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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1 to

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): OCTOBER 7, 2002

MERITAGE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

MARYLAND (STATE OR OTHER JURISDICTION OF INCORPORATION)	I-9977 (COMMISSION FILE NUMBER)	86-0611231 (IRS EMPLOYER IDENTIFICATION NO.)

6613 NORTH SCOTTSDALE ROAD, SUITE 200, SCOTTSDALE, ARIZONA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	85250 (ZIP CODE)

(877) 400-7888
(REGISTRANT’S TELEPHONE NUMBER, INCLUDING AREA CODE)

NOT APPLICABLE
(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

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ITEM 5. OTHER EVENTS.

References to “we,” “our” and “us” in this current report on Form 8-K refer to Meritage Corporation and its consolidated subsidiaries.

This Amendment No. 1 to Form 8-K/A (“Amendment No. 1”) amends the Current Report on Form 8-K dated October 7, 2002. As previously reported, on October 7, 2002 we completed the purchase of the homebuilding assets of Perma-Bilt Homes (“Perma-Bilt”), a builder of quality single-family homes in the Las Vegas, Nevada metropolitan area.

We are providing with this Amendment No. 1 certain historical financial statements and related notes thereto of Perma-Bilt. These include the audited historical financial statements and related notes for the year ended December 31, 2001 and the unaudited interim financial statements and related notes at September 30, 2002 and for the nine months ended September 30, 2002 and 2001.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a)-(b) Not applicable.

(c) Exhibits.

The audited financial statements of Perma-Bilt for the year ended December 31, 2001 and the unaudited interim financial statements at September 30, 2002 and for the nine months ended September 30, 2002 and 2001 are filed as Exhibit 99.1 and 99.2, respectively, to this Amendment No. 1 and are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized this 2nd day of July, 2003.

MERITAGE CORPORATION

By: /s/ Larry W. Seay

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

By: /s/ Vicki L. Biggs

Vicki L. Biggs
Vice President-Corporate Controller (Chief Accounting Officer)

Exhibit No.	Description
99.1	Audited financial statements and related notes of Perma-Bilt for the years ended December 31, 2000 and 2001.
99.2	Unaudited interim financial statements and related notes of Perma-Bilt at September 30, 2002 and for the nine months ended September 30, 2002 and 2001.

Exhibit 99.1

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Perma-Bilt, A Nevada Corporation

In our opinion, the accompanying balance sheet and the related statements of income and retained earnings, and cash flows present fairly, in all material respects, the financial position of Perma-Bilt, A Nevada Corporation (the "Company"), at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Irvine, California
January 25, 2002

PERMA-BILT, A NEVADA CORPORATION
(A WHOLLY OWNED SUBSIDIARY OF ZENITH INSURANCE COMPANY)
BALANCE SHEET
DECEMBER 31, 2001 AND 2000

<TABLE>
<CAPTION>

	2001	2000
ASSETS		
Cash and cash equivalents	$ 2,097,913	$ 2,381,283
Properties under construction (Note 2)	35,267,006	28,163,235
Land held for development (Note 3)	27,975,726	27,266,101
Land held for sale	--	7,201,959
Property and equipment, net (Note 4)	244,321	268,715
Income taxes prepaid to parent	57,681	504,483
Other assets	799,294	639,986
Total assets	$66,441,941	$66,425,762
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities:		
Accounts payable	$ 3,834,782	$ 2,080,709
Accrued liabilities (Note 5)	1,932,312	2,584,819
Accrued interest payable to parent	1,836,250	1,440,670
Deferred income taxes (Note 6)	1,041,525	984,813
Loans from parent company (Note 7)	26,717,000	32,025,000
Construction and other notes payable (Note 8)	16,186,425	15,674,251
Total liabilities	51,548,294	54,790,262
Commitments (Note 10)		
Stockholder's equity:		
Common stock, no par value, authorized 1,000 shares issued and outstanding 100 shares	250,000	250,000
Retained earnings	14,643,647	11,385,500
Total stockholder's equity	14,893,647	11,635,500
Total liabilities and stockholder's equity	$66,441,941	$66,425,762

</TABLE>

The accompanying notes are an integral part of these financial statements.

PERMA-BILT, A NEVADA CORPORATION
(A WHOLLY OWNED SUBSIDIARY OF ZENITH INSURANCE COMPANY)
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

<TABLE>
<CAPTION>

<S>	2001 <C>	2000 <C>
REVENUES:		
Operating revenues	$83,545,457	$82,937,924
Gain on land sales	1,277,570	1,579,791
Total revenues	84,823,027	84,517,715
COSTS AND EXPENSES:		
Cost of sales	72,278,997	72,144,243
General and administration	6,074,626	5,937,814
Sales and marketing	1,456,870	1,474,199
Total costs and expenses	79,810,493	79,556,256
Income before provision for taxes	5,012,534	4,961,459
Provision for income taxes (Note 5)	1,754,387	1,736,511
Net income	3,258,147	3,224,948
Retained earnings at previous year end	11,385,500	8,160,552
Retained earnings at year end	$14,643,647	$11,385,500

</TABLE>

The accompanying notes are an integral part of these financial statements.

PERMA-BILT, A NEVADA CORPORATION
(A WHOLLY OWNED SUBSIDIARY OF ZENITH INSURANCE COMPANY)
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

<TABLE>
<CAPTION>

<S>	2001 <C>	2000 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Proceeds from sale of real estate	$ 84,823,027	$ 84,517,715
Real estate acquisition and development costs paid	(67,621,978)	(64,815,024)
Other expenses paid	(6,481,899)	(6,406,207)
Interest paid	(4,872,866)	(6,805,632)
Income taxes paid to parent, net	(1,250,883)	(1,979,556)
Net cash provided by operating activities	4,595,401	4,511,296
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(91,918)	(62,213)
Proceeds from sale of property and equipment	8,973	--
Net cash used in investment activities	(82,945)	(62,213)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loans from parent company	1,795,375	7,385,000
Repayments to parent company	(7,103,375)	(7,873,357)
Proceeds from construction and other notes payable	63,315,714	73,987,651
Repayments on construction and other notes payable	(62,803,540)	(77,530,958)
Net cash used in financing activities	(4,795,826)	(4,031,664)
Net (decrease) increase in cash and cash equivalents	(283,370)	417,419
Cash and cash equivalents at beginning of year	2,381,283	1,963,864
Cash and cash equivalents at end of year	$ 2,097,913	$ 2,381,283
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Net income	$ 3,258,147	$ 3,224,948
Adjustments to reconcile net income used in operating activities:		
Depreciation	111,691	122,848
Gain on disposal of property and equipment	(4,352)	--
(Increase) decrease in properties under construction	(7,103,771)	4,697,283
Decrease (increase) in land held for development and sale	6,492,334	(4,621,250)
Increase in other assets	(159,308)	(27,601)
Decrease (increase) in income taxes prepaid to parent	446,802	(504,483)
Increase in accounts payable and other liabilities	1,101,566	910,559
Increase in parent company interest accrued	395,580	447,554
Decrease in income taxes payable to parent	--	(230,412)
Increase in deferred income taxes	56,712	491,850
Net cash provided by operating activities	$ 4,595,401	$ 4,511,296

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Seller-financed real estate acquisitions	$ --	$ 130,000

</TABLE>

The accompanying notes are an integral part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

ORGANIZATION AND NATURE OF BUSINESS

Perma-Bilt, A Nevada Corporation (the "Company") was formed in the State of Nevada to engage in the business of acquiring, developing, and selling real estate, primarily the construction and sale of single-family detached homes, in Las Vegas, Nevada. Prior to December 11, 2001, the Company was wholly owned by Zenith National Insurance Corp. On December 11, 2001 the ownership of the Company was transferred to Zenith Insurance Company ("Zenith"), a wholly owned subsidiary of Zenith National Insurance Corp.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and liquid short-term investments. Liquid short-term investments are investments which are both readily convertible to determinable amounts of cash and have maturities of three months or less when purchased.

PROPERTIES UNDER CONSTRUCTION, LAND HELD FOR DEVELOPMENT AND LAND HELD FOR SALE

Properties under construction, land held for development and land held for sale are stated at cost, unless determined to be impaired, in which case the carrying value is reduced to fair value. Costs include land acquisition and related costs, direct and indirect construction costs, and indirect construction-related overhead costs. Interest and property taxes are capitalized when development activities begin, and capitalization ends when the property is available for sale.

The Company reviews real estate inventories whenever events or changes in circumstances indicate the cost basis of such assets may not be recoverable. If the cost basis of a real estate project is greater than its projected future undiscounted net cash flows, exclusive of interest, the real estate project is considered impaired and the carrying value of the property is reduced to its fair value.

The estimation process in determining the value of land held for development or sale is inherently uncertain and relies to a considerable extent on current and future economic and market conditions. Such economic and market conditions may affect management's development and marketing plans. Accordingly, the ultimate realization of the Company's real estate inventories is dependent upon future events and conditions that may cause realization to differ from amounts previously estimated.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Property and equipment are depreciated over their estimated useful lives of 4-7 years. Maintenance and repairs are charged to expense as incurred, and significant improvements are capitalized. Upon sale or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

REVENUE AND COST RECOGNITION

Revenue from home sales is recognized when a closing occurs, which is when title, possession and other attributes of ownership have been transferred to the buyer and the Company is not obligated to perform significant activities after the sale. Prior to closing, customer deposits are treated as liabilities. Capitalized costs are charged to cost of sales upon closing. Selling commissions and escrow closing costs are expensed as incurred.

Gain on sale of land is recognized when the risks of ownership have been transferred to the buyer, collectability of the sales price is reasonably assured and the Company is not obligated to perform significant activities after the sale.

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

INCOME TAXES

The provision for income taxes represents the tax payable for the period and the change during the year in deferred tax assets and liabilities. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established when necessary, to reduce deferred income tax assets to the amount expected to be realized. The Company is included in the consolidated tax return of its parent company.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expenses were $997,304 and $943,910 for the years ended 2001 and 2000, respectively.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates made.

2. PROPERTIES UNDER CONSTRUCTION

Properties under construction at December 31, 2001 and 2000 consist of the following:

<TABLE>
<CAPTION>

	2001		
	LAND	DEVELOPMENT COSTS	TOTAL
<S>	<C>	<C>	<C>
Southern Terrace Project	$10,160,984	$15,177,139	$25,338,123
Cheyenne Project	1,072,162	8,734,155	9,806,317
Naples Project	18,382	104,184	122,566
Modena Project	--	--	--
Total	$11,251,528	$24,015,478	$35,267,006

</TABLE>

<TABLE>
<CAPTION>

	2000		
	LAND	DEVELOPMENT COSTS	TOTAL
<S>	<C>	<C>	<C>
Southern Terrace Project	$ --	$ --	$ --
Cheyenne Project	4,953,949	15,904,906	20,858,855
Naples Project	855,141	2,270,295	3,125,436
Modena Project	850,800	3,328,144	4,178,944
Total	$ 6,659,890	$21,503,345	$28,163,235

</TABLE>

3. LAND HELD FOR DEVELOPMENT

Land held for development at December 31, 2001 and 2000 consists of the following:

<TABLE>
<CAPTION>

	2001		
	LAND	DEVELOPMENT COSTS	TOTAL
<S>	<C>	<C>	<C>
Elkhorn Project	$ 4,819,126	$ 276,377	$ 5,095,503
Blue Diamond Project	3,588,674	536,565	4,125,239
Southern Terrace Project	10,428,720	8,326,264	18,754,984
Cheyenne Project	--	--	--
Total	$18,836,520	$ 9,139,206	$27,975,726

</TABLE>

<TABLE>
<CAPTION>

	2000		
	LAND	DEVELOPMENT COSTS	TOTAL
<S>	<C>	<C>	<C>
Elkhorn Project	$ --	$ --	$ --
Blue Diamond Project	1,306,244	2,971	1,309,215
Southern Terrace Project	16,616,198	3,956,473	20,572,671
Cheyenne Project	1,018,255	4,365,960	5,384,215
Total	$18,940,697	$ 8,325,404	$27,266,101

</TABLE>

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2001 and 2000 consist of the following:

<TABLE>
<CAPTION>

	2001	2000
<S>	<C>	<C>
Furniture and fixtures	$ 279,747	$ 251,040
Computer equipment and software	167,516	167,515
Vehicles	197,589	166,505
Construction equipment	13,801	13,801
Leasehold improvements	114,777	114,777
	773,430	713,638
Less accumulated depreciation	(529,109)	(444,923)
	$ 244,321	$ 268,715

</TABLE>

Depreciation expense amounted to $111,691 and $122,848 for the years ended December 31, 2001 and 2000, respectively.

5. ACCRUED LIABILITIES

Accrued liabilities at December 31, 2001 and 2000 consists of the following:

<TABLE>
<CAPTION>

	2001	2000
<S>	<C>	<C>
Option deposits	$ 354,833	$ 905,774
Accrued bonuses	1,247,918	1,416,003
Other accrued liabilities	329,561	263,042
	$1,932,312	$2,584,819

</TABLE>

6. INCOME TAXES

The Company files a consolidated tax return with its parent company. The method of allocation between companies is subject to written agreement. Allocation is based upon separate tax return calculations using the corporate tax rate of 35%. Income tax expense consists of the following at December 31, 2001 and 2000:

<TABLE>
<CAPTION>

	2001	2000
Current	$1,697,675	$1,238,132
Deferred	56,712	498,379
Income tax expense	$1,754,387	$1,736,511

</TABLE>

In accordance with Nevada tax statute, no state income tax is payable by the Company.

Deferred income tax assets and liabilities have been netted to reflect the tax impact of temporary differences. The components of the net deferred income tax liability as of December 31, 2001 and 2000 are as follows:

<TABLE>
<CAPTION>

	2001	2000
LIABILITY		
Capitalized interest and taxes	$ 1,075,529	$ 1,005,529
Depreciation	1,201	1,201
Warranty reserve	(35,205)	(21,917)
	$ 1,041,525	$ 984,813

</TABLE>

7. LOANS FROM PARENT COMPANY

Loans from parent company at December 31, 2001 and 2000 consist of the following:

<TABLE>
<CAPTION>

	2001	2000
Revolving credit promissory note from Zenith National Insurance Corp., the parent company of Zenith, uncollateralized, quarterly interest only payments, with the unpaid principal maturing on December 31, 2002	$ 26,717,000	$ 32,025,000

</TABLE>

The Company is charged interest on all borrowed or advanced monies from Zenith, including a portion of its equity balance (which could otherwise be converted to intercompany indebtedness). Such interest is charged at the rate of prime plus 2% (6.75% at December 31, 2001 and 11.5% at December 31, 2000). For the year ended December 31, 2001 and 2000, the Company incurred and capitalized $3,689,061 and $4,997,457 of such interest, respectively, for properties under construction and land held for development.

Of the Company's indebtedness above, $1,702,000 has been subordinated in favor of all the construction notes payable to a financial institution.

8. CONSTRUCTION AND OTHER NOTES PAYABLE

Construction and other notes payable at December 31, 2001 and 2000 consist of the following:

	2001	2000
Revolving line of credit from a financial institution up to a maximum of $50,000,000 with interest at prime plus 0.50% per annum (5.25% at December 31, 2001), collateralized by one or more deed(s) of trust on various projects, interest only payable monthly, and principal is payable based on a minimum price per unit closed, as set forth in the agreement, which matures on April 18, 2002.	$16,186,425	$ -
Development note payable to a financial institution, with interest at prime plus 1% per annum (10.50% at December 31, 2000), collateralized by first trust deed on certain properties under development (the Naples Project), interest only payable monthly, and the principal was payable at the start of housing construction and was paid by a draw on the related revolving line of credit, as set forth in the agreement, with the final principal balance paid April, 2001.	-	280,303

8. CONSTRUCTION AND OTHER NOTES PAYABLE (CONTINUED)

	2001	2000
Development note payable to a financial institution, with interest at prime plus 0.75% per annum (10.25% at December 31, 2000), collateralized by first trust deed on certain properties under development (the Naples Project), interest only payable monthly, and principal was payable at the start of housing construction and was paid by a draw on the related revolving line of credit, as set forth in the agreement, with the final principal balance paid February, 2001.	-	2,184
Other notes payable, collateralized by deeds of trust payable on certain land parcels, principal due under varying terms from annual installments to balloon payments. The interest rate varies between 8% and 12% and was payable quarterly, monthly or annually with the final principal balance paid May, 2001.	-	1,360,848
Notes payable to a financial institution, with interest rates ranging from prime plus 0.75% to 1.0% per annum (10.25% and 10.50%, respectively, as of December 31, 2000), collateralized by one or more deed(s) of trust on various projects. The principal balance of these notes were consolidated and refinanced on April 18, 2001.	-	14,030,916
	$16,186,425	$15,674,251

In April 2001, the Company entered into a Master Revolving Line of Credit Construction Loan Agreement (the "Agreement") with a financial institution. The institution agreed to make a revolving line of credit available to the Company with a maximum availability of $50 million. The proceeds of the credit Agreement are to be used by the Company to finance the development of single-family home projects. In addition, the Agreement restricts the maximum credit that can be drawn in connection with each individual project for zoned land allocation, recreation facility allocation, and acquisition and development allocations.

The Agreement contains covenants which include, among other things, (a) maintaining minimum loan-to-value ratios, (b) maintenance of specific leverage ratios and adjusted working capital balances, (c) and Zenith must maintain a minimum percentage ownership of the Company's outstanding capital stock. At December 31, 2001, management believes the Company is in compliance with the covenants.

For the years ended December 31, 2001 and 2000, the Company capitalized $1,540,507 and $2,255,729 of interest, respectively, from construction and other notes payable.

Capitalized interest on the loans from parent company and construction and other notes payable included in cost of sales for the years ended December 31, 2001 and 2000 amounted to $6,479,887 and $5,274,806, respectively.

9. COMMITMENTS

LAND PURCHASES

Included in other assets as of December 31, 2001, are deposits on in-progress land purchases of $30,000. These deposits represent in-progress land purchases in the amount of $594,000.

CONTRACTS

The Company has entered into various contracts with its suppliers and subcontracts in the ordinary course of its business activities. It is the opinion of management that its contracts will not have an adverse material effect on the Company's financial position.

LEASE

The Company leases office space and vehicles under operating leases expiring in various years through 2004.

The future minimum rental payments under noncancellable operating leases having remaining terms in excess of one year at December 31, 2001 are as follows:

<TABLE>
<CAPTION>

YEAR ENDING DECEMBER 31,	
<S>	<C>
2002	$ 77,913
2003	12,468
2004	2,568
2005 and thereafter	-
Total minimum future rental payments	$ 92,949

</TABLE>

For the years ended December 31, 2001 and 2000, rental expense amounted to $158,334 and $208,821, respectively.

EMPLOYMENT CONTRACT

The Company has an employment contract with an officer and director of the Company which guarantees the employee either a minimum salary or 40% of the Company's adjusted net income, as defined, whichever amount is higher.

10. EMPLOYEE 401(K) PLAN

The Company participated in the 401(k) plan offered by Zenith Insurance Company (the "Plan"). The Plan allows employees of the Company to defer up to the lesser of the Internal Revenue Code prescribed maximum amount ($10,500 for 2001 and 2000) or 15% of their earnings on a pre-tax basis through contributions to the Plan (increased from 12% in the previous years). The Company matches 50% of eligible employees' contributions up to a maximum of 6% of their individual earnings in 2001 (this was increased from 331/3 of the eligible employees' contributions in the previous years). The Company recorded charges for matching contributions of $82,226 and $38,475 for the years ended December 31, 2001 and 2000, respectively.

Exhibit 99.2

PERMA-BILT, A NEVADA CORPORATION

BALANCE SHEET
At September 30, 2002 and December 31, 2001
(Dollars in thousands)

	September 30, 2002 (Unaudited)	December 31, 2001
ASSETS		
Cash and cash equivalents	$ 6,350	$ 2,098
Investments available for sale and other short term investments	251	--
Properties under construction	31,068	35,267
Land held for development	32,724	27,976
Property and equipment, net	192	244
Other assets	475	857
Total assets	$71,060	$66,442
LIABILITIES AND STOCKHOLDER'S EQUITY		
Accounts payable	$ 3,727	$ 3,835
Accrued liabilities	3,286	1,932
Loans from parent company	26,717	28,553
Construction and other notes payable	17,183	16,186
Deferred income taxes	1,053	1,042
Other liabilities	1,643	--
Total liabilities	53,609	51,548
Stockholder's equity:		
Common stock, no par value	250	250
Retained earnings	17,200	14,644
Net unrealized appreciation on investments	1	--
Total retained earnings	17,201	14,644
Total stockholder's equity	17,451	14,894
Total liabilities and stockholder's equity	$71,060	$66,442

See accompanying notes to financial statements.

PERMA-BILT, A NEVADA CORPORATION

STATEMENT OF INCOME
For the Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(Dollars in thousands)

	Nine Months Ended 2002	Nine Months Ended 2001
REVENUES		
Operating revenues	$70,789	$62,088
Gain on land sales	-	768
Total Revenues	70,789	62,856
COSTS AND EXPENSES		
Cost of sales	61,019	53,644
General and administration	4,637	4,117
Sales and marketing	1,201	1,097
Total costs and expenses	66,857	58,858

Income before provision for taxes	3,932	3,998
Provision for income taxes	1,376	1,399
Net Income	$ 2,556	$ 2,599

</Table>

See accompanying notes to financial statements.

PERMA-BILT, A NEVADA CORPORATION

STATEMENT OF CASH FLOW
For the Nine Months Ended September 30, 2002 and 2001
(Unaudited)
(Dollars in thousands)

<Table>
<Caption>

<S>	Nine Months Ended 2002 <C>	Nine Months Ended 2001 <C>
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,515	$ 3,316
Cash flows from investing activities:		
Purchase of property and equipment	(11)	(95)
Purchase of investments	(250)	--
Proceeds from land sale escrow	--	982
NET CASH USED IN INVESTMENT ACTIVITIES	(261)	887
Cash flows from financing activities:		
Cash received from bank construction loans	52,308	51,696
Cash payments on bank construction loans	(51,941)	(49,002)
Cash received from intercompany notes payable	1,553	--
Cash received from land seller notes payable	630	--
Cash payments on intercompany notes payable	(1,552)	(7,103)
Cash payments on seller notes payable	--	(1,361)
NET CASH PROVIDED BY FINANCING ACTIVITIES	998	(5,770)
Net increase (decrease) in cash and cash equivalents	4,252	(1,567)
Cash and cash equivalents at beginning of period	2,098	2,381
Cash and cash equivalents at end of period	$ 6,350	$ 814

</Table>

See accompanying notes to financial statements.

PERMA-BILT, A NEVADA CORPORATION

Notes to Unaudited Interim Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

ORGANIZATION AND NATURE OF BUSINESS

Perma-Bilt, A Nevada Corporation (the "Company") was formed in the State of Nevada to engage in the business of acquiring, developing, and selling real estate, primarily the construction and sale of single-family detached homes, in Las Vegas, Nevada. Prior to December 11, 2001, the Company was wholly owned by Zenith National Insurance Corp. On December 11, 2001 the ownership of the Company was transferred to Zenith Insurance Company ("Zenith"), a wholly owned subsidiary of Zenith National Insurance Corp.

BASIS OF PRESENTATION

The accompanying interim financial statements have been prepared in accordance with generally accepted accounting principles generally accepted in the United States. The unaudited financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly 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 or for any future periods.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and liquid short-term investments. Liquid short-term investments are investments which are both readily convertible to determinable amounts of cash and have maturities of three months or less when purchased.

INVESTMENTS

Investments represent U.S. Treasury strips yielding approximately 3.13% with approximately two year maturity dates on the date of acquisition.

PROPERTIES UNDER CONSTRUCTION, LAND HELD FOR DEVELOPMENT AND LAND HELD FOR SALE

Properties under construction, land held for development and land held for sale are stated at cost, unless determined to be impaired, in which case the carrying value is reduced to fair value. Costs include land acquisition and related costs, direct and indirect construction costs, and indirect construction-related overhead costs. Interest and property taxes are capitalized when development activities begin, and capitalization ends when the property is available for sale.

The Company reviews real estate inventories whenever events or changes in circumstances indicate the cost basis of such assets may not be recoverable. If the cost basis of a real estate project is greater than its projected future undiscounted net cash flows, exclusive of interest, the real estate project is considered impaired and the carrying value of the property is reduced to its fair value.

The estimation process in determining the value of land held for development or sale is inherently uncertain and relies to a considerable extent on current and future economic and market conditions. Such economic and market conditions may affect management's development and marketing plans. Accordingly, the ultimate realization of the Company's real estate inventories is dependent upon future events and conditions that may cause realization to differ from amounts previously estimated.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Property and equipment are depreciated over their estimated useful lives of 4-7 years. Maintenance and repairs are charged to expense as incurred, and significant improvements are capitalized. Upon sale or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in income.

REVENUE AND COST RECOGNITION

Revenue from home sales is recognized when a closing occurs, which is when title, possession and other attributes of ownership have been transferred to the buyer and the Company is not obligated to perform significant activities after the sale. Prior to closing, customer deposits are treated as liabilities. Capitalized costs are charged to cost of sales upon closing. Selling commissions and escrow closing costs are expensed as incurred.

Gain on sale of land is recognized when the risks of ownership have been transferred to the buyer, collectability of the sales price is reasonably assured and the Company is not obligated to perform significant activities after the sale.

INCOME TAXES

The provision for income taxes represents the tax payable for the period and the change during the year in deferred tax assets and liabilities. Deferred tax liabilities and assets are determined based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is established when necessary, to reduce deferred income tax assets to the amount expected to be realized. The Company is included in the consolidated tax return of its parent company.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates made.

2. PROPERTIES UNDER CONSTRUCTION

Properties under construction at September 30, 2002 and December 31, 2001 consists of the following (in thousands):

<TABLE>
<CAPTION>

	September 30, 2002		
	Land	Development Costs	Total
<S>	<C>	<C>	<C>
	$16,160	$14,908	$31,068

</TABLE>

<TABLE>
<CAPTION>

	December 31, 2001		
	Land	Development Costs	Total
<S>	<C>	<C>	<C>
	$11,252	$24,015	$35,267

</TABLE>

3. LAND HELD FOR DEVELOPMENT

Land held for development at September 30, 2002 and December 31, 2001 consists of the following (in thousands):

<TABLE>
<CAPTION>

	September 30, 2002		
	Land	Development Costs	Total
<S>	<C>	<C>	<C>
	$8,971	$23,753	$32,724

</TABLE>

<TABLE>
<CAPTION>

	December 31, 2001		
	Land	Development Costs	Total
<S>	<C>	<C>	<C>
	$18,837	$9,139	$27,976

</TABLE>

4. PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2002 and December 31, 2001 consists of the following (in thousands):

<TABLE>
<Caption>

	September 30, 2002	December 31, 2001
<S>	<C>	<C>
Furniture and Fixtures	$ 285	278
Computer equipment and software	168	168
Vehicles	203	198
Construction Equipment	14	14
Leasehold improvements	--	115
	$ 670	773
Less accumulated depreciation	(478)	(529)
Net	$ 192	$ 244

</TABLE>

Depreciation expense amounted to $71,026 and $83,681 for the nine months ended September 30, 2002 and 2001, respectively.

5. ACCRUED LIABILITIES

Accrued liabilities at September 30, 2002 and December 31, 2001 consists of the following (in thousands):

	September 30, 2002	December 31, 2001
Option deposits	$ 682	355
Accrued bonuses	1,376	1,247
Other accrued liabilities	1,228	330
	$3,286	$1,932

PERMA-BILT, A NEVADA CORPORATION

Notes to Unaudited Interim Financial Statements

6. INCOME TAXES

The Company files a consolidated tax return with its parent company. The method of allocation between companies is subject to written agreement. Allocation is based upon separate tax return calculations using the corporate tax rate of 35%. Income tax expense consists of the following for the nine months ended September 30, 2002 and 2001 (in thousands):

	2002	2001
Current	$1,321	$1,343
Deferred	55	56
Income tax expense	$1,376	$1,399

In accordance with Nevada tax statute, no state income tax is payable by the Company.

Deferred income tax assets and liabilities have been netted to reflect the tax impact of temporary differences. The components of the net deferred income tax liability as of September 30, 2002 and December 31, 2001 are as follows (in thousands):

	September 30, 2002	December 31, 2001
LIABILITY		
Capitalized interest and taxes	$ 1,063	$1,076
Depreciation	1	1
Warranty reserve	(44)	(35)
	$ 1,020	$1,042

7. LOANS FROM PARENT COMPANY

Loans from parent company at September 30, 2002 consist of the following (in thousands):

	September 30, 2002	December 31, 2001
Revolving credit promissory note from Zenith National Insurance Corp., the parent company of Zenith Insurance Company, uncollateralized, quarterly interest only payments, with the unpaid principal maturing on December 31, 2002	$26,717	$26,717

</TABLE>

The Company is charged interest on all borrowed or advanced monies from Zenith Insurance Company, including a portion of its equity balance (which could otherwise be converted to intercompany indebtedness). Such interest is charged at the rate of prime plus 2% (4.75% at September 30, 2002 and 6.75% at December 31, 2001). For the nine months ended September 30, 2002 and 2001 the Company incurred and capitalized $2,693,319 and $2,821,400, respectively, of such interest for properties under construction and land held for development.

8. CONSTRUCTION AND OTHER NOTES PAYABLE

Construction and other notes payable at September 30, 2002 consist of the following (in thousands):

<TABLE>
<Caption>

<S>	September 30, 2002 <C>	December 31, 2001 <C>
Revolving line of credit from a financial institution up to a maximum of $60,000,000 with interest at prime plus 0.50% per annum (4.75% at September 30, 2002 and 5.25% at December 31, 2001), collateralized by one or more deed(s) of trust on various projects, interest only payable monthly, and principal is payable based on a minimum price per unit closed, as set forth in the agreement, which matures on April 18, 2003.	$16,553	$16,186

</TABLE>

<TABLE>

<S>	<C>	<C>
Other notes payable, collateralized by deeds of trust payable on certain land parcels, principal due under varying terms from annual installments to balloon payments. The interest rate varies between 8% and 12% and is payable quarterly, monthly or annually with the final principal balance due February, 2003.	$ 630	--
	$17,183	$16,186

</TABLE>

For the nine months ended September 30, 2002 and 2001, the Company capitalized $666,320 and $1,155,380, respectively, of interest from construction and other notes payable.

Capitalized interest on the loans from parent company and construction and other notes payable included in cost of sales for the nine months ended September 30, 2002 and 2001 amount to $3,972,401 and 4,505,058, respectively.

9. COMMITMENTS

LEASE

The Company leases office space and vehicles under operating leases expiring in various years through 2005.

The future minimum rental payments under noncancellable operating leases having remaining terms in excess of one year at December 31, 2001 are as follows (in thousands):

<TABLE>
<CAPTION>

YEAR ENDING DECEMBER 31, <S>	<C>
2002	$78
2003	12
2004	3

2005 and thereafter	--
Total minimum future rental payments	$ 93

</TABLE>

For the nine months ended September 30, 2002 and 2001, rental expense amounted to $100,941 and $109,624, respectively.

10. SUBSEQUENT EVENT

Effective October 1, 2002, Meritage Corporation acquired the homebuilding assets of the Company. In connection with the purchase, the loans to parent company and all of the construction loans and other notes payable were paid off in full.