Interlocks and Insider Participation. Prior to the Merger, the Compensation Committee of the Board of Directors consisted of the entire Board of Directors. After the Merger, Mr. Hamberlin and Mr. White, neither of whom are employees of the Company, were appointed to the Compensation Committee.

#### DIRECTOR COMPENSATION

Prior to the Merger, directors who were not employees of the Company received an annual retainer of \$20,000, plus \$1,000 per meeting of the Board of Directors attended by the director. Currently, non-employee directors of the Company receive an annual retainer of \$10,000 and are not additionally compensated for attendance at Board or Committee meetings. Subject to the approval of the Monterey Homes Corporation Stock Option Plan by the shareholders of the Company, it is currently anticipated that each of the non-employee directors also will be granted an option to purchase 5,000 shares of the Company's Common Stock as additional consideration for their service as directors. These options shall vest in equal 2,500 share increments on each of the first two anniversary dates of the date of grant and shall have an exercise price equal to the closing price of the Company's Common Stock on the date of grant.

In connection with the Merger, the Company's stockholders approved an extension of certain of the Company's stock options. The Company's former directors are parties to stock option agreements (collectively, the "Existing Stock Option Agreements") pursuant to which such former directors were issued stock options to purchase shares of the Company Common Stock under the stock plan of the Company existing prior to the Merger (the "Existing Stock Option Plan"). The Existing Stock Option Plan and Existing Stock Option Agreements provide for an exercise period after an optionee ceases to be an employee or director of the Company of three months after cessation of employment or service as a director. To facilitate the Merger, and in consideration thereof and in light of their past service to the Company, the stockholders approved an extension of the post-termination exercise period from three months to two years.

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#### EXECUTIVE COMPENSATION

##### Summary Compensation Table

The table below sets forth information concerning the annual and long-term compensation for services in all capacities to the Company for the fiscal years ended December 31, 1996, 1995 and 1994, of those persons who were, at December 31, 1996 (i) the Chief Executive Officer of the Company and (ii) the other most highly compensated executive officer of the Company (collectively, the "Named Officers"). Information with respect to the Company's current Co-Chief Executive Officers and certain other current executive officers is not provided as such persons did not receive compensation from the Company during 1996 for their services.

<TABLE>

<CAPTION>

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation
		Salary	Bonus	Awards	
				Options (#)	
<S>	<C>	<C>	<C>	<C>	<C>
Alan D. Hamberlin(1)	1996	\$1	---	861	---
Chairman of the Board and	1995	\$240,000	---	273,338	---
Chief Executive Officer of	1994	\$250,000	\$2,100	1,547	---
the Company					
Jay R. Hoffman(2)	1996	\$200,016	\$100,000	178	\$200,000 (3)
President, Secretary,	1995	\$183,000	\$25,000	413	---
Treasurer and Chief	1994	\$175,000	\$15,000	405	---
Financial Officer of the					
Company					

</TABLE>

- 
- (1) Mr. Hamberlin resigned all positions with the Company, other than director, in conjunction with the Merger on December 31, 1996.
  - (2) Mr. Hoffman resigned his positions with the Company in conjunction with the Merger on December 31, 1996.
  - (3) Represents change of control payment made to Mr. Hoffman upon consummation of the Merger.

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##### Option Grants in Last Fiscal Year

The table below sets forth information with respect to the granting of

stock options during the fiscal year ended December 31, 1996, to the Named Officers and to Messrs. Cleverly and Hilton, who became the Company's Co-Chief Executive Officers at the close of business on December 31, 1996.

<TABLE>  
<CAPTION>

Name	Options Granted #	Percentage of Total Options Granted to Employees In Last Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)		
					0%	5%	10%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Alan D. Hamberlin	861(2)	*	---	12/31/98	\$3,900	\$4,300	\$4,700
Jay R. Hoffman	178(2)	*	---	12/31/98	\$800	\$900	\$1,000
William W. Cleverly	166,667(3)	49.8%	\$5.25	12/31/02		\$297,600	\$675,100
Steven J. Hilton	166,667(3)	49.8%	\$5.25	12/31/02		\$297,600	\$675,100

</TABLE>

- \* Represents less than 1% of total options granted to employees in 1996.
- (1) Amounts represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option terms. The potential realizable value is calculated by assuming that the market price of the underlying security appreciates in value from the date of grant to the end of the option term at certain specified rates, and that the option is exercised at the exercise price and sold on the last day of its term at the appreciated price. These gains are based on assumed rates of stock appreciation of 0%, 5% and 10% compounded annually from the date the respective options were granted to their expiration date, and are not presented to forecast future appreciation, if any, in the price of the Common Stock.
- (2) Represents dividend equivalent rights earned in 1996, all of which are currently exercisable.
- (3) Represents options granted in connection with the Merger. These options vest in equal one-third increments on December 31, 1997, 1998 and 1999. Excludes 266,667 shares of contingent stock in which Messrs. Cleverly and Hilton each have a one-half interest and which will be issued only if certain stock price goals are achieved.

Aggregated Option Exercises in Last Fiscal Year and Option Value as of December 31, 1996

The table below sets forth information with respect to the exercise of stock options during the fiscal year ended December 31, 1996 to the Named Officers and to Messrs. Cleverly and Hilton, who became the Company's Co-Chief Executive Officers at the close of business on December 31, 1996. The Company does not have a long-term incentive plan or a defined benefit or actuarial plan and has never issued any stock appreciation rights.

<TABLE>  
<CAPTION>

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options at Fiscal Year End (\$) (1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Alan D. Hamberlin	---	---	261,435	91,667	\$724,600	\$275,000
Jay R. Hoffman	---	---	21,268	---	\$25,700	---
William W. Cleverly	---	---	---	166,667	---	\$375,000
Steven J. Hilton	---	---	---	166,667	---	\$375,000

</TABLE>

- (1) Calculated based on the closing price of the Company's Common Stock on December 31, 1996 of \$7.50 per share less the exercise price per share, multiplied by the number of applicable shares in the money (including dividend equivalent rights).

Change of Control Arrangements

In the event there is a change of control of the Company that is not unanimously approved by the Company's Board of Directors, all unvested options granted to Alan D. Hamberlin will vest in full and be immediately exercisable by Mr. Hamberlin. The Company currently does not have any other change of control agreements or arrangements.



AND MANAGEMENT

The following table sets forth, as of April 30, 1997, the number and percentage of outstanding shares of the Company's Common Stock beneficially owned by each person known by the Company to beneficially own more than 5% of such stock, by each director and executive officer of the Company and by all directors and executive officers of the Company as a group.

Name and Address of Beneficial Owner(1)	Shares Beneficially Owned(2)	Percent Owned(3)
William W. Cleverly	647,696	14.31%
Steven J. Hilton	644,363	14.23%
Alan D. Hamberlin	286,701(4)	5.97%
Robert G. Sarver	61,666	1.36%
C. Timothy White	--	--
Larry W. Seay	--	--
Irene Carroll	6,666	*
Anthony Dinnell	500	*
Christopher T. Graham	500	*

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Name and Address of Beneficial Owner(1)	Shares Beneficially Owned(2)	Percent Owned(3)
Jeffrey R. Grobstein	1,020	*
All Directors and Executive Officers as a group (10 persons)	1,649,113	36.06%

\* Represents less than 1% of the Company's outstanding Common Stock.

- (1) The address for each director and officer is c/o Monterey Homes Corporation, 6613 North Scottsdale Road, Suite 200, Scottsdale, Arizona 85250.
- (2) Includes, where applicable, shares of Common Stock owned of record by such person's minor children and spouse and by other related individuals and entities over whose shares of Common Stock such person has custody, voting control or the power of disposition.
- (3) The percentages shown include the shares of Common Stock actually owned as of April 30, 1997 and the shares of Common Stock which the person or group had the right to acquire within 60 days of such date. In calculating the percentage of ownership, all shares of Common Stock which the identified person or group had the right to acquire within 60 days of April 30, 1997 upon the exercise of options are deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by such person or group, but are not deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by any other person.
- (4) Includes 12,633 shares of Common Stock indirectly beneficially owned by Mr. Hamberlin through a partnership and 274,068 shares of Common Stock which Mr. Hamberlin had the right to acquire within 60 days of April 30, 1997 upon the exercise of stock options (including dividend equivalent rights).

CERTAIN TRANSACTIONS AND RELATIONSHIPS

Alan D. Hamberlin, the former Chairman of the Board of Directors, and Chief Executive Officer of the Company, is also a director of American Southwest Financial Corporation, American Southwest Finance Co., Inc., American Southwest Affiliated Companies and American Southwest Holdings, Inc. and a member of the management committee of American Southwest Financial Group, L.L.C. ("ASFG").

Mr. Hamberlin directly and indirectly owns a total of 25% of the voting stock of American Southwest Holdings, Inc., American Southwest Holdings, Inc. directly or indirectly owns 100% of the voting stock of, among other entities, American Southwest Financial Services, Inc. ("ASFS"), American Southwest Financial Corporation and Westam Mortgage Financial Corporation. Mr. Hamberlin also directly and indirectly owns up to 25% of the capital interest held by the common members of ASFG and indirectly owns up to 25% of the capital interest of the preferred members of ASFG.

The Company is a party to a Subcontractor Agreement pursuant to which ASFG, as assignee of ASFS, performs certain services for the Company in exchange for administration fees. ASFS received administration fees of approximately \$133,000 during 1996, \$144,000 during 1995 and \$165,000 during 1994. The Subcontractor Agreement renews on an annual basis and the Company has the right to terminate the Subcontractor Agreement upon the happening of certain events.

Since September 1994, Monterey has leased approximately 11,000 square feet of office space in a Scottsdale, Arizona office building from a limited liability company owned by Messrs. Cleverly and Hilton. The lease has a five-year term, and Monterey has an option to expand its space in the building and renew

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the lease for additional terms at rates that are competitive with those in the market at such time. Rents paid to the limited liability company totaled \$173,160, \$164,394 and \$53,244 during fiscal years 1996, 1995 and 1994, respectively. Monterey believes that the terms of the lease are no less

favorable than those which could be obtained in an arm's-length negotiated transaction.

During 1996 and 1995, Monterey incurred fees for legal services to Tiffany & Bosco, P.A. of approximately \$100,000 and \$206,000, respectively. C. Timothy White, a director of the Company, is a shareholder of Tiffany & Bosco, P.A.

#### LEGAL MATTERS

The validity of the issuance of the Warrants will be passed on for the Company by Venable, Baetjer & Howard, LLP, 1800 Mercantile Bank & Trust Building, 2 Hopkins Plaza, Baltimore, Maryland 21201.

#### EXPERTS

The consolidated financial statements of Monterey Homes Corporation as of December 31, 1995 and for each of the two years in the period ended December 31, 1995 included in this Prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. The consolidated financial statements of Monterey Homes Corporation as of December 31, 1996 and for the year then ended have been included herein in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

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#### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
Monterey Homes Corporation

We have audited the accompanying consolidated balance sheet of Monterey Homes Corporation and subsidiaries (previously known as Homeplex Mortgage Investments Corporation and subsidiaries) as of December 31, 1996 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to

above, present fairly in all material respects, the financial position of Monterey Homes Corporation and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

KPMG PEAT MARWICK LLP

Phoenix, Arizona  
February 21, 1997

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of  
Monterey Homes Corporation

We have audited the accompanying consolidated balance sheet of Monterey Homes Corporation and subsidiaries (previously known as Homeplex Mortgage Investments Corporation and subsidiaries) as of December 31, 1995 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monterey Homes Corporation and subsidiaries as of December 31, 1995 and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Phoenix, Arizona  
February 13, 1996

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 1996 and 1995

<TABLE>  
<CAPTION>

	1996 ----	1995 ----
<S>	<C>	<C>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 15,567,918	\$ 3,347,243
Short-term investments (Note 3)	4,696,495	8,969,100
Real estate loans and other receivables (Note 4)	2,623,502	4,047,815
Real estate under development (Note 5)	35,991,142	--
Option deposits	546,000	--
Residual interests (Note 6)	3,909,090	5,457,165
Other assets	940,095	356,684
Funds held by Trustee	--	5,637,948
Deferred tax asset (Note 11)	6,783,000	--
Goodwill (Note 10)	1,763,488	--
	-----	-----
	\$ 72,820,730	\$ 27,815,955
	=====	=====
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 10,569,872	\$ 1,549,481
Home sale deposits	4,763,518	--
Notes payable (Note 7)	30,542,276	7,818,824
	-----	-----
Total Liabilities	45,875,666	9,368,305
	-----	-----
<b>STOCKHOLDERS' EQUITY (Notes 8 and 10)</b>		
Common stock, par value \$.01 per share; 50,000,000 shares authorized; issued and outstanding - 4,580,611 shares at December 31, 1996, and 3,291,885 shares at December 31, 1995	45,806	32,919
Additional paid-in capital	92,643,658	84,112,289
Accumulated deficit	(65,334,117)	(65,287,275)
Treasury stock - 53,046 shares	(410,283)	(410,283)
	-----	-----
Total Stockholders' Equity	26,945,064	18,447,650
	-----	-----

Commitments and contingencies (Notes 9 and 12)

\$ 72,820,730      \$ 27,815,955  
 =====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 Years Ended December 31, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Income (loss) from Mortgage Assets			
Interest income on real estate loans	\$ 571,139	\$ 1,618,308	\$ 1,112,445
Income (loss) from residual interests (Note 6)	1,039,247	1,283,045	(2,662,734)
Other income	633,449	663,343	347,882
	-----	-----	-----
	2,243,835	3,564,696	(1,202,407)
	-----	-----	-----
Expenses			
Interest	237,945	868,414	1,382,951
General, administration and other	1,683,407	1,599,157	1,938,047
	-----	-----	-----
	1,921,352	2,467,571	3,320,998
	-----	-----	-----
Income (loss) before income tax expense and extraordinary loss from early extinguishment of debt	322,483	1,097,125	(4,523,405)
Income tax expense (Note 11)	26,562	--	--
	-----	-----	-----
Income (loss) before extraordinary loss from early extinguishment of debt	295,921	1,097,125	(4,523,405)
Extraordinary loss from early extinguishment of debt (Note 7)	(148,433)	--	--
	-----	-----	-----
Net Income (loss)	\$ 147,488	\$ 1,097,125	(\$4,523,405)
	=====	=====	=====
Earnings (loss) per share:			
Income before extraordinary loss from early extinguishment of debt	\$ 0.09	\$ 0.34	(\$ 1.40)
Extraordinary loss from early extinguishment of debt	(0.05)	--	--
	-----	-----	-----
Net Income (loss)	\$ 0.04	\$ 0.34	(\$ 1.40)
	=====	=====	=====
Dividends declared per share	\$ 0.06	\$ 0.09	\$ 0.06
	=====	=====	=====
Weighted average common shares outstanding	3,334,562	3,245,767	3,240,204
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 Years ended December 31, 1996, 1995 and 1994

<TABLE>

<CAPTION>

	1996	1995	1994
	----	----	----
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income (loss)	\$ 147,488	\$ 1,097,125	(\$ 4,523,405)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Extraordinary loss from early extinguishment of debt	148,433	--	--
Depreciation and amortization	38,300	122,970	332,429
Amortization of residual interests	1,548,076	2,196,394	6,738,000
(Increase) decrease in other assets	153,350	370,454	(361,675)
Increase (decrease) in accounts payable and accrued liabilities	317,094	(272,828)	243,789
Net write-downs and non-cash losses on residual interests	--	--	3,342,773
	-----	-----	-----
Net cash provided by (used in) operating activities	2,352,741	3,514,115	5,771,911
	-----	-----	-----
Cash flows from investing activities:			
Cash acquired in Monterey Merger (Note 10)	6,495,255	--	--
Cash paid for Merger costs (Note 10)	(779,097)	--	--
Principal payments received on real estate loans	3,710,000	9,114,000	670,000

Real estate loans funded	(1,358,457)	(3,902,000)	(9,610,000)
(Increase) decrease in short term investments	4,272,605	(8,969,100)	--
Decrease in funds held by Trustee	5,637,948	1,082,549	2,040,528
	-----	-----	-----
Net cash provided by (used in) investing activities	17,978,254	(2,674,551)	(6,899,472)
	-----	-----	-----
Cash flows from financing activities:			
Repayment of borrowings	(7,818,824)	(3,964,000)	(8,143,532)
Distributions to shareholders	(291,496)	(194,330)	(291,952)
Repurchases of common stock, net of common stock issuances	--	--	(17,480)
	-----	-----	-----
Net cash used in financing activities	(8,110,320)	(4,158,330)	(8,452,964)
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	12,220,675	(3,318,766)	(9,580,525)
Cash and cash equivalents at beginning of year	3,347,243	6,666,009	16,246,534
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 15,567,918	\$ 3,347,243	\$ 6,666,009
	=====	=====	=====
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 286,276	\$ 804,113	\$ 1,245,952
	=====	=====	=====

</TABLE>  
See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
Years Ended December 31, 1996, 1995 and 1994

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	
Total	-----	-----	-----	-----	-----	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1993 22,377,237	3,291,885	\$ 32,919	\$ 84,112,289	(\$61,375,169)	(\$ 392,802)	
Treasury stock acquired - 5,067 shares (17,481)	--	--	--	--	(17,481)	
Net loss (4,523,405)	--	--	--	(4,523,405)	--	
Dividend declared (194,330)	--	--	--	(194,330)	--	
	-----	-----	-----	-----	-----	---
Balance at December 31, 1994 17,642,021	3,291,885	32,919	84,112,289	(66,092,904)	(410,283)	
Net income 1,097,125	--	--	--	1,097,125	--	
Dividend declared (291,496)	--	--	--	(291,496)	--	
	-----	-----	-----	-----	-----	---
Balance at December 31, 1995 18,447,650	3,291,885	32,919	84,112,289	(65,287,275)	(410,283)	
Net income 147,488	--	--	--	147,488	--	
Dividend declared (194,330)	--	--	--	(194,330)	--	
Shares issued in connection with Merger 8,544,256 (Note 10)	1,288,726	12,887	8,531,369	--	--	
	-----	-----	-----	-----	-----	---
Balance at December 31, 1996 26,945,064	4,580,611	\$ 45,806	\$ 92,643,658	(\$65,334,117)	(\$ 410,283)	\$
	=====	=====	=====	=====	=====	

</TABLE>  
See accompanying notes to consolidated financial statements.

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 1996, 1995 and 1994

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Monterey Homes Corporation (previously Homeplex Mortgage Investments Corporation), the Company, commenced operations in July 1988. Prior to the Merger (see Note 10), the Company's main line of business was investing in mortgage certificates securing collateralized mortgage obligations (CMOs),

interests relating to mortgage participation certificates (MPCs) (collectively residual interests) and loans secured by real estate (see Notes 4 and 3, respectively).

The combined entities intend to continue with Monterey Homes' building operations as its main line of business. The operations are currently conducted primarily in the Phoenix, Scottsdale and Tucson, Arizona markets, which are significantly impacted by the strength of surrounding real estate markets and levels of interest rates offered on home mortgage loans. The Arizona real estate market is currently experiencing strong growth and current home mortgage interest rates are favorable for home buyers and sellers, although recent reports project a slowing in housing demand in the metropolitan Phoenix area, and housing permits in the Tucson metropolitan area have increased only slightly from 1995 to 1996. A decline in the Arizona real estate market or an increase in interest rates could have a significant impact on the Company's operating results and estimates made by management. The Company utilizes various suppliers and subcontractors and is not dependent on individual suppliers or subcontractors.

#### Basis of Presentation

The consolidated financial statements include the accounts of Monterey Homes Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Upon consummation of the Merger a one-for-three reverse stock split of the Company's issued and outstanding common stock, \$.01 par value per share, was effected. Except as otherwise indicated, the share information contained herein reflects the one-for-three reverse stock split.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all short-term investments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents of approximately \$856,000 at December 31, 1996, is restricted as collateral for the payment of the Company's short-term credit facility (Note 7).

##### Real Estate Under Development

Real estate under development includes undeveloped land and developed lots, homes under construction in various stages of completion and completed homes. The Company values its real estate under development in accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Accordingly, amounts are carried at cost unless expected future net cash flows (undiscounted and without interest) are less than cost and then amounts are carried at estimated fair value less cost to sell. Adoption

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of this Statement did not have a material impact on the Company's financial position, results of operations or liquidity. Costs capitalized include direct construction costs for homes, development period interest and certain common costs which benefit the entire subdivisions. Cost of sales include land acquisition and development costs, direct construction costs of the home, development period interest and closing costs, and an allocation of common costs. Common costs are allocated on a subdivision by subdivision basis to residential lots based on the number of lots to be built in the subdivision, which approximates the relative sales value method.

Deposits paid related to options to purchase land are capitalized and included in option deposits until the related land is purchased. Upon purchase of the land, the related option deposits are transferred to real estate under development.

##### Residual Interests

Interests relating to mortgage participation certificates and residual interest certificates are accounted for as described in Note 6.

##### Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Net property and equipment was \$268,096 and \$11,195 at December 31, 1996 and 1995, respectively, and is included in other assets in the accompanying consolidated balance sheets for those years.

##### Goodwill

Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over 20 years, which is the expected period to be benefited. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost

of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

#### Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in future years in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations as an adjustment to the effective income tax rate in the period that includes the enactment date.

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#### Net Income (Loss) Per Share

For 1996 and 1995, primary net income per share is calculated using the weighted average number of common and common stock equivalent shares outstanding during the year. Common stock equivalents of 92,224 and 6,928 in 1996 and 1995, respectively, consist of dilutive stock options and contingent stock. Net loss per share for 1994 is calculated using the weighted average number of common shares outstanding during the year.

#### Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

#### Fair Value of Financial Instruments

The carrying amounts of the Company's receivables, cash and cash equivalents, option deposits, accounts payable and accrued liabilities and home sale deposits approximate their estimated fair values due to the short maturity of these assets and liabilities. The fair value of the Company's short-term investments and residual interests is discussed in Notes 3 and 6, respectively. The carrying amount of the Company's notes payable approximates fair value because the notes are at interest rates comparable to market rates based on the nature of the loans, their terms and the remaining maturity. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, these fair value estimates are not necessarily indicative of the amounts the Company would pay or receive in actual market transactions.

#### Stock Option Plan

Prior to January 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On January 1, 1996, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation", which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS No. 123 also allows entities to continue to apply the provisions of APB Opinion No. 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method defined in SFAS No. 123 had been applied. The Company has elected to continue to apply the provisions of APB Opinion No. 25 and provide the pro forma disclosure provisions of SFAS No. 123.

#### Reclassifications

Certain 1995 and 1994 amounts have been reclassified to conform with the 1996 financial statement presentation.

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#### NOTE 3 - SHORT-TERM INVESTMENTS

At December 31, 1996, short-term investments, recorded at fair value, consist of three CMO PAC bonds with a combined principal balance of approximately \$4,700,000, estimated yields to maturity of approximately 5.2% to 5.4% and estimated maturities of approximately two to four months. At December 31, 1995, short-term investments consisted of a Treasury Bill with a face amount of \$9,000,000, maturity date of January 25, 1996 and an estimated yield to maturity of 5.30%. Short-term investments are restricted as collateral for the payment of the Company's short-term credit facility (Note 7).

#### NOTE 4 - REAL ESTATE LOANS AND OTHER RECEIVABLES

The following is a summary of the real estate loans and other receivables outstanding at December 31:

<TABLE>

<CAPTION>

Description -----	Interest Rate ----	Payment Terms -----	Principal and Carrying Amount (1)	
			1996 ----	1995 ----
<S>	<C>	<C>	<C>	<C>
First Deed of Trust on 41 acres of land in Gilbert, Arizona, face amount of \$2,800,000. (2)	16%	Interest only monthly, principal due October 18, 1997.	\$1,696,272	\$1,277,413
First Deed of Trust on 33 acres of land in Tempe, Arizona.	16%	Paid in full in 1996.	-	2,272,402
First Deed of Trust on 21.4 acres of land in Tempe, Arizona.	16%	Paid in full in 1996.	-	498,000
Other receivables consisting primarily of sales commission advances and home closing proceeds due from title companies.	-	-	927,230	
			----- \$2,623,502	----- \$4,047,815

</TABLE>

(1) Principal payments on real estate loans were \$3,710,000 in 1996, and loan draws were \$1,358,457 in 1996.

(2) Loan was current at December 31, 1996.

NOTE 5 - REAL ESTATE UNDER DEVELOPMENT

The components of real estate under development at December 31, 1996 are as follows:

Homes in production.....	\$22,839,500
Finished lots and lots under development.....	13,151,642
	-----
	\$35,991,142
	=====

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NOTE 6 - RESIDUAL INTERESTS

The Company owns residual interests in collateralized mortgage obligations (CMOs) and in mortgage participation certificates (MPCs) (collectively residual interests). The residual interests are accounted for using the prospective net level yield method, in which the interest is recorded at cost and amortized over the life of the related CMO or MPC issuance.

The projected yield and estimated fair value of the Company's residual interests are based on prepayment, interest rate and fair value assumptions. There will be differences, which may be material, between the projected yield and the actual yield and the fair value of the residual interests may change significantly over time.

At December 31, 1996, the estimated prospective net level yield of the Company's residual interests, in the aggregate, is 29% without early redemptions or terminations being considered and 121% if early redemptions or terminations are considered. Based on discussions with brokers and investors who trade residual interests, Management believes that the estimated fair value of the Company's residual interests, in the aggregate, is approximately \$7,000,000 at December 31, 1996 (\$5,500,000 at December 31, 1995). This estimated fair value is based on prevailing market interest rates at December 31, 1996. Should interest rates increase in the future, the fair value amount could decrease significantly.

Interests In Residual Interest Certificates

The Company owns residual interest certificates representing the residual interests in five series of CMOs secured by fixed interest rate mortgage certificates and cash funds held by trustee. The classes of CMOs have either fixed interest rates or interest rates that are determined monthly based on the London Interbank Offered Rates (LIBOR) for one month Eurodollar deposits, subject to specified maximum interest rates.

Each series of CMOs consists of several serially maturing classes collateralized by mortgage certificates. Generally, principal payments received on the mortgage certificates, including prepayments on such mortgage certificates, are applied to principal payments on the classes of CMOs in accordance with the respective indentures. Scheduled payments of principal and interest on the mortgage certificates securing each series of CMOs and reinvestment earnings thereon are intended to be sufficient to make timely payments of interest on such series and to retire each class of such series by its stated maturity.



The residual interest certificates entitle the Company to receive the excess, if any, of payments received from the pledged mortgage certificates together with reinvestment income thereon over amounts required to make debt service payments on the related CMOs and to pay related administrative expenses of the real estate mortgage investment conduits ("REMICs"). The Company also has the right, under certain conditions, to cause an early redemption of the CMOs, in which the mortgage certificates are sold at the then current market price and the CMOs repaid at par value, with any excess cash flowing to the Company. Generally, the remaining outstanding CMO balance must be less than 10% of the original balance before early redemption can take place.

Interests In Mortgage Participation Certificates

The Company owns residual interests in REMICs with respect to three separate series of Mortgage Participation Certificates (MPCs). These residual interests entitle the Company to receive its proportionate share of the excess, if any, of payments received from the fixed rate mortgage certificates underlying the MPCs over principal and interest required to be passed through to the holders of such MPCs. The

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Company is not entitled to reinvestment income earned on the underlying mortgage certificates, is not required to pay related administrative expenses and does not have the right to elect early termination of any of the MPC classes. The classes of the MPCs either have fixed interest rates or interest rates that are determined monthly based on LIBOR or based on the Monthly Weighted Average Cost of Funds Index (COFI) for Eleventh District Savings Institutions as published by the Federal Home Loan Bank of San Francisco, subject to specified maximum interest rates. At December 31, 1996, LIBOR was 5.35% and COFI was 4.84%.

The following summarizes the Company's investment in residual interests at December 31, 1996 and 1995.

<TABLE>  
<CAPTION>

Series	Type of Investments	Company's Amortized Costs		Company's Percentage Ownership
-	-----	1996	1995	-----
<S>	<C>	<C>	<C>	<C>
Westam 1	Residual Interest Certificate	\$ 386,192	\$ 702,918	100.00%
Westam 3	Residual Interest Certificate	24,495	29,923	100.00%
Westam 5	Residual Interest Certificate	157,385	204,033	100.00%
Westam 6	Residual Interest Certificate	1,845	11,731	100.00%
ASW 65	Residual Interest Certificate	1,996,601	2,520,574	100.00%
FHLMC 17	Interest in MPCs	93,112	140,035	100.00%
FNMA 1988-24	Interest in MPCs	762,510	1,220,418	20.20%
FNMA 1988-25	Interest in MPCs	486,950	627,533	45.07%
		-----	-----	
		\$3,909,090	\$5,457,165	
		=====	=====	

</TABLE>

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NOTE 7 - NOTES PAYABLE

In December 1996, Monterey consolidated its outstanding construction, acquisition and development ("A&D") and term loan notes to various banks into a single revolving credit agreement. The components of this loan are (i) a revolving \$20,000,000 line of credit to finance construction, (ii) a revolving \$20,000,000 guidance line facility to finance acquisition and development, and (iii) a \$6,052,000 term loan to refinance an existing note. Both the construction and A&D lines of credit are secured by first deeds of trust on land. The term loan is cross-collateralized with the credit facility and is secured by cash and short-term investments.

Notes payable consist of the following at December 31:

<TABLE>  
<CAPTION>

	1996	1995
	----	----
<S>	<C>	<C>
Construction line of credit to bank, interest payable monthly approximating prime (8.25% at December 31, 1996) plus .25%, payable at the earlier of close of escrow, maturity date of individual homes within the line or June 19, 2000.....	\$7,251,958	N/A
Guidance line of credit to bank for acquisition and development interest payable monthly approximating prime plus .5%, payable at the earlier of funding of construction financing, the maturity date of individual within the line or June 19, 2000.....	9,628,993	N/A
Short-term credit facility to bank maturing in August 1997, annual interest of prime plus .5%, principal payments of \$500,000 plus interest payable monthly with remaining principal and interest payable at maturity date.....	5,552,500	N/A
Senior subordinated notes payable, maturing October 15, 2001, annual interest of 13%, payable semi-		

annually, principal payable at maturity date with a put to the Company at June 30, 1998, unsecured

8,000,000..... 8,000,000 N/A

Notes payable to institutional investment group, secured by residual interests and by funds held by Trustee, annual interest of 7.81%. Note balance paid in full May 15, 1996, resulting in extraordinary loss of approximately \$149,000 from prepayment penalties and the write-off of unamortized debt costs.....	0	\$7,818,824
Other.....	108,825	N/A
	-----	-----
Total.....	\$30,542,276	\$7,818,824
	=====	=====

</TABLE>

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The principal payment requirements on notes payable, as of December 31, 1996 are as follows:

	Year ending December 31, -----
1997.....	\$15,653,873
1998.....	6,888,403
1999.....	-
2000.....	-
2001 and thereafter.....	8,000,000
	-----
	\$30,542,276
	=====

A provision of the senior subordinated bond indenture provides the bondholders with the option, at June 30, 1998, to require the Company to buy back the bonds at 101% of face value. Also, approximately \$2,800,000 of the bonds are held by the Co-Chief Executive Officers of the Company.

NOTE 8 - STOCK OPTIONS

At December 31, 1996, the Company has one stock based compensation plan which is described below. The per share weighted average fair value of stock options granted during 1996 and 1995 was \$1.63 on the date of grant using the Black Scholes pricing model with the following weighted average assumptions; expected dividend yield 1.40%, risk-free interest rate of 5.85% and an expected life of five years. The Company applies APB Opinion No. 25 and related interpretations in accounting for its plans. No compensation cost has been recognized for its stock based compensation plan (which is a fixed stock option plan). Had compensation cost for the Company's stock based compensation plan been determined consistent with FASB Statement No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		1996 ----	1995 ----
Net income (loss)	As reported	\$147,488	\$1,097,125
	Pro forma	(\$151,345)	\$988,458
Earnings (loss) per share	As reported	\$.04	\$.34
	Pro forma	(\$.05)	\$.30

The Company's Stock Option Plan is administered by the Board of Directors. The plan provides for qualified stock options which may be granted to key personnel of the Company and non-qualified stock options which may be granted to the Directors and key personnel of the Company. The purpose of the plan is to provide a means of performance-based compensation in order to attract and retain qualified personnel whose job performance affects the Company.

Options to acquire a maximum (excluding dividend equivalent rights) of 145,833 shares of the Company's common stock may be granted under the plan. The exercise price may not be less than the fair market value of the common stock at the date of grant. The options expire ten years after date of grant.

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At December 31, 1996, 148,498 options, including dividend equivalent rights, were exercisable at effective exercise prices ranging from \$3.63 per share to \$13.32 per share. At December 31, 1996 and 1995, 119 common shares were available for future grants.

Optionholders also receive, at no additional cost, dividend equivalent rights (DER's) which entitle them to receive, upon exercise of the options, additional shares calculated based on the dividends declared during the period from the grant date to the exercise date. At December 31, 1996 and 1995 accounts payable and accrued liabilities in the accompanying consolidated balance sheets, include approximately \$850,000 related to the Company's granting of dividend

equivalent rights. This liability will remain in the accompanying consolidated balance sheets until the options to which the dividend equivalent rights relate are exercised, canceled or expire.

Under the plan, an exercising optionholder also has the right to require the Company to purchase some or all of the optionholder's shares of the Company's common stock. That redemption right is exercisable by the optionholder only with respect to shares (including the related dividend equivalent rights) that the optionholder has acquired by exercise of an option under the Plan. Furthermore, the optionholder can only exercise his redemption rights within six months from the last to expire of (i) the two year period commencing with the grant date of an option, (ii) the one year period commencing with the exercise date of an option, or (iii) any restriction period on the optionholder's transfer of the shares of common stock he acquires through exercise of his option. The price for any shares repurchased as a result of an optionholder's exercise of his redemption right is the lesser of the book value of those shares at the time of redemption or the fair market value of the shares on the original date the options were exercised.

The following summarizes stock option activity under the Stock Option Plan:

For the Year ended December 31, -----	1996	1995	1994
	----	----	----
Options granted.....	-	24,667	-
Exercise price per share of options granted.....	-	4.50	-
DER's granted.....	1,249	2,909	2,593
Options cancelled (including DER's).....	-	11,424	-
Options exercised (including DER's).....	-	-	-
At December 31, -----		1996	1995
		----	----
Options outstanding.....		95,256	95,256
DER's outstanding.....		54,385	53,136
		-----	-----
Total options and DER's outstanding.....		149,641	148,392
		=====	=====

In addition to the above referenced options, in December 1995, in connection with the renegotiation of the prior Chief Executive Officer's Employment Agreement, the Company replaced his annual salary of \$250,000 plus bonus with 250,000 non-qualified stock options which become fully vested at December 21, 1997. The exercise price of the options is \$4.50 per share which was equal to the closing market price of the common stock on grant date. The options will expire in December 2000.

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At the 1997 Annual Meeting of Stockholders to be held in the third quarter of 1997, a new stock option plan will be submitted for stockholder approval. It is currently anticipated that 225,000 shares of the Company's common stock will be reserved for issuance upon the exercise of stock options granted under the new plan. The plan will be administered by the Compensation Committee of the Board of Directors and will provide for grants of incentive stock options to key employees and non-qualified stock options to Directors and key employees. The purpose of this new plan is to provide a means of performance-based compensation in order to attract and retain key personnel whose job performance affects the Company.

NOTE 9 - LEASES

The Company leases office facilities, model homes and equipment under various operating lease agreements.

The following is a schedule of approximate future minimum lease payments for noncancellable operating leases as of December 31, 1996:

	Year Ending December 31, -----
1997.....	\$937,981
1998.....	363,927
1999.....	201,907
Thereafter.....	0
	-----
	\$1,503,815
	=====

Rental expense was \$22,639 and \$21,780 for the years ended December 31, 1995 and 1996, respectively.

NOTE 10 - HOMEPLEX / MONTEREY MERGER

On December 23, 1996, the stockholders of Homeplex Mortgage Investments Corporation, now known as Monterey Homes Corporation (the "Company"), approved the Merger (the "Merger") of Monterey Homes Construction II, Inc. and Monterey Homes Arizona II, Inc., both Arizona corporations (collectively, the "Monterey Entities" or "Monterey"), with and into the Company. The Merger was effective on December 31, 1996, and the Company will focus on homebuilding as its primary business. Also, ongoing operations of the Company will be managed by the two previous stockholders of Monterey, who at the time of the Merger, became Co-Chief Executive Officers with one serving as Chairman and the other as President. At consummation of the Merger, 1,288,726 new shares of common stock, \$.01 par value per share, were issued equally to the Co-Chief Executive Officers.

Monterey, in connection with an \$8,000,000 subordinated debt private placement that occurred during October 1994, issued warrants to the bondholders to purchase approximately 16.48% of Monterey. Accordingly, of the 1,288,726 shares issued in the Merger, 212,398 are held by the Company on behalf of the Co-Chief Executive Officers, to be delivered to the warrant holders upon payment of the warrant

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exercise price to the Co-Chief Executive Officers. Upon expiration of the warrants, any of the remaining 212,398 will be delivered to the Co-Chief Executive Officers.

In addition, up to 266,667 shares of contingent stock will be issued equally to the Co-Chief Executive Officers provided that certain stock trading price thresholds are met and that the Officer is still an employee of the Company at the time of issuance. The price thresholds are \$5.25, \$7.50 and \$10.50 for dates after the first, second and third anniversaries of the Merger, respectively, and the prices must be maintained for 20 consecutive trading days. The number of contingent shares issued would be 44,943, 88,888 and 88,889, respectively. Included in the above mentioned 266,667 contingent shares are 43,947 shares (approximately 16.48%) issuable to the Company's warrant holders, upon exercise of the warrants. Such shares are not subject to meeting certain stock trading price thresholds or employment of the Co-Chief Executive Officers. Upon expiration of unexercised warrants, any of the remaining 43,947 contingent shares will be issued to the Co-Chief Executive Officers.

The total consideration paid by the Company for the net assets of Monterey Homes was \$9,323,353. This amount included 1,288,726 shares of the Company's common stock valued at \$8,544,256 and \$779,097 of transaction costs. The purchase method of accounting was used by the Company, and the purchase price was allocated among the Monterey net assets based on their estimated fair market value at the date of acquisition, resulting in goodwill of \$1,763,488 which will be amortized over 20 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the Merger had occurred at January 1, 1995, with pro forma adjustments together with related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would actually have resulted had the combination been in effect on the date indicated.

	Years ended December 31, (Unaudited)	
	1996	1995
	----	----
Total revenues.....	\$ 89,990	\$ 75,195
Net income.....	\$ 6,120	\$ 6,210
Net earnings per common share.....	\$ 1.27	\$ 1.28

NOTE 11 - INCOME TAXES

Current income tax expense for the year ended December 31, 1996 was \$26,562 and was attributed to federal estimated tax of \$18,700 and state estimated tax of \$7,862. No current income tax was recorded in 1995 and deferred income tax was -0- in 1996 and 1995.

Deferred Tax Assets

The net deferred tax asset at December 31, 1996 was recorded as part of the Homeplex/Monterey Merger purchase accounting (Note 10).

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Deferred tax assets have been recorded in the December 31, 1996 consolidated balance sheet due to temporary differences and carryforwards as follows:

Net operating loss carryforward.....	\$21,200,000
Residual interests basis differences.....	2,100,000
Real estate basis differences.....	400,000
Debt issuance costs.....	266,000
Other.....	85,000

	-----
	24,051,000
Valuation Allowance.....	(17,268,000)
	-----
Deferred tax liabilities.....	0
	-----
Net Deferred Tax Asset.....	\$ 6,783,000
	=====

Management of the Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax asset.

Carryforwards

For federal and state income tax purposes, at December 31, 1996 the Company had a net operating loss carryforward of approximately \$53 million that expires beginning in 2007.

NOTE 12 - CONTINGENCIES

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the Company's financial statements taken as a whole.

NOTE 13 - QUARTERLY FINANCIAL DATA (Unaudited)

	(In Thousands Except Per Share Amount)		
	Revenue	Net Income (Loss)	Net Income (Loss) Per Share
	-----	-----	-----
1996			
- - - -			
First.....	\$ 635	\$ 84	\$ .03
Second (1).....	636	148	.04
Third.....	530	314	.09
Fourth.....	443	(399)	(.12)

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1995			
First.....	\$ 1,103	\$ 462	\$ .15
Second.....	1,078	335	.10
Third.....	707	58	.02
Fourth.....	677	242	.07

(1) Net income in the second quarter of 1996 includes an extraordinary charge of \$148,000, or \$.05 per share, to record the result of early extinguishment of debt.

[End of Notes to Consolidated Financial Statements]

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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

	(Unaudited) March 31, 1997	December 31, 1996
	-----	-----
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	\$ 6,964,580	\$ 15,567,918
Short-term investments	319,732	4,696,495
Real estate loans and other receivables	2,304,066	2,623,502
Real estate under development (Note 2 & 4)	46,003,850	35,991,142
Option deposits	1,690,991	546,000
Residual interests	3,817,410	3,909,090
Other assets	804,811	940,095
Deferred tax asset	6,783,000	6,783,000
Goodwill (Note 5)	1,741,444	1,763,488
	-----	-----
	\$ 70,429,884	\$ 72,820,730
	=====	=====
LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,648,167	\$ 10,569,872
Home sale deposits	6,708,704	4,763,518
Notes payable (Note 3)	29,846,248	30,542,276

Total Liabilities	43,023,119	45,875,666
STOCKHOLDERS' EQUITY (Note 5)		
Common stock, par value \$.01 per share; 50,000,000 shares authorized; issued and outstanding - 4,580,611 shares	45,806	45,806
Additional paid-in capital	92,817,021	92,643,658
Accumulated deficit	(65,045,779)	(65,334,117)
Treasury stock - 53,046 shares	(410,283)	(410,283)
Total Stockholders' Equity	27,406,765	26,945,064
	\$ 70,429,884	\$ 72,820,730

</TABLE>  
See accompanying notes to consolidated financial statements.  
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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS  
(Unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended March 31,	
	1997	1996
	----	----
<S>	<C>	<C>
REVENUES		
Home sales (Notes 1 and 5).....	\$12,572,837	--
Residential interest and real estate loan interest income.....	359,294	\$438,082
Other income.....	175,316	196,613
	-----	-----
	13,107,447	634,695
COSTS AND EXPENSES		
Cost of home sales (Notes 1 and 5).....	10,946,502	--
Commissions and other sales costs (Notes 1 and 5).....	755,048	--
General, administrative and other.....	1,091,686	388,073
Interest.....	--	162,289
	-----	-----
	12,793,236	550,362
Income before income tax expense.....	314,211	84,333
Income tax expense.....	25,873	--
	-----	-----
Net income.....	\$ 288,338	\$ 84,333
	=====	=====
Earnings per share.....	\$ 0.06	\$ 0.03
	=====	=====
Weighted average common shares outstanding.....	4,671,173	3,273,118

</TABLE>  
See accompanying notes to consolidated financial statements  
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MONTEREY HOMES CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
Three Months Ended March 31, 1997 and 1996

<TABLE>  
<CAPTION>

	1997	1996
	----	----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 288,338	\$ 84,333
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Increase in real estate under development	(10,012,708)	--
Depreciation and amortization	195,407	19,300
Amortization of residential interest	91,680	472,388
Increase in other assets	(895,999)	(179,023)
Decrease in accounts payable and accrued liabilities	(1,962,189)	(94,385)
	-----	-----
Net cash provided by (used in) operating activities	(12,295,471)	302,613
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Principal payments received on real estate loans	384,000	498,330
Real estate loans funded	(178,272)	(50,000)
(Increase) decrease in short-term investments	4,376,763	(113,040)
Decrease in funds held by Trustee	--	388,813
	-----	-----

Net cash provided by investing activities	4,582,491	724,103
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings	4,797,651	--
Repayment of borrowings	(5,493,679)	(991,000)
Distributions to stockholders	(194,330)	(291,496)
	-----	-----
Net cash used in financing activities	(890,358)	(1,282,496)
	-----	-----
Net decrease in cash and cash equivalents	(8,603,338)	(255,780)
Cash and cash equivalents at beginning of period	15,567,918	3,347,243
	-----	-----
Cash and cash equivalents at end of period	\$ 6,964,580	\$ 3,091,463
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Monterey Homes Corporation (previously Homeplex Mortgage Investments Corporation), the Company, commenced operations in July 1988. Prior to the Merger (see Note 5), the Company's main line of business was investing in mortgage certificates securing collateralized mortgage obligations (CMOs), interests relating to mortgage participation certificates (MPCs) (collectively residual interests) and loans secured by real estate.

Since January 1, 1997, the operation of the Company has focused on homebuilding, and the combined entities intend to continue with Monterey Homes' building operations as its main line of business. These operations are currently conducted primarily in the Phoenix, Scottsdale and Tucson, Arizona markets.

Basis of Presentation

The consolidated financial statements include the accounts of Monterey Homes Corporation and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to be consistent with current financial statement presentation. In the opinion of Management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company's financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

Upon consummation of the Merger a one-for-three reverse stock split of the Company's issued and outstanding common stock, \$.01 par value per share, was effected. Except as otherwise indicated, the share information contained herein reflects the one-for-three reverse stock split.

NOTE 2 - REAL ESTATE UNDER DEVELOPMENT

The components of real estate under development at March 31, 1997 and December 31, 1996 are as follows:

	(Unaudited) March 31, 1997	December 31, 1996
	-----	-----
Homes in production.....	\$25,245,383	\$22,839,500
Finished lots and lots under development.....	20,758,467	13,151,642
	-----	-----
	\$46,003,850	\$35,991,142
	=====	=====

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NOTE 3 - NOTES PAYABLE

Notes payable consist of the following at March 31, 1997 and December 31, 1996:

<TABLE>

<CAPTION>

	(Unaudited) March 31, 1997	December 31, 1996
	-----	-----
<S>	<C>	<C>
Construction line of credit to bank, interest payable monthly approximating prime (8.5% at March 31, 1997) plus .25%, payable at the earlier of close of escrow or maturity date of individual homes within the line or June 19, 2000	\$10,458,076	\$7,251,958
Guidance line of credit to bank for acquisition and development, interest payable monthly		

approximating prime plus .5%, payable at the earlier of funding of construction financing, the maturity date of individual projects within the line or June 19, 2000	7,276,638	9,628,993
Short-term credit facility to bank maturing in August 1997, annual interest of prime plus .5%, principal payments of \$500,000 plus interest payable monthly with remaining principal and interest payable at maturity date	4,052,500	5,552,500
Senior subordinated notes payable, maturing October 15, 2001, annual interest of 13%, payable semi-annually, principal payable at maturity date with a put to the Company at June 30, 1998, unsecured	8,000,000	8,000,000
Other	59,034	108,825
	-----	-----
Total	\$29,846,248	\$30,542,276
	=====	=====

</TABLE>

A provision of the senior subordinated bond indenture provides the bondholders with the option, at June 30, 1998, to require the Company to buy back the bonds at 101% of face value. Approximately \$2,800,000 of the bonds are held equally by the Co-Chief Executive Officers of the Company.

#### NOTE 4 - CAPITALIZED INTEREST

The Company capitalizes interest costs incurred on homes in production and lots under development. This capitalized interest is allocated to unsold lots, and included in cost of home sales in the accompanying statements of earnings when the units are delivered. The following tables summarize interest capitalized and interest expensed (dollars in thousands):

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	Quarter ended March 31,	
	1997	1996
	----	----
Beginning unamortized capitalized interest	\$ --	\$ N/A
Interest	692	N/A
Amortized - cost of home sale	(93)	N/A
	-----	-----
Ending unamortized capitalized interest	\$ 599	N/A
	=====	=====
Interest incurred	\$ 692	\$ 162
Interest capitalized	692	N/A
	-----	-----
Interest expensed	\$ --	\$ 162
	=====	=====

Had the Merger not occurred, interest capitalized by the Monterey Entities would have been \$692,000 and \$832,000 for the three months ended March 31, 1997 and 1996, respectively. Interest amortized through cost of home sales would have been \$532,000 and \$430,000 for the same periods, respectively.

#### NOTE 5 - HOMEPLEX / MONTEREY MERGER

On December 23, 1996, the stockholders of Homeplex Mortgage Investments Corporation, now known as Monterey Homes Corporation (the "Company"), approved the Merger (the "Merger") of Monterey Homes Construction II, Inc. and Monterey Homes Arizona II, Inc., both Arizona corporations (collectively, the "Monterey Entities" or "Monterey"), with and into the Company. The Merger was effective on December 31, 1996, and the Company will focus on homebuilding as its primary business. Also, ongoing operations of the Company will be managed by the two previous stockholders of Monterey, who at the time of the Merger, became Co-Chief Executive Officers with one serving as Chairman and the other as President. At consummation of the Merger, 1,288,726 new shares of common stock, \$.01 par value per share, were issued equally to the Co-Chief Executive Officers.

Monterey, in connection with an \$8,000,000 subordinated debt private placement that occurred during October 1994, issued warrants to the bondholders to purchase approximately 16.48% of Monterey. Accordingly, of the 1,288,726 shares issued in the Merger, 212,398 are held by the Company on behalf of the Co-Chief Executive Officers, to be delivered to the warrant holders upon payment of the warrant exercise price to the Co-Chief Executive Officers. Upon expiration of the warrants, any of the remaining 212,398 will be delivered to the Co-Chief Executive Officers.

In addition, up to 266,667 shares of contingent stock will be issued equally to the Co-Chief Executive Officers provided that certain stock trading price thresholds are met and that the Officer is still an employee of the Company at the time of issuance. The price thresholds are \$5.25, \$7.50 and \$10.50 for dates after the first, second and third anniversaries of the Merger, respectively, and the prices must be maintained for 20 consecutive trading days. The number of contingent shares issued would be 44,943, 88,888 and 88,889, respectively. Included in the above mentioned 266,667 contingent shares are 43,947 shares (approximately 16.48%) issuable to the Company's warrant holders, upon exercise of the warrants. Such shares are not subject to meeting certain



stock trading price thresholds or employment of the Co-Chief Executive Officers. Upon expiration of unexercised warrants, any of the remaining 43,947 contingent shares will be issued to the Co-Chief Executive Officers.

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The total consideration paid by the Company for the net assets of Monterey Homes was \$9,323,353. This amount included 1,288,726 shares of the Company's common stock valued at \$8,544,256 and \$779,097 of transaction costs. The purchase method of accounting was used by the Company, and the purchase price was allocated among the Monterey net assets based on their estimated fair market value at the date of acquisition, resulting in goodwill of \$1,763,488 which will be amortized over 20 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the Merger had occurred at January 1, 1996, with pro forma adjustments together with related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would actually have resulted had the combination been in effect on the date indicated.

	Three Months ended March 31,	
	1997	1996
	----	----
Total revenues	\$13,107,447	\$15,405,525
Net income	288,338	268,393
Net earnings per share	\$.06	\$.06

NOTE 6 - INCOME TAXES

Deferred tax assets of approximately \$6.8 million have been recorded in the March 31, 1997 and December 31, 1996 balance sheet due to temporary differences and carryforwards. For federal and state income tax purposes at March 31, 1997 and at December 31, 1996, the Company had a net operating loss carryforward of approximately \$53 million that expires beginning in 2007.

Income tax expense for the three months ended March 31, 1997 was \$25,873. No income tax was recorded in the first quarter of 1996, due to the Company's status as a real estate investment trust in that year.

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The expenses payable by the Company in connection with the issuance and distribution of the securities being registered (other than underwriting discounts and commissions), all of which are payable by the Company, are estimated to be as follows:

Registration Fee.....	\$ 262
Printing Fees.....	1,000
Legal Fees and Expenses.....	15,000
Accounting Fees and Expenses.....	8,000
Other Fees and Expenses.....	2,000
	-----
Total.....	\$ 26,262
	=====

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Under the provisions of the Maryland General Corporation Law, a corporation's articles may, with certain exceptions, include any provision expanding or limiting the liability of its directors and officers to the corporation or its stockholders for money damages, but may not include any provision that restricts or limits the liability of its directors or officers to the corporation or its stockholders to the extent that (i) it is proved that the person actually received an improper benefit or profit in money, property, or services for the amount of the benefit or profit in money, property, or services actually received; or (ii) a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding. The Company's charter contains a provision limiting the personal liability of officers and directors to the Company and its stockholders to the fullest extent permitted under Maryland law.

In addition, the provisions of the Maryland General Corporation Law permit a corporation to indemnify its present and former directors and officers, among others, against liability incurred, unless it is established that (i) the act or omission of the director or officer was material to the matter giving

rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, or (ii) the director or officer actually received an improper personal benefit in money, property, or services, or (iii) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. The Company's charter provides that it will indemnify its directors, officers, and others so designated by the Board of Directors to the full extent allowed under Maryland law.

Insofar as indemnification for liability arising under the Securities Act may be permitted to directors, officers, or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

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ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

Pursuant to the Stock Option Agreement dated as of December 21, 1995 between the Company and Alan Hamberlin, Mr. Hamberlin was granted options (the "Options") to purchase 250,000 (post-split) shares of the Company's Common Stock. The Options were issued in connection with an employment agreement entered into between the Company and Mr. Hamberlin as of December 21, 1995. See "The Merger -- Hamberlin Stock Options." The Options were issued in reliance on the exemption from registration under the Securities Act contained in Section 4(2) of the Securities Act. At the time of issuance of the Options, Mr. Hamberlin was the Chief Executive Officer of the Company.

During the years 1994, 1995, and 1996, certain grants of options and dividend equivalent rights ("DERs") were made under the Company's Stock Option Plan dated July 27, 1988, as amended to the date hereof (the "Plan"). Options totaling 21,334 and DERs totaling 4,413 were granted to Mr. Hamberlin; 996 DERs were granted to Mr. Jay Hoffman, who was at the time the President, Secretary, Treasurer, and Chief Financial Officer of the Company; and a total of 3,333 options and 1,342 DERs were granted under the Plan to five other senior employees or directors of the Company during those years. All such options and DERs were issued in reliance on Section 4(2) of the Securities Act.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

<TABLE>  
<CAPTION>

Exhibit Number	Description	Page or Method of Filing
2	Agreement and Plan of Reorganization, dated as of September 13, 1996, by and among Homeplex, the Monterey Merging Companies and the Monterey Stockholders.	Incorporated by reference to Exhibit 2 of the Form S-4 Registration Statement No. 333-15937 ("S-4 #333-15937").
3.1	Amended and Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3(a) of the Registration Statement on Form S-11 No. 33-22092 ("S-11 #33-22092")
3.2	Articles of Merger	Incorporated by reference to Exhibit 3.2 to the Form 10-K for the year ended December 31, 1996.
3.3	Bylaws of the Company	Incorporated by reference to Exhibit 3(b) to the Form 10-Q for the quarter ended June 30, 1995.
3.4	Amendment to the Bylaws	Incorporated by reference to Exhibit 3.4 to the Form 10-K for the year ended December 31, 1996.
4.1	Specimen of Common Stock Certificate	Incorporated by reference to Exhibit 4 to the Form 10-K for the year ended December 31, 1996.
4.2	Warrant Agreement dated as of October 17, 1994 among Monterey and the Warrant Agent	Filed herewith
4.3	Assumption Agreement dated as of December 31, 1996 modifying the Warrant Agreement in certain respects, and relating to the assumption of the Warrant Agreement by the Company and certain other matters	Filed herewith
4.4	Specimen Warrant Certificate	Filed herewith
5.1	Opinion of Venable, Baetjer & Howard	Filed herewith

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<TABLE>  
<S>

10.1	Subcontract Agreement between Homeplex	Incorporated by reference
------	--	---------------------------

	and American Southwest Financial Services, Inc.	to Exhibit 10(b) of S-11 #33-22092.
10.2	Form of Master Servicing Agreement	Incorporated by reference to Exhibit 10(c) of S-11 #33-22092.
10.3	Form of Servicing Agreement	Incorporated by reference to Exhibit 10(d) of S-11 #33-22092.
10.4	Indenture dated October 17, 1994, as amended, relating to 13% Senior Subordinated Notes Due 2001	Incorporated by reference to Exhibit 10(j) of the S-4 # 333-15937.
10.5	Master Revolving Line of Credit by and between Norwest Bank Arizona, N.A. and the Company	Incorporated by reference to Exhibit 10.5 to the Form 10-K for the year ended December 31, 1996.
10.6	Revolving Model Home Lease Back Agreement between AMHM-1, L.P. and the Company	Incorporated by reference to Exhibit 10.6 to the Form 10-K for the year ended December 31, 1996.
10.7	Stock Option Plan*	Incorporated by reference to Exhibit 10(d) of Form 10-K for the fiscal year ended December 31, 1995 ("1995 Form 10-K").
10.8	Amendment to Stock Option Plan*	Incorporated by reference to Exhibit 10(e) of the 1995 Form 10-K.
10.9	Amendment to Stock Option Plan dated as of December 31, 1996*	Filed herewith
10.10	Monterey Homes Corporation Stock Option Plan *+	Incorporated by reference to Exhibit 10.9 to the Form 10-K for the year ended December 31, 1996.
10.11	Employment Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit 10.10 to the Form 10-K for the year ended December 31, 1996.
10.12	Employment Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.11 to the Form 10-K for the year ended December 31, 1996.
</TABLE>		
II-3		
<TABLE>		
<S>		
10.13	Stock Option Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit 10.12 to the Form 10-K for the year ended December 31, 1996.
10.14	Stock Option Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.13 to the Form 10-K for the year ended December 31, 1996.
10.15	Registration Rights Agreement between the Company and William W. Cleverly*	Incorporated by reference to Exhibit 10.14 to the Form 10-K for the year ended December 31, 1996.
10.16	Registration Rights Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.15 to the Form 10-K for the year ended December 31, 1996.
10.17	Escrow and Contingent Stock Agreement	Incorporated by reference to Exhibit 10.16 to the Form 10-K for the year ended December 31, 1996.
10.18	Amended and Restated Employment Agreement and Addendum between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(g) of the 1995 Form 10-K.
10.19	Stock Option Agreement between the Company and Alan D. Hamberlin*	Incorporated by reference to Exhibit 10(h) of the 1995 Form 10-K
10.20	Agreement of Purchase and Sale of Assets by and among the Company, Legacy Homes, Ltd., Legacy Enterprises, Inc., and John Landon and Eleanor Landon, dated May 29, 1997	Incorporated by reference to the Company's Form 8-K/A dated May 29, 1997

23.1	Consent of KPMG Peat Marwick LLP	Filed herewith
23.2	Consent of Ernst & Young LLP	Filed herewith
23.3	Consent of Venable, Baetjer & Howard	Included in Exhibit No. 5.1
24	Powers of Attorney	See signature page

</TABLE>

- \* Indicates a management contract or compensation plan.  
+ To be submitted for stockholder approval at the 1997 Annual Meeting of Stockholders to be held on or about September 25, 1997.

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:  
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(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) above do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 ("Act") may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Company has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Phoenix, State of Arizona, on June 19, 1997.

MONTEREY HOMES CORPORATION

By: /s/ William W. Cleverly

-----  
William W. Cleverly

Chairman of the Board and  
Co-Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William W. Cleverly, Steven J. Hilton and Larry W. Seay, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature - -----	Title -----	Date ----
/s/ William W. Cleverly ----- William W. Cleverly	Chairman of the Board and Co- Chief Executive Officer (Co- Principal Executive Officer) and Director	June 19, 1997

/s/ Steven J. Hilton ----- Steven J. Hilton	President and Co-Chief Executive Officer (Co-Principal Executive Officer) and Director	June 19, 1997
---	--	---------------

Signature - -----	II-6 Title -----	Date ----
/s/ Larry W. Seay ----- Larry W. Seay	Vice President - Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	June 19, 1997

/s/ Alan D. Hamberlin ----- Alan D. Hamberlin	Director	June 19, 1997
---	----------	---------------

/s/ Robert G. Sarver ----- Robert G. Sarver	Director	June 19, 1997
---	----------	---------------

/s/ C. Timothy White ----- C. Timothy White	Director	June 19, 1997
---	----------	---------------

MONTEREY MANAGEMENT, INC.,  
MONTEREY HOMES CORPORATION  
and  
BANK ONE, ARIZONA, NA

WARRANT AGREEMENT

THIS WARRANT AGREEMENT (the "Agreement") is made effective as of the 17th day of October, 1994, among Monterey Management, Inc., an Arizona corporation (the "Company"), Monterey Homes Corporation, an Arizona corporation ("MHC") and Bank One, Arizona, NA (the "Warrant Agent").

R E C I T A L S  
-----

A. The Company and MHC has entered into an agreement (the "Placement Agreement") with Friedman, Billings, Ramsey & Co., Inc. (the "Placement Agent"), pursuant to which the Placement Agent has agreed to assist the Company in the placement of up to 150 Units, each consisting of \$100,000 in principal amount of 13.0% Senior Subordinated Notes Due 2001 and 5,000 Common Stock Purchase Warrants ("Warrants"), subject to the terms of the Placement Agreement (the "Private Placement").

B. Each Warrant entitles the holder to purchase one share of the Company's Common Stock through October 15, 2001.

C. The Company and MHC desire to provide for the form and provisions of the Warrants, the terms upon which they shall be issued and exercised, and the respective rights, limitation of rights and immunities of the Company and MHC, the Warrant Agent, and the registered holders of the Warrants.

D. Items not otherwise deferred herein shall have the meanings described to them in the Indenture dated October 17, 1994 among the Company, MHC and Bank One, Arizona, N.A.

E. All acts and things necessary to make the Warrants, when executed on behalf of the Company and countersigned by or on behalf of the Warrant Agent as provided in this Agreement, the valid, binding and legal obligations of the Company, and to authorize the execution and delivery of this Agreement, have been done and performed.

NOW, THEREFORE, it is hereby agreed as follows:

1

ARTICLE 1  
ISSUANCE OF WARRANTS

Section 1.01 Issuance of Definitive Warrants. At the closing date under the Placement Agreement (the "Warrant Date"), the Company will issue Certificates, in substantially the form attached as Exhibit A hereto, which are exchangeable for Common Stock ("Warrant Certificates") only as provided in Article 2 hereof and not after October 15, 2001. Each Warrant evidences the right of the registered holder thereof, subject to the terms and conditions hereof, to subscribe for one share of Common Stock of the Company or MHC or any holding company which is formed to own all of the common stock of the Company and MHC or any other firm, partnership or corporation which owns substantially all of the assets or business which is conducted under the trade name "Monterey Homes" or through the Company or MHC that becomes publicly held (the foregoing entity or entities are for convenience hereinafter referred to as the "Company," as the context requires).

Section 1.02 Execution and Delivery of Warrants. Each Warrant Certificate shall be dated the Warrant Date and shall be signed on behalf of the Company by the facsimile or manual signature of the President and Secretary. The Company may adopt and use the facsimile or manual signature of any person who is such an officer of the Company at the time of the execution of any Warrant Certificate, irrespective of the date as of which the same is executed, or of any person now or hereafter holding such office, notwithstanding the fact that at the time the Warrant is issued he has ceased to be such officer of the Company, and prior to the delivery of any Warrant it shall be authenticated by or on behalf of the Warrant Agent by an authorized officer (who may sign by facsimile or manual signature). No Warrant shall be valid unless it shall have been authenticated as herein provided.

SECTION 2  
DURATION, EXERCISE AND REDEMPTION OF WARRANTS

Section 2.01 Duration of Warrants and Terms of Exercise. Each Warrant entitles the holder to purchase one share of the Company's Common Stock or equivalent security of any successor to the Company at a price of \$6.25 per share (the "Purchase Price"), subject to adjustment as provided herein, for a term, commencing on the Warrant Date and ending October 15, 2001 (the "Exercise Period"). If notice has been given as provided in Section 4.01 in connection with the liquidation, dissolution or winding up of the Company, the right to

exercise Warrants shall expire at the close of business on the third full business day before the date specified in such notice as the record date for determining registered holders entitled to receive any distribution upon such liquidation, dissolution or winding up.

Section 2.02 Conditions Precedent to Exercise of Warrants. The Warrants are not exercisable unless and until (a) the Company completes an initial public offering of its securities; (b) any consolidation of the Company with, or merger of the Company into, another

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corporation where the Company is not the surviving Company; (c) the sale of substantially all of the assets of the Company; or (d) a change of control as described below; provided, however, that any internal reorganization of the Company and its affiliate, MHC, into a single corporation or the sale of substantially all of the assets from the Company to MHC or from MHC to the Company will not result in the Warrants becoming exercisable.

For purposes of this Agreement, "change of control" means any event or series of events by which (i) Messrs. William W. Cleverly and Steven J. Hilton would own an aggregate of less than 50% of the total voting power of the Voting Stock of the Company if such event or series of events occurs prior to or in connection with the Company completing an initial public offering, if any, or if such event or series of events occurs thereafter if an entity or group of entities beneficially owns, directly or indirectly, more of the voting power of the voting stock of the Company than Messrs. Cleverly and Hilton; (ii) the Company or MHC consolidates with or merges or amalgamates with or into another entity or conveys, transfers, or leases all or substantially all of its assets to any entity, or any entity consolidates with, or merges or amalgamates with or into the Company or MHC, in any such event pursuant to a transaction in which the outstanding Voting Stock of the Company is changed into or exchanged for cash, securities or other property, other than any such transaction where (A) the outstanding Voting Stock of the Company is changed into or exchanged for Voting Stock of the surviving corporation which is not Disqualified Stock and (B) the holders of the Voting Stock of the Company or MHC, as the case may be, immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the surviving corporation immediately after such transaction; or (iii) the shareholders of the Company or MHC approve any plan of liquidation or dissolution of the Company or MHC; provided, however, that any internal reorganization of the Company and MHC into a single corporation will not constitute a Change of Control.

Section 2.03 Exercise of Warrants. Upon satisfaction of one or more of the conditions precedent set forth in Section 2.02 hereof, Warrants may be exercised by surrendering, at the office of the Warrant Agent in Phoenix, Arizona, the Warrant Certificate evidencing such Warrants, together with a subscription in the form set forth on the reverse side of the Warrant Certificate, duly executed, and accompanied by the tender, in U.S. dollars, of either federal funds or a certified check or bank cashier's check, payable to the order of the Warrant Agent for the applicable Purchase Price. The Warrants may be exercised from time to time and at any time during the Exercise Period, in whole or in part. As soon as practicable after any Warrants have been so exercised, the Company shall cause to be issued and delivered to the holder, or upon the order of the registered holder of such Warrants, in such name or names as may be directed by him, a certificate or certificates for the number of full shares of Common Stock and Warrants to which he is entitled, and if such Warrant Certificate shall not have been exercised in full, a new Warrant Certificate for the number of Warrants as to which such Warrant Certificate shall not have been exercised. All Warrant Certificates so surrendered shall be delivered to and canceled by the Warrant Agent.

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Section 2.04 Common Stock Issued Upon Exercise of Warrants. All shares of Common Stock (or equivalent equity security) issued upon the exercise of Warrants shall be duly authorized, validly issued and outstanding, fully-paid and nonassessable. Fractional shares of the Company's Common Stock will not be issued upon exercise of a Warrant. With respect to any fraction of a share called for upon any such exercise hereof, the Company shall pay to the holder an amount in cash equal to such fraction multiplied by the Current Market Price Per Share, determined in accordance with Section 3.08.

Section 2.05 Record Date of Shares. Irrespective of the date of issue and delivery of certificates for any Common Stock issuable upon the exercise of Warrants, each person in whose name any such certificate is issued shall be deemed to have become the holder of record of the shares represented thereby on the date on which the Warrant Certificate surrendered in connection with the subscription therefor was surrendered and payment of the Purchase Price was tendered. No surrender of Warrant Certificates on any date when the stock transfer books of the Company are closed, however, shall be effective to constitute the person or persons entitled to receive shares upon such surrender as the record holder of such shares on such date, but such person or persons shall be constituted the record holder or holders of such shares at the close of business on the next succeeding date on which the stock transfer books are opened. Except as otherwise provided in Section 3.04, each person holding any shares received upon exercise of Warrants shall be entitled to receive only dividends or distributions payable to holders of record on or after the date on which such person shall be deemed to have become the holder of record of such

shares.

Section 2.06 Redemption of Warrants. The Company may not redeem the Warrants.

ARTICLE 3  
ADJUSTMENT OF PURCHASE PRICE,  
NUMBER OF SHARES OR NUMBER OF WARRANTS

Section 3.01 General. The Purchase Price and the number of shares of Common Stock covered by each Warrant and the number of Warrants outstanding are subject to adjustment from time to time upon the occurrence of the events enumerated in this Article 3.

Section 3.02 Issuance of Additional Shares and Warrants. If and whenever the Company shall issue any shares of its Common Stock for consideration per share which is less than the Purchase Price prior to such issue, under circumstances not specifically enumerated in Sections 3.03 through 3.09 inclusive, the Purchase Price under the Warrants shall be reduced to a price determined by dividing (i) the sum of (A) the number of shares of Common Stock outstanding immediately prior to such issue multiplied by the Purchase Price, plus (B) the consideration, if any, received by the Company upon such issue, by (ii) the number of shares of Common Stock outstanding immediately after such issue. No such adjustment shall be made in

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an amount less than \$.05, but any such amount shall be carried forward and shall be given effect in connection with the next subsequent adjustment. For purposes of this Section 3.02, the following shall also be applicable:

Section 3.02.a. Public Offerings of Convertible Securities, Options, Rights or Warrants. Subject to Section 3.03, if the Company shall issue in a public offering any stock, security, obligation, option or other right or warrant which directly or indirectly may be converted into, exchanged for, or satisfied in shares of Common Stock in an integrated transaction where 1% or more of such securities or instruments are acquired by persons who, prior to such transaction, were not security holders of the Company, the Common Stock issuable upon exercise of such rights shall thereupon be deemed to have been issued and to be outstanding and the consideration received by the Company therefor shall be deemed to include the sum of the consideration received for the issue of such securities or instruments and the minimum additional consideration payable upon the exercise of such securities or instruments. No further adjustment shall be made for the actual issuance of the Common Stock upon the exercise of any such right, security or instrument. If the provision of any such rights, securities or instruments with respect to purchase price or shares purchasable shall change or expire, any adjustment previously made hereunder with respect to such rights, securities or instruments shall be readjusted to such as would have been obtained on the basis of the rights as modified by such change or expiration.

Section 3.02.b. Consideration. In case the Company shall issue shares of its Common Stock for a consideration wholly or partly other than cash, the amount of the consideration other than cash received by the Company shall be deemed to be the lesser of (i) the Current Market Price Per Share (as defined in Section 3.08) on the issue date of the Common Stock so issued by the Company or (ii) the fair market value of such consideration as determined by the Board of Directors of the Company. In case Common Stock shall be deemed (under Section 3.02.a or otherwise) to have been issued upon the issuance by the Company of any right to acquire such Common Stock, in connection with the issue or sale of other securities of the Company, together comprising one integrated transaction in which no specific consideration is allocated to rights, such rights shall be deemed to have been issued without consideration. Consideration received by the Company for issuance of its Common Stock shall be determined in all cases without deduction therefrom of any expenses, underwriting commissions or concessions incurred in connection therewith.

Section 3.02.c. Treasury Stock. The number of shares of Common Stock outstanding at any given time shall include shares owned or held by or for the account of the Company in its treasury, and the disposition of any such shares so owned or held shall not be considered an issue of Common Stock.

Section 3.03 When No Adjustment Required. Notwithstanding any other provision of this Article 3, no change in the Purchase Price or the number of shares of Common Stock or equivalent security issuable upon exercise of the Warrants shall be required by reason of any issue or sale by the Company of shares of Common Stock, options, warrants, rights or

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securities convertible into shares of Common Stock (i) in exchange for cash in an amount equal to or in excess of (A) in the case of transactions described in Sections 3.07 or 3.09, the Current Market Price Per Share, or (B) in the case of all other transactions, \$6.25 per share or (ii) pursuant to any Warrants presented to the initial purchasers pursuant to the Private Placement or pursuant to any Warrants entered into with any underwriter or professional consultant in connection with the public or private offering of any securities of the Company or with any lender in connection with any loan heretofore or



hereafter made by the Company, or (iii) pursuant to options and stock purchase agreements heretofore or hereafter granted to or entered into with officers or employees of the Company or of any subsidiary in connection with their employment, whether granted or entered into at the beginning of the employment or at any time thereafter, or as a result of or in connection with the granting of such options or the making of such stock purchase agreements, or (iv) as consideration, in whole or in part, for any acquisition of another corporation or business whether by means of consolidation, merger or sale to the Company of assets or securities, and whether such shares of Common Stock are issued directly or upon exchange or exercise of convertible securities or rights or options to subscribe to or purchase the same; provided, however, that this Section shall not apply to, and no adjustment shall be required with respect to, the issue or sale by the Company of shares of Common Stock pursuant to options or stock purchase agreements hereafter granted to or entered into with officers or employees of the Company if and to the extent the aggregate number of shares of Common Stock so issued during the Exercise Period shall not exceed fifteen percent (15%) of the Common Stock as of the date of adoption of such plans or agreements; and provided further, that this Section shall not apply to, and no adjustment shall be required with respect to, any merger, consolidation or reorganization in which the Common Stock of the Company shall be reclassified or in which the Company shall be the disappearing corporation; provided, however, notwithstanding the foregoing provisions of this Section 3.03, in the event that the Company shall issue any shares of its Common Stock, other than in connection with the occurrence of an event set forth in Sections 3.04 to 3.07 inclusive and 3.09 hereof, at any time prior to or in connection with the Company conducting an initial public offer, whether or not the consideration therefor shall exceed the Purchase Price or the Current Market Price Per Share (as defined in Section 3.08 hereof), the number of Warrants then outstanding shall be adjusted so as to increase the number of shares of Common Stock issuable upon the exercise thereof so as to enable the ratio of the number of shares of Common Stock issuable upon exercise of the Warrants to the total number of shares outstanding to be the same as the ratio of shares of Common Stock issuable upon the exercise of Warrants to the total number of shares of Common Stock outstanding prior to such additional issuance of Common Stock (including for purposes of the calculation of the total number of shares outstanding in both instances, the number of shares of Common Stock issuable upon exercise of the Warrants). With respect to the immediately preceding sentence, in the event the shares of Common Stock are issued for consideration per share which is less than the Purchase Price prior to such issuance, the Purchase Price under the Warrants will be adjusted as provided in Section 3.02 hereof.

Section 3.04 Stock Dividends, Stock Splits, Combinations, Reclassification, etc. In case the Company shall at any time after the date of this Agreement (i) declare a dividend on the Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding

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Common Stock into a larger number of shares, (iii) combine the outstanding Common Stock into a smaller number of shares or (iv) issue any shares of its capital stock in connection with a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), the Purchase Price in effect at the time of the record date for such dividend or the effective date of such subdivision, combination or reclassification, and/or the number and kind of shares of stock issuable on such date shall be proportionately adjusted so that the holder of any Warrant exercised after such time shall be entitled, at no additional expense, to receive the aggregate number and kind of shares of stock and Warrants which, if such Warrant had been exercised immediately prior to such date, he would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur.

Section 3.05 Distribution of Assets. If at any time after the date hereof the Company shall make any distribution of its assets upon or with respect to its Common Stock, as a liquidating or partial liquidating dividend (other than upon a liquidation, dissolution or winding up of the Company as provided for in Section 4.01, or other than as a dividend payable out of earnings or any surplus legally available for dividends under the laws of Arizona), each registered holder of any Warrant then outstanding shall, upon the exercise of such Warrant after the record date for such distribution or, in the absence of a record date, after the date of such distribution, receive in addition to the shares of Common Stock to which he would otherwise be entitled hereunder, such assets (or, at the option of the Company, a sum equal to the value thereof at the time of the distribution as determined by its Board of Directors in its sole discretion) which would have been distributed to such registered holder if he had exercised his Warrants immediately prior to the record date for such distribution or, in the absence of a record date, immediately prior to the date of such distribution.

Section 3.06 Consolidation, Merger and Sale of Assets. If, prior to the end of the Exercise Period, the Company shall at any time consolidate with or merge into another corporation, the holder of any Warrant will thereafter receive, upon exercise thereof, in lieu of the shares of Common Stock of the Company immediately theretofore issuable upon exercise of the rights then represented by the Warrants, such shares of stock, securities or assets as may

be issued or payable with respect to or in exchange for a number of outstanding shares of the Common Stock of the Company equal to the number of shares of such Common Stock immediately theretofore issuable upon exercise of the Warrants, had such consolidation or merger not taken place. The Company shall take such steps in connection with such consolidation or merger as may be necessary to assure that the provisions hereof shall thereafter be applicable, as nearly as reasonably may be, in relation to any securities or property thereafter deliverable upon the exercise of the Warrants. The Company or the successor corporation, as the case may be, shall execute and deliver to the Warrant Agent a supplemental agreement so providing. The provisions of this Section 3.06 shall similarly apply to successive mergers or consolidations. A sale of all or substantially all of the assets of the Company for a consideration (apart from the

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assumption of obligations) consisting primarily of securities, shall be deemed a consolidation or merger for the foregoing purposes.

Section 3.07 Dividends in Convertible Securities, Options, Rights or Warrants. In case the Company shall issue stock, securities, rights, options or warrants to all holders of the Common Stock, or in an integrated transaction where more than 99% of such instruments or securities are acquired by persons who, prior to such transaction, were security holders of the Company, entitling them to subscribe for or purchase Common Stock or securities convertible into Common Stock at a price per share less than the Current Market Price Per Share (as defined in Section 3.08) on the record date for the issuance of such securities, instruments or rights or the granting of such securities, options or warrants, as the case may be, the Purchase Price to be in effect after the record date for the issuance of such rights or the granting of such options or warrants shall be determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction, the numerator of which shall be (i) the sum of (a) the number of shares of Common Stock outstanding immediately prior to such sale and (b) the number of shares of Common Stock which could be purchased at the Current Market Price Per Share (as defined in Section 3.08) with the consideration received by the Company upon such sale, and the denominator of which shall be the total number of shares of Common Stock that would be outstanding immediately after such sale if the full amount of convertible securities, options, rights or warrants were exercised immediately after the sale. In the event the consideration for such securities, rights, options or warrants is paid in a form other than cash, the value of such consideration shall be determined as provided in Section 3.02.b. In the event such securities, instruments or rights shall change or expire, or such convertible securities shall not be converted, any adjustment previously made hereunder shall be readjusted to such as would have obtained on the basis of the rights as modified by such change or expiration.

Section 3.08 Current Market Price Per Share. For the purpose of Sections 2.04, 3.02.b., 3.03, 3.07 and 3.09, the Current Market Price Per Share of the Company's Common Stock on any date shall be determined as follows:

Section 3.08.a. If the Common Stock is listed on a national securities exchange or admitted to unlisted trading privileges on any such exchange, the Current Market Price Per Share shall be the average of the daily closing prices for the thirty (30) consecutive trading days commencing thirty-five (35) trading days before such date. If no sale is made on any trading day, the closing price shall be deemed to be the average of the closing bid and asked prices for such day on such exchange; or

Section 3.08.b. If the Common Stock is not listed or admitted to unlisted trading privileges on any exchange, the Current Market Price Per Share shall be the average of the last reported sale price (or prices, if applicable) or the mean of the last reported bid and asked prices reported by the National Association of Securities Dealers Automated Quotations System ("NASDAQ") or, if not so quoted on NASDAQ, as quoted by the National Quotations Bureau, Inc., for the thirty (30) consecutive trading days commencing 35 days before such date; or

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Section 3.08.c. If the Common Stock is not so listed or admitted to unlisted trading privileges and prices are not reported on NASDAQ or the National Quotations Bureau, Inc., the Current Market Price Per Share shall be the fair market value of the Common Stock as determined by the Board of Directors of the Company in good faith, whose determination shall be conclusive.

Section 3.09 Dividends in Options, Warrants, Rights or Convertible Securities Causing Substantial Dilution. In case the Company shall issue rights, options, warrants or convertible securities to all holders of Common Stock entitling them to subscribe for or purchase Common Stock or securities convertible into Common Stock at a price less than the Current Market Price Per Share (as defined in Section 3.08) and where the number of shares of Common Stock issuable upon exercise of all rights, options, warrants or convertible securities so issued by the Company in the preceding (12) months exceeds 10% of the then outstanding Common Stock of the Company (excluding Common Stock issuable upon exercise of such options, rights or warrants or conversion of such convertible securities), and where an adjustment to the Purchase Price is made under Section 3.07, each Warrant outstanding immediately prior to the making of such adjustment shall thereafter evidence the right to purchase, at the adjusted

Purchase Price, that number of shares obtained by (i) multiplying the number of shares covered by the Warrant immediately prior to such adjustment by the Purchase Price in effect immediately prior to such adjustment and (ii) of dividing the product so obtained by the Purchase Price in effect immediately after the adjustment made under Section 3.07.

Section 3.10 Form of Warrant. The form of Warrant need not be changed because of any change in the Purchase Price or the number of shares of Common Stock or Warrants issuable upon exercise of the Warrants pursuant to this Article 3 and Warrants issued after such change may state the same terms with respect to the Purchase Price and number of shares of Common Stock and Warrants issuable thereunder as stated in the Warrants initially issued pursuant to this Agreement. The Company may at any time, in its sole discretion, make any change in the form of Warrant that the Company may deem appropriate and that does not affect the substance thereof in a manner inconsistent with this Agreement; any Warrant thereafter issued or countersigned, whether in exchange or substitution for an outstanding Warrant or otherwise, may be in the form so changed.

Section 3.11 Dividends. No registered holder of any Warrant shall, upon the exercise thereof, be entitled to any dividend that may have accrued or which may previously have been paid with respect to shares of stock issuable upon exercise of the Warrants.

Section 3.12 Reduction of Purchase Price Below Par Value. Before taking any action which would cause an adjustment reducing the Purchase Price below the then par value, if any, of the shares of Common Stock of the Company issuable upon exercise of the Warrants, the Company shall take any corporate action which may, in the opinion of its counsel, be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of such Common Stock at such adjusted Purchase Price.

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Section 3.13 Certification of Adjusted Purchase Price and Number of Shares and Warrants Issuable. Whenever the Purchase Price and the number of shares of Common Stock and Warrants issuable upon the exercise of each Warrant are adjusted as provided in this Article 3, the Company shall (a) promptly prepare a certificate signed by the Chairman of the Board, President or a Vice President of the Company and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary setting forth the Purchase Price as so adjusted, the number of shares of Common Stock and Warrants issuable upon the exercise of each Warrant as so adjusted and/or the number of Warrants as so adjusted and a brief statement of the facts accounting for such adjustment, (b) promptly file with the Warrant Agent and with each transfer agent for the Common Stock a copy of such certificate and (c) mail a brief summary thereof to each registered holder of Warrants in accordance with Section 7.01.

Section 3.14 Certificates and Opinions. The Warrant Agent may rely upon the certificate of any independent firm of public accountants of recognized standing, selected by the Board of Directors, as to the correctness of any adjustment or as to the method to be employed in making the same, which may be provided for in any supplemental agreement entered into pursuant to any of the provisions of this Article 3, and shall not be responsible or accountable to any Warrant holder for any such provision if the correctness thereof shall have been approved by such firm of public accountants. The Warrant Agent may receive an opinion of legal counsel (who may be counsel for the Company) as conclusive evidence that any supplemental agreement executed pursuant to the provisions of this Article 3 is authorized or permitted by the terms of this Agreement and that it is proper for the Warrant Agent to join in the execution thereof.

#### ARTICLE 4

##### OTHER PROVISIONS FOR PROTECTION OF WARRANT HOLDERS

Section 4.01 Liquidation of the Company. In the event of the liquidation, dissolution or winding up of the Company, a notice thereof shall be filed by the Company with the Warrant Agent and each transfer agent for the Common Stock at least thirty (30) days before the record date (which date shall be specified in such notice) for determining holders of the Common Stock entitled to receive any distribution upon such liquidation, dissolution or winding up. Such notice shall also specify the date on which the right to exercise Warrants shall expire, as provided in Section 2.01. A copy of such notice shall be published once in an Authorized Newspaper in Phoenix, Arizona, not more than thirty (30) nor less than twenty (20) days from such record date. Failure to give such notice, or any defect therein, shall not affect the legality or validity of the liquidation, dissolution or winding up, or of any distribution in connection therewith.

Section 4.02 Reservation of Shares. The Company shall reserve and keep available out of its authorized but unissued Common Stock, such number thereof as shall from time to time be sufficient to permit the exercise of all outstanding Warrants. If at any time the number of authorized but unissued shares of Common Stock shall not be sufficient for such

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purposes, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose.

Section 4.03 No Rights as Stockholder Conferred by Warrants. The Warrants shall not entitle the registered holders thereof to any of the rights, either at law or in equity, of a stockholder of the Company.

Section 4.04 Lost, Stolen, Mutilated or Destroyed Warrants. If any Warrant becomes lost, stolen, mutilated or destroyed, the Company and the Warrant Agent may, on such terms as to indemnify each of them, respectively, or otherwise as they may in their discretion impose, respectively, issue and countersign a new Warrant of like denomination, tenor and date as the Warrant so lost, stolen, mutilated or destroyed. Any such new Warrant shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant shall be at any time enforceable by anyone.

Section 4.05 Enforcement of Warrant Rights. All rights of action in respect of this Agreement are vested in the respective registered holders of the Warrants; and any registered holder of any Warrant may in his own behalf and for his own benefit enforce, and may institute and maintain any suit, action or proceeding against the Company suitable to enforce, or otherwise in respect of, his right to exercise his Warrant for the purchase of stock in the manner provided in the Warrant and in this Agreement.

Section 4.06 Registration. Pursuant to the terms and provisions of the Notes Registration Rights Agreement, of even date herewith, between the Company and each Purchaser, the Company shall file and maintain a current registration statement at its sole cost and expense with the Securities and Exchange Commission ("SEC") for the shares of Common Stock underlying the Warrants during the Exercise Period. The Company will use its best efforts to qualify such underlying shares under the blue sky or securities laws of such of the jurisdictions in which holders of Warrants reside as may be required for such holders to exercise their Warrants.

ARTICLE 5  
TRANSFER AND OWNERSHIP OF WARRANTS

Section 5.01 Negotiability and Ownership. Warrants issued hereunder shall be transferable only upon the occurrence of the following: (a) the Company conducts an initial public offering; (b) any of the events described in Section 2.02 occur; or (c) the Company ceases to be qualified as an "S" corporation under Subchapter S of the Internal Revenue Code of 1986, as amended, and by transfer on the books of the Warrant Agent. Presentations may be made and notices and demands may be served at the principal corporate office of the Warrant Agent in Phoenix, Arizona.

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Section 5.02 Warrant Register. The Company shall, by and through the Warrant Agent, cause to be kept a register or registers in which, subject to such reasonable regulations as the Company or as the Warrant Agent may prescribe, the Warrant Agent shall register transfer of Warrants as herein provided. Upon surrender for transfer of any Warrant, the Warrant Agent shall countersign, authenticate and deliver in the name of the transferee or transferees a new Warrant for a like amount of Warrants.

Section 5.03 Endorsement of Warrants. All Warrants presented or surrendered for exchange, transfer or registration as provided in this Section, shall be accompanied (if so required by the Company or the Warrant Agent) by a written instrument or instruments of transfer, in form satisfactory to the Company and the Warrant Agent, duly executed by the registered holder or by his duly authorized attorney.

Section 5.04 Exchange of Warrants. On and after the Warrant Date and prior to the end of the Exercise Period, one or more Warrants may be surrendered at the office of the Warrant Agent for exchange, and, upon cancellation thereof, there shall be issued and delivered in exchange therefor, one or more new Warrants, as requested by the registered holder of the canceled Warrant or Warrants, for the same aggregate number of shares of Common Stock as were evidenced by the Warrant or Warrants so canceled. In case of any exchange of Warrants pursuant to this Article 5 or of any transfer of a Warrant, the Company may make a charge sufficient to reimburse it for any stamp or other tax or governmental charge required to be paid in connection therewith, but no other charge shall be made to the Warrant holder for any transfer or issue of new Warrants in case of any such exchange.

Section 5.05 Agreement of Warrant Holders. Every holder of a Warrant Certificate, by accepting the same, consents and agrees with the Company and the Warrant Agent and with all other Warrant holders that: (a) the Warrants are transferable only as permitted by Section 5.01 above; (b) the Warrants are transferable only on the registry books of the Warrant Agent as herein provided; and (c) the Company and the Warrant Agent may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner thereof and of the Warrants evidenced thereby for all purposes whatsoever, and neither the Company nor the Warrant Agent shall be affected by any notice to the contrary, whether such notice be in the form of notations on the Warrant Certificates or otherwise.

ARTICLE 6  
CONCERNING THE WARRANT AGENT

Section 6.01 Appointment of Warrant Agent. The Company hereby appoints Bank One, Arizona, NA to act as warrant agent for the Company in accordance with the terms and condition! herein set forth in this Agreement and Bank One, Arizona, NA hereby accepts such appointment. The Company may, from time to time, appoint such Co-Warrant Agents as it may

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deem necessary or desirable. The Company may terminate the appointment of Bank One, Arizona, NA as warrant agent upon thirty (30) days' notice in writing to Bank One, Arizona, NA.

Section 6.02 Payment of Taxes. The Company will from time to time promptly pay or make provision for the payment of any and all taxes and charges which may hereafter be imposed by the laws of the United States or of any state or any local governmental unit thereof and which shall be payable with respect to the issuance or delivery to or upon the order of the registered holders of the Warrants (upon the exercise of the right to subscribe) of Common Stock of the Company pursuant to the terms of such Warrants and of this Agreement, but the Company shall not be obligated to pay and transfer taxes in respect of the Warrants or such shares.

Section 6.03 Resignation of Warrant Agent. The Warrant Agent may resign its duties and be discharged from all further duties and liabilities hereunder after giving thirty (30) days' notice in writing to the Company; provided that such shorter notice may be given as the Company shall accept as sufficient. In the event the office of the Warrant Agent shall become vacant by resignation or incapacity to act or otherwise, the Company shall appoint in writing a new Warrant Agent hereunder in place of the Warrant Agent vacating office. If the Company fails for a period of ten (10) days in making such appointment then the registered holder of any of the Warrants may petition any court of competent jurisdiction for the appointment of a new Warrant Agent. On any new appointment, the new Warrant Agent shall be vested with the same powers, rights, duties, responsibilities and immunities as if it had been originally named as Warrant Agent without any further assurance, conveyance, act or deed; but if for any reason it becomes necessary or expedient to execute any further assurance, conveyance, act or deed, the same shall be done at the expense of the Company and shall be legally and validly executed by the former Warrant Agent.

Subject to the foregoing provisions, any corporation into which any Warrant Agent or any new Warrant Agent may be merged or with which it may be consolidated or any corporation resulting from any merger or consolidation to which any Warrant Agent shall be a party shall be the successor Warrant Agent under this Agreement without any further act.

Section 6.04 Fees and Expenses of Warrant Agent. The Company covenants and agrees:

(a) that it will pay the Warrant Agent reasonable remuneration for its services as such hereunder and will repay to the Warrant Agent on demand the amount of all expenditures whatsoever which the Warrant Agent may reasonably incur in and about the execution of the duties hereby created; and

(b) that it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged or delivered, all and every such other acts, deeds and assurances in law as the Warrant Agent may reasonably require for better accomplishing and effectuating the intentions and provisions of this Agreement.

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Section 6.05 Actions by Warrant Agent. The Warrant Agent may, for the execution of the duties and in the execution of the powers conferred upon it, appoint or employ as agents or representatives or otherwise any solicitors, counsel, bankers, brokers, accountants, clerks or inspectors or other agents, and all reasonable expenses and disbursements made and incurred by the Warrant Agent in connection with the execution of its duties hereunder shall be forthwith paid by the Company.

Section 6.06 Exculpatory Provisions. In order to induce the Warrant Agent to act hereunder, the Company agrees, and each registered holder of a Warrant, by acceptance thereof, also agrees, that:

(a) The Warrant Agent shall be entitled to take legal or other advice and employ such assistance as it may deem necessary to the proper discharge of its duties hereunder and to pay proper and reasonable compensation therefor and may in connection with any matter relating to this Agreement, act on the opinion or advice or information obtained from any lawyer, auditor, valuer or other expert whether obtained by such Warrant Agent or by the Company or otherwise and shall not be responsible for any loss occasioned by acting thereon;

(b) Whenever, in the administration of its duties under this

Agreement, the Warrant Agent shall deem it necessary or desirable that any matter be provided or established by the Company prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Warrant Agent and such certificate shall be full justification and cause to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement on the faith thereof; but in its discretion the Warrant Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable;

(c) The Warrant Agent shall be liable hereunder only for its own negligence or willful misconduct;

(d) The Warrant Agent shall not be liable for or by reason of any of the statements of facts or recitals contained in this Agreement or in the Warrants or be required to verify the same but all such statements and recitals are and shall be deemed to have been made by the Company only;

(e) The Warrant Agent shall not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof or in respect of the validity of the execution of any Warrant issued hereunder; nor shall it be responsible for any breach by the Company of any covenant or condition contained in this Agreement or in any such Warrant; nor shall it by any act hereunder be deemed to make any representation

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or warranty as to the authorization or reservation of any shares to be issued upon the right of purchase provided for in this Agreement or in any Warrant or as to whether any shares will when issued be duly authorized or be validly issued and fully paid and nonassessable, it being hereby agreed and declared that as to all the matters and things referred to in this subparagraph the duty and responsibility shall rest upon the Company and not upon the Warrant Agent and the failure of the Company to discharge any such duty and responsibility shall not in any way render the Warrant Agent liable or place upon it any duty or responsibility for breach of which it would be liable;

(f) The Warrant Agent shall not at any time be under any duty or responsibility to determine whether any facts exist which may require any change in Warrants pursuant to any of the provisions of Article 2, or with respect to the nature or extent of any such change, or with respect to any adjustment provided for in Article 3, or with respect to the method provided herein (or which may be provided in any supplemental agreement) to be employed in making any such change or adjustment; and

(g) Except as in this Agreement expressly provided, the Warrant Agent acts hereunder solely as agent of the Company and does not assume any fiduciary or other relationship or agency or trust for or with any registered holder of any of the Warrants. The duties and obligations of the Warrant Agent under this Agreement shall be determined solely by the provisions hereof, and no implied covenants or obligations shall be read into this Agreement against the Warrant Agent.

Section 6.07 Modification of Agreement. The Warrant Agent may, without the consent or concurrence of the registered holders of the Warrants by supplemental agreement or otherwise, concur with the Company in making any changes or corrections in these presents as to which it shall have been advised by counsel (who may but need not also be counsel for the Company) that the same are not prejudicial to the rights of the Warrant holders as indicated by the general sense or intent of the original language and are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provision or clerical omission or mistake or manifest error herein contained.

#### ARTICLE 7

##### CERTAIN DEFINITIONS AND OTHER MATTERS

Section 7.01 Notice of Proposed Actions. In case the Company shall propose (a) to pay any dividend payable in stock of any class or to make any other distribution to the holders of its Common Stock (other than a cash dividend), or (b) to offer to the holders of its Common Stock rights or warrants to subscribe for or to purchase any additional shares of Common Stock, or (c) to effect any stock dividend, stock split, combination or reclassification of its Common Stock, or (d) to effect any distribution of assets or capital reorganization, merger, consolidation or sale, transfer or other disposition of all or substantially all of its assets or

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business, or (e) to effect the liquidation, dissolution or winding-up of the Company, or (f) to effect any other transaction which would, upon consummation, result in a change in the Purchase Price of the Warrants or the number of shares

of Common Stock and Warrants issuable upon exercise of the Warrants pursuant to Articles 2 and 3 hereof, the Company shall give notice to each holder of a Warrant in accordance with Section 7.02 of such proposed action, which shall specify the date on which a record is to be taken for purposes of such proposed transaction. Such notice shall be given not later than fifteen (15) days prior to the record date for determining the holders of Common Stock for purposes of such action or, if no record date is required, not later than fifteen (15) days prior to the date of the taking of such proposed action.

Section 7.02 Notices. Subject to the provisions of Section 7.03, any notice or demand authorized by this Agreement to be given or made by the Warrant Agent or by the holder of any Warrant Certificate to or upon the Company shall be sent by first class mail, postage prepaid, addressed (until another address or notice of name change is filed in writing by the Company with the Warrant Agent) and received by the noticed party as follows:

Monterey Management, Inc.  
Monterey Homes Corporation  
6263 North Scottsdale Road  
Suite 220  
Scottsdale, Arizona 85250  
Attn: President, Monterey Management, Inc.

Subject to the provisions of Section 7.03, any notice or demand authorized by this Agreement to be given or made by the Company or by the holder of any Warrant Certificate to or on the Warrant Agent shall be deemed given or made if sent by first class mail, postage prepaid, addressed (until another address is filed in writing by the Warrant Agent with the Company) and received by the noticed party as follows:

Bank One, Arizona, NA  
241 North Central Avenue  
Phoenix, Arizona 85004

Notices or demands authorized by this Agreement to be given or made by the Company or the Warrant Agent to the holder of any Warrant Certificate shall be deemed given or made if sent first class mail, postage prepaid, addressed to such holder at the address of such holder as shown on the registry books of the Company.

Section 7.03 Authorized Newspaper. The term "Authorized Newspaper" when used with reference to the publication of a notice provided for in this Agreement shall mean a newspaper printed in the English language and customarily published on each business day (whether or not published on Saturdays, Sundays or legal holidays) and of general circulation.

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Section 7.04 Officer's Certificate. The term "Officer's Certificate" in this Agreement shall mean a certificate or instrument signed by one of the following: the Chief Executive Officer, the President, a Vice President, the Treasurer or the Secretary of the Company.

Section 7.05 Applicable Law. The validity, interpretation and performance of this Agreement and the validity and interpretation of the Warrants shall be governed by the laws of the State of Arizona.

Section 7.06 Examination of Agreement. A copy of this Agreement shall be available at all reasonable times at the office of the Warrant Agent for examination by the registered holder of any Warrant. Any such registered holder may be required to submit his Warrant for inspection before being entitled to make such examination.

IN WITNESS WHEREOF, this Agreement shall been duly executed by the parties hereto under their respective corporate seals, as of the date first above written.

BANK ONE, ARIZONA, NA

By: \_\_\_\_\_  
Its \_\_\_\_\_

MONTEREY MANAGEMENT, INC., an  
Arizona corporation

By: \_\_\_\_\_  
Its \_\_\_\_\_

MONTEREY HOMES CORPORATION, an  
Arizona corporation

By: \_\_\_\_\_

Its \_\_\_\_\_

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EXHIBIT A

MONTEREY MANAGEMENT, INC.

WARRANT

Common Stock Purchase Warrant Certificate

No. \_\_\_\_\_ Warrants to Purchase \_\_\_\_\_ Shares

THIS IS TO CERTIFY that, for value received \_\_\_\_\_ or registered assigns, is the registered holder ("Holder") of the number of Warrants ("Warrants") set forth above, each of which entitles the holder to purchase, subject to the terms and conditions set forth in the Warrant Agreement, which is hereby incorporated herein and made a part hereof, and as hereinafter set forth, at any time on or after October 17, 1994 and at or prior to the close of business on October 15, 2001, but not thereafter fully paid and non-assessable shares of the common stock, no par value per share ("Common Stock"), of MONTEREY MANAGEMENT, INC., an Arizona corporation (the "Company"), or equivalent security of any successor to it (the "Company"), at a purchase price of \$6.25, as adjusted, for a term commencing on the date hereof and ending October 15, 2001 and to receive one or more certificates for the Common Stock or equivalent securities so purchased, upon satisfaction of one or more conditions precedent set forth herein and presentation and surrender to BANK ONE, ARIZONA, NA, 241 North Central Avenue, Phoenix, Arizona 85004 (the "Warrant Agent"), or its successor as Warrant Agent, with the form of subscription duly executed, and accompanied by payment of the purchase price of each share purchased, in U.S. dollars, either in cash or by certified check or bank cashier's check, payable to the order of the Company. Fractional shares of the Company's Common Stock will not be issued upon the exercise of the Warrants.

No Warrant will be exercisable unless and until (a) the Company completes an initial public offering of its securities; (b) any consolidation of the Company with, or merger of the Company into, another corporation where the Company is not the survivor; (c) the sale of substantially all of the assets of the Company; or (d) a change of control of the Company as defined in the Warrant Agreement.

The Company covenants and agrees that all shares of Common Stock delivered upon the exercise of these Warrants will, upon delivery, be free from all taxes, liens and charges with respect to the purchase thereof hereunder. The Warrants shall not be exercisable in any jurisdiction where exercise would be unlawful. The Company will use its best efforts to qualify the shares that may be purchased upon exercise of these Warrants for sale in all jurisdictions where holders of the Warrants reside.

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The number of shares of Common Stock, or other equivalent equity security, issuable upon the exercise of these Warrants and the purchase price shall be subject to adjustment from time to time, in certain events, as set forth in the Warrant Agreement, including certain sales of additional stock, stock options, convertible securities, distribution of stock dividends, stock splits, reclassifications or mergers.

The Company agrees at all times to reserve or hold available, or cause to reserve or hold available, a sufficient number or shares of its Common Stock, or other equivalent equity security, to cover the number of shares, or other equivalent equity security, issuable upon the exercise of these and all other Warrants of like tenor then outstanding.

This Warrant Certificate does not entitle the holder hereof, either at law or in equity, to any voting rights or other rights as a stockholder of the Company, or to any other rights whatsoever except the rights expressly herein set forth, and no dividend shall be payable or accrue in respect of these Warrants or the interest represented hereby, or the shares that may be purchased upon exercise hereof until or unless, and except to the extent that, these Warrants shall be duly exercised.

This Warrant Certificate is exchangeable at any time prior to expiration upon the surrender hereof by the registered holder to the Warrant Agent for one or more new Warrant Certificates of like tenor and date representing in the aggregate the right to purchase the number of shares that may be purchased upon exercise hereof, each of such new Warrant Certificates to represent the right to purchase such number of shares as may be designated by



the registered holder at the time of such surrender. Notwithstanding the foregoing, this Warrant may not be transferred to any other party until (a) the Company conducts an initial public offering; (b) any of the events described in the second paragraph hereof occur, or (c) the Company ceases to be qualified as an "S" corporation under Subchapter S of the Internal Revenue Code of 1986, as amended.

The Company may deem and treat the registered holder of this Warrant Certificate at any time as the absolute owner hereof and of the Warrants covered hereby for all purposes and shall not be affected by any notice to the contrary.

The issuance of the Warrants covered by this Warrant Certificate is subject to the terms of the Warrant Agreement which is available at the principal corporate trust office of the Warrant Agent. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is hereby made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Warrant Agent, the Company and the holders of the Warrants. A copy of the Warrant Agreement is on file at the above mentioned office of the Warrant Agent.

This Warrant Certificate shall not be valid or obligatory for any purpose unless countersigned by the Warrant Agent.

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IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be executed by its duly authorized officers, and the corporate seal hereunto affixed.

Dated: \_\_\_\_\_

MONTEREY MANAGEMENT, INC.

By \_\_\_\_\_  
ITS PRESIDENT

ATTEST:

- \_\_\_\_\_  
SECRETARY

This is one of the Warrants referred to in the within mentioned Warrant Agreement.

BANK ONE, ARIZONA, NA  
(Phoenix, Arizona)  
Warrant Agent

By \_\_\_\_\_  
Authorized Representative

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Form of Reverse Side of Certificate

ASSIGNMENT FORM

To assign this Warrant, fill in the form below:

I or we assign and transfer this Warrant to:  
(INSERT ASSIGNEE'S SOCIAL SECURITY  
OR TAX IDENTIFICATION NO.)

- \_\_\_\_\_  
- \_\_\_\_\_

-----  
(Print or type assignee's name, address and zip code)

and irrevocably appoint \_\_\_\_\_ as agent to transfer this Warrant on the books of the Company. The agent may substitute another to act for him.

Date: \_\_\_\_\_

Your Signature: \_\_\_\_\_  
(Sign exactly as your name appears on

Signature Guarantee: \_\_\_\_\_

By \_\_\_\_\_  
The signature should be guaranteed by an eligible guarantor institution (a bank, stockbroker, savings and loan association or credit union with membership in an approved signature guarantee medallion program) pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

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SUBSCRIPTION  
(To be completed and signed only upon an exercise of the Warrants in whole or in part)

TO: \_\_\_\_\_  
as Transfer Agent for Monterey Management, Inc.

The undersigned, the Holder of the attached Warrants, hereby irrevocably elects to exercise the purchase right represented by the Warrants for, and to purchase thereunder, Shares (as such terms are defined in the Warrant dated \_\_\_\_\_, 1994, from Monterey Management, Inc. (or other securities or property), and herewith makes payment of \$\_\_\_\_\_ therefor in cash or by certified or official bank check. The undersigned hereby requests that the Certificate(s) for such securities be issued in the name(s) and delivered to the address(es) as follows:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Deliver to: \_\_\_\_\_

Address: \_\_\_\_\_

If the foregoing Subscription evidences an exercise of the Warrants to purchase fewer than all of the Shares or Warrants (or other securities or property) to which the undersigned is entitled under such Warrants, please issue a new Warrants, of like tenor, for the remaining Shares or Warrants (or other securities or property) in the name(s), and deliver the same to the address(es), as follows:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

DATED: \_\_\_\_\_, 19\_\_\_\_.

\_\_\_\_\_  
(Name of Holder)

\_\_\_\_\_  
(Signature of Holder or Authorized Signatory)

\_\_\_\_\_  
(Social Security or Taxpayer Identification Number of Holder)

ASSUMPTION AGREEMENT  
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THIS ASSUMPTION AGREEMENT (the "Assumption Agreement") is executed as of this 31st day of December, 1996, by among Monterey Management, Inc., an Arizona corporation ("MMI"); Monterey Homes Corporation, an Arizona corporation ("MHC"); Monterey Management-Tucson, Inc., an Arizona corporation ("MMT"), Monterey Homes-Tucson Corporation, an Arizona corporation ("MHT" and, collectively with MMI, MHC, and MM-TI, the "Company"); and Norwest Bank, Minnesota, NA ("Warrant Agent"). Capitalized terms used and not defined herein shall have the meanings ascribed to them in the Warrant Agreement (the "Warrant Agreement"), dated as of October 17, 1994, by and among MMI, MHC and the Warrant Agent.

W I T N E S S E T H:

WHEREAS, MMI has agreed to merge with and into MMT and MHC has agreed to merge with and into MHT (the "Monterey Mergers"), with MMT and MHT assuming the obligations of MMI and MHC under the Warrant Agreement; and

WHEREAS, MMT and MHT have agreed, subsequent to the Monterey Mergers and subject to the execution and delivery of an Agreement and Plan of Reorganization (the "HPX Merger Agreement") with Homeplex Mortgage Investments Corporation, a Maryland corporation ("HPX") and satisfaction of the conditions thereto, to merge with and into HPX (the "HPX Merger"), with HPX assuming the obligations of MMT and MHT under the Warrant Agreement;

WHEREAS, pursuant to the HPX Merger Agreement, on the effective date of the HPX Merger, the Warrants will be converted into warrants ("HPX Warrants") to purchase shares of HPX common stock, par value \$.01 per share, in an amount and at an exercise price as set forth herein;

WHEREAS, pursuant to Section 6.07 of the Warrant Agreement, the parties hereto desire to modify the Warrant Agreement to clarify certain ambiguous provisions.

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

A G R E E M E N T

1. Assumption by MMT and MHT. As of the effective date of the Monterey Mergers, MMT and MHT hereby expressly assume all rights, responsibilities, obligations, and liabilities of MMI and MHC under the Warrant Agreement and represent and warrant that MMT and MHT will timely discharge the same.

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2. Effect of Monterey Mergers and Assumption by MMT and MHT. The parties hereto agree that the Monterey Mergers will not result in any change in the overall stock ownership or operations of the Company and are an "internal reorganization" as that term is used in Section 2.02 of the Warrant Agreement. Consequently, as a result of the Monterey Mergers: (i) the Warrants will not become exercisable or transferable; and (ii) no adjustment will be made with respect to the number of shares of stock or other securities covered by each Warrant, the number of Warrants outstanding, or the Purchase Price at which a Warrantholder may purchase shares of stock or other securities upon the exercise of the Warrants.

3. Assumption by HPX. As of the Effective Date of the HPX Merger Agreement and upon the execution and delivery of the acceptance set forth as Supplement A hereto (the "HPX Assumption Date"), HPX hereby expressly assumes all rights, responsibilities, obligations, and liabilities of MMT and MHT under the Warrant Agreement and represents and warrants that it will timely discharge the same.

4. Effect of Merger and Assumption by HPX. On the HPX Assumption Date, the Warrants will be converted into HPX Warrants to purchase shares of HPX Common Stock. The number of shares covered by the HPX Warrants and the Purchase Price of the HPX Common Stock issuable upon exercise of the HPX Warrants shall be determined as follows:

(a) Number of Shares. The number of shares of HPX Common Stock issuable upon exercise of each HPX Warrant shall be equal to the sum of: (i) the total number of Exchange Shares (as such term is defined in the Merger Agreement) issued in the HPX Merger (calculated in accordance with the terms of the HPX Merger Agreement) divided by 2,427,776 (the number of shares of Common Stock of the Company outstanding following the Monterey Mergers on a fully diluted basis) (the "Warrant Conversion Ratio"); and (ii) 131,840 (the Warrant holders' proportionate share of the 800,000 shares of Contingent Stock (as such term is defined in the Merger Agreement) to be issued by HPX in the HPX Merger) divided by 400,000 (the number of shares issuable upon the exercise of currently outstanding Warrants). The number of shares of HPX Common Stock issuable upon exercise of the HPX Warrants shall be subject to further adjustment pursuant to

Article 3 of the Warrant Agreement with respect to any events that may occur after the effective date of the HPX Merger.

(b) Purchase Price. The Purchase Price of each HPX Warrant will be determined by: (i) subtracting from the current Purchase Price of \$6.25 an amount determined by dividing the Previously Taxed Earnings Distribution (as such term is defined in the HPX Merger Agreement) by 2,027,776 (the number of issued and outstanding shares of Common Stock of the Company following the Monterey Mergers); (ii) dividing the resulting number by the Warrant Conversion Ratio; and (iii) subtracting \$.15. This adjusted Purchase Price will be reduced by an additional \$.20 if during the 18 month period following the HPX Merger the closing price of the HPX Common Stock on the New York Stock Exchange does not exceed \$3.00 per share for five consecutive trading days.

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5. Escrowed Shares. Upon the HPX Assumption Date and pursuant to the HPX Merger Agreement, all Exchange Shares issued in the Merger will be issued in the name of the Monterey Stockholders; provided, that HPX will hold in escrow approximately 16.5% of the Exchange Shares issued in the names of the Monterey Stockholders for issuance to Warrant holders upon exercise of the HPX Warrants, and HPX will remit the Purchase Price paid upon such exercises to the Monterey Stockholders. Upon expiration of any unexercised HPX Warrants, HPX will distribute the Exchange Shares underlying such unexercised HPX Warrants to the Monterey Stockholders.

6. Failure to Close Merger. In the event that the HPX Merger does not become effective, the Warrants will not be converted into HPX Warrants and no adjustment will be made to the number of shares covered by the Warrants or the Purchase Price of the Warrants; provided, that pursuant to the terms of that certain Limited Guarantee of Payment, dated as of , 1996, the Monterey Stockholders, on or before March 31, 1997, will re-contribute to the Company the amount of the Previously Taxed Earnings Distribution which would exceed the amount permitted to be distributed under the Indenture relating to the Company's 13% Senior Subordinated Notes Due 2001 (which were issued with the Warrants).

7. Clarifications. Pursuant to Section 6.07 of the Warrant Agreement, the Warrant Agent may, without the concurrence of the Warrant holders, by supplemental agreement or otherwise, concur with the Company in making any changes or corrections to the Warrant Agreement that are necessary to cure or correct any ambiguity or defective or inconsistent provision or clerical omission or mistake or manifest error therein contained and that are not prejudicial to the rights of the Warrant holders. The parties hereto agree that certain provisions of the Warrant Agreement are ambiguous and in need of clarification and that the Warrant Agreement is modified as follows:

(a) Section 3.03 of the Warrant Agreement, entitled "When No Adjustment Required," is hereby modified to provide that, following the HPX Merger: (i) any shares of stock issued upon the exercise of options granted to HPX officers or employees prior to the Merger will not be counted in determining whether the aggregate number of shares of stock issued pursuant to any option or stock purchase agreement entered into with officers or employees of HPX following the HPX Merger exceeds 15% of the issued and outstanding HPX Common Stock as of the date of adoption of any such plans or agreements; and (ii) options granted to the Monterey Stockholders in connection with employment agreements entered into by HPX and the Monterey Stockholders following the HPX Merger will be counted against the 15% limitation referred to above only to the extent that the exercise price of such options is lower than the Purchase Price of the HPX Warrants as of the date of such option grants.

(b) The Warrant Agreement is hereby modified to provide that the HPX Merger constitutes the Company's "initial public offering" as that term is used in the Warrant Agreement.

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8. Successors and Assigns. This Assumption Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assigns.

9. Captions. The captions of this Assumption Agreement are solely for the convenience of reference and shall not affect its interpretation.

10. Counterparts. This Assumption Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

11. Governing Law. This Assumption Agreement shall be governed by and interpreted in accordance with the laws of the State of Arizona (without regard to conflict of law principles).

12. No Other Changes. The parties acknowledge that, except as provided herein, all terms of the Warrant Agreement remain unchanged and are in full force and effect.

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers, have set their hands effective as of the day and year first noted above.

MONTEREY MANAGEMENT, INC.,  
an Arizona corporation

By: /s/ Larry W. Seay  
-----  
Name: Larry W. Seay  
-----  
Title: Vice President  
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MONTEREY HOMES CORPORATION,  
an Arizona corporation

By: /s/ Larry W. Seay  
-----  
Name: Larry W. Seay  
-----  
Title: Vice President  
-----

MONTEREY MANAGEMENT-TUCSON, INC.,  
an Arizona corporation

By: /s/ Larry W. Seay  
-----  
Name: Larry W. Seay  
-----  
Title: Vice President  
-----

MONTEREY HOMES-TUCSON CORPORATION,  
an Arizona Corporation

By: /s/ Larry W. Seay  
-----  
Name: Larry W. Seay  
-----  
Title: Vice President  
-----

NORWEST BANK, MINNESOTA, NATIONAL  
ASSOCIATION

By: /s/ Raymond S. Hamstadt  
-----  
Name: Raymond S. Hamstadt  
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Title: Vice President  
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SUPPLEMENT A  
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Homeplex Mortgage Investments Corporation, a Maryland corporation ("HPX"), hereby agrees that it shall assume all rights, responsibilities, obligations, and liabilities of Monterey Management-Tucson, Inc., an Arizona corporation ("MMT"), and Monterey Homes-Tucson Corporation, an Arizona corporation ("MHT"), under that certain Warrant Agreement, dated as of October 17, 1994, by and among Monterey Management, Inc., an Arizona corporation (as predecessor to MMT with respect to such Warrant Agreement), Monterey Homes Corporation, an Arizona corporation (as predecessor to MHT with respect to such Warrant Agreement), and Norwest Bank, Minnesota, National Association, as Warrant Agent, and further agrees to abide by and be subject to all of the terms and conditions of the Warrant Agreement, as modified.

DATED this \_\_\_\_ day of \_\_\_\_\_, 1996.

HOMEPLEX MORTGAGE INVESTMENTS  
CORPORATION, a Maryland corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_



MONTEREY HOMES CORPORATION  
WARRANT

Common Stock Purchase Warrant Certificate

No. W-	Warrants to Purchase Shares
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THIS IS TO CERTIFY that, for value received \_\_\_\_\_ or registered assigns, is the registered holder ("Holder") of the number of Warrants ("Warrants") set forth above, each of which entitles the holder to purchase, subject to the terms and conditions set forth in the Warrant Agreement, which is hereby incorporated herein and made a part hereof, and as hereinafter set forth, at any time on or after October 17, 1994 and at or prior to the close of business on October 15, 2001, but not thereafter, one fully paid and non-assessable share of the common stock, \$.01 par value per share ("Common Stock"), of MONTEREY HOMES CORPORATION, a Maryland corporation (the "Company"), or equivalent security of any successor to it (the "Company"), at a purchase price of \$4.0634, as adjusted, for a term commencing on the date hereof and ending October 15, 2001 and to receive one or more certificates for the Common Stock or equivalent securities so purchased, upon satisfaction of one or more conditions precedent set forth herein and presentation and surrender to NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION, ATTN: Corporate Trust Department, Sixth Street and Marquette Ave., Minneapolis, Minnesota 55479-0069 (the "Warrant Agent"), or its successor as Warrant Agent, with the form of subscription duly executed, and accompanied by payment of the purchase price of each share purchased, in U.S. dollars, either in cash or by certified check or bank cashier's check, payable to the order of the Warrant Agent. Fractional shares of the Company's Common Stock will not be issued upon the exercise of the Warrants. For each Warrant exercised, an additional .2069 shares of the fully paid and non-assessable shares of the Common Stock of the Company will be issued without the payment of any additional consideration.

The Company covenants and agrees that all shares of Common Stock delivered upon the exercise of these Warrants will, upon delivery, be free from all taxes, liens and charges with respect to the purchase thereof hereunder. The Warrants shall not be exercisable in any jurisdiction where exercise would be unlawful. The Company will use its best efforts to qualify the shares that may be purchased upon exercise of these Warrants for sale in all jurisdictions where holders of the Warrants reside.

The number of shares of Common Stock, or other equivalent equity security, issuable upon the exercise of these Warrants and the purchase price shall be subject to adjustment from time to time, in certain events, as set forth in the Warrant Agreement, including certain sales of additional stock, stock options, convertible securities, distribution of stock dividends, stock splits, reclassifications or mergers.

The Company agrees at all times to reserve or hold available, or cause to reserve or hold available, a sufficient number or shares of its Common Stock, or other equivalent equity security, to cover the number of shares, or other equivalent equity security, issuable upon the exercise of these and all other Warrants of like tenor then outstanding.

This Warrant Certificate does not entitle the holder hereof, either at law or in equity, to any voting rights or other rights as a stockholder of the Company, or to any other rights whatsoever except the rights expressly herein set forth, and no dividend shall be payable or accrue in respect of these Warrants or the interest represented hereby, or the shares that may be purchased upon exercise hereof until or unless, and except to the extent that, these Warrants shall be duly exercised.

This Warrant Certificate is exchangeable at any time prior to expiration upon the surrender hereof by the registered holder to the Warrant Agent for one or more new Warrant Certificates of like tenor and date representing in the aggregate the right to purchase the number of shares that may be purchased upon exercise hereof, each of such new Warrant Certificates to represent the right to purchase such number of shares as may be designated by the registered holder at the time of such surrender.

The Company may deem and treat the registered holder of this Warrant Certificate at any time as the absolute owner hereof and the Warrants covered hereby for all purposes and shall not be affected by any notice to the contrary.

The issuance of the Warrants covered by this Warrant Certificate is subject to the terms of the Warrant Agreement which is available at the principal corporate trust office of the Warrant Agent. The Warrant Agreement is incorporated herein by reference and made a part hereof and reference is hereby made to the Warrant Agreement for a full description of the rights, limitations of rights, obligations, duties and immunities hereunder of the Warrant Agent, the Company and the holders of the Warrants. A copy of the Warrant Agreement is on file at the above mentioned office of the Warrant Agent.

This Warrant Certificate shall not be valid or obligatory for any purpose unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be executed by its duly authorized officers, and the corporate seal hereunto affixed.

Dated: \_\_\_\_\_

MONTEREY HOMES CORPORATION

By: \_\_\_\_\_

ITS PRESIDENT

ATTEST:

-----  
SECRETARY

This is one of the Warrants referred to in the within mentioned Warrant Agreement.

Countersigned:  
NORWEST BANK MINNESOTA,  
NATIONAL ASSOCIATION  
Warrant Agent

By: \_\_\_\_\_

Authorized Representative  
Form of Reverse Side of Certificate

The Warrants represented by this certificate are subject to restrictions on Transfer or exercise for the purpose of the Corporation's maintenance of the net operating loss carry-overs, capital loss carry-overs and built-in losses to which the Corporation is entitled pursuant to the Internal Revenue Code of 1986, as amended. Subject to certain further restrictions and except as expressly provided in the Corporation's Charter, no person may engage in any Transfer that is with any other person if such Transfer would cause the Ownership Interest Percentage of any person or Public Group to increase to 4.9 percent or above, or from 4.9 percent or above to a greater Ownership Interest Percentage, or would create a new Public Group. Any attempted Transfer that is prohibited by the Corporation's Charter shall be void ab initio, and all right with respect to the Prohibited Interests shall remain the property of the person who initially purported to Transfer the Prohibited Interests until such time as the Prohibited Interests are resold as provided in the Corporation's Charter. All capitalized terms in this legend have the meanings defined in the Charter of the Corporation, as the same may be amended from time to time, a copy of which, including the restrictions on transfer and ownership, will be furnished to each holder of Warrants on request and without charge. Requests for such a copy may be directed to the Secretary of the Corporation at the Corporation's principal executive office.

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Bond, shall be construed as though they were written out in full according to applicable laws or regulations:

<TABLE>		
<S>	<C>	<C>
TEN COM -	as tenants in common	UNIF GIFT MIN ACT- . . . . .Custodian . . . . . (Cust) (Minor) under Uniform Gifts (Transfer) to Minors Act . . . . . (State)
TEN ENT -	as tenants by the entirety	
JT TEN -	as joint tenants with right of survivorship and not as tenants in common	

Additional abbreviations may also be used though not in the above list.

</TABLE>

ASSIGNMENT FORM

To assign this Warrant, fill in the form below:

I or we assign and transfer this Warrant to:  
(INSERT ASSIGNEE'S SOCIAL SECURITY  
OR TAX IDENTIFICATION NO.)

\_\_\_\_\_





EXHIBIT 5.1

June 20, 1997

Monterey Homes Corporation  
6613 North Scottsdale Road  
Suite 200  
Scottsdale, Arizona 85250

Re: Registration Statement on Form S-1

Ladies and Gentlemen:

We have acted as counsel to Monterey Homes Corporation, a Maryland corporation (the "Company"), in connection with its proposed public offering of 212,398 Warrants to purchase 256,345 shares of Common Stock (the "Warrant Shares"), \$0.01 par value ("Warrants") pursuant to a Registration Statement filed on Form S-1 on the date hereof ("Registration Statement").

In that connection, we have examined originals or copies of such documents, corporate records and other instruments as we have deemed necessary or appropriate for purposes of this opinion including the Charter, and By-laws of the Company. We have assumed without independent verification the genuineness of signatures, the authenticity of documents, and the conformity with originals of copies.

Based on the foregoing, we are of the opinion that the Warrants have been validly issued and that the Warrant Shares, when issued and paid for in accordance with the terms of the Warrant Agreement filed as Exhibit 4.2 to the Registration Statement and of the Assumption Agreement filed as Exhibit 4.3 to the Registration Statement, will be validly issued, fully paid and non-assessable.

We hereby consent to the use of this opinion as an exhibit to the Registration Statement and incorporation by reference into the Registration Statement and to the reference to our firm under "Legal Matters" in the Prospectus included in the Registration Statement.

By giving the foregoing consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933.

Very truly yours,

Venable, Baetjer & Howard

EXHIBIT 10.9

AMENDMENT TO  
HOMEPLEX MORTGAGE INVESTMENTS CORPORATION  
STOCK OPTION PLAN

This Amendment (this "Amendment") to the Homeplex Mortgage Investments Corporation (the "Company") Stock Option Plan dated July 27, 1988 (the "Plan"), is made as of December 31, 1996.

WHEREAS, the Board of Directors of the Company believes that this Amendment is in the best interest of the Company and the Board of Directors and shareholders of the Company have authorized and duly adopted this Amendment in accordance with the Plan.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Termination of Option.

Section 6(a) of the Plan is hereby amended to read in its entirety as follows:

"Section 6. Termination of Employment or Directorship; Assignability; Death

(a) Termination of Employment or Directorship. If any optionholder ceases to be an employee or director of the Company for a reason other than death, the optionholder (or the optionholder's successors in the case of the optionholder's death after the termination of the optionholder's employment or directorship) may, within two years after the termination of the later of the optionholder's (i) employment or (ii) directorship, but in no event after the option's stated expiration date, purchase some or all of the shares with respect to which the optionholder was entitled to exercise the option (and exercise the rights granted under the Plan with respect to that option) on the date the optionholder's employment or directorship terminated; provided that (1) if the optionholder's employment or directorship is terminated for dishonesty or other acts detrimental to the Company's interests or for the optionholder's breach of any employment contract with the Company, or (2) if after the optionholder's employment or directorship is terminated, the optionholder commits acts detrimental to the Company's interests, then the option (and the rights granted under the Plan with respect to that option) shall thereafter be void for all purposes."

IN WITNESS WHEREOF, the undersigned, duly authorized officer of Homeplex Mortgage Investments Corporation, has executed this Amendment to be effective as of the date first set forth above.

HOMEPLEX MORTGAGE INVESTMENTS  
CORPORATION

By: /s/ Jay R. Hoffman

-----  
Jay R. Hoffman, President

Consent of KPMG Peat Marwick LLP

The Board of Directors  
Monterey Homes Corporation:

We consent to the use of our report included herein and to the reference to our firm under the headings "Experts" and "Selected Financial and Operating Data" in the prospectus.

KPMG Peat Marwick LLP

Phoenix, Arizona  
June 19, 1997

Consent of Independent Auditors

We consent to the reference to our firm under the captions "Experts" and "Selected Financial and Operating Data" and to the use of our report dated February 13, 1996, in the Registration Statement (Form S-1) and related prospectus of Monterey Homes Corporation (formerly Homeplex Mortgage Investments Corporation) for the registration of 212,398 warrants to purchase an aggregate of 256,345 shares of common stock.

Ernst & Young LLP

Phoenix, Arizona  
June 18, 1997