

**UNITED STATES
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 September 30, 2004

or

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

Commission File Number 1-9977

MERITAGE HOMES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction
of Incorporation or Organization)

8501 E. Princess Drive, Suite 290
Scottsdale, Arizona
(Address of Principal Executive Offices)

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

85255
(Zip Code)

(480) 609-3330

(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Common shares outstanding as of November 4, 2004: 12,860,479.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	\$ 19,340	\$ 4,799
Real estate	854,317	678,011
Consolidated real estate not owned	21,679	18,572
Deposits on real estate under option or contract	123,222	105,870
Investments in unconsolidated entities	39,348	23,528
Receivables, net	7,776	8,716
Deferred tax asset, net	1,443	1,204
Goodwill	89,650	75,645
Property and equipment, net	28,083	23,669
Prepaid expenses and other assets	15,253	14,525
Total assets	\$ 1,200,111	\$ 954,539
Liabilities		
Accounts payable	\$ 106,793	\$ 80,737
Accrued liabilities	89,819	67,411
Home sale deposits	45,366	25,352
Obligations related to consolidated real estate not owned	17,040	17,653
Senior notes	417,268	287,991
Loans payable	55,400	63,500
Total liabilities	731,686	542,644
Minority Interest	104	—
Commitments and Contingencies (Notes 3, 4, and 5)		
Stockholders' Equity		
Common stock, par value \$0.01. 50,000,000 shares authorized; 15,675,839 and 15,479,558 shares issued at September 30, 2004 and December 31, 2003, respectively	157	155
Additional paid-in capital	207,364	202,678
Retained earnings	329,771	242,615
Treasury stock at cost, 2,852,226 and 2,302,226 shares at September 30, 2004 and December 31, 2003, respectively	(68,971)	(33,553)
Total stockholders' equity	468,321	411,895
Total liabilities and stockholders' equity	\$ 1,200,111	\$ 954,539

See accompanying notes to consolidated financial statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Home closing revenue	\$ 462,711	\$ 380,752	\$ 1,317,488	\$ 989,895
Land closing revenue	20,037	—	22,697	8,100
	482,748	380,752	1,340,185	997,995
Cost of home closings	(367,302)	(304,013)	(1,059,849)	(791,438)
Cost of land closings	(12,877)	—	(14,608)	(6,859)
	(380,179)	(304,013)	(1,074,457)	(798,297)
Home closing gross profit	95,409	76,739	257,639	198,457
Land closing gross profit	7,160	—	8,089	1,241
	102,569	76,739	265,728	199,698
Commissions and other sales costs	(28,601)	(23,461)	(80,790)	(64,534)
General and administrative costs	(19,822)	(14,403)	(52,672)	(38,691)
Other income, net	3,366	1,839	8,535	3,911

Earnings before provision for income taxes	57,512	40,714	140,801	100,384
Provision for income taxes	(21,912)	(14,959)	(53,645)	(37,544)
Net earnings	<u>\$ 35,600</u>	<u>\$ 25,755</u>	<u>\$ 87,156</u>	<u>\$ 62,840</u>
Weighted average number of shares:				
Basic	12,894	13,033	13,091	13,020
Diluted	13,644	13,837	13,870	13,756
Earnings per common share:				
Basic	\$ 2.76	\$ 1.98	\$ 6.66	\$ 4.83
Diluted	\$ 2.61	\$ 1.86	\$ 6.28	\$ 4.57

See accompanying notes to consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine Months Ended September 30,	
	2004	2003
Cash flows from operating activities:		
Net earnings	\$ 87,156	\$ 62,840
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	8,969	5,731
Deferred tax asset, net	(239)	(359)
Tax benefit from stock option exercises	1,701	—
Equity in earnings from unconsolidated entities	(2,046)	(1,997)
Net increase in assets not owned	(3,720)	—
Changes in assets and liabilities, net of effect of acquisition:		
Increase in real estate	(164,993)	(183,525)
Increase in deposits on real estate under option or contract	(15,482)	(25,998)
(Increase) decrease in receivables and prepaid expenses and other assets	(144)	11
(Decrease) increase in accounts payable and accrued liabilities	46,759	42,588
Increase in home sale deposits	19,927	12,857
Net cash used in operating activities	<u>(22,112)</u>	<u>(87,852)</u>
Cash flows from investing activities:		
Investments in unconsolidated entities	(21,920)	(12,928)
Distributions from unconsolidated entities	8,145	3,138
Cash paid for acquisition	(24,165)	—
Purchases of property and equipment	(11,967)	(15,478)
Increase in goodwill	(2,791)	(1,544)
Net cash used in investing activities	<u>(52,698)</u>	<u>(26,812)</u>
Cash flows from financing activities:		
Proceeds from loans payable	1,349,879	865,335
Repayments of loans payable	(1,357,979)	(879,711)
Proceeds from issuance of senior notes	130,000	133,260
Purchase of treasury stock	(35,418)	(5,180)
Proceeds from stock option exercises	2,869	1,270
Net cash provided by financing activities	<u>89,351</u>	<u>114,974</u>
Net increase in cash and cash equivalents	14,541	310
Cash and cash equivalents at beginning of period	4,799	6,600
Cash and cash equivalents at end of period	<u>\$ 19,340</u>	<u>\$ 6,910</u>

See Supplemental disclosures of cash flow information at Note 8.

See accompanying notes to consolidated financial statements

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MERITAGE HOMES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004 AND 2003

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of Meritage Homes Corporation and those of our consolidated subsidiaries. Intercompany balances and transactions have been eliminated in consolidation and certain prior year items have been reclassified to conform to our current financial statement presentation. In our opinion, these unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position, results of operations and cash flows 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. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003.

Stock-Based Compensation. At September 30, 2004, we had a stock-based employee compensation plan under which officers, key employees, non-employee

directors and consultants may be granted options to purchase shares of our common stock. We apply the intrinsic value-based method of accounting prescribed in Accounting Principles Board (“APB”) Opinion No. 25 “Accounting for Stock Issued to Employees”, as allowed by SFAS No. 123, “Accounting for Stock-Based Compensation” and SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure.” Under this method, compensation expense is recorded on the date of the grant only if the market price of the underlying stock on the date of the grant was greater than the exercise price. SFAS No. 123 established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. We have adopted the disclosure requirements of SFAS No. 123. We have not issued options with exercise prices below the market value on the date of the grant; therefore, we have not recognized compensation expense for our stock-based plan. Had compensation cost for this plan been determined pursuant to SFAS No. 123, our net earnings and earnings per common share would have been reduced to the following pro forma amounts. For the purpose of this disclosure, the value of the options is estimated by applying a Black-Scholes option-pricing model and amortized to expense over the options’ vesting periods.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2004	2003	2004	2003
(in thousands, except per share amounts)					
Net earnings	As reported	\$ 35,600	\$ 25,755	\$ 87,156	\$ 62,840
	Deduct*	(1,531)	(897)	(3,034)	(2,546)
	Pro forma	\$ 34,069	\$ 24,858	\$ 84,122	\$ 60,294
Basic earnings per share	As reported	\$ 2.76	\$ 1.98	\$ 6.66	\$ 4.83
	Pro forma	\$ 2.64	\$ 1.91	\$ 6.43	\$ 4.63
Diluted earnings per share	As reported	\$ 2.61	\$ 1.86	\$ 6.28	\$ 4.57
	Pro forma	\$ 2.50	\$ 1.80	\$ 6.07	\$ 4.38

* Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects.

The fair value for options granted in the first nine months of 2004 and 2003 was established at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

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	Nine Months Ended September 30,	
	2004	2003
Expected dividend yield	0%	0%
Risk-free interest rate	4.40%	3.30%
Expected volatility	56%	55%
Expected life (in years)	7	7
Weighted average fair value of options	\$ 38.16	\$ 18.62

We have generally granted options only to employees and non-employee directors. To date, the amount of compensation expense recorded in association with granting options to other individuals has not been material.

Common Stock Repurchase. In August 2002, our Board of Directors authorized the expenditure of up to \$32 million, with an increase of \$26.8 million approved in January 2004, to repurchase shares of our common stock. By September 30, 2004, we had repurchased 1,214,300 shares of our common stock under the August 2002 program at an average price of \$47.56 per share. Of these shares, 250,000 were repurchased in the third quarter of 2004, at an average price of \$62.26.

In August 2004, the Board of Directors approved a new stock buyback program, authorizing the expenditure of up to \$50 million to repurchase shares of our common stock. No shares were purchased under this program at September 30, 2004. No date for completing the program has been determined, but we will purchase shares subject to applicable securities law, and at times and in amounts as management deems appropriate.

Off-Balance Sheet Arrangements. We often acquire finished homesites at market prices from various development entities under fixed price purchase agreements. This lot acquisition strategy reduces the financial requirements and risks associated with the direct ownership of undeveloped land. We are subject to customary obligations associated with these purchase agreements, which typically require us to make deposits in the form of cash or letters of credit. These deposits may be forfeited if we fail to perform under the agreement. As of September 30, 2004, we had entered into purchase agreements with an aggregate purchase price of approximately \$1.6 billion, by making deposits of approximately \$127.9 million in the form of cash and approximately \$34.1 million in letters of credit.

Occasionally, we enter into land development joint ventures. These joint ventures typically obtain secured acquisition and development financing. We and our joint venture partners occasionally provide credit enhancements to these financings in the form of limited guarantees. As of September 30, 2004, we guaranteed approximately \$1.8 million of our unconsolidated joint venture borrowings.

We and our joint venture partners are also typically obligated to the project lenders to complete land development improvements if the joint venture does not perform the required development. Provided we and the other joint venture partners are in compliance

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with these completion obligations, the project lenders would be obligated to fund these improvements through any financing commitments available under the applicable joint venture development and construction loans. In addition, we and our joint venture partners have from time to time provided unsecured environmental indemnities to joint venture project lenders. In some instances, these indemnities are subject to caps. These indemnities obligate us to reimburse the project lenders only for claims related to environmental matters for which such lenders are held responsible. As part of our project acquisition due diligence process to determine potential environmental risks, we obtain an independent environmental review from outside consultants.

Additionally, we and our joint venture partners have agreed to indemnify third party surety providers with respect to performance bonds issued on behalf of certain of our joint ventures. If a joint venture does not perform its obligations, the surety bond could be called. If these surety bonds are called and the joint venture fails to reimburse the surety, we and our joint venture partners would be obligated to indemnify the surety. These surety indemnity arrangements are generally joint and several obligations with our other joint venture partners. As of September 30, 2004, there were approximately 13.4 million of surety bonds outstanding subject to these indemnity arrangements. None of these bonds have been called to date and we believe it is unlikely that any of these bonds will be called.

We also obtain letters of credit and surety bonds in support of our related obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. In the event the letters of credit or bonds are drawn upon, we would

be obligated to reimburse the issuer of the letter of credit or bond. At September 30, 2004, we had approximately \$7.9 million in outstanding letters of credit and \$172.9 million in performance bonds for such purposes. We believe it is unlikely that any of these letters of credit or bonds will be drawn upon.

Warranty Reserves. We have certain obligations related to post-construction warranties and defects related to homes sold. We have estimated these reserves based on historical data and trends with respect to similar product types and geographical areas. At September 30, 2004, we had approximately \$11.4 million in reserve for various warranty claims, an amount we believe to be adequate, which is included in accrued liabilities on the accompanying consolidated balance sheets. Changes in our warranty reserve follow (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Balance, beginning of period	\$ 10,361	\$ 7,723	\$ 9,253	\$ 6,676
Additions to reserve	2,658	1,865	7,072	5,198
Warranty claims and expenses	(1,655)	(1,230)	(4,961)	(3,516)
Balance, end of period	\$ 11,364	\$ 8,358	\$ 11,364	\$ 8,358

Recent Accounting Pronouncements. Recently, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" (FIN 46R), which governs whether certain transactions should be accounted for as on- or off-balance sheet transactions. We have adopted FIN 46R, and a discussion of its impact on our consolidated financial statements can be found in Note 3 – Variable Interest Entities and Consolidated Real Estate Not Owned.

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NOTE 2 – REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

	September 30, 2004	December 31, 2003
Homes under contract under construction	\$ 480,288	\$ 281,931
Finished home sites	181,742	166,456
Home sites under development	106,632	97,141
Unsold homes completed and under construction	65,532	96,576
Model homes	12,547	22,170
Land held for development	7,576	13,737
	\$ 854,317	\$ 678,011

We capitalize all development period interest costs incurred in connection with the development and construction of real estate. Capitalized interest is allocated when incurred to real estate and charged to cost of home closings when the related property is delivered. Certain information regarding interest follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Capitalized interest, beginning of period	\$ 16,807	\$ 12,040	\$ 13,074	\$ 8,781
Interest incurred and capitalized	9,751	6,609	27,023	18,728
Amortization to cost of home closings	(6,958)	(5,653)	(20,497)	(14,513)
Capitalized interest, end of period	\$ 19,600	\$ 12,996	\$ 19,600	\$ 12,996

NOTE 3 – VARIABLE INTEREST ENTITIES AND CONSOLIDATED REAL ESTATE NOT OWNED

In December 2003, the FASB issued FIN 46R. FIN 46R requires the consolidation of entities in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Prior to the issuance of FIN 46R, entities were generally consolidated by an enterprise when it had a controlling financial interest through ownership of a majority voting interest in the entity. FIN 46R applied immediately to variable interests created after January 31, 2003, and with respect to variable interests created before February 1, 2003, FIN 46R application was deferred and not required to be applied until the end of the first reporting period ending after March 15, 2004. Accordingly, we fully implemented FIN 46R by March 31, 2004.

Pursuant to FIN 46R, a variable interest entity, or VIE, is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur.

Based on the provisions of FIN 46R, we have concluded that when we enter into option or purchase agreements to acquire land or lots from an entity and pay a non-refundable deposit, a VIE is created because we are deemed to have provided subordinated financial support, which refers to variable interests that will absorb some or all of an entity's expected losses if they occur. For each VIE created where the fair value of

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the land or lots under contract are not more than half of the total fair value of the entity's assets, we are not deemed to be the primary beneficiary of the VIE and therefore do not consolidate the assets on our financial statements. For each VIE created where the fair value of the land or lots under contract are more than half of the total fair value of the entity's assets, then we compute expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If we are deemed to be the primary beneficiary of the VIE, because we are obligated to absorb the majority of the expected losses, receive the majority of the residual returns, or both, we will consolidate the VIE in our consolidated financial statements. Not all of our option agreements are determined to be VIEs.

We have applied FIN 46R by developing a methodology to determine whether or not we are the primary beneficiary of the VIE. Part of this methodology requires the use of estimates in assigning probabilities to various future cash flow possibilities relative to changes in the fair value and changes in the development costs associated with the property. Although we believe that our accounting policy properly identifies our primary beneficiary status with these VIEs, changes in the probability estimates could produce different conclusions regarding our primary beneficiary status.

We generally do not have any ownership interest in the VIEs that hold the lots and land under option or contract, and accordingly, we generally do not have legal or

other access to the VIE's books or records. Therefore, it is not possible for us to compel the VIEs to provide financial or other data to us in performing our primary beneficiary evaluation. Accordingly, this lack of information from the VIEs may result in our evaluation being conducted primarily based on management judgements and estimates.

Creditors, if any, of the entities with which we have option agreements have no recourse against us. In most cases, the maximum exposure to loss in our option agreements is limited to our option deposit. Occasionally, we may be at risk for items over budget related to land development on property we have under option. In these cases, we have contracted to complete development at a fixed cost on behalf of the land owner. Some of our option deposits may be refundable if certain contractual conditions are not performed by the party selling the lots.

We have evaluated all of our existing joint venture agreements and have determined that two of these joint ventures are VIEs and that Meritage is the primary beneficiary. Therefore, we have consolidated the two joint ventures pursuant to the requirements of FIN 46R.

At September 30, 2004, the amount of lot option contracts recorded on our balance sheet under the category "Consolidated real estate not owned" is approximately \$21.7 million, of which approximately \$10.9 million represents the estimated fair value of specific performance options, and the remaining \$10.8 million represents the estimated fair value of consolidated VIEs. The corresponding credit relating to these assets of \$17.0 million is included under the category "Obligations related to consolidated real estate not owned", which is net of option deposits totaling approximately \$4.7 million.

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Below is a summary of our lots under option at September 30, 2004 (dollars in thousands):

	# of Lots	Fair Value	Purchase Price	Option/Earnest Money Deposits	
				Cash	Letters of Credit
Specific performance options (1)	244	\$ 10,903	\$ 10,903	\$ 784	—
Options recorded on balance sheet	439	10,776	10,994	3,855	—
Total options recorded on balance sheet (2)	683	21,679	21,897	4,639	—
Option contracts not recorded on balance sheet - non-refundable deposits (2)	19,618	—	1,073,776	103,939	\$ 34,144
Purchase contracts not recorded on balance sheet – non-refundable deposits (2)	12,498	—	367,715	17,289	—
Purchase contracts not recorded on balance sheet – refundable deposits (3)	4,992	—	114,943	1,994	—
Total options not recorded on balance sheet	37,108	—	1,556,434	123,222	34,144
Total lots under option	37,791	\$ 21,679	\$ 1,578,331	\$ 127,861	\$ 34,144

- (1) Fair value of specific performance options approximates purchase price due to the short-lived nature of the options.
- (2) Deposits are non-refundable except if certain contractual conditions are not performed by the selling party.
- (3) Deposits are refundable at our sole discretion.

Note: Except for our specific performance options, none of our option agreements require us to purchase lots. Our option to purchase lots remains effective so long as we purchase a pre-established minimum number of lots each month or quarter, as determined by the agreement. The pre-established number of lots typically is structured to approximate our expected rate of home orders.

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NOTE 4 – LOANS PAYABLE AND SENIOR NOTES

Loans payable consist of the following (in thousands):

	September 30, 2004	December 31, 2003
\$400 million unsecured revolving credit facility maturing May 2007 with extension provisions, and interest payable monthly approximating prime (4.75% September 30, 2004) or LIBOR (approximately 2.005% at September 30, 2004) plus 2.0%.	\$ 54,800	\$ 62,900
Acquisition and development seller carry back financing, interest payable at a fixed rate of 7% per annum, principal and interest payable on January 10, 2005, secured by a first deed of trust on real estate.	600	600
Total loans payable	\$ 55,400	\$ 63,500

At September 30, 2004, our outstanding 9.75% senior notes due 2011 totaled approximately \$287.2 million, which includes \$155.0 million in principal amount issued in May 2001, and add-ons of \$51.3 million and \$80.9 million, including unamortized premiums, issued in February 2003 and September 2003, respectively. The add-on offerings of \$50 million and \$75 million in aggregate principal amount of our 9.75% senior notes were issued at prices of 103.25% and 109.0% of their face amounts to yield 9.054% and 7.642%, respectively, and together with the May 2001 offering, constitute a single series of notes.

On April 21, 2004, we issued \$130 million in aggregate principal amount of our 7% senior notes due 2014. The notes were priced to us at a slight premium implying an interest rate to us of 6.99%. We used the proceeds from the offering to pay down our senior credit facility and to repurchase shares of our common stock. At September 30, 2004, these notes totaled approximately \$130.1 million, including unamortized premium.

The bank credit facility and senior notes contain covenants which require maintenance of certain levels of tangible net worth and compliance with certain minimum financial ratios, place limitations on the payment of dividends and redemptions of equity, and limit the incurrence of additional indebtedness, asset dispositions, mergers, certain investments and creations of liens, among other items. As of and for the nine months ended September 30, 2004, we were in compliance with these covenants. The

revolving credit facility and senior notes restrict our ability to pay dividends.

Obligations to pay principal and interest on the bank credit facility and senior notes are guaranteed by all of our subsidiaries, each of which is directly or indirectly 100% owned by Meritage Homes Corporation (Guarantor Subsidiaries), other than certain minor subsidiaries (collectively, Non-Guarantor Subsidiaries). Such guarantees are full and unconditional, and joint and several. Separate financial statements of the Guarantor Subsidiaries are not provided because Meritage Homes Corporation (the parent company) has no independent assets or operations, the guarantees are full and unconditional and joint and several, and the Non-Guarantor Subsidiaries are, individually and in the aggregate, minor. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan.

NOTE 5 – ACQUISITIONS AND GOODWILL

Citation Homes of Southern California Acquisition. Effective January 1, 2004, we purchased the homebuilding and related assets of Citation Homes of Southern California (“Citation”), which operates primarily in the Inland Empire region of the greater Los Angeles area. The purchase price was approximately

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\$24.2 million in cash, and we agreed to an earn-out of 20% of the pre-tax profits of the Southern California operations after capital charges, as defined, payable in cash over three years. The results of the Southern California operations are included in our consolidated financial statements beginning as of the effective date of the acquisition. See Note 8 for additional information regarding this acquisition.

Goodwill. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the assets acquired. The acquisition of the Southern California division was recorded using the purchase method of accounting. The purchase price was allocated based on estimated fair value of the assets and liabilities at the date of the acquisition. Intangible assets, equal to the excess purchase price over the fair value of the net assets, of \$11.2 million for the Southern California division were recorded as goodwill, which is included on our consolidated balance sheet. The changes in the carrying amount of goodwill for the nine months ended September 30, 2004 follow (in thousands):

	<u>Total</u>
Balance at December 31, 2003	\$ 75,645
Goodwill acquired – Southern California division	11,214
Increase due to earn-out agreements	2,791
Balance at September 30, 2004	<u>\$ 89,650</u>

Under the guidelines contained in SFAS No. 142, “Goodwill and Other Intangible Assets,” we are required to test goodwill for impairment annually or more frequently if circumstances change or an event occurs that may reduce the value of an operating segment below its carrying value. In the first quarter of 2004 management performed a goodwill impairment analysis on each of our operating regions and determined that no impairment exists.

NOTE 6 – EARNINGS PER SHARE

Basic and diluted earnings per share for the three and nine months ended September 30, 2004 and 2003 were calculated as follows (in thousands, except per share amounts):

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Basic average number of shares outstanding	12,894	13,033	13,091	13,020
Effect of dilutive securities:				
Options to acquire common stock	750	804	779	736
Diluted average shares outstanding	13,644	13,837	13,870	13,756
Net earnings	<u>\$ 35,600</u>	<u>\$ 25,755</u>	<u>\$ 87,156</u>	<u>\$ 62,840</u>
Basic earnings per share	<u>\$ 2.76</u>	<u>\$ 1.98</u>	<u>\$ 6.66</u>	<u>\$ 4.83</u>
Diluted earnings per share	<u>\$ 2.61</u>	<u>\$ 1.86</u>	<u>\$ 6.28</u>	<u>\$ 4.57</u>
Antidilutive stock options not included in the calculation of diluted earnings per share	—	—	—	—

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NOTE 7 – INCOME TAXES

Components of income tax expense for the three and nine months ended September 30, 2004 and 2003 are (in thousands):

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Federal	\$ 19,410	\$ 13,459	\$ 47,520	\$ 33,478
State	2,502	1,500	6,125	4,066
Total	<u>\$ 21,912</u>	<u>\$ 14,959</u>	<u>\$ 53,645</u>	<u>\$ 37,544</u>

NOTE 8 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Additional information related to our Condensed Consolidated Statement of Cash Flows follows (in thousands):

The January 2004 acquisition of our Southern California division resulted in the following changes in assets and liabilities during the first quarter of 2004:

Increase in real estate	\$	(12,036)
Increase in deposits on real estate under option or contract		(1,870)
Increase in receivables and other assets		(747)
Increase in goodwill		(11,214)
Increase in property and equipment		(89)
Increase in accounts payable and accrued liabilities		1,704
Increase in home sale deposits		87
Net cash paid for acquisition	\$	(24,165)

	Nine Months Ended September 30,	
	2004	2003
Cash paid during the period for:		
Interest	\$ 16,653	\$ 13,101
Income taxes	\$ 49,246	\$ 38,753

NOTE 9 – SEGMENT INFORMATION

We design, construct and build a broad range of single-family homes targeted to the needs of each of our markets. We are organized into five geographic homebuilding regions for internal reporting purposes. Each of these homebuilding regions have similar housing products, economic characteristics and class of prospective buyers, therefore, we have aggregated our regions into a single segment.

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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,” “forecast,” “plan” and “project” and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. All such statements are within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenue, earnings or loss, capital expenditures and backlog; plans for future operations; financing needs or plans and liquidity; the impact of changes in interest rates; plans relating to our products or services, acquisitions, and new or planned development projects; the demand for and pricing of our homes; the expected outcome of legal proceedings against us; the growth potential of the markets we operate in; the sufficiency of our capital resources to support our growth strategy; the sufficiency of our warranty and other reserves; the likelihood that performance bonds and letters of credit we have posted will be drawn against; the number of new communities we plan to open in Nevada during the remainder of 2004 and the corresponding effect on sales and closings; the impact of new accounting principles; and our ability to continue positive operating results in light of current economic and political conditions, as well as assumptions relating to the foregoing.

Actual events and results may differ materially from those expressed in forward-looking statements due to a number of factors. Risks identified in Exhibit 99.1 to this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2003, including those under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Our Future Results and Financial Condition” describe factors, among others, that could contribute to or cause such differences. These factors may also affect our business generally and as a result, our stock and note prices may fluctuate dramatically.

Overview

Meritage Homes Corporation is a leading designer and builder of single-family homes in the rapidly growing Sunbelt states of Texas, Arizona, California and Nevada, based on the number of homes closed. We focus on providing a broad range of first-time, move-up and luxury homes to our targeted customer base. We have operated in Arizona since 1985, in Texas since 1987, in California since 1989 and in Nevada since 2002. We entered the Inland Empire market of Southern California in January 2004 with our acquisition of Citation Homes of Southern California (See Notes 5 and 8 to the condensed consolidated financial statements). In April 2004 we began start-up operations in the Denver, Colorado market. We operate in these states, predominantly in one industry, homebuilding, and thus have only one single reportable segment.

We operate in Texas as Legacy Homes, Monterey Homes and Hammonds Homes, in Arizona as Monterey Homes and Meritage Homes, and in California, Nevada and Colorado as Meritage Homes. At September 30, 2004, we were actively selling homes in 135 communities, with base prices ranging from \$96,000 to \$907,000.

Total home closing revenue was \$462.7 million for the three months ended September 30, 2004, increasing \$81.9 million, or 22% from \$380.8 million for the same period last year. Net earnings for the third quarter of 2004 increased \$9.8 million, or 38%, to \$35.6 million from \$25.8 million in the same quarter of 2003. These increases were primarily driven by both higher home closings and a higher average price per home.

In April 2004 we issued \$130 million in aggregate principal amount of our 7% senior notes due 2014. The proceeds from this offering were used to pay down our senior credit facility and to repurchase shares of our common stock. We believe this will provide us with long-term strategic capital at an attractive cost.

Land sales during the three months ended September 30, 2004 were \$20.0 million. This was due primarily to a land sale transaction in our Nevada division during the third quarter of 2004, which resulted in a \$4.4 million gain after income taxes, which is included in our net earnings.

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Critical Accounting Policies

We have established various accounting policies, which govern the application of accounting principles generally accepted in the United States of America in the preparation and presentation of our consolidated financial statements. Our significant policies are described in Note 1 of the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003. Certain of these policies involve significant judgments, assumptions and estimates by management that have a material impact on the carrying value of certain assets and liabilities, and revenues and costs. The judgments, assumptions and estimates we use and believe to be critical to our business are based on historical experience, knowledge of the accounts and other factors, which we believe to be reasonable under the circumstances. We evaluate our judgments and assumptions on an on-going basis. Because of the nature of the judgments and assumptions we have made, actual results may differ from these judgments and estimates, which could have a material impact on the carrying values of assets and liabilities, and the results of our operations.

The accounting policies that we deem most critical to us, and involve the most difficult, subjective or complex judgments, include our estimates of costs to complete our individual projects, the ultimate recoverability (or impairment) of these costs, goodwill impairment, the likelihood of closing lots held under option or contract, the ability to determine the fair value of consolidated real estate not owned and liabilities related to such, certain estimates and assumptions related to applying FIN 46R, and the ability

to estimate expenses and accruals, including legal and warranty reserves. Should we under or over estimate costs to complete individual projects, gross margins in a particular period could be misstated and the ultimate recoverability of costs related to a project from home sales may be uncertain. Furthermore, non-refundable deposits paid for land options or contracts may have no economic value to us if we do not ultimately purchase the land. Our inability to accurately estimate expenses, accruals, or an impairment of real estate or goodwill could result in charges, or income, in future periods, which relate to activities or transactions in a preceding period. The estimates and assumptions we make relating to our application of FIN 46R, if not accurate, could result in us incorrectly including, or excluding, certain contractual land acquisition arrangements as variable interest entities in, or from, respectively, our consolidated financial statements.

Results Of Operations

The following discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements for the three and nine-month periods ended September 30, 2004 and 2003.

Home Closing Revenue, Home Orders and Order Backlog

The information below presents operating and financial data regarding our homebuilding activities (dollars in thousands).

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	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2004	2003			2004	2003		
Home Closing Revenue								
<u>Total</u>								
Dollars	\$ 462,711	\$ 380,752		22%	\$ 1,317,488	\$ 989,895		33%
Homes closed	1,671	1,464		14%	4,860	3,858		26%
Average sales price	\$ 276.9	\$ 260.1		6%	\$ 271.1	\$ 256.6		6%
<u>Texas</u>								
Dollars	\$ 152,060	\$ 153,495		(1)%	\$ 469,709	\$ 405,251		16%
Homes closed	700	741		(6)%	2,171	1,988		9%
Average sales price	\$ 217.2	\$ 207.1		5%	\$ 216.4	\$ 203.8		6%
<u>Arizona</u>								
Dollars	\$ 127,516	\$ 83,774		52%	\$ 340,983	\$ 234,083		46%
Homes closed	560	325		72%	1,414	866		63%
Average sales price	\$ 227.7	\$ 257.8		(12)%	\$ 241.1	\$ 270.3		(11)%
<u>California</u>								
Dollars	\$ 166,819	\$ 96,459		73%	\$ 421,529	\$ 241,714		74%
Homes closed	367	206		78%	968	540		79%
Average sales price	\$ 454.5	\$ 468.2		(3)%	\$ 435.5	\$ 447.6		(3)%
<u>Nevada</u>								
Dollars	\$ 16,316	\$ 47,024		(65)%	\$ 85,267	\$ 108,847		(22)%
Homes closed	44	192		(77)%	307	464		(34)%
Average sales price	\$ 370.8	\$ 244.9		51%	\$ 277.7	\$ 234.6		18%
Home Orders								
<u>Total</u>								
Dollars	\$ 642,923	\$ 415,687		55%	\$ 1,935,064	\$ 1,291,740		50%
Homes ordered	2,203	1,546		42%	6,952	5,005		39%
Average sales price	\$ 291.8	\$ 268.9		9%	\$ 278.3	\$ 258.1		8%
<u>Texas</u>								
Dollars	\$ 173,816	\$ 156,182		11%	\$ 593,729	\$ 498,919		19%
Homes ordered	805	730		10%	2,774	2,404		15%
Average sales price	\$ 215.9	\$ 213.9		1%	\$ 214.0	\$ 207.5		3%
<u>Arizona</u>								
Dollars	\$ 219,349	\$ 126,921		73%	\$ 689,741	\$ 403,826		71%
Homes ordered	914	481		90%	2,777	1,533		81%
Average sales price	\$ 240.0	\$ 263.9		(9)%	\$ 248.4	\$ 263.4		(6)%
<u>California</u>								
Dollars	\$ 215,685	\$ 100,548		115%	\$ 561,241	\$ 265,418		111%
Homes ordered	391	219		79%	1,143	568		101%
Average sales price	\$ 551.6	\$ 459.1		20%	\$ 491.0	\$ 467.3		5%
<u>Nevada</u>								
Dollars	\$ 34,073	\$ 32,036		6%	\$ 90,353	\$ 123,577		(27)%
Homes ordered	93	116		(20)%	258	500		(48)%
Average sales price	\$ 366.4	\$ 276.2		33%	\$ 350.2	\$ 247.2		42%

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	At September 30,		% Change
	2004	2003	
Order Backlog			
<u>Total</u>			
Dollars	\$ 1,349,321	\$ 839,609	61%

Homes in backlog		4,747		3,217	48%
Average sales price	\$	284.2	\$	261.0	9%
Texas					
Dollars	\$	365,439	\$	312,567	17%
Homes in backlog		1,722		1,501	15%
Average sales price	\$	212.2	\$	208.2	2%
Arizona					
Dollars	\$	587,117	\$	313,898	87%
Homes in backlog		2,195		1,133	94%
Average sales price	\$	267.5	\$	277.1	(3)%
California					
Dollars	\$	338,041	\$	160,631	110%
Homes in backlog		655		361	81%
Average sales price	\$	516.1	\$	445.0	16%
Nevada					
Dollars	\$	58,724	\$	52,513	12%
Homes in backlog		175		222	(21)%
Average sales price	\$	335.6	\$	236.5	42%

Home Closing Revenue. The increase in total home closing revenue in the third quarter and first nine months of 2004 as compared to the same periods of 2003 resulted primarily from increases in the number of homes closed of 14% and 26%, respectively, as well as a 6% increase in average selling price for both periods. The significant increase in home closings in Arizona and California is due to a healthy housing market causing increased demand for our homes. Although the number of homes closed in Texas decreased 6% for the third quarter, the demand for our homes in that market remains good as evidenced by a 10% increase in the number of homes ordered during the third quarter. Wet weather in Texas at the end of the second quarter impacted third quarter completions and closings. The reduction in the 2004 third quarter in the number and dollar value of homes closed in our Nevada division was the result of the rapid sellout of communities for which replacement communities had not yet opened. Three new communities were added in October and another is planned to open in November, bringing our expected Nevada community count to six by the end of this year. We anticipate these new communities to result in an increase in Nevada home closings in 2005.

Home Orders. Home orders for any period represent the aggregate sales price of homes ordered by customers, net of cancellations. We do not include sales that are contingent upon the sale of a customer's existing home as an order until the contingency is removed. Historically, we have experienced a cancellation rate approximating 25% or less of gross sales, which we believe is consistent with industry standards. Overall, demand for our homes was robust during the third quarter and first nine months of 2004, as evidenced by increases in the number of orders per community of 31% and 28%, respectively. The number and dollar value of home orders was particularly strong in our Arizona and California markets where housing demand is generally very healthy. In Arizona, orders per community advanced 132% for the third quarter 2004 as compared to the third quarter of last year. In our California division, orders per community rose 58% for the same period. The increase in home orders in our Texas division for both the third quarter and first nine months was driven by a corresponding increase in the number of active communities. Demand for our homes in Texas is good; however, competition in that market is as strong as the Company has experienced in years. Although home orders decreased considerably in Nevada during both the third quarter and first nine months of 2004, new communities opened there in October and are planned for November of this year. We believe these new communities should lead to an increase in Nevada home orders during the fourth quarter of 2004 as well as the full year 2005, and result in increased closings during the later half of 2005.

Order Backlog. Backlog represents home orders that have not yet closed. The 61% increase in the dollar value of homes in backlog was the result of a 48% increase in the number of homes in backlog and a 9% increase in the average sales price of those homes. The increase in average sales price is being driven by a greater percentage of our home orders coming from California. The backlog increases in Arizona and California are due to the increase in home orders in those markets due to strong housing demand. The increase in the number of homes in backlog in Texas is directly the result of a 22% increase in the number of active communities in that market from September 30, 2003 to September 30, 2004. Although the number of homes in backlog in our Nevada division decreased 21% from September 30, 2003 to September 30, 2004, the value of those homes increased 12% due to the fact that the communities that are open offer homes at significantly higher prices than the average community in that division last year at this time.

Land Sales. Land sales during the three and nine months ended September 30, 2004 were \$20.0 million and \$22.7 million, respectively, as compared to \$8.1 million for the nine months in 2003. The increase in 2004 is due primarily to a land sale transaction in our Nevada division during the third quarter of 2004, which resulted in a \$4.4 million gain after income taxes, which is included in our net earnings.

Other Operating Information (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Home Closing Gross Profit				
Dollars	\$ 95,409	\$ 76,739	\$ 257,639	\$ 198,457
Percent of home closing revenue	20.6%	20.2%	19.6%	20.0%
Commissions and Other Sales Costs				
Dollars	\$ 28,601	\$ 23,461	\$ 80,790	\$ 64,534
Percent of home closing revenue	6.2%	6.2%	6.1%	6.5%
General and Administrative Costs				
Dollars	\$ 19,822	\$ 14,403	\$ 52,672	\$ 38,691
Percent of total revenue	4.1%	3.8%	3.9%	3.9%
Income Taxes				
Dollars	\$ 21,912	\$ 14,959	\$ 53,645	\$ 37,544
Percent of earnings before provision for income taxes	38.1%	36.7%	38.1%	37.4%

Home Closing Gross Profit. Home closing gross profit equals home closing revenue, less the cost of home closings, which includes developed lot costs, home construction costs, an allocation of common community costs (such as the cost of model complex and architectural, legal and zoning costs), amortization of capitalized

interest, sales tax, warranty, construction overhead and closing costs. The dollar increases in gross profit for the three and nine months ended September 30, 2004 are attributable to the increase in the number and dollar value of homes closed. During the third quarter, our California division, which produces our highest gross profit percentage of any of our divisions, represented a larger percentage of our revenue than they had during the first six months of the year, therefore increasing our gross profit percentage for the quarter. Additionally, our Texas division, which generally has a lower gross margin percentage than our overall average, generated a lower percentage of our overall revenue during the third quarter, which increased our gross profit percentage.

Commissions and Other Sales Costs. Commissions and other sales costs, such as sales and marketing costs, remained relatively consistent for the three and nine months ended September 30, 2004, as compared to the three and nine months ended September 30, 2003.

General and Administrative Costs. General and administrative costs represent corporate and divisional overhead expenses such as salaries and bonuses, occupancy, insurance and travel expenses. General and administrative costs as a percentage of total revenue for the third quarter of 2004 increased to 4.1% from 3.8%

in the third quarter of 2003. This increase is primarily due to the additional overhead costs related to growth of our business, along with accounting expenses paid to third-party providers. For the first nine months of 2004, general and administrative costs as a percentage of total revenue were stable as compared to the first nine months of 2003.

Income Taxes. The increases in the dollar value of income taxes for the three and nine months ended September 30, 2004 from the prior year resulted from increases in pre-tax earnings. On a percentage basis, we experienced an increase in the effective tax rate to 38.1% for the three and nine months ended September 30, 2004, up slightly from 36.7% and 37.4%, respectively, in 2003. These increases were due to decreased earnings in Texas and Nevada as a percentage of total earnings, which are states with limited corporate state income tax.

Liquidity and Capital Resources

Our principal uses of capital for the quarter ended September 30, 2004 were operating expenses, real estate purchases, lot development, home construction, repurchases of common stock, income taxes, interest and investments in joint ventures. We used a combination of borrowings and funds generated by operations to meet our short-term working capital requirements.

Cash flows for each of our communities depend on the status of the development cycle, and can differ substantially from reported earnings. Early stages of development or expansion require significant cash outlays for land acquisitions, plat and other approvals, and construction of model homes, roads, utilities, general landscaping and other amenities. These costs are capitalized, therefore they would not be included in income reported for financial statement purposes during early development stages but would be expensed to cost of sales in a later period as homes are closed.

At September 30, 2004, there was a balance of \$54.8 million outstanding under our senior unsecured revolving credit facility and approximately \$43.8 million was outstanding in letters of credit and guarantees that collateralize our obligations under various land purchase and other contracts. After considering our most restrictive bank covenants, our borrowing availability under the bank credit facility was approximately \$196.0 million at September 30, 2004, as determined by borrowing base limitations defined by our agreement with the lending banks.

At September 30, 2004, our outstanding 9.75% senior notes due 2011 totaled approximately \$287.2 million, which includes unamortized premiums of approximately \$7.2 million. Our annual debt service requirement for our 9.75% senior notes is \$27.3 million.

In April 2004, we issued \$130 million in aggregate principal amount of 7% senior notes due 2014. The proceeds from this offering were used to pay down our credit facility and repurchase shares of our common stock. We believe this issuance provides us with long-term strategic capital at an attractive cost and increases the availability under our unsecured credit facility. At September 30, 2004, these notes totaled approximately \$130.1 million, including unamortized premium. Our annual debt service on these 7% notes is \$9.1 million.

We believe that our current borrowing capacity, cash on hand at September 30, 2004, and anticipated net cash flows from operations will be sufficient to meet liquidity needs for the foreseeable future. We believe our future cash needs will include funds for the completion of projects that are underway, the maintenance of our day-to-day operations, and the acquisition or start-up of additional homebuilding operations, should the opportunities arise. There is no assurance, however, that future cash flows will be sufficient to meet future capital needs. The amount and types of indebtedness that we may incur may be limited by the terms of the indentures governing our senior notes and by the terms of the credit agreement governing our senior unsecured credit facility.

Off-Balance Sheet Arrangements

Reference is made to Notes 1 and 3 to the Notes to Condensed Consolidated Financial Statements included in this Form 10-Q. These notes discuss our off-balance sheet arrangements with respect to land acquisition contracts and option agreements, and land development joint ventures, including the nature and amounts of financial obligations relating to these items. In addition, these notes discuss the nature and amounts of certain types of commitments that arise in connection with the ordinary course of our land development and homebuilding operations, including commitments of land development joint ventures for which we might be obligated.

Seasonality

We historically have closed more homes 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 our move-up and semi-custom luxury products. We expect this seasonal trend to continue, although it may vary if our operations continue to expand.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of business primarily related to potential adverse changes in interest rates on our existing revolving credit facility. The interest rate relative to this borrowing fluctuates with the prime and Eurodollar lending rates. As of September 30, 2004, we had approximately \$54.8 million drawn under our revolving credit facility that is subject to changes in interest rates. We do not believe our exposure in this area is material to our cash flows or earnings. We do not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes.

Our fixed rate debt is made up primarily of our \$280.0 million in principal of our 9.75% senior notes and \$130 million in principal of our 7% senior notes. Except in limited circumstances, we do not have an obligation to prepay our fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value should not have a significant impact on the fixed rate borrowings until we would be required to refinance such debt.

Our operations are interest rate sensitive. As overall housing demand is adversely affected by increases in interest rates, a significant increase in mortgage interest rates may negatively affect the ability of homebuyers to secure adequate financing. Higher interest rates could adversely affect our revenues, gross margins and net income and would also increase our variable rate borrowing costs.

Item 4. Controls and Procedures

In order to ensure that the information we must disclose in our filings with the SEC is recorded, processed, summarized and reported on a timely basis, we have developed and implemented disclosure controls and procedures. Our management, with the participation of our co-chief executive officers and chief financial officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this Form 10-Q (the "Evaluation Date"). Based on such evaluation, these officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective in ensuring that information that is required to be disclosed in the reports we file under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. During the fiscal quarter covered by this Form 10-Q, there have not been any changes in our internal control over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

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

In May 1999, we announced a stock repurchase program in which our Board of Directors approved the repurchase of up to \$6 million of outstanding Meritage common stock. The amount was increased to \$20 million in July of 2000. Under this program, which ended in September 2001, we repurchased 1,637,926 shares at an average price of \$6.85.

In August 2002, our Board of Directors authorized the expenditure of up to \$32 million to repurchase shares of our common stock. In January 2004, our Board of Directors approved an increase in this amount of \$26.8 million. During the three months ended September 30, 2004, we repurchased the following shares under the August 2002 stock repurchase program (amounts in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
July 1, 2004 to July 30, 2004	100	\$ 60.8665	100	
August 1, 2004 to August 31, 2004	150	\$ 63.1899	150	
September 1, 2004 to September 30, 2004	—	—	—	
	<u>250</u>	<u>\$ 62.2606</u>	<u>250</u>	<u>\$ 1,052</u>

In August 2004, the Board of Directors approved a new stock buyback program, authorizing the expenditure of up to \$50 million to repurchase shares of our common stock. No shares were purchased under this program at September 30, 2004. No date for completing the program has been determined, but we will purchase shares subject to applicable securities law, and at times and in amounts as management deems appropriate.

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Item 6. Exhibits

Exhibit Number	Description	Page or Method of Filing
3.1	Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 10-Q for the quarterly period ended September 30, 1998
3.2	Restated Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3 of Form 8-K dated June 20, 2002
3.3	Articles of Amendment to Articles of Incorporation of Meritage Homes Corporation	Incorporated by reference to Exhibit 3.1 of Form 8-K dated September 15, 2004
10.1	Fourth Amendment to Credit Agreement, dated October 28, 2004, among the Company, Guaranty Bank, Bank One, NA, Fleet National Bank and the other lenders thereto	Filed herewith
10.2	Representative form of Meritage Qualified Stock Option Agreement	Filed herewith
10.3	Representative form of Meritage Non-Qualified Stock Option Agreement	Filed herewith
31.1	Rule 13a-14(a)/15(d)-14(a) Certificate of Steven J. Hilton, Co-Chief Executive Officer	Filed herewith
31.2	Rule 13a-14(a)/15(d)-14(a) Certificate of John R. Landon, Co-Chief Executive Officer	Filed herewith
31.3	Rule 13a-14(a)/15(d)-14(a) Certificate of Larry W. Seay, Chief Financial Officer	Filed herewith
32.1	Section 1350 Certification of Officers	Filed herewith
99.1	Private Securities Reform Act of 1995 Safe Harbor Compliance Statement for Forward-Looking Statements	Filed herewith

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SIGNATURES

Pursuant to the requirements 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 9th day of November 2004.

MERITAGE HOMES 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)*

By /s/ VICKI L. BIGGS

Vicki L. Biggs

*Vice President - Corporate Controller
(Principal Accounting Officer)*

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INDEX OF EXHIBITS

- 3.1 Amendment to Articles of Incorporation of Meritage Homes Corporation
- 3.2 Restated Articles of Incorporation of Meritage Homes Corporation
- 3.3 Articles of Amendment to Articles of Incorporation of Meritage Homes Corporation
- 10.1 Fourth Amendment to Credit Agreement, dated October 28, 2004, among the Company, Guaranty Bank, Bank One, NA, Fleet National Bank and the other lenders thereto.
- 10.2 Representative form of Meritage Qualified Stock Option Agreement
- 10.3 Representative form of Meritage Non-Qualified Stock Option Agreement
- 31.1 Rule 13a-14(a)/15(d)-14(a) Certificate of Steven J. Hilton, Co-Chief Executive Officer
- 31.2 Rule 13a-14(a)/15(d)-14(a) Certificate of John R. Landon, Co-Chief Executive Officer
- 31.3 Rule 13a-14(a)/15(d)-14(a) Certificate of Larry W. Seay, Chief Financial Officer
- 32.1 Section 1350 Certification of Officers
- 99.1 Private Securities Reform Act of 1995 Safe Harbor Compliance Statement for Forward-Looking Statements

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FOURTH AMENDMENT
TO
CREDIT AGREEMENT

Dated as of October 28, 2004

among

MERITAGE HOMES CORPORATION,
as the Borrower

GUARANTY BANK,
as Administrative Agent and Swing Line Lender,

BANK ONE, NA,
as Syndication Agent

FLEET NATIONAL BANK,
as Documentation Agent

and

The Other Lenders Party Thereto

GUARANTY BANK,
as Joint Lead Arranger and Joint Book Manager

and

BANC ONE CAPITAL MARKETS, INC.,
as Joint Lead Arranger and Joint Bank Manager

FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (this "Fourth Amendment"), dated as of October 28, 2004, is entered into among MERITAGE HOMES CORPORATION, a Maryland corporation (the "Borrower"), the lenders listed on the signature pages hereof as Lenders (the "Lenders"), GUARANTY BANK, as Administrative Agent and Swing Line Lender, BANK ONE, NA, as Syndication Agent, and FLEET NATIONAL BANK, as Documentation Agent.

BACKGROUND

A. The Borrower, certain of the Lenders, the Syndication Agent, the Documentation Agent, the Administrative Agent and the Swing Line Lender are parties to that certain Credit Agreement, dated as of December 12, 2002, as amended by that certain First Amendment to Credit Agreement, dated as of September 8, 2003, that certain Second Amendment to Credit Agreement, dated as of December 3, 2003, and that certain Third Amendment to Credit Agreement, dated as of April 20, 2004 (said Credit Agreement, as amended, the "Credit Agreement"). The terms defined in the Credit Agreement and not otherwise defined herein shall be used herein as defined in the Credit Agreement.

B. The Borrower has requested an amendment to permit Interest Periods of 14 days for Eurodollar Rate Loans.

C. The Lenders, the Syndication Agent, the Documentation Agent, the Administrative Agent and the Swing Line Lender hereby agree to amend the Credit Agreement, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the covenants, conditions and agreements hereafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are all hereby acknowledged, the Borrower, the Lenders, the Syndication Agent, the Documentation Agent, the Swing Line Lender and the Administrative Agent covenant and agree as follows:

1. AMENDMENTS.

(a) The definition of "Borrower" set forth in Section 1.01 of the Credit Agreement is hereby amended to read as follows:

"Borrower" means Meritage Homes Corporation, a Maryland corporation.

(b) The definition of "Interest Period" set forth in Section 1.01 of the Credit Agreement is hereby amended to read as follows:

"Interest Period" means as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date fourteen days or one, two, three or six months thereafter, as selected by the Borrower in its Revolving Loan Notice; provided that:

- (i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business

Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

- (ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding

day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period shall extend beyond the Maturity Date.

(c) The definition of “Eurodollar Rate” set forth in Section 1.01 of the Credit Agreement is hereby amended to read as follows:

“Eurodollar Rate” means for any Interest Period with respect to any Eurodollar Rate Loan:

(a) the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate that appears on the page of the Telerate screen (or any successor thereto) that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period (provided, with respect to Interest Periods of fourteen days, the Eurodollar Rate for such Interest Period shall be equal to the Eurodollar Rate for Interest Periods of one month), determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(b) if the rate referenced in the preceding clause (a) does not appear on such page or service or such page or service shall not be available, the rate per annum equal to the rate determined by the Administrative Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period (provided, with respect to Interest Periods of fourteen days, the Eurodollar Rate for such Interest Period shall be equal to the Eurodollar Rate for Interest Periods of one month), determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(c) if the rates referenced in the preceding clauses (a) and (b) are not available, the rate per annum determined by the Administrative Agent as the rate of interest at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Guaranty Bank and with a term equivalent to such Interest Period (provided, with respect to Interest Periods of fourteen days, the Eurodollar Rate for such Interest Period shall be equal to the Eurodollar Rate for Interest Periods of one month) would be offered by Guaranty Bank to

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major banks in the London interbank eurodollar market at their request at approximately 4:00 p.m. (London time) two Business Days prior to the first day of such Interest Period.

(d) Exhibits A, B, C, D, E, F, G, H and I to the Credit Agreement are hereby amended to be in the form of Exhibits A, B, C, D, E, F, G, H and I to this Fourth Amendment.

2. REPRESENTATIONS AND WARRANTIES TRUE; NO EVENT OF DEFAULT. By its execution and delivery hereof, the Borrower represents and warrants that, as of the date hereof:

(a) the representations and warranties contained in the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof as made on and as of such date;

(b) no event has occurred and is continuing which constitutes a Default or an Event of Default;

(c) (i) the Borrower has full power and authority to execute and deliver this Fourth Amendment, (ii) this Fourth Amendment has been duly executed and delivered by the Borrower, and (iii) this Fourth Amendment and the Credit Agreement, as amended hereby, constitute the legal, valid and binding obligations of the Borrower, enforceable in accordance with their respective terms, except as enforceability may be limited by applicable debtor relief laws and by general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law) and except as rights to indemnity may be limited by federal or state securities laws;

(d) neither the execution, delivery and performance of this Fourth Amendment or the Credit Agreement, as amended hereby, nor the consummation of any transactions contemplated herein or therein, will conflict with any Law or Organization Documents of the Borrower, or any indenture, agreement or other instrument to which the Borrower or any of its properties are subject; and

(e) no authorization, approval, consent, or other action by, notice to, or filing with, any governmental authority or other Person not previously obtained is required for (i) the execution, delivery or performance by the Borrower of this Fourth Amendment or (ii) the acknowledgement by each Guarantor of this Fourth Amendment.

3. CONDITIONS TO EFFECTIVENESS. This Fourth Amendment shall be effective upon satisfaction or completion of the following:

(a) the Administrative Agent shall have received counterparts of this Fourth Amendment executed by all of the Lenders;

(b) the Administrative Agent shall have received counterparts of this Fourth Amendment executed by the Borrower and acknowledged by each Guarantor;

(c) the Administrative Agent shall have received a certified resolution of the Board of Directors of the Borrower authorizing the execution, delivery and performance of this Fourth Amendment; and

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(d) the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent and its counsel, such other documents, certificates and instruments as the Administrative Agent shall require.

4. REFERENCE TO THE CREDIT AGREEMENT

(a) Upon the effectiveness of this Fourth Amendment, each reference in the Credit Agreement to “this Agreement”, “hereunder”, or words of like import shall mean and be a reference to the Credit Agreement, as affected and amended hereby.

(b) The Credit Agreement, as amended by the amendments referred to above, shall remain in full force and effect and is hereby ratified and confirmed.

5. COSTS, EXPENSES AND TAXES. The Borrower agrees to pay on demand all costs and expenses of the Administrative Agent in connection with the preparation, reproduction, execution and delivery of this Fourth Amendment and the other instruments and documents to be delivered hereunder (including the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect thereto).

6. **GUARANTOR'S ACKNOWLEDGMENT.** By signing below, each Guarantor (a) acknowledges, consents and agrees to the execution, delivery and performance by the Borrower of this Fourth Amendment, (b) acknowledges and agrees that its obligations in respect of its Guaranty are not released, diminished, waived, modified, impaired or affected in any manner by this Fourth Amendment or any of the provisions contemplated herein, (c) ratifies and confirms its obligations under its Guaranty, and (d) acknowledges and agrees that it has no claims or offsets against, or defenses or counterclaims to, its Guaranty.

7. **EXECUTION IN COUNTERPARTS.** This Fourth Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which when taken together shall constitute but one and the same instrument. For purposes of this Fourth Amendment, a counterpart hereof (or signature page thereto) signed and transmitted by any Person party hereto to the Administrative Agent (or its counsel) by facsimile machine, telecopier or electronic mail is to be treated as an original. The signature of such Person thereon, for purposes hereof, is to be considered as an original signature, and the counterpart (or signature page thereto) so transmitted is to be considered to have the same binding effect as an original signature on an original document.

8. **GOVERNING LAW; BINDING EFFECT.** This Fourth Amendment shall be governed by and construed in accordance with the laws of the State of Texas applicable to agreements made and to be performed entirely within such state, provided that each party shall retain all rights arising under federal law, and shall be binding upon the parties hereto and their respective successors and assigns.

9. **HEADINGS.** Section headings in this Fourth Amendment are included herein for convenience of reference only and shall not constitute a part of this Fourth Amendment for any other purpose.

10. **ENTIRE AGREEMENT.** THE CREDIT AGREEMENT, AS AMENDED BY THIS FOURTH AMENDMENT, AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE

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CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

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IN WITNESS WHEREOF, this Fourth Amendment is executed as of the date first set forth above.

MERITAGE HOMES CORPORATION

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: CFO-VP

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GUARANTY BANK, as Administrative Agent

By: /s/ Sam A. Mead

Name: Sam A. Mead

Title: Senior Vice President

By: /s/ Sam A. Mead

Name: Sam A. Mead

Title: Senior Vice President

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FLEET NATIONAL BANK, as a Lender and Documentation Agent

By: /s/ Mark W. Lariviere

Name: Mark W. Lariviere

Title: Managing Director

8

BANK ONE, NA, as a Lender and Syndication Agent

By: /s/ Paul D. Engler

Name: Paul D. Engler

Title: First Vice President

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**WELLS FARGO BANK ARIZONA
NATIONAL ASSOCIATION, as a Lender**

By: /s/ Patricia A. Richards
Name: Patricia A. Richards
Title: Vice President

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**U.S. BANK NATIONAL ASSOCIATION, as a
Lender**

By: /s/ Adrian B. Montero
Name: Adrian B. Montero
Title: Assistant Vice President

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CALIFORNIA BANK AND TRUST, as a Lender

By: /s/ Stephanie Lantz
Name: Stephanie Lantz
Title: VP

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COMPASS BANK, as a Lender

By: /s/ Steven J. Hesler
Name: Steven J. Hesler
Title: SVP

13

COMERICA BANK, as a Lender

By: /s/ Casey L. Ostrander
Name: Casey L. Ostrander
Title: Vice President

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**PNC BANK, NATIONAL ASSOCIATION, as a
Lender**

By: /s/ Douglas G. Paul
Name: Douglas G. Paul
Title: Senior Vice President

15

SOUTHTRUST BANK, as a Lender

By: /s/ Sam Boroughs
Name: Sam Boroughs
Title: VP

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ACKNOWLEDGED AND AGREED TO:

MONTEREY HOMES ARIZONA, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MONTEREY HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE HOMES OF ARIZONA, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE PASEO CROSSING, LLC

By: Meritage Homes of Arizona, Inc., its Sole Member

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE PASEO CONSTRUCTION, LLC

By: Meritage Homes Construction, Inc., its Sole Member

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-TEXAS GP, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-TEXAS LP, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

LEGACY/MONTEREY HOMES L.P.

By: MTH-Texas GP, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE HOLDINGS, L.L.C.

By: Legacy/Monterey Homes L.P., its Sole Member

By: MTH-Texas GP, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

LEGACY OPERATING COMPANY, L.P.

By: Meritage Holdings, L.L.C., its General Partner

By: Legacy/Monterey Homes L.P., its Sole Member

By: MTH-Texas GP, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

HULEN PARK VENTURE, LLC

By: Legacy/Monterey Homes L.P., its Sole Member

By: MTH-Texas GP, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-TEXAS GP II, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-TEXAS LP II, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH HOMES-TEXAS, L.P.

By: MTH-Texas GP II, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE HOMES OF CALIFORNIA, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-HOMES NEVADA, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH-CAVALIER, LLC

By: Monterey Homes Construction, Inc., its
Sole Member

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MTH GOLF, LLC

By: Hancock-MTH Builders, Inc., its Sole Member

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

LEGACY-HAMMONDS MATERIALS, L.P.

By: Meritage Holdings, L.L.C., its General Partner

By: Legacy/Monterey Homes L.P., its Sole Member

By: MTH-Texas GP, Inc., its General Partner

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

MERITAGE HOMES OF COLORADO, INC.

By: /s/ Larry W. Seay
Larry W. Seay
Vice President and Secretary

QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, made this _____ day of _____, 2004, by and between Meritage Homes Corporation, a corporation (the "Company") and (the "Optionee").

WITNESSETH:

WHEREAS, the Optionee is now employed by the Company in a key capacity and the Company desires to afford him the opportunity to acquire, or enlarge, his stock ownership in the Company so that he may have a direct proprietary interest in the Company's success;

NOW, THEREFORE, in consideration of the covenants and agreement herein contained, the parties hereto hereby agree as follows:

1. **Grant of Option.** Pursuant to the provisions of the Meritage Homes Corporation Stock Option Plan (the "Plan") the Company hereby grants to the Optionee, subject to the terms and conditions of the Plan and subject further to the terms and conditions herein set forth, the right and option to purchase from the Company for cash all or any part of an aggregate of _____ shares of Common Stock (\$.01 par value) of the Company at the purchase price of \$ _____ per share, such option to be exercised as hereinafter provided. Such options shall vest according to the schedule below:

_____	, 2008	_____	shares
_____	, 2009	_____	shares

2. **Terms and Conditions.** It is understood and agreed that the option evidenced hereby is subject to the following terms and conditions:
- a) **Expiration Date.** The option shall expire on _____, 2011.
3. **Exercise of Option.** This option may be exercised, to the extent exercisable by its terms, in whole or in part at anytime prior to the expiration thereof. Any exercise shall be accompanied by a written notice to the Company specifying the number of shares as to which the option is being exercised.
- a) **Payment of Purchase Price Upon Exercise.** At the time of any exercise, the purchase price shall be paid in cash to the Company.
- b) **Exercise Upon Death or Termination of Employment**
- i) If the Optionee shall cease to be employed by the Company for any reason other than death, the Optionee (except in the case of termination of employment in the manner set forth in subparagraph (ii) of this paragraph) may nevertheless exercise this Option to the extent it is then exercisable within the three month period following the date of such cessation of employment, but not after the termination of such three month period. If the Optionee shall die while in the employ of the Company or within three months following termination of such employment (except in case of termination of employment in the manner set forth in subparagraph (ii) of this paragraph) such Option to the extent it is then exercisable may nevertheless be exercised by the Optionee's personal representative within the three month period following the date of death of the Optionee, but not after the termination of such three month period.
- ii) If the Optionee ceases to be employed by the Company by reason of his own volition (other than death) or by reason of discharge by the Company for cause,

this Option shall expire to the extent that it is unexercised at the time of such termination of employment.

- c) **Non-transferability.** This option shall not be transferable other than by will or by the laws of descent and distribution. During the lifetime of Optionee, this option shall be exercisable only by him.
- d) **Adjustments.** In the event of any change in the Common Stock of the Company by reason of any stock dividend, recapitalization, reorganization, merger, consolidated, split-up, combination or exchange of shares, or of any similar change affecting the Common Stock, then in any such event the number and kind of shares subject to this option and their purchase price per share shall be appropriately adjusted consistent with such change in such manner as the Committee of the Plan may deem equitable to prevent substantial dilution or enlargement of the rights granted to Optionee hereunder. Any adjustment so made shall be final and binding upon Optionee.
- e) **No Rights as Stockholder.** Optionee shall have no rights as a stockholder with respect to any shares of Common Stock subject to this option prior to the date of issuance to him or a certificate or certificates for such shares. No adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date upon which he shall become the holder of record thereof.
- f) **No Right to Continued Employment.** This option shall not confer upon Optionee any right with respect to continuance of employment by the Company or any Subsidiary, nor shall it interfere in any way with the right of his employer to terminate his employment at any time.
- g) **Compliance with Law and Regulations.** This option and the obligation of the Company to sell and deliver shares hereunder, shall be subject to all applicable Federal and State laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.
4. **Investment Representation.** If there is no Registration Statement in effect covering the sale of the shares upon exercise, the Committee appointed pursuant to the Plan may require Optionee to furnish to the Company, prior to the issuance of any shares upon the exercise of all or any part of this option, an agreement (in such form as such Committee may specify) in which Optionee represents that the shares acquired by him upon exercise are being acquired for investment and not with a view to the sale or distribution thereof. The Committee may further require that the certificates for the shares acquired by the Optionee under this Option bear a special legend.
5. **Optionee Bound by Plan.** Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.
6. **Notices.** Any notice hereunder to the Company shall be addressed to it at its office, 8501 E. Princess Drive, #290, Scottsdale, Arizona 85255: Attention: Chief Financial Officer, and any notice hereunder to Optionee shall be addressed to him, either party may designate some other address at any time hereafter in writing.

IN WITNESS WHEREOF, Company has caused this Agreement to be executed by its President or a Vice-President and Optionee has executed this Agreement, both as of the day and year first above written.

(Authorized Signature)

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, made this _____ day of _____, 2004, by and between Meritage Homes Corporation, a corporation (the "Company") and (the "Optionee").

WITNESSETH:

WHEREAS, the Optionee is now employed by the Company in a key capacity and the Company desires to afford him the opportunity to acquire, or enlarge, his stock ownership in the Company so that he may have a direct proprietary interest in the Company's success;

NOW, THEREFORE, in consideration of the covenants and agreement herein contained, the parties hereto hereby agree as follows:

1. **Grant of Option.** Pursuant to the provisions of the Meritage Homes Corporation Stock Option Plan (the "Plan") the Company hereby grants to the Optionee, subject to the terms and conditions of the Plan and subject further to the terms and conditions herein set forth, the right and option to purchase from the Company for cash all or any part of an aggregate of _____ shares of Common Stock (\$.01 par value) of the Company at the purchase price of \$ _____ per share, such option to be exercised as hereinafter provided. Such options shall vest according to the schedule below:

_____	, 2005	_____	shares
_____	, 2006	_____	shares
_____	, 2007	_____	shares
_____	, 2008	_____	shares
_____	, 2009	_____	shares

2. **Terms and Conditions.** It is understood and agreed that the option evidenced hereby is subject to the following terms and conditions:

a) **Expiration Date.** The option shall expire on _____, 2011.

3. **Exercise of Option.** This option may be exercised, to the extent exercisable by its terms, in whole or in part at anytime prior to the expiration thereof. Any exercise shall be accompanied by a written notice to the Company specifying the number of shares as to which the option is being exercised.

a) **Payment of Purchase Price Upon Exercise.** At the time of any exercise, the purchase price shall be paid in cash to the Company.

b) **Exercise Upon Death or Termination of Employment**

i) If the Optionee shall cease to be employed by the Company for any reason other than death, the Optionee (except in the case of termination of employment in the manner set forth in subparagraph (ii) of this paragraph) may nevertheless exercise this Option to the extent it is then exercisable within the three month period following the date of such cessation of employment, but not after the termination of such three month period. If the Optionee shall die while in the employ of the Company or within three months following termination of such employment (except in case of termination of employment in the manner set forth in subparagraph (ii) of this paragraph) such Option to the extent it is then exercisable may nevertheless be exercised by the Optionee's personal representative within the three month period following the date of death of the Optionee, but not after the termination of such three month period.

ii) If the Optionee ceases to be employed by the Company by reason of his own volition (other than death) or by reason of discharge by the Company for cause, this Option shall expire to the extent that it is unexercised at the time of such termination of employment.

c) **Non-transferability.** This option shall not be transferable other than by will or by the laws of descent and distribution. During the lifetime of Optionee, this option shall be exercisable only by him.

d) **Adjustments.** In the event of any change in the Common Stock of the Company by reason of any stock dividend, recapitalization, reorganization, merger, consolidated, split-up, combination or exchange of shares, or of any similar change affecting the Common Stock, then in any such event the number and kind of shares subject to this option and their purchase price per share shall be appropriately adjusted consistent with such change in such manner as the Committee of the Plan may deem equitable to prevent substantial dilution or enlargement of the rights granted to Optionee hereunder. Any adjustment so made shall be final and binding upon Optionee.

e) **No Rights as Stockholder.** Optionee shall have no rights as a stockholder with respect to any shares of Common Stock subject to this option prior to the date of issuance to him or a certificate or certificates for such shares. No adjustment shall be made for dividends or distributions or other rights with respect to such shares for which the record date is prior to the date upon which he shall become the holder of record thereof.

f) **No Right to Continued Employment.** This option shall not confer upon Optionee any right with respect to continuance of employment by the Company or any Subsidiary, nor shall it interfere in any way with the right of his employer to terminate his employment at any time.

g) **Compliance with Law and Regulations.** This option and the obligation of the Company to sell and deliver shares hereunder, shall be subject to all applicable Federal and State laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

4. **Investment Representation.** If there is no Registration Statement in effect covering the sale of the shares upon exercise, the Committee appointed pursuant to the Plan may require Optionee to furnish to the Company, prior to the issuance of any shares upon the exercise of all or any part of this option, an agreement (in such form as such Committee may specify) in which Optionee represents that the shares acquired by him upon exercise are being acquired for investment and not with a view to the sale or distribution thereof. The Committee may further require that the certificates for the shares acquired by the Optionee under this Option bear a special legend.

5. **Optionee Bound by Plan.** Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

6. **Notices.** Any notice hereunder to the Company shall be addressed to it at its office, 8501 E. Princess Drive, #290, Scottsdale, Arizona 85255: Attention: Chief Financial Officer, and any notice hereunder to Optionee shall be addressed to him, either part may designate some other address at any time hereafter in writing.

IN WITNESS WHEREOF, Company has caused this Agreement to be executed by its President or a Vice-President and Optionee has executed this Agreement, both as of the day and year first above written.

(Authorized Signature)

CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER

I, Steven J. Hilton, certify that:

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

Date: November 9, 2004

/s/ Steven J. Hilton
Steven J. Hilton
Co-Chief Executive Officer

CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER

I, John R. Landon, certify that:

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

Date: November 9, 2004

/s/ John R. Landon
John R. Landon
Co-Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Larry W. Seay, certify that:

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

Date: November 9, 2004

/s/ Larry W. Seay

Larry W. Seay
Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Meritage Homes Corporation (the "Company") for the period ending September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned certifies, pursuant to 18 U.S.C., Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

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

MERITAGE HOMES CORPORATION,
a Maryland Corporation

By: /s/ Steven J. Hilton
Steven J. Hilton
Co-Chairman and Co-Chief Executive Officer

Date: November 9, 2004

By: /s/ John R. Landon
John R. Landon
Co-Chairman and Co-Chief Executive Officer

Date: November 9, 2004

By: /s/ Larry W. Seay
Larry W. Seay
Chief Financial Officer

Date: November 9, 2004

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” 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.

The words “believe,” “expect,” “anticipate,” “plan” 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 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements in this Form 10-Q may include, but are not limited to, projections of revenue, income or loss; capital expenditures and backlog; plans for future operations; financing needs or plans and liquidity; the impact of changes in interest rates; plans relating to our products or services, acquisitions, and new or planned development projects; the demand for and pricing of our homes; the expected outcome of legal proceedings against us; the sufficiency of our capital resources; the impact of new accounting standards; the sufficiency of our warranty reserves; the number of new communities we plan to open; and our ability to continue positive operating results in light of current economic and political conditions, as well as assumptions relating to the foregoing.

Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements, and that could negatively affect the Company’s business, stock and note prices, include, but are not limited to, the strength and competitive pricing of the single-family housing market; demand for and acceptance of our homes; changes in the availability and pricing of real estate in the markets in which we operate; our ability to continue to acquire additional land or options to acquire additional land on acceptable terms; general economic slow downs; consumer confidence, which can be impacted by economic and other factors such as terrorism, war, or threats thereof and changes in stock markets; the impact of construction defect and home warranty claims; the cost and availability of insurance, including the unavailability of insurance for the presence of mold; interest rates and changes in the availability and pricing of residential mortgages; our lack of geographic diversification; our level of indebtedness and our ability to raise additional capital when and if needed; our ability to take certain actions because of restrictions contained in the indentures for our senior notes and the agreement for our senior unsecured credit facility; legislative or other initiatives that seek to restrain growth in new housing constructions or similar measures; the success of our program to integrate existing operations with any new operations or those of past or future acquisitions; our success in locating and negotiating favorably with possible acquisition candidates; our ability to expand pre-tax margins; our dependence on key personnel and the availability of satisfactory subcontractors; the impact of inflation; our potential exposure to natural disasters; the impact of new accounting principles and other factors identified in our Form 10-K Report for the year ended December 31, 2003 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Our Future Results and Financial Condition.”

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. As a result of these and other factors, the Company’s stock and bond prices may fluctuate dramatically.
