

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1999

OR

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

Commission File Number 1-9977

MERITAGE CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction)
of Incorporation or Organization)

86-0611231
(I.R.S. Employer
Identification No.)

6613 North Scottsdale Road, Suite 200
Scottsdale, Arizona
(Address of Principal Executive Offices)

85250
(Zip Code)

(480) 998-8700
(Registrant's Telephone Number, Including Area Code)

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

As of April 26, 1999; 5,425,830 shares of Meritage Corporation common stock were outstanding.

MERITAGE CORPORATION
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1999
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	MARCH 31, 1999	DECEMBER 31, 1998
	-----	-----
ASSETS		
Cash and cash equivalents	\$ 7,381,677	\$ 12,386,806
Real estate under development	128,443,722	104,758,530
Deposits on real estate under option or contract	9,563,461	7,338,406
Other receivables	2,255,924	2,460,966
Deferred tax asset	5,721,000	6,935,000
Goodwill	19,541,959	14,640,712
Property and equipment, net	3,123,821	2,566,163
Other assets	770,279	1,163,737
	-----	-----
Total Assets	\$176,801,843	\$152,250,320
	=====	=====
LIABILITIES		
Accounts payable and accrued liabilities	\$ 26,540,039	\$ 34,068,178
Home sale deposits	11,410,100	8,587,245
Notes payable	63,943,196	37,204,845
Minority interest in consolidated joint ventures	144,767	110,922
	-----	-----
Total Liabilities	102,038,102	79,971,190
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01 per share; 50,000,000 shares authorized; issued and outstanding - 5,425,830 shares at March 31, 1999, and 5,334,942 shares at December 31, 1998	54,258	53,349
Additional paid-in capital	99,478,329	99,319,669
Accumulated deficit	(24,768,846)	(27,093,888)
	-----	-----
Total Stockholders' Equity	74,763,741	72,279,130
	-----	-----
Total Liabilities and Stockholders' Equity	\$176,801,843	\$152,250,320
	=====	=====

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	-----	-----
Home sales revenue	\$ 51,306,197	\$ 36,513,344
Cost of home sales	(41,322,288)	(29,625,935)
	-----	-----
Gross profit	9,983,909	6,887,409
Commissions and other sales costs	(3,415,817)	(2,340,485)
General and administrative expense	(3,146,047)	(1,908,458)
Interest expense	(835)	(80,315)
Other income, net	363,832	39,788
Residual interest and real estate loan interest income	--	3,203,759
	-----	-----
Earnings before income taxes	3,785,042	5,801,698
Income taxes	(1,460,000)	(350,000)
	-----	-----
Net earnings	\$ 2,325,042	\$ 5,451,698
	=====	=====
Basic earnings per share	\$.43	\$ 1.03
	=====	=====

Diluted earnings per share	\$.38	\$.90
	=====	=====

See accompanying notes to consolidated financial statements

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 2,325,042	\$ 5,451,698
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	458,978	264,691
Deferred tax expense	1,214,000	--
Stock option compensation expense	148,329	345,442
Gain on sales of residual interests	--	(3,156,610)
Increase in real estate under development	(23,685,192)	(8,323,751)
Increase in deposits on real estate under option or contract	(2,225,055)	(1,845,105)
(Increase) decrease in other receivables and other assets	598,500	(272,611)
Decrease in accounts payable and accrued liabilities	(12,662,320)	(10,488,721)
Increase in home sale deposits	2,822,855	3,361,273
	-----	-----
Net cash used in operating activities	(31,004,863)	(14,663,694)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(749,857)	(113,114)
Proceeds from sales of residual interest	--	4,550,000
	-----	-----
Net cash provided by (used in) investing activities	(749,857)	4,436,886
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	66,203,003	25,082,125
Repayment of borrowings	(39,464,652)	(17,725,879)
Stock options exercised	11,240	296,366
	-----	-----
Net cash provided by financing activities	26,749,591	7,652,612
	-----	-----
Net decrease in cash and cash equivalents	(5,005,129)	(2,574,196)
Cash and cash equivalents at beginning of period	12,386,806	8,245,392
	-----	-----
Cash and cash equivalents at end of period	\$ 7,381,677	\$ 5,671,196
	=====	=====

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Meritage Corporation ("Meritage" or the "Company") develops, constructs and sells new high-quality, single family homes in the semi-custom luxury, move-up and entry-level markets. The Company operates in the Phoenix and Tucson, Arizona metropolitan markets under the Monterey Homes and Meritage Homes of Arizona brand names, in the Dallas/Fort Worth, Austin and Houston, Texas markets as Legacy Homes and in the San Francisco Bay and Sacramento, California markets as Meritage Homes of Northern California. Meritage has recently undergone significant growth and is pursuing a strategy of expanding the geographic scope of its operations.

BASIS OF PRESENTATION. The consolidated financial statements include the accounts of Meritage Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to be consistent with current financial statement presentation. March 31, 1998 results do not include the operations of Meritage Homes of Northern California, which was acquired on July 1, 1998. 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.

NOTE 2 - REAL ESTATE UNDER DEVELOPMENT AND CAPITALIZED INTEREST

The components of real estate under development follow (in thousands):

	MARCH 31, 1999	DECEMBER 31, 1998
	-----	-----
Homes under contract, in production	\$ 60,654	\$ 44,186
Finished lots and lots under development	52,837	46,558
Model homes and homes held for resale	14,953	14,015
	-----	-----
	\$128,444	\$104,759
	=====	=====

Meritage capitalizes certain interest costs incurred during development and construction. Capitalized interest is allocated to real estate under development and charged to cost of home sales when the units are delivered. Summaries of interest capitalized and interest expensed follow (in thousands):

	MARCH 31,	
	-----	-----
	1999	1998
	-----	-----
Beginning unamortized capitalized interest	\$ 1,982	\$ 1,890
Interest capitalized	1,089	628
Amortized in cost of home sales	(811)	(444)
	-----	-----
Ending unamortized capitalized interest	\$ 2,260	\$ 2,074
	=====	=====
Interest incurred	\$ 1,090	\$ 708
Interest capitalized	(1,089)	(628)
	-----	-----
Interest expense	\$ 1	\$ 80
	=====	=====

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MERITAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE 3 - NOTES PAYABLE

Notes payable consist of the following (in thousands):

	MARCH 31,	DECEMBER 31,
	1999	1998
	-----	-----
\$50 million bank construction line of credit, interest payable monthly approximating prime (7.75% at March 31, 1999) or LIBOR (30 day LIBOR 4.9% at March 31, 1999), plus 2.25% payable at the earlier of close of escrow, maturity date of individual homes within the line or June 9, 2000, secured by first deeds of trust on homes	\$18,061	\$4,641
\$70 million bank construction line of credit, interest payable monthly approximating prime or LIBOR plus 2.25%, payable at the earlier of close of escrow, maturity date of individual homes within the line or July 31, 1999, secured by first deeds of trust on homes	22,957	10,925
\$20 million bank acquisition and development credit facility, interest payable monthly approximating prime or LIBOR plus 2.25%, payable at the earlier of funding of construction financing, the maturity date of individual projects within the line or June 19, 2000, secured by first deeds of trust on land	4,335	3,314
Other acquisition and development credit facilities totaling \$4.5 million, interest payable monthly, ranging from prime to prime plus .25%; payable at the earlier of funding of construction financing or the maturity date of the individual projects, secured by first deeds of trust on land	2,676	2,407
Senior unsecured notes, maturing September 15, 2005, annual interest of 9.10% payable quarterly, principal payable in three equal installments on September 15, 2003, 2004 and 2005	15,000	15,000
Other	914	918
	-----	-----

Total	\$63,943	\$37,205
	=====	=====

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MERITAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE 4 - EARNINGS PER SHARE

A summary of the reconciliation from basic earnings per share to diluted earnings per share for the three months ended March 31, 1999 and 1998 follows (in thousands, except per share amounts):

	1999	1998
	-----	-----
Net earnings	\$2,325	\$5,452
Basic EPS - Weighted average shares outstanding	5,425	5,306
	-----	-----
Basic earnings per share	\$.43	\$ 1.03
	=====	=====
Basic EPS - Weighted average shares outstanding	5,425	5,306
Effect of dilutive securities:		
Contingent shares and warrants	71	131
Stock options	563	641
	-----	-----
Dilutive EPS - Weighted average shares outstanding	6,059	6,078
	-----	-----
Diluted earnings per share	\$.38	\$.90
	=====	=====
Antidilutive stock options not included in diluted EPS	282	10
	=====	=====

NOTE 5 -STERLING COMMUNITIES ACQUISITION

On June 15, 1998, Meritage signed a definitive agreement with Sterling Communities, S.H. Capital, Inc., Sterling Financial Investments, Inc., Steve Hafener and W. Leon Pyle (together, the Sterling Entities), to acquire substantially all of the assets of Sterling Communities. The transaction was effective as of July 1, 1998. Assets acquired principally consist of real property and other residential homebuilding assets located in the San Francisco Bay and Sacramento areas of California. The Company is continuing the operations of the Sterling Entities under the name Meritage Homes of Northern California.

Consideration paid for the assets and stock acquired, and various liabilities assumed, consisted of \$6.9 million in cash and additional consideration to be paid for up to four years after the transaction date. Meritage used the purchase method of accounting and the purchase price was allocated among the Company's net assets based on their estimated fair market value at the transaction date. Goodwill of approximately \$2.2 million was recorded, which is being amortized over 20 years. The additional consideration will be equal to 20% of the pre-tax income of Meritage's California division and will be expensed as earned.

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MERITAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

NOTE 6 - INCOME TAXES

Components of income tax expense are (in thousands):

	1999	1998
	----	----
Current taxes:		
Federal	\$ 83	\$ 89
State	163	261
	-----	-----
	246	250
	-----	-----
Deferred taxes:		
Federal	1,213	--
State	1	--
	-----	-----
	1,214	--
	-----	-----

Total	\$1,460	\$350
	=====	=====

Carryforwards

At March 31, 1999, Meritage had a federal net operating loss carryforward of approximately \$8.5 million. The carryforward will expire beginning in 2007.

NOTE 7 - SEGMENT INFORMATION

Meritage classifies its operations into three primary geographic segments: Arizona, Texas and California. These segments generate revenues through the sale of homes to external customers. Meritage is not dependent on any one major customer.

Operational information relating to the different business segments follows. March 31, 1998 information has not been included for the California operations which were acquired July 1, 1998. Certain information has not been included by segment due to the immateriality of the amount to the segment or in total. Meritage evaluates segment performance based on several factors, of which the primary financial measure is earnings before interest and taxes (EBIT). The accounting policies of the business segments are the same as those described in Notes 1 and 2 for the Company. There are no significant transactions between segments.

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	-----	-----
	(in thousands)	
HOME SALES REVENUE:		
Texas	\$ 30,334	\$22,676
Arizona	19,628	13,837
California	1,344	--
	-----	-----
Total	\$ 51,306	\$36,513
	=====	=====
EBIT:		
Texas	\$ 3,735	\$ 3,012
Arizona	1,890	906
California	(422)	--
Corporate and other	(606)	2,408
	-----	-----
Total	\$ 4,597	\$ 6,326
	=====	=====
AMORTIZATION OF CAPITALIZED INTEREST:		
Texas	\$ 300	\$ 198
Arizona	503	246
California	8	--
	-----	-----
Total	\$ 811	\$ 444
	=====	=====

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	AT MARCH 31,	AT DECEMBER 31,
	1999	1998
	----	----
ASSETS:		
Texas	\$ 81,342	\$ 64,448
Arizona	65,133	58,758
California	21,608	12,321
Corporate	8,719	16,723
	-----	-----
Total	\$176,802	\$152,250
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements. 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 of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation, the impact of changes in interest rates, plans relating to Meritage's products or services, potential real property acquisitions, and new or planned development projects, as well as assumptions relating to the foregoing.

Statements in Exhibit 99 to this Quarterly Report on Form 10-Q and in Meritage's Annual Report on Form 10-K for the year ended December 31, 1998, including the Notes to the Consolidated Financial Statements and "Management's

Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences. Additional factors that could cause actual results to differ materially from those expressed in such forward-looking statements are set forth in "Business" and "Market for the Registrant's Common Stock and Related Stockholder Matters" in the Company's December 31, 1998 Annual Report on Form 10-K.

RESULTS OF OPERATIONS

The following discussion and analysis provides information regarding the results of operations of Meritage and its subsidiaries for the quarters ended March 31, 1999 and March 31, 1998. All material balances and transactions between Meritage and its subsidiaries have been eliminated. In management's opinion, the data reflects all adjustments, consisting of only normal recurring adjustments, necessary to fairly present the Company's financial position and results of operations for the periods presented. Comparative information for March 31, 1998 has not been included for the California operations, which were acquired in July, 1998.

HOME SALES REVENUE

Home sales revenue is the product of the number of units closed during the period and the average sales price per unit. Comparative 1999 and 1998 housing revenues follow (dollars in thousands):

	10 QUARTERS ENDED		DOLLAR/UNIT INCREASE	PERCENTAGE INCREASE
	MARCH 31, 1999	1998		
	----	----	-----	-----
TOTAL				
Dollars	\$51,306	\$36,513	\$14,793	41%
Units closed	257	205	52	25%
Average sales price	\$ 199.6	\$ 178.1	\$ 21.5	12%
TEXAS				
Dollars	\$30,334	\$22,676	\$ 7,658	34%
Units closed	200	160	40	25%
Average sales price	\$ 151.7	\$ 141.7	\$ 10.0	7%
ARIZONA				
Dollars	\$19,628	\$13,837	\$ 5,791	42%
Units closed	53	45	8	18%
Average sales price	\$ 370.3	\$ 307.5	\$ 62.8	20%
CALIFORNIA				
Dollars	\$ 1,344	N/A	N/A	N/A
Units closed	4	N/A	N/A	N/A
Average sales price	\$ 336.0	N/A	N/A	N/A

The increase in revenues and number of units closed in 1999 compared to 1998 resulted mainly from Meritage's strong market performance in Texas and Arizona, the addition of the California operations and an increase in closings of homes in higher priced communities, especially in Arizona.

GROSS PROFIT

Gross profit is home sales revenue, net of housing cost of sales. Housing cost of sales includes developed lot costs, unit construction costs, amortization of common community costs (such as the cost of model complexes and architectural, legal and zoning costs), interest, sales tax, warranty, construction overhead and closing costs. Comparative 1999 and 1998 housing gross profit follows (dollars in thousands):

	QUARTERS ENDED		DOLLAR/PERCENTAGE INCREASE	PERCENTAGE INCREASE
	MARCH 31, 1999	1998		
	----	----	-----	-----
Dollars	\$9,984	\$6,887	\$3,079	45%
Percent of housing revenues	19.5%	18.9%	.6%	3%

The dollar increase in gross profit for the three months ended March 31, 1999 over the prior year period is attributable to the increase in number of units closed. The gross profit margin increased due to the continued strong market performance in Texas and Arizona, along with increased closings in more profitable Arizona communities.

COMMISSIONS AND OTHER SALES COSTS

The increase in commissions and other sales costs in the first quarter of 1999 compared to the first quarter of 1998 is based on higher sales volume. Comparative 1999 and 1998 commissions and other sales costs follows (dollars in thousands):

	QUARTERS ENDED		DOLLAR/PERCENTAGE INCREASE	PERCENTAGE INCREASE
	MARCH 31, 1999	1998		
Dollars	\$3,415	\$2,340	\$1,075	46%
Percent of housing revenues	6.7%	6.4%	.3%	5%

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were approximately \$3.1 million (6.1% of revenue) in the first three months of 1999, as compared to approximately \$1.9 million (5.2% of revenue in 1998, an increase of 63%. 1999 amounts include charges of approximately \$600,000 (1.2% of revenue) related to the employment agreement buyout of a former Managing Director. Operating costs in 1999 are also higher due to expenses from the expansion into California and increased amortization of goodwill.

OTHER INCOME

The increase in other income primarily is due to management fees paid to the California division by unconsolidated parties and an increase in revenue from the mortgage operations in Texas.

RESIDUAL INTEREST AND REAL ESTATE LOAN INTEREST INCOME

In the first quarter of 1998, mortgage securities were sold for a gain of approximately \$3.2 million. The remainder of the mortgage security portfolio was sold during the second quarter of 1998. There will be no residual interest or real estate loan interest income in 1999.

INCOME TAXES

The increase in income taxes to \$1,460,000 for the quarter ended March 31, 1999 from \$350,000 in the prior year resulted from a higher effective tax rate in the current year due to the utilization of the net operating loss ("NOL") carryforward for accounting purposes in the prior year. In future periods Meritage expects to have an effective tax rate approximating the statutory federal and state tax rates as its NOL carryforward is utilized or expires.

SALES CONTRACTS

Sales contracts for any period represent the number of homes ordered by customers (net of cancellations) multiplied by the average sales price per unit ordered. Comparative 1999 and 1998 sales contracts follow (dollars in thousands):

	QUARTERS ENDED		DOLLAR/UNIT INCREASE (DECREASE)	PERCENTAGE INCREASE (DECREASE)
	MARCH 31, 1999	1998		
TOTAL				
Dollars	\$103,738	\$85,973	\$ 17,765	21%
Sales contracts	555	505	50	10%
Average sales price	\$ 186.9	\$ 170.2	\$ 16.7	10%
TEXAS				
Dollars	\$ 64,356	\$58,760	\$ 5,596	10%
Units ordered	431	425	6	1%
Average sales price	\$ 149.3	\$ 138.3	\$ 11.0	8%
ARIZONA				
Dollars	\$ 30,992	\$27,213	\$ 3,779	14%
Units ordered	99	80	19	24%
Average sales price	\$ 313.1	\$ 340.2	\$ (27.1)	(8)%
CALIFORNIA				
Dollars	\$ 8,390	N/A	N/A	N/A
Units ordered	25	N/A	N/A	N/A
Average sales price	\$ 335.6	N/A	N/A	N/A

Meritage does not include sales contingent upon the sale of a customer's existing home as a sales contract until the contingency is removed. Historically, Meritage has experienced a cancellation rate of less than 20% of gross sales. Total sales contracts increased in 1999 compared to 1998 due mainly to the expansion into California and the economic strength of all of the Company's operating markets.

NET SALES BACKLOG

Backlog represents net sales contracts that have not closed. Comparative 1999 and 1998 net sales backlog follows (dollars in thousands):

	QUARTERS ENDED	DOLLAR/UNIT	PERCENTAGE
--	----------------	-------------	------------

	MARCH 31,		INCREASE (DECREASE)	INCREASE (DECREASE)
	1999	1998		
	----	----	-----	-----
Total				
Dollars	\$197,725	\$148,435	\$ 49,290	33%
Units in backlog	987	772	215	28%
Average sales price	\$ 200.3	\$ 192.3	\$ 8.0	4%
Texas				
Dollars	\$111,199	\$ 78,114	\$ 33,085	42%
Units in backlog	734	569	165	29%
Average sales price	\$ 151.5	\$ 137.3	\$ 14.2	10%
Arizona				
Dollars	\$ 77,743	\$ 70,231	\$ 7,512	11%
Units in backlog	227	203	24	12%
Average sales price	\$ 342.5	\$ 346.0	\$ (3.5)	1%
California				
Dollars	\$ 8,783	N/A	N/A	N/A
Units in backlog	26	N/A	N/A	N/A
Average sales price	\$ 337.8	N/A	N/A	N/A

Total dollar backlog at March 31, 1999 increased 33% over the prior 1998 period due to a corresponding increase in units in backlog. Units in backlog at March 31, 1999 increased 28% over the same period in the prior year due to the increase in net orders caused by expansion into California and strong housing markets in which Meritage operates.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal uses of working capital are land purchases, lot development and home construction. Meritage uses a combination of borrowings and funds generated by operations to meet its working capital requirements.

At March 31, 1999 Meritage had short-term secured revolving construction loan facilities totaling \$120 million and had \$24.5 million in acquisition and development facilities, of which approximately \$41.0 and \$7.9 million were outstanding, respectively. An additional \$9.4 million of unborrowed funds supported by approved collateral were available under its credit facilities at that date. Meritage also has \$15 million outstanding in unsecured, senior subordinated notes due September 15, 2005, which were issued in October 1998.

Management believes that the current borrowing capacity, cash on hand at March 31, 1999 and anticipated cash flows from operations are sufficient to meet liquidity needs for the foreseeable future. There is no assurance, however, that future amounts available from the Company's sources of liquidity will be sufficient to meet future capital needs. The amount and types of indebtedness that Meritage incurs may be limited by the terms of the indenture governing its senior subordinated notes and the credit agreements.

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YEAR 2000 COMPLIANCE

The year 2000 presents potential concerns for business computing due to calculation problems from the use of a two-digit format as the year changes from 1999 to 2000. The problem affects certain computer software, hardware, and other systems containing processors and embedded chips. Consequently, information technology ("IT") systems and non-IT systems (collectively, "business systems") may not be able to accurately process certain transactions before, during, or after January 1, 2000. As a result, business and governmental agencies are at risk for potential disruption from business systems malfunctions or failures. This is commonly referred to as the Year 2000 ("Y2K") issue. Meritage could be impacted by failures of its own business systems as well as those of its suppliers and business partners, and is in the process of implementing its Y2K compliance program that consists of business systems identification, testing and remediation, assessments of critical suppliers, and contingency planning.

The compliance program's first component is the identification of Meritage's business systems for purposes of evaluating which systems are Y2K compliant and which will be replaced or remediated. This phase is complete.

The second part of the program is the evaluation and replacement or remediation of the Company's business systems that are not Y2K compliant. Meritage has converted to new versions of substantially all of its homebuilding database systems, which has reduced the scope of the compliance program. The Company believes the replacement or remediation of the remaining systems will be complete by June 1, 1999.

Meritage has identified critical suppliers and business partners ("key business partners") and is taking steps to determine their Y2K readiness. These steps include interviews and other types of inquiries. Because of the number of business systems used by key business partners and the varying levels of Y2K readiness, it is difficult to assess the likelihood and impact of a malfunction due to this issue. The Company is not currently aware of any business

relationships with key business partners that it believes will likely result in a significant disruption of its business. However, a Y2K failure could occur and have an adverse impact on the Company. Management currently believes its greatest risk is with suppliers, banking and financial institutions, and suppliers of telecommunications services, all of which are operating within the United States. Potential consequences of Meritage or its key business partners having business systems that are not Y2K compliant include delays in receiving homebuilding components and supplies.

Concurrent with the remediation and evaluation of its business systems and those of its key business partners, Meritage is developing contingency plans to decrease the risks that could occur in the event of a Y2K related business disruption. Contingency plans may include increasing the level of homebuilding components, securing additional financing or other actions management deems advisable. Estimated costs associated with developing and implementing contingency measures are expected to be minimal.

The remediation and testing of the Company's business systems will cost an estimated \$160,000. These costs are to be expensed in the period incurred and funded through cash flows from operations. Expenses to date have approximated \$120,000. The financial impact is not expected to be material to the Company's financial position or results of operations.

The scheduled completion dates and costs associated with the various components of the Y2K compliance program described above are estimated and are subject to change.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Meritage does not trade in derivative financial instruments and at March 31, 1999 had no significant derivative financial instruments. Meritage does have other financial instruments in the form of notes payable and senior debt, which are at fixed interest rates. Meritage's lines of credit and credit facilities are at variable interest rates and are subject to market risk in the form of interest rate fluctuations.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibit Number -----	Description -----	Page or Method of Filing -----
27	Financial Data Schedule	Filed herewith
99	Private Securities Reform Act of 1995 Safe Harbor Compliance Statement for Forward-Looking Statements	Filed herewith

(b) REPORTS ON FORM 8-K

A current report on Form 8-K, dated March 23, 1999 was filed with the Securities and Exchange Commission which related to William W. Cleverly's resignation as a Managing Director. Mr. Cleverly continues to serve as a director of the Company.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, this 14th day of May 1999.

MERITAGE CORPORATION,
a Maryland Corporation

By /s/ LARRY W. SEAY

Larry W. Seay
Chief Financial Officer and Vice President-Finance
(Principal Financial Officer and Duly Authorized
Officer)

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PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995
SAFE HARBOR COMPLIANCE STATEMENT FOR FORWARD-LOOKING STATEMENTS

In passing the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), Congress encouraged public companies to make "forward-looking statements" (1) by creating a safe-harbor to protect companies from securities law liability in connection with forward-looking statements. Meritage intends to qualify both its written and oral forward-looking statements for protection under the PSLRA.

To qualify oral forward-looking statements for protection under the PSLRA, a readily available written document must identify important factors that could cause actual results to differ materially from those in the forward-looking statements. Meritage provides the following information in connection with its continuing effort to qualify forward-looking statements for the safe harbor protection of the PSLRA.

Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the following: (i) changes in national and local economic and other conditions, such as employment levels, availability of mortgage financing, interest rates, consumer confidence, and housing demand; (ii) risks inherent in homebuilding activities, including delays in construction schedules, cost overruns, changes in government regulation, increases in real estate taxes and other local fees; (iii) changes in costs or availability of land, materials, and labor; (iv) fluctuations in real estate values; (v) the timing of home closings and land sales; (vi) Meritage's ability to continue to acquire additional land or options to acquire additional land on acceptable terms; (vii) a relative lack of geographic diversification of Meritage's operations, especially when real estate analysts are predicting that new home sales in certain markets may slow during 1999; (viii) Meritage's inability to obtain sufficient capital on terms acceptable to Meritage to fund its planned capital and other expenditures; (ix) changes in local, state and federal rules and regulations governing real estate development and homebuilding activities and environmental matters, including "no growth" or "slow growth" initiatives, building permit allocation ordinances and building moratoriums; (x) expansion by Meritage into new geographic or product markets in which Meritage has little or no operating experience, such as Northern California; (xi) the inability of Meritage to identify acquisition candidates that will result in successful combinations; (xii) the failure of Meritage to make acquisitions on terms acceptable to Meritage, or to successfully integrate acquired operations, such as Northern California, into Meritage; and (xiii) the loss of key employees of the Company, including Steven J. Hilton and John R. Landon.

Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. In addition, Meritage undertakes no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of anticipated events or changes to projections over time.

(1) "Forward-looking statements" can be identified by use of words such as "expect," "believe," "estimate," "project," "forecast," "anticipate," "plan," and similar expressions.