

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 1-9977

Meritage Corporation
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Maryland
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

86-0611231
(IRS EMPLOYER
IDENTIFICATION NO.)

8501 E. Princess Drive, Suite 290
Scottsdale, Arizona
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

85255
(ZIP CODE)

(480) 609-3330
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of common stock held by non-affiliates of the registrant (10,215,050 shares) as of June 28, 2002, was \$466,317,033, based on the closing sales price per share as reported by the New York Stock Exchange on such date. The aggregate market value of common stock held by non-affiliates of the registrant (9,590,758 shares) as of March 14, 2003, was \$309,877,391, based on the closing sales price per share as reported by the New York Stock Exchange on such date. For purposes of these computations, all executive officers and directors of the registrant have been deemed to be affiliates.

The number of shares outstanding of the registrant's common stock on March 14, 2003 was 12,938,634.

DOCUMENTS INCORPORATED BY REFERENCE

Portions from the registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 21, 2003 have been incorporated by reference into Part III, Items 10, 11, 12 and 13.

MERITAGE CORPORATION
FORM 10-K
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PART I

ITEM 1. BUSINESS

We are a leading designer and builder of single-family homes in the rapidly growing Sunbelt states of Texas, Arizona, California and Nevada. We focus on providing a broad range of first-time, move-up and luxury homes to our targeted customer base. We and our predecessors have operated in Arizona since 1985, in Texas since 1987 and in Northern California since 1989. We expanded our presence in Texas with the July 2002 acquisition of Hammonds Homes (Hammonds), a builder that focuses on the move-up market in the Houston, Dallas/Ft. Worth and Austin areas. We entered the Las Vegas, Nevada market in October 2002 with our acquisition of Perma-Bilt Homes (Perma-Bilt), another move-up builder.

We operate in Texas as Legacy Homes, Monterey Homes and Hammonds Homes, in Arizona as Monterey Homes, Meritage Homes and Hancock Communities, in Northern California as Meritage Homes and in Nevada as Perma-Bilt Homes. At December 31, 2002, we were actively selling homes in 128 communities, with base prices ranging from \$92,000 to \$910,000. We have four primary segments: Texas, Arizona, California and Nevada. See Note 10 to our consolidated financial statements included in this report for information regarding our segments.

AVAILABLE INFORMATION

Information about our company and communities is provided through our Internet web site at WWW.MERITAGEHOMES.COM. Our periodic and current reports and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available, free of charge, on our website as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission ("SEC"). The information on our website is not considered part of this report.

COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths:

CONSERVATIVE INVENTORY MANAGEMENT. We seek to minimize land and inventory risk in order to optimize our use of capital and maintain moderate leverage ratios. We accomplish this by:

- * generally purchasing land subject to complete entitlements, including zoning and utility services;
- * developing smaller parcels, generally projects that can be completed within a three-year period;
- * controlling approximately 81% of our land inventory through rolling options with initial deposit requirements typically between 2% and 15% of the land price;
- * managing housing inventory by pre-selling and obtaining substantial customer deposits on our homes prior to starting construction;
- * limiting unsold home construction; and
- * minimizing home construction cycles.

DISCIPLINED FINANCIAL MANAGEMENT. We believe that our disciplined financial management policies enable us to achieve above-average returns on assets compared to our competitors in the homebuilding industry and maintain reasonable leverage ratios. Our rigorous investment requirements for the acquisition of land enable us to deploy capital efficiently and to generate strong cash flows to fund the acquisition of additional land or homebuilding operations.

STRONG MARGINS. Our focus on achieving high margins results in greater profitability during strong economic periods and also enables us to realize lower break-even points and higher pricing flexibility during slower economic periods. In addition to maintaining low overhead costs, we actively manage construction costs and pricing and marketing strategies in order to maximize margins. We seek to optimize our mix of available housing upgrades and customization features to offer the highest value to customers at the lowest

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cost. Within our pricing structure we provide our sales and marketing professionals with the autonomy and flexibility to respond rapidly to changing market dynamics by customizing our sales programs.

EXPERIENCED MANAGEMENT TEAM WITH SIGNIFICANT EQUITY OWNERSHIP. Members of our senior management team have extensive experience in the homebuilding industry as well as in each of the local markets that we serve. Our co-chief executive officers and senior executives average over 17 years of homebuilding experience and each has a successful track record of delivering superior results in varying homebuilding cycles. In addition, our co-chief executive officers together beneficially own approximately 22% of our outstanding common stock.

PRODUCT BREADTH. We believe that our product breadth and geographic diversity enhance our growth potential and help to reduce exposure to economic cycles. In Arizona, we serve the first-time and move-up markets, and in 2002, we began delivering homes in the age-restricted active adult community market. We also build within the Arizona, and beginning in 2002, the Texas and California luxury markets, characterized by unique communities and distinctive luxury homes. In Texas, we mainly target the first and second-time move-up markets, and in Northern California and Nevada, we focus primarily on move-up homes.

BUSINESS STRATEGY

We seek to distinguish ourselves from other production homebuilders through business strategies focused on the following:

FOCUS ON HIGH GROWTH MARKETS. Our housing markets are located in four rapidly growing Sunbelt states; Texas, Arizona, California and Nevada. These areas are generally characterized by high job growth and in-migration trends, creating strong demand for new housing. We believe they represent attractive homebuilding markets with opportunities for long-term growth. We believe our operations in these markets are well established and that we have developed a reputation for building distinctive quality homes within our markets.

EXPAND INTO NEW AND WITHIN EXISTING MARKETS. We continuously evaluate expansion opportunities through strategic acquisitions of other homebuilders and internal growth through expansion of our product offering in existing markets or start-up operations in new geographic markets. In pursuing expansion, we explore markets with demographic and other growth characteristics similar to our current markets and seek the acquisition of entities with operating policies, cash flow and earnings-focused philosophies similar to ours.

In the past six years we have successfully completed five acquisitions. They have enabled us to substantially increase our revenues and earnings, expand into new markets, increase our market share in existing markets and add new product lines, such as age-restricted housing for the Arizona retirement market.

MAINTAIN LOW COST STRUCTURE. Throughout our history, we have focused on minimizing construction costs and overhead, and we believe this attention is a key factor in maintaining high margins and profitability. We reduce costs by:

- * using subcontractors for home construction and site improvement on a fixed-price basis;
- * obtaining favorable pricing from subcontractors through long-term relationships and high volume;
- * reducing interest carry by minimizing our inventory of unsold or

- * speculative homes and shortening the home construction cycle;
- * generally beginning construction on a home once it is under contract, we have received a satisfactory earnest money deposit and the buyer has obtained preliminary approval for a mortgage loan;
- * minimizing overhead by centralizing certain administrative activities; and
- * monitoring homebuilding production, scheduling and budgeting through management information systems.

SUPERIOR DESIGN, QUALITY AND CUSTOMER SERVICE. We believe we maximize customer satisfaction by offering homes that are built with quality materials and craftsmanship, exhibit distinctive design features and are situated in premium locations. We believe that we generally offer higher caliber homes in their defined price range or category compared to those built by our

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competitors. In addition, we are committed to achieving the highest level of customer satisfaction as an integral part of our competitive strategy. As part of the sales process, our experienced sales personnel keep customers informed of their home's construction progress. After delivery, our customer care departments respond to homebuyers' questions and warranty matters.

PRODUCTS

Our homes range from first-time purchases to semi-custom luxury, with base prices ranging from \$92,000 to \$910,000. A summary of activity by state and product type as of and for the year ended December 31, 2002, follows (dollars in thousands):

<TABLE>
<CAPTION>

	NUMBER OF HOMES CLOSED	AVERAGE CLOSING PRICE	HOMES IN BACKLOG	DOLLAR VALUE OF BACKLOG	HOME SITES REMAINING (1)	NUMBER OF ACTIVE COMMUNITIES
	-----	-----	-----	-----	-----	-----
--						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Texas - First-time	--	\$ --	5	\$ 844	264	1
Texas - Move-up	2,073	183	1,055	207,421	8,462	80
Texas - Luxury	17	428	25	10,634	97	3
Arizona - Age Restricted	107	203	76	15,776	7,508	4
Arizona - First-time	445	110	7	838	338	1
Arizona - Move-up	1,061	279	326	88,194	3,573	18
Arizona - Luxury	122	641	57	39,347	282	6
California - Move-up	540	397	279	108,620	1,745	7
California - Luxury	54	574	54	28,307	654	3
Nevada - Move-up	155	221	186	37,783	2,143	5
	-----		-----	-----	-----	-----
-						
Total	4,574	\$ 243	2,070	\$537,764	25,066	128
	=====		=====	=====	=====	=====

</TABLE>

(1) "Home Sites Remaining" is the estimated number of homes that could be built both on the remaining lots available for sale and land to be developed into lots.

LAND ACQUISITION AND DEVELOPMENT

We typically option or purchase land only after necessary entitlements have been obtained so that development or construction may begin as market conditions dictate. The term "entitlements" refers to development agreements, tentative maps or recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give the developer the right to obtain building permits upon compliance with conditions that are ordinarily within the developer's control. Even though entitlements are usually obtained before land is purchased, we are still required to secure a variety of other governmental approvals and permits during development. The process of obtaining such approvals and permits can substantially delay the development process. For this reason, we may consider, on a limited basis, purchasing unentitled property in the future when we can do so in a manner consistent with our business strategy. Although historically we have generally developed parcels ranging from 100 to 300 lots, in order to achieve and maintain an adequate inventory of lots, we are beginning to purchase larger parcels, in some cases with a joint venture partner.

We select land for development based upon a variety of factors, including:

- * internal and external demographic and marketing studies;
- * project suitability, which generally means developments with fewer than 300 lots;
- * suitability for development generally within a one to four-year time period from the beginning of the development process to the delivery of the last home;
- * financial review as to the feasibility of the proposed project,

CALIFORNIA:						
Sacramento	47	--		185	444	--
676						
East San Francisco Bay	62	340	20	203	1,152	--
1,777						

Total California	109	340	20	388	1,596	--
2,453						

NEVADA:						
Las Vegas	--	181	--	--	505	1,457
2,143						

TOTAL	2,831	1,063	939	2,601	13,236	4,724
25,394						
=====						

</TABLE>

(1) Excludes lots with finished homes or homes under construction.

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CONSTRUCTION OPERATIONS

We are the general contractor for our projects and typically hire subcontractors on a project-by-project or reasonable geographic-proximity basis to complete construction at a fixed price. We usually enter into agreements with subcontractors and materials suppliers after receiving competitive bids on an individual basis. We obtain information from prospective subcontractors and suppliers with respect to their financial condition and ability to perform their agreements before formal bidding begins. Occasionally, we enter into longer-term contracts with subcontractors and suppliers if we can obtain more favorable terms. Our project managers and field superintendents coordinate and supervise the activities of subcontractors and suppliers, subject the development and construction work to quality and cost controls, and assure compliance with zoning and building codes. At December 31, 2002, we employed 406 construction operations personnel.

We specify that quality, durable materials be used in construction of our homes and we do not maintain significant inventories of construction materials, except for work in process materials for homes under construction. When possible, we negotiate price and volume discounts with manufacturers and suppliers on behalf of our subcontractors to take advantage of production volume. Historically, access to our principal subcontracting trades, materials and supplies has been readily available in each of our markets. Prices for these goods and services may fluctuate due to various factors, including supply and demand shortages that may be beyond the control of our vendors. We believe that we have strong relationships with our suppliers and subcontractors.

We generally build and sell homes in clusters or phases within our larger projects, which we believe creates efficiencies in land development and construction, and improves customer satisfaction by reducing the number of vacant lots surrounding a completed home. Our homes are typically completed within four to nine months from the start of construction, depending upon home size and complexity. Construction schedules may vary depending on the availability of labor, materials and supplies, product type, location and weather. Our homes are usually designed to promote efficient use of space and materials, and to minimize construction costs and time. We do not enter into any weather or materials commodity futures derivative contracts.

MARKETING AND SALES

We believe that we have an established reputation for developing high quality homes, which helps generate interest in each new project. We also use advertising and other promotional activities, including our website at www.MERITAGEHOMES.COM, magazine and newspaper advertisements, brochures, direct mailings, and the placement of strategically located signs in the immediate areas of our developments.

We use furnished model homes as tools in demonstrating the competitive advantages of our home designs and various features to prospective homebuyers. We generally employ or contract with interior and landscape designers who are responsible for creating an attractive model home for each product line within a project. We generally build between one and four model homes for each active community, depending upon the number of homes to be built in the project and the products to be offered. Often, we lease our model homes from institutional investors who own the homes for investment purposes or from buyers who do not intend to occupy the home immediately. A summary of model homes owned or leased at December 31, 2002, follows:

	MODEL HOMES OWNED	MODEL HOMES LEASED	MONTHLY LEASE AMOUNT	MODELS UNDER CONSTRUCTION
Texas	53	58	\$ 53,002	16
Arizona	14	64	130,028	20
California	--	38	52,720	14
Nevada	1	19	22,533	--
Total	68	179	\$258,283	50

Our homes generally are sold by full-time, commissioned employees who typically work from a sales office located in one of the model homes for each project. At December 31, 2002, we had 248 sales and marketing employees. Our goal is to ensure that our sales force has extensive knowledge of our operating policies and housing products. To achieve this goal, we train our sales

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personnel and conduct periodic meetings to update them on sales techniques, competitive products in the area, financing availability, construction schedules, marketing and advertising plans, and the available product lines, pricing, options, and warranties offered. Sales personnel are licensed real estate agents where required by law. Independent brokers also sell our homes, and are usually paid a sales commission based on the price of the home. Our sales personnel assist our customers in selecting upgrades or in adding available customization features to their homes. We attempt to present our available upgrade and customization options to appeal to local consumer demands while at the same time minimizing our costs. Occasionally we offer various sales incentives, such as landscaping and certain interior home improvements, to attract buyers. The use and type of incentives depends largely on economic and competitive market conditions.

BACKLOG

Most of our home sales are made under standard sales contracts signed before construction of the home begins. The contracts require substantial cash deposits and are usually subject to certain contingencies such as the buyer's ability to qualify for financing. Homes covered by such sales contracts but not yet closed are considered "backlog." Sales contingent upon the sale of a customer's existing home are not included as new sales contracts until the contingency is removed. We do not recognize revenue upon the sale of a home until it is delivered to the homebuyer and other criteria for sale and profit recognition are met. We sometimes build homes before obtaining a sales contract, however, these homes are excluded from backlog until a sales contract is signed. At December 31, 2002, 11% of our inventory was comprised of homes under construction without sales contracts, and 5% of inventory were completed homes without sales contracts. We believe that we will deliver substantially all homes in backlog at December 31, 2002 to customers during 2003.

Our backlog increased to 2,070 units with a value of \$537.8 million at December 31, 2002 from 1,602 units with a value of \$375.0 million at December 31, 2001. These increases are primarily due to our acquisition of two homebuilders during the year, additional communities that opened for sale in 2002, along with continued buyer demand for homes.

CUSTOMER FINANCING

We attempt to help qualified homebuyers who require financing to obtain loans from mortgage lenders that offer a variety of financing options. We provide mortgage-broker services in some of our markets through investments in mortgage brokers which originate loans on behalf of third party lenders. In other markets we use unaffiliated preferred mortgage lenders. We may pay a portion of the closing costs and discount mortgage points to assist homebuyers with financing. We do not fund or service the mortgages obtained by our home buyers, and therefore do not assume the risks associated with a mortgage banking business. Since many customers use long-term mortgage financing to purchase homes, adverse economic conditions, increases in unemployment and rising mortgage interest rates may deter or reduce the number of potential homebuyers.

CUSTOMER RELATIONS, QUALITY CONTROL AND WARRANTY PROGRAMS

We believe that positive customer relations and an adherence to stringent quality control standards are fundamental to our continued success, and that our commitment to buyer satisfaction and quality control has significantly contributed to our reputation as a high quality builder.

A Meritage project manager or project superintendent and a customer relations representative generally oversee compliance with quality control standards for each community. These representatives perform the following tasks:

- * oversee home construction;
- * oversee subcontractor and supplier performance;
- * review the progress of each home and conduct formal inspections as specific stages of construction are completed; and
- * regularly update buyers on the progress of their homes.

We generally provide a one-year limited warranty on workmanship and building materials with each home. As subcontractors usually provide an indemnity and a certificate of insurance before beginning work, claims relating to workmanship and materials are generally the subcontractors' responsibility. Reserves for future warranty costs are established based on historical experience within each division or region, and are recorded when the homes are delivered. Reserves generally range from 0.45% to 0.75% of a home's sale price. Historically, these reserves have been sufficient to cover warranty repairs.

COMPETITION AND MARKET FACTORS

The development and sale of residential property is a highly competitive industry. We compete for sales in each of our markets with national, regional, and local developers and homebuilders, existing home resales, and to a lesser extent, condominiums and rental housing. Some of our competitors have significantly greater financial resources, lower costs and/or more favorable land positions than we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. We believe that we compare favorably to other homebuilders in the markets in which we operate due to our:

- * experience within our geographic markets which allows us to develop and offer new products;
- * ability to recognize and adapt to changing market conditions, including from a capital and human resource perspective;
- * ability to capitalize on opportunities to acquire land on favorable terms; and
- * reputation for outstanding service and quality products.

GOVERNMENT REGULATION AND ENVIRONMENTAL MATTERS

We option or purchase most of our land after entitlements have been obtained, which provide for zoning and utility services to project sites and give us the right to obtain building permits. Construction may begin almost immediately on such entitled land upon compliance with and receipt of specified permits, approvals and other conditions, which generally are within our control. The time needed to obtain such approvals and permits affects the carrying costs of unimproved property acquired for development and construction. The continued effectiveness of permits already granted is subject to factors such as changes in government policies, rules and regulations, and their interpretation and application. To date, the government approval processes discussed above have not had a material adverse effect on our development activities, although there is no assurance that these and other restrictions will not adversely affect future operations.

Local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions. These fees are normally established when we receive recorded maps and building permits. In addition, communities occasionally impose construction moratoriums. Because most of our land is entitled, construction moratoriums generally would affect us if they arose from health, safety or welfare issues, such as insufficient water, electric or sewage facilities. We could become subject to delays or may be precluded entirely from developing communities due to building moratoriums, "no growth" or "slow growth" initiatives or building permit allocation ordinances, which could be implemented in the future.

We are also subject to a variety of local, state, and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. In some markets, we are subject to environmentally sensitive land ordinances that mandate open space areas with public elements in housing developments, and prevent development on hillsides, wetlands and other protected areas. We must also comply with flood plain restrictions, desert wash area restrictions, native plant regulations, endangered species acts and view restrictions. These and similar laws may result in delays, cause substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas. To date, compliance with such ordinances has not materially affected our operations, although it may do so in the future.

We usually will condition our obligation to option or purchase property on, among other things, an environmental review of the land. To date, we have not incurred any unanticipated liabilities relating to the removal of unknown toxic wastes or other environmental matters. However, there is no assurance that we

will not incur material liabilities in the future relating to toxic waste removal or other environmental matters affecting land currently or previously owned.

SARBANES-OXLEY ACT OF 2002

On July 30, 2002, the Sarbanes-Oxley Act of 2002 (SOA) was signed into law. The stated goals of the SOA are to increase corporate responsibility, to provide

for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies that file or are required to file periodic reports with the SEC under the Exchange Act. Given the extensive SEC role in implementing rules relating to many of the SOA's new requirements, the final scope of some of these requirements remains to be determined.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules, and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters, audit committees; certification of financial interests by the chief executive officer and the chief financial officer; the forfeiture of bonuses and profits made by directors and senior officers in the twelve month period covered by restated financial statements; a prohibition on insider trading during pension plan black-out periods; disclosure of off-balance sheet transactions; a prohibition on personal loans to directors and officers; expedited filing requirements for stock transaction reports by officers and directors; disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; "real time" filing of periodic reports; the formation of a public accounting oversight board; auditor independence; and various increased criminal penalties for violations of securities laws.

The SOA contains provisions that became effective upon enactment on July 30, 2002 and other provisions that will become effective within one year from enactment. The SEC has been delegated the task of enacting rules to implement various of the provisions with respect to, among other matters, disclosure in periodic filings pursuant to the Exchange Act.

EMPLOYEES AND SUBCONTRACTORS

At December 31, 2002, we had 869 employees, including 215 in management and administration, 248 in sales and marketing, and 406 in construction operations. Our employees are not unionized, and we believe that we have good employee relationships. We act solely as a general contractor and all construction operations are conducted by our project managers and field superintendents who manage third party subcontractors. We use independent contractors for construction, architectural and advertising services, and we believe that we have good relationships with our subcontractors and independent contractors.

ITEM 2. PROPERTIES

Our corporate offices are leased properties located in Scottsdale, Arizona, and Plano, Texas. The Scottsdale lease expires in February 2006. The Plano lease expires in May 2005 and the building is leased from a company owned beneficially by one of our co-chairmen. We believe that the Plano lease rate is competitive with rates for comparable space in the area and the terms of the lease are similar to those we could obtain in an arm's length transaction. We lease an aggregate of approximately 92,800 square feet of office space in our markets for our operating divisions and corporate and executive offices. These leases expire between May 2003 and March 2007.

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As of December 31, 2002, we also had leases for 179 model homes and lots with terms ranging from three months to 36 months, with various renewal options. Our aggregate monthly lease amount is approximately \$258,000.

The following schedule summarizes leased real estate for each of our operating segments.

	MONTHLY OFFICE LEASE AMOUNT	APPROXIMATE SQUARE FOOTAGE	MONTHLY MODEL LEASE AMOUNT	NUMBER OF MODEL HOMES
	-----	-----	-----	-----
Texas	\$ 56,700	41,300	\$ 53,002	58
Arizona	71,700	32,600	130,028	64
California	15,000	7,400	52,720	38
Nevada	8,900	7,000	22,533	19
Corporate	9,200	4,500	--	--
	-----	-----	-----	-----
Total	\$161,500	92,800	\$258,283	179
	=====	=====	=====	=====

ITEM 3. LEGAL PROCEEDINGS

We are involved in various routine legal proceedings incidental to our

business, some of which are covered by insurance. With respect to all pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. We have accrued approximately \$937,000 for losses related to potential litigation where our ultimate exposure is considered probable and the potential loss can be reasonably estimated, which is classified in accrued liabilities on our December 31, 2002 balance sheet. We believe that none of these matters will have a material adverse impact upon our consolidated financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of stockholders during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

GENERAL

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "MTH". The high and low sales prices of the common stock for the periods indicated, as reported by the NYSE, follow. All amounts reflect a 2-for-1 stock split in the form of a stock dividend that occurred in April 2002.

	2002		2001	
	HIGH	LOW	HIGH	LOW
First Quarter	\$35.12	\$23.28	\$24.00	\$13.70
Second Quarter	\$47.10	\$31.22	\$26.88	\$13.05
Third Quarter	\$46.25	\$26.38	\$29.98	\$13.75
Fourth Quarter	\$42.20	\$28.90	\$26.49	\$17.00

On March 14, 2003, the closing sales price of the common stock as reported by the NYSE was \$32.31 per share. At that date, there were approximately 213 owners of record. There are approximately 3,200 beneficial owners of common stock.

The transfer agent for our common stock is Mellon Investor Services LLC, 85 Challenger Road, Ridgefield Park, NJ 07660. (WWW.MELLONINVESTOR.COM)

We did not declare cash dividends in 2002, 2001 or 2000, nor do we intend to declare cash dividends in the foreseeable future. Earnings will be retained

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to finance the continuing development of the business. Future cash dividends, if any, will depend upon our financial condition, results of operations, capital requirements, compliance with debt covenants, as well as other factors considered relevant by our Board of Directors.

FACTORS THAT MAY AFFECT FUTURE STOCK PERFORMANCE

The performance of our common stock depends upon many factors, including those listed below and in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Our Future Results and Financial Condition."

The market price of our common stock could be subject to significant fluctuations in response to certain factors, such as variations in anticipated or actual results of our operations or that of other homebuilding companies, changes in conditions affecting the general economy, war or other hostilities involving the United States, including the armed conflict with Iraq, widespread industry trends and analysts' reports, changes in interest rates, as well as other factors unrelated to our operating results.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected historical consolidated financial and operating data of Meritage Corporation and subsidiaries as of and for each of the last five years ended December 31, 2002. The financial data has been derived from our consolidated financial statements and related notes audited by KPMG LLP, independent auditors. For additional information, see the consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The following table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and the Results of Operations. These historical results may not be indicative of future results.

The data below includes the operations of Meritage Homes of California, Hancock Communities, Hammonds Homes and Perma-Bilt Homes since their respective dates of acquisition. Those dates are: Meritage Homes of California, acquired July 1998; Hancock Communities, acquired May 2001; Hammonds Homes, acquired July 2002; and Perma-Bilt Homes, acquired October 2002.

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HISTORICAL CONSOLIDATED FINANCIAL DATA
YEARS ENDED DECEMBER 31,
(\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2002	2001	2000	1999	
1998					
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF EARNINGS DATA:					
Total sales revenue	\$ 1,119,817	\$ 744,174	\$ 520,467	\$ 341,786	\$
257,113					
Total cost of sales	(904,921)	(586,914)	(415,649)	(277,287)	
(205,188)					
Gross profit	214,896	157,260	104,818	64,499	
51,925					
Earnings from mortgage assets and other					
income, net(1)	5,435	2,884	1,847	2,064	
3,961					
Commissions and other sales costs	(65,291)	(41,085)	(28,680)	(19,243)	
(14,292)					
General and administrative expenses	(41,496)	(35,723)	(21,215)	(15,100)	
(10,632)					
Interest expense	--	--	(8)	(6)	
(462)					
Earnings before income taxes and					
extraordinary items	113,544	83,336	56,762	32,214	
30,500					
Income taxes(2)	(43,607)	(32,444)	(21,000)	(13,269)	
(6,497)					
Extraordinary items, net of tax effects(3)	--	(233)	--	--	
--					
Net earnings	\$ 69,937	\$ 50,659	\$ 35,762	\$ 18,945	\$
24,003					
=====					
Net earnings per common share:(4) (5)					
Basic	\$ 5.64	\$ 4.78	\$ 3.46	\$ 1.75	\$
2.26					
Diluted	\$ 5.31	\$ 4.30	\$ 3.13	\$ 1.57	\$
1.96					
BALANCE SHEET DATA (END OF YEAR):					
Real estate	\$ 484,970	\$ 330,238	\$ 211,307	\$ 171,012	\$
104,759					
Total assets	691,788	436,715	267,075	226,559	
152,250					
Notes payable	264,927	177,561	86,152	85,937	
37,205					

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<TABLE>
<CAPTION>

	<C>	<C>	<C>	<C>	<C>
<S>					
Total liabilities	374,480	260,128	145,976	136,148	
79,971					
Stockholders' equity	317,308	176,587	121,099	90,411	
72,279					
SUPPLEMENTAL FINANCIAL DATA:					
Cash provided by (used in):					
Operating activities	\$ (5,836)	\$ (17,137)	\$ 6,252	\$ (36,387)	\$
(2,366)					
Investing activities	(142,805)	(75,739)	(8,175)	(9,902)	
(3,928)					
Financing activities	151,858	91,862	(7,102)	47,324	
10,436					

(1) Earnings from mortgage assets that were obtained from our predecessor and disposed of in 1998 are applicable only to that year.

(2) Prior to the full utilization in 1998 of our net operating loss carryforward obtained from our predecessor, we paid limited income taxes.

- (3) The 2001 amount reflects the net effect of extraordinary items from early extinguishments of long-term debt.
- (4) 2001 earnings per share are shown after a \$0.02 loss from the extraordinary items. Basic and diluted earnings per share before the extraordinary items were \$4.80 and \$4.32, respectively. We did not pay cash dividends in the years 1998 through 2002.
- (5) All amounts reflect a 2-for-1 stock split in the form of a stock dividend that occurred in April 2002.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

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. Certain accounting 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 which we consider to be critical accounting policies. The judgments, assumptions and estimates we use are based on historical experience, knowledge of the accounts and other factors which we believe to be reasonable under the circumstances, and 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 could 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 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.

We acquired Hancock Communities (Hancock), a homebuilder in the Phoenix, Arizona metropolitan area, effective May 31, 2001, Hammonds Homes, a builder in Houston, Austin and Dallas, Texas, effective July 1, 2002, and Perma-Bilt Homes, which builds in the Las Vegas, Nevada area, effective October 1, 2002. The

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results presented below include the operations of these three acquisitions since their dates of purchase and are not necessarily indicative of results to be expected in the future.

HOME SALES REVENUE, SALES CONTRACTS AND NET SALES BACKLOG

The tables provided below show operating and financial data regarding our homebuilding activities (dollars in thousands).

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
HOME SALES REVENUE			
TOTAL			
Dollars	\$ 1,112,439	\$ 742,576	\$ 515,428
Homes closed	4,574	3,270	2,227
Average sales price	\$ 243.2	\$ 227.1	\$ 231.4
TEXAS			
Dollars	\$ 387,264	\$ 259,725	\$ 214,472
Homes closed	2,090	1,518	1,239
Average sales price	\$ 185.3	\$ 171.1	\$ 173.1
ARIZONA			
Dollars	\$ 445,275	\$ 325,918	\$ 175,674
Homes closed	1,735	1,343	623
Average sales price	\$ 256.6	\$ 242.7	\$ 282.0
CALIFORNIA			
Dollars	\$ 245,640	\$ 156,933	\$ 125,282

Homes closed	594	409	365
Average sales price	\$ 413.5	\$ 383.7	\$ 343.2
NEVADA			
Dollars	\$ 34,260	--	--
Homes closed	155	--	--
Average sales price	\$ 221.0	--	--
SALES CONTRACTS			
TOTAL			
Dollars	\$1,161,899	\$ 700,104	\$ 604,444
Homes ordered	4,504	3,016	2,480
Average sales price	\$ 258.0	\$ 232.1	\$ 243.7
TEXAS			
Dollars	\$ 417,158	\$ 255,811	\$ 240,054
Homes ordered	2,134	1,516	1,368
Average sales price	\$ 195.5	\$ 168.7	\$ 175.5
ARIZONA			
Dollars	\$ 383,445	\$ 309,170	\$ 196,567
Homes ordered	1,425	1,165	643
Average sales price	\$ 269.1	\$ 265.4	\$ 305.7
CALIFORNIA			
Dollars	\$ 329,252	\$ 135,123	\$ 167,823
Homes ordered	794	335	469
Average sales price	\$ 414.7	\$ 403.4	\$ 357.8

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NEVADA			
Dollars	\$ 32,044	--	--
Homes ordered	151	--	--
Average sales price	\$ 212.2	--	--

YEARS ENDED DECEMBER 31,

	2002	2001	2000
NET SALES BACKLOG			
TOTAL			
Dollars	\$ 537,764	\$ 374,951	\$ 309,901
Homes in backlog	2,070	1,602	1,246
Average sales price	\$ 259.8	\$ 234.1	\$ 248.7
TEXAS			
Dollars	\$ 218,899	\$ 115,651	\$ 119,564
Homes in backlog	1,085	693	695
Average sales price	\$ 201.8	\$ 166.9	\$ 172.0
ARIZONA			
Dollars	\$ 144,155	\$ 205,985	\$ 115,211
Homes in backlog	466	776	344
Average sales price	\$ 309.3	\$ 265.4	\$ 334.9
CALIFORNIA			
Dollars	\$ 136,927	\$ 53,315	\$ 75,126
Homes in backlog	333	133	207
Average sales price	\$ 411.2	\$ 400.9	\$ 362.9
NEVADA			
Dollars	\$ 37,783	--	--
Homes in backlog	186	--	--
Average sales price	\$ 203.1	--	--

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

HOME SALES REVENUE. The increases in total home sales revenue in 2002 compared to 2001 resulted mainly from a 40% increase in the number of homes closed and an increase in our average sales price from \$227,100 in 2001 to \$243,200 in 2002. The number of closings increased as a result of continued growth in our mid-priced communities in Arizona and growth from the acquisitions of Hammonds and Perma-Bilt. The number of homes closed in Texas during 2002 included 442 Hammonds closings. The increases were offset to some degree by decreases in closings in our Austin division due to an overall weaker economy in that market and in Monterey Phoenix because of a slowing in demand for our luxury priced homes.

SALES CONTRACTS. Sales contracts for any period represent the aggregate sales price of all homes ordered by customers, net of cancellations. We do not include sales contingent upon the sale of a customer's existing home as a sales contract until the contingency is removed. Contributing to the increase in sales contracts for the year 2002 from the previous year were the addition of the Hammonds and Perma-Bilt operations along with strong markets in 2002. The number of new orders in Texas during 2002 includes 466 orders from our Hammonds

HOME SALES GROSS PROFIT. Home sales gross profit represents home sales revenue less cost of home sales. Cost of home sales include developed lot costs, direct home construction costs, an allocation of common community costs (such as model complex costs and architectural, legal and zoning costs), interest, sales tax, warranty, construction overhead and closing costs. The dollar increase in gross profit for the year ended December 31, 2002, is attributable to the 40% increase in home sales revenue for reasons previously described in that section of management's discussion and analysis of financial condition and results of operations. The gross profit margin on home sales decreased to 19.3% in 2002, primarily due to the effect of writing up certain assets acquired in conjunction with purchase accounting for the Hammonds and Perma-Bilt acquisitions. This effectively increased cost of sales by \$5.5 million in the current year, due to the lower gross profit margins generally achieved by Hammonds in comparison to the Company as a whole and to increased competitive pressures in some of our markets.

LAND SALES. The sale of land is not a significant component of our business plan, and takes place infrequently. During 2002, we sold three parcels of land in Arizona at a price of \$7.4 million, resulting in a gross profit of \$800,000. During 2001, land sales of \$1.6 million provided gross profit of \$124,000 and resulted from the sales of lots in Texas and Arizona.

COMMISSIONS AND OTHER SALES COSTS. Commissions and other sales costs, such as advertising and sales office expenses, were approximately \$65.3 million, or 5.9% of home sales revenue in 2002, as compared to approximately \$41.1 million, or 5.5% of home sales revenue in 2001. The increase in these expenses as a percentage of home sales revenue reflects marketing costs in some of our communities that were not yet closing homes in 2002.

OTHER INCOME. Other income consists primarily of mortgage company income, forfeiture of customer deposits, management fees and rebates made under volume-based purchasing programs. The increase in other income from the year ended December 31, 2001 to the year ended December 31, 2002 is primarily due to increased volume in all of our divisions, resulting in additional income, fees and forfeitures of approximately \$2.5 million.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were approximately \$41.5 million, or 3.7% of total revenue in 2002, as compared to approximately \$35.7 million, or 4.8% of total revenue in 2001. The lower expense as a percentage of total revenue in 2002 in comparison to 2001 resulted partly from the June 2002 end to the California earn-out payment per the terms of the purchase contract when we acquired the division. The earn-out was based on 20% of the pre-tax earnings of the Northern California region after reduction for a capital charge. Company-wide, we were also able to benefit from expanding revenue while holding down increases in overhead costs.

INCOME TAXES. The increase in income taxes to \$43.6 million for the year ended December 31, 2002, from \$32.4 million in the prior year resulted from an increase in pre-tax income. The tax benefit associated with the exercise of employee stock options reduced taxes currently payable by approximately \$5.2 million for the year ended December 31, 2002, which resulted in a more favorable tax rate. The tax benefit was credited to additional paid-in capital.

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

HOME SALES GROSS PROFIT. The dollar increase in gross profit for the year ended December 31, 2001, was attributable to the 44% increase in home sales revenue for reasons previously described in that section of management's discussion and analysis of financial condition and results of operations. Home sales gross margins expanded to 21.2% due in part to the strong housing demand in late 2000 and early 2001, which is the period when many of the purchase contracts for homes closed in 2001 were entered into with our customers. We were also able to benefit from a reasonably favorable market for home construction materials, which resulted in lower construction cost increases than had incurred in prior years.

COMMISSIONS AND OTHER SALES COSTS. Commissions and other sales costs were approximately \$41.1 million, or 5.5% of home sales revenue in 2001, as compared to approximately \$28.7 million, or 5.6% of home sales revenue in 2000. The slight decrease in these expenses as a percentage of home sales revenue reflected greater efficiencies in controlling costs.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses were approximately \$35.7 million, or 4.8% of total revenue in 2001, as compared to approximately \$21.2 million, or 4.1% of total revenue in 2000. The higher expense as a percentage of total revenue in 2001 in comparison to 2000 resulted from an increase in insurance costs and the increased overhead related to our Hancock acquisition. In addition, the increase in the number of closings in our Northern California region in 2001 resulted in a greater earn-out payment per the terms of the purchase contract. The earn-out was calculated based on 20% of the pre-tax earnings of the Northern California region after reduction for a capital charge.

INCOME TAXES. The increase in income taxes to \$32.4 million for the year

ended December 31, 2001, from \$21.0 million in the prior year resulted from an increase in pre-tax income. The tax benefit associated with the exercise of

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employee stock options reduced taxes payable by approximately \$2.5 million for the year ended December 31, 2001, which resulted in a more favorable tax rate. The tax benefit was credited to additional paid-in capital.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of capital for the year ended December 31, 2002 were operating expenses, land purchases, lot development, home construction, the repurchase of common stock, and the acquisition of Hammonds and Perma-Bilt. We used a combination of borrowings and funds generated by operations to meet our short-term working capital requirements and in June 2002 we completed an equity offering, resulting in net proceeds of approximately \$80 million, in order to meet long-term capital requirements.

Cash flows for each of our communities depends 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. Because these costs are capitalized, income reported for financial statement purposes during those early stages may significantly exceed cash flow. Later cash flows may significantly exceed earnings reported for financial statement purposes, as cost of sales includes charges for substantial amounts of previously expended costs.

In December 2002 we entered into a credit agreement which provides for a \$250 million senior unsecured revolving credit facility with a \$40 million letter of credit sublimit. Guaranty Bank is the administrative agent for the facility, which matures on December 12, 2005, subject to extension provisions. The new senior unsecured credit facility replaced our two secured credit facilities totaling \$190 million, of which approximately \$123 million was outstanding when they were repaid on December 12, 2002. These credit agreements were repaid with the initial loan proceeds of the unsecured facility.

At December 31, 2002, \$107.6 million of borrowings were outstanding under our senior unsecured revolving credit facility with unborrowed availability under the bank credit facility of approximately \$86.0 million.

This credit facility contains certain financial and other covenants, including:

- * requiring the maintenance of tangible net worth;
- * requiring the maintenance of a minimum interest coverage ratio;
- * establishing a maximum permitted total leverage ratio;
- * imposing limitations on the incurrence of additional indebtedness and liens;
- * imposing restrictions on investments, dividends and certain other payments;
- * imposing restrictions on sale and leaseback transactions and the incurrence of off-balance sheet liabilities; and
- * imposing limitations on the maximum net book value of specified land holdings as a percentage of consolidated tangible net worth.

As of and for the year ended December 31, 2002, we were in compliance with these covenants.

In May 2001, we issued \$165 million in principal amount of 9.75% senior notes due June 1, 2011. Approximately \$66 million of this offering was used to complete the acquisition of Hancock, approximately \$78 million was used to pay down existing bank debt, approximately \$5.1 million was used to pay costs related to the senior notes offering and approximately \$15.9 million was used to repay previously existing senior notes. This early repayment of debt resulted in prepayment fees of approximately \$731,000, which, net of the related income tax benefit, resulted in an extraordinary loss of approximately \$445,000 in the second quarter of 2001.

In September 2001, we purchased and retired \$10 million in principal amount of our outstanding 9.75% senior notes. The purchases were made at 93.25% of par at a gain of approximately \$348,000, which net of related income tax effect of \$136,000, resulted in an extraordinary gain of \$212,000.

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In February 2003, we completed an add-on offering of \$50 million in aggregate principal amount of our 9.75% senior notes due June 1, 2001, the proceeds of which were used to pay down our senior unsecured credit facility. The notes were issued at a price of 103.25% of their face amount to yield 9.054%, and together with the May 2001 offering, constitute a single series of notes.

Our senior notes require us to comply with a number of covenants that restrict certain transactions, including:

- * limitations on additional indebtedness;
- * limitations on the payment of dividends, redemption of equity interests and certain investments;
- * maintenance of a minimum level of consolidated tangible net worth;
- * limitations on liens securing certain obligations; and
- * limitations on the sale of assets, mergers and consolidations and transactions with affiliates.

As of and for the year ended December 31, 2002, we were in compliance with these covenants.

We believe that our current borrowing capacity, cash on hand at December 31, 2002, and anticipated net cash flows are and will be sufficient to meet liquidity needs for the foreseeable future. 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 incur may be limited by the terms of the indenture governing our senior notes and by the terms of the credit agreement governing our senior unsecured credit facility.

In May 1999, we announced a stock repurchase program in which our Board of Directors approved the buyback of up to \$6 million of our outstanding common stock, and in July 2001 this amount was increased to \$20 million. In August 2002, we announced a second stock repurchase program in which the board of directors approved the buyback of up to \$32 million of our outstanding stock. In 2002, we repurchased 500,000 shares of our common stock at an average price of \$34.30 per share. Under both programs, we had repurchased 2,137,926 shares for an aggregate price of approximately \$28.4 million as of December 31, 2002.

CONTRACTUAL OBLIGATIONS

The following summarizes our contractual obligations at December 31, 2002, and the effect such obligations are expected to have on our liquidity and cash flows in future periods (in thousands):

<TABLE>
<CAPTION>

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
<S>	<C>	<C>	<C>	<C>	<C>
Senior notes	\$155,000	--	--	--	\$155,000
Revolving construction facilities	107,565	\$107,565	--	--	--
Other borrowing obligations	2,362	1,808	\$ 554	--	--
Operating lease obligations	7,127	3,645	3,463	\$ 19	--
Recourse option obligations	30,915	22,214	8,701	--	--
Total	\$302,969	\$135,232	\$ 12,718	\$ 19	\$155,000

</TABLE>

We do not engage in commodity trading or other similar activities. We had no derivative financial instruments at December 31, 2002 or 2001.

As a part of our model home construction activities, we enter into lease transactions with third parties. The total cost, including land, and construction costs of model homes leased by us under these lease agreements is \$38.6 million, all of which is excluded from our balance sheet as of December 31, 2002. Our rent obligations under these leases are included in the table above within operating lease obligations. See Notes 2 and 11 to our consolidated financial statements included in this report for additional information regarding our contractual obligations.

LETTER OF CREDIT AND BOND OBLIGATIONS

We obtain letters of credit, mainly in lieu of cash deposits to support our option agreements, and performance, maintenance, and other bonds in support of our related obligations with respect to the development of our projects. The

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amount of these obligations outstanding at any time varies in accordance with pending 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 December 31, 2002, we had approximately \$16.2 million in outstanding letters of credit and \$72.9 million in performance bonds for such purposes. We do not believe it is probable that any of these letters of credit or bonds will be drawn upon.

CONSOLIDATED CASH FLOW

Our cash and cash equivalents at December 31, 2002 increased by \$3.2 million from the balance at the end of the prior year. This increase reflects a net usage of cash in operating activities of \$5.8 million and investing activities of \$142.8 million, offset by increases resulting from financing

activities of \$151.9 million. Our main uses of cash for investing activities were for our acquisitions of Hammonds and Perma-Bilt which totaled \$129.6 million, while our main sources of cash from financing activities were net borrowings under our credit facilities of \$86.3 million and the proceeds from our common stock offering in June 2002 of \$79.7 million, which was offset by \$17.2 million of cash used for repurchases of our common stock.

We used cash in operations of \$5.8 million in 2002, compared with \$17.1 million in 2001. Net cash provided by operating activities in 2000 was \$6.3 million. The decrease in cash used in operations in 2002 resulted mainly from the \$19.3 million increase in net earnings. The change in cash used of \$17.1 million in 2001 over \$6.3 million provided in 2000 resulted from increases in our real estate, option deposits and homebuilding assets in conjunction with our increased homebuilding operations.

We used cash in investing activities of \$142.8 million in 2002, compared with \$75.7 million and \$8.2 million in 2001 and 2000, respectively. The increase in cash used in 2002 over 2001 was primarily due to our acquisition of Hammonds and Perma-Bilt, which used cash of approximately \$129.6 million. The increase in cash used in 2001 over 2000 was primarily due to our acquisition of Hancock, which used cash of approximately \$66 million.

Financing activities generated cash of \$151.9 million in 2002 and \$91.9 million in 2001. In 2000 we used \$7.1 million in cash from financing activities. The increase in cash provided by financing activities in 2002 resulted mainly from the proceeds from the sale of our common stock in a public offering, offset by increased purchases of treasury shares. The increase in cash generated in 2001 over 2000 mainly was due to the issuance of our 9.75% senior notes. In 2000, we did not engage in any significant capital raising activities other than the borrowing and repayment of our credit facilities and we used \$9.1 million to acquire treasury shares.

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 as our operations continue to expand.

NEW ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities". This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", addresses consolidation by business enterprises of variable interest entities (selected entities with related contractual, ownership, voting or other monetary interests, including certain special purpose entities), and requires certain additional disclosure with respect to these entities. The provisions of FIN 46 are applicable immediately to variable interest entities created after January 31, 2003. A public entity with a variable interest in a variable interest entity created before February 1, 2003, shall apply the provisions of FIN 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. We do not expect the requirements of FIN 46 to have a material impact on our consolidated financial statements.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This amendment to FASB Statement No. 123 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement

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amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this statement are effective for financial statements of interim or annual periods after December 15, 2002. We do not intend to change to the fair value method of accounting. The required disclosures are included in the stock-based compensation section of Note 1 to the consolidated financial statements appearing in this document.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes that are related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, among others, guarantees relating to employee

compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in a special purpose entity, and guarantees of a company's own performance. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance, not price. The disclosure requirements of FIN 45 are effective for the Company as of December 31, 2002 and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. We do not expect the requirements of FIN 45 to have a material impact on our consolidated financial statements. For disclosures required by FIN 45, See Note 11, "Commitments and Contingencies" to the consolidated financial statements appearing in this document.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," that supersedes APB Opinion No. 17. Under SFAS 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are to be reviewed at least annually for impairment, under impairment guidelines established in the statement. SFAS 142 also changes the amortization methodology in intangible assets that are deemed to have finite lives and adds to required disclosures regarding goodwill and intangible assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001. We adopted SFAS 142 on January 1, 2002, and our unamortized balance of goodwill as of that date was approximately \$30.4 million. Beginning in 2002, we ceased our amortization of goodwill. Goodwill amortization for 2001 and 2000 was approximately \$1.4 million and \$1.1 million, respectively. During 2002, under guidelines contained in the statement, management performed an analysis concerning potential impairment of the goodwill carried and determined that no impairment existed. A subsequent assessment is being performed in the first quarter of 2003, and to date, no impairment has been found to exist. See Note 1 and Note 4 to the consolidated financial statements appearing in this document for further discussion of SFAS 142.

FACTORS THAT MAY AFFECT OUR FUTURE RESULTS AND FINANCIAL CONDITION

Future operating results and financial condition depend on our ability to successfully design, develop, construct and sell homes that satisfy dynamic customer demand patterns. Inherent in this process are factors that we must successfully manage to achieve favorable future operating results and financial condition. These operating and financial factors, along with many other factors, could affect the price of our common stock and notes. Potential risks and uncertainties that could affect future operating results and financial condition could include the factors discussed below.

HOMEBUILDING INDUSTRY FACTORS. The homebuilding industry is cyclical and is significantly affected by changes in economic and other conditions, such as employment levels, availability of financing, interest rates, and consumer confidence. These factors can negatively affect the demand for and pricing of our homes. We are also subject to various risks, many of which are outside our

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control, including delays in construction schedules, cost overruns, changes in governmental regulations (such as no- or slow-growth initiatives), increases in real estate taxes and other local government fees, and raw materials and labor costs.

We are also subject to the potential for significant variability and fluctuations in the cost and availability of real estate. Write-downs of our land inventories could occur if market conditions deteriorate and these write-downs could be material in amount. Although historically we have generally developed parcels ranging from 100 to 300 lots, in order to achieve and maintain an adequate inventory of lots, we are beginning to purchase larger parcels, in some cases with a joint venture partner. Write-downs may also occur if we purchase land at higher prices during stronger economic periods and the value of that land subsequently declines during slower economic periods.

HOME WARRANTY FACTORS. Construction defect and home warranty claims are common in the homebuilding industry and can be costly. While we maintain product liability insurance and generally require our subcontractors and design professionals to indemnify us for liabilities arising from their work, we cannot assure you that these insurance rights and indemnities will be adequate to cover all construction defect and warranty claims for which we may be held liable. For example, we may be responsible for applicable self-insured retentions, which have increased recently, and certain claims may not be covered by insurance or may exceed applicable coverage limits.

INCREASED INSURANCE COSTS. Recently, lawsuits have been filed against builders asserting claims of personal injury and property damage caused by the presence of mold in residential dwellings. Some of these lawsuits have resulted in substantial monetary judgments or settlements. We believe that we have maintained adequate insurance coverage to insure against these types of claims.

We believe it is possible that in the future insurance carriers may exclude claims from future policies arising from the presence of mold or such coverage may become prohibitively expensive. If we are unable to obtain adequate insurance coverage, a material adverse effect on our business, financial condition and results of operations could result if we are exposed to claims arising from the presence of mold in the homes that we sell.

Partially as a result of the September 11, 2001 terrorist attacks, the cost of insurance has risen, deductibles or retentions have increased and the availability of insurance has diminished. Significant increase in our cost of insurance coverage or retentions could have a material adverse effect on our business, financial condition and results of operations.

FLUCTUATIONS IN OPERATING RESULTS. We historically have experienced, and expect to continue to experience, variability in home sales and net earnings on a quarterly basis. As a result of such variability, our historical performance may not be a meaningful indicator of future results. Factors that contribute to this variability include:

- * timing of home deliveries and land sales;
- * our ability to acquire additional land or options for additional land on acceptable terms;
- * conditions of the real estate market in areas where we operate and of the general economy;
- * the cyclical nature of the homebuilding industry, changes in prevailing interest rates and the availability of mortgage financing;
- * costs and availability of materials and labor; and
- * delays in construction schedules due to strikes, adverse weather, acts of God, reduced subcontractor availability and governmental restrictions.

INTEREST RATES AND MORTGAGE FINANCING. In general, housing demand is adversely affected by increases in interest rates and housing costs and the unavailability of mortgage financing. Most of our buyers finance their home purchases through third-party lenders providing mortgage financing. If mortgage interest rates increase and, consequently, the ability of prospective buyers to finance home purchases is adversely affected, home sales, gross margins and cash flow may also be adversely affected and the impact may be significant. Interest rates are currently at historically low levels and, while it is impossible to predict future increases or decreases in market interest rates, we do not expect current rates to remain indefinitely at their current levels. In addition, homebuilding activities depend upon the availability and costs of mortgage financing for buyers of homes owned by potential customers, as those customers (move-up buyers) often need to sell their residences before they purchase our homes. Any reduction of financing availability could adversely affect home sales.

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COMPETITION. The homebuilding industry is highly competitive. We compete for sales in each of our markets with national, regional and local developers and homebuilders, existing home resales and, to a lesser extent, condominiums and available rental housing. If we are unable to successfully compete, our financial results and growth could suffer. Some of our competitors have significantly greater financial resources or lower costs than we do. Competition among both small and large residential homebuilders is based on a number of interrelated factors, including location, reputation, amenities, design, quality and price. Competition is expected to continue and become more intense, and there may be new entrants in the markets in which we currently operate and in markets we may enter in the future.

LACK OF GEOGRAPHIC DIVERSIFICATION. We have operations in Texas, Arizona, Northern California and Nevada. Our lack of geographic diversification could adversely impact us if the homebuilding business in our current markets should decline, since there may not be a balancing opportunity in a stronger market in other geographic regions.

ADDITIONAL FINANCING; LIMITATIONS. The homebuilding industry is capital intensive and requires significant up-front expenditures to acquire land and begin development. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. At December 31, 2002, our debt totaled approximately \$264.9 million. We may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including bank financing and securities offerings. The level of our indebtedness could have important consequences to our stockholders, including the following:

- * our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- * we must use a substantial portion of our cash flow from operations to pay interest and principal on our indebtedness, which will reduce the funds available to use for other purposes such as capital expenditures;
- * we have a higher level of indebtedness than some of our competitors, which may put us at a competitive disadvantage and reduce our flexibility in planning for, or responding to, changing conditions in

- our industry, including increased competition; and
- * we are more vulnerable to economic downturns and adverse developments in our business.

We expect to obtain the money to pay our expenses and to pay the principal and interest on our indebtedness from cash flow from operations. Our ability to meet our expenses thus depends on our future performance, which will be affected by financial, business, economic and other factors. We will not be able to control many of these factors, such as economic conditions in the markets where we operate and pressure from competitors. We cannot be certain that our cash flow will be sufficient to allow us to pay principal and interest on our debt and meet our other obligations. If we do not have sufficient funds, we may be required to refinance all or part of our existing debt, sell assets or borrow more money. We cannot guarantee that we will be able to do so on terms acceptable to us, if at all. In addition, the terms of existing or future debt agreements may restrict us from pursuing any of these alternatives.

OPERATING AND FINANCIAL LIMITATIONS. The indenture for our senior notes and the agreement for our senior unsecured credit facility impose significant operating and financial restrictions on us. These restrictions will limit our ability, among other things, to:

- * incur additional indebtedness;
- * pay dividends or make other distributions;
- * repurchase our stock;
- * make investments;
- * sell assets;
- * enter into agreements restricting our subsidiaries' ability to pay dividends;
- * enter into transactions with affiliates; and
- * consolidate, merge or sell all or substantially all of our assets.

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In addition, the indenture for our senior notes requires us to maintain a minimum consolidated tangible net worth and our senior unsecured credit facility requires us to maintain other specified financial ratios. We cannot assure you that these covenants will not adversely affect our ability to finance our future operations or capital needs or to pursue available business opportunities. A breach of these covenants or our inability to maintain the required financial ratios could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be immediately due and payable.

GOVERNMENT REGULATIONS; ENVIRONMENTAL CONDITIONS. Regulatory requirements could cause us to incur significant liabilities and costs and could restrict our business activities. We are subject to local, state and federal statutes and rules regulating certain developmental matters, as well as building and site design. We are subject to various fees and charges of governmental authorities designed to defray the cost of providing certain governmental services and improvements. We may be subject to additional costs and delays or may be precluded entirely from building projects because of "no-growth" or "slow-growth" initiatives, building permit ordinances, building moratoriums, or similar government regulations that could be imposed in the future due to health, safety, welfare, or environmental concerns. We must also obtain licenses, permits and approvals from government agencies to engage in certain activities, the granting or receipt of which are beyond our control.

We are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. Environmental laws or permit restrictions may result in project delays, may cause substantial compliance and other costs and may prohibit or severely restrict development in certain environmentally sensitive regions or geographic areas. Environmental regulations can also have an adverse impact on the availability and price of certain raw materials such as lumber.

RECENT ACQUISITIONS. During 2002 we acquired Hammonds and Perma-Bilt and we cannot assure you that:

- * the Hammonds and Perma-Bilt businesses will be successfully integrated with our existing business;
- * the market and financial synergies we anticipate will be achieved in our expected time frame, or at all;
- * the acquisitions will be accretive to earnings due to unexpected expenses, contingencies or liabilities, or due to the financial performance of the Hammonds and Perma-Bilt businesses;
- * the combined companies will not lose key employees, management, suppliers or subcontractors; and
- * we can successfully manage new housing lines that were previously managed by Hammonds and Perma-Bilt or new lines planned for the future.

FUTURE EXPANSION. We may continue to consider growth or expansion of our operations in our current markets or in other areas of the country. Our expansion into new or existing markets could have a material adverse effect on

our cash flows or profitability. The magnitude, timing and nature of any future expansion will depend on a number of factors, including suitable acquisition candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. New acquisitions may result in the incurrence of additional debt. Acquisitions also involve numerous risks, including difficulties in the assimilation of the acquired company's operations, the incurrence of unanticipated liabilities or expenses, the diversion of management's attention from other business concerns, risks of entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company.

DEPENDENCE ON KEY PERSONNEL. Our success largely depends on the continuing services of certain key employees, including Steve Hilton and John Landon, and our continued favorable development depends on our ability to attract and retain qualified personnel. The loss of the services of key employees could harm our business.

DEPENDENCE ON SUBCONTRACTORS. We conduct our construction operations only as a general contractor. Virtually all architectural and construction work is performed by unaffiliated third-party subcontractors. As a consequence, we depend on the continued availability of and satisfactory performance by these subcontractors for the design and construction of our homes. We cannot assure

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you that there will be sufficient availability of and satisfactory performance by these unaffiliated third-party subcontractors. In addition, inadequate subcontractor resources could have a material adverse affect on our business.

INFLATION. We, like other homebuilders, may be adversely affected during periods of high inflation, mainly because of higher land and construction costs. Also, higher mortgage interest rates may significantly affect the affordability of mortgage financing to prospective buyers. Inflation also increases our cost of financing, materials and labor and could cause our financial results or growth to decline. We attempt to pass cost increases on to our customers through higher sales prices. To date, inflation has not had a material adverse effect on our results of operations, although it could impact our future operating results.

NATURAL DISASTERS. We have significant homebuilding operations in Texas and Northern California. Some of our markets in Texas occasionally experience severe weather conditions such as tornadoes or hurricanes. Northern California has experienced a significant number of earthquakes, flooding, landslides and other natural disasters in recent years. We do not insure against some of these risks. These occurrences could damage or destroy some of our homes under construction or our building lots, which may result in losses that exceed our insurance coverage. We could also suffer significant construction delays or substantial fluctuations in the pricing or availability of building materials. Any of these events could cause a decrease in our revenue, cash flows and earnings.

RECENT LAWS, REGULATIONS AND ACCOUNTING PRONOUNCEMENTS. In the past several months, a number of new laws, governmental and stock exchange regulations, as well as accounting policies, principles or practices, have been adopted or proposed, many of which could, depending on their ultimate outcome or interpretations, affect our corporate governance or accounting methods. As an example, the accounting profession recently adopted new standards for whether certain transactions should be accounted for as on- or off-balance sheet transactions. We have the right to acquire a substantial amount of lot inventory through rolling options with third parties and, to a lesser extent, joint ventures. At the present time, we do not believe that these pronouncements, and other current proposals, will materially affect us; however, we cannot assure you that the ultimate interpretation or implementation of new and proposed laws and other pronouncements will not produce such an effect.

ACTS OF WAR. Acts of war or any outbreak or escalation of hostilities between the United States and any foreign power, including the armed conflict with Iraq, may cause disruption to the economy, our company, our employees and our customers, which could impact our revenue, costs and expenses and financial condition.

SPECIAL NOTE OF CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

The words "believe," "expect," "anticipate," "forecast," "plan," and "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1993, and Section 21E of the Exchange Act. Forward-looking statements in this Form 10-K include statements concerning the demand for and the pricing of our homes, our ability to deliver existing backlog, the expected outcome of legal proceedings against us, the sufficiency of our capital resources, the

impact of new accounting standards, the future realizability of deferred tax assets, the expectation of continued positive operating results in 2003 and beyond, the expected benefits of the Hammonds and Perma-Bilt acquisitions, including future home closings and Hammonds and Perma-Bilt's future contribution to our revenue and earnings, and our ability to continue positive operating results in light of current economic and political conditions. Such statements are subject to significant risks and uncertainties.

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 our business are discussed in this report under the

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heading "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 that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. In addition, we undertake 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, our stock and note prices may fluctuate dramatically.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of our senior unsecured notes offering, \$155.0 million of our outstanding borrowings is based on a fixed interest rate. 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 in the fixed rate debt until we would be required to refinance such debt.

We are exposed to market risk 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, both upwards and downwards. As of December 31, 2002, we had approximately \$107.6 million drawn under our revolving credit facility that is subject to changes in interest rates. An increase or decrease of 1% in interest rates would change our annual debt service payments by approximately \$1.0 million per year.

We do not enter into, or intend to enter into, derivative financial instruments for trading or speculative purposes.

Our operations are interest rate sensitive. Overall housing demand is adversely affected by increases in interest rates. If mortgage interest rates increase significantly, this 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 will also increase our borrowing costs because our revolving credit facility will fluctuate with the prime and Eurodollar lending rates, both upwards and downwards.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements as of December 31, 2002 and 2001 and for each of the years in the three-year period ended December 31, 2002, together with related notes and the report of KPMG LLP, independent auditors, are on the following pages. Other required financial information is more fully described in Item 16.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Meritage Corporation:

We have audited the accompanying consolidated balance sheets of Meritage Corporation and subsidiaries (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Meritage Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the consolidated financial statements, the Company changed their method of accounting for goodwill and other intangible assets in 2002.

/s/ KPMG LLP

Phoenix, Arizona
February 6, 2003

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2002	2001
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and cash equivalents	\$ 6,600	\$ 3,383
Real estate	484,970	330,238
Deposits on real estate under option or contract	77,516	45,252
Receivables	8,894	5,508
Deferred tax asset, net	2,701	2,612
Goodwill	73,785	30,369
Property and equipment, net	14,007	9,667
Prepaid expenses and other assets	23,315	9,686
	-----	-----
Total assets	\$ 691,788	\$ 436,715
	=====	=====
LIABILITIES		
Accounts payable	\$ 52,133	\$ 36,168
Accrued liabilities	41,329	32,861
Home sale deposits	16,091	13,538
Notes payable	264,927	177,561
	-----	-----
Total liabilities	374,480	260,128
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock, par value \$0.01. Authorized 50,000,000 shares; issued and outstanding 15,227,460 and 12,613,938 shares at December 31, 2002 and 2001, respectively	152	126
Additional paid-in capital	197,320	109,412
Retained earnings	148,209	78,272
Treasury stock at cost, 2,137,926 and 1,637,926 shares at December 31, 2002 and 2001, respectively	(28,373)	(11,223)
	-----	-----
Total stockholders' equity	317,308	176,587
	-----	-----
Total liabilities and stockholders' equity	\$ 691,788	\$ 436,715
	=====	=====

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31,		
2002	2001	2000
(IN THOUSANDS, EXCEPT PER SHARE DATA)		

<S>	<C>	<C>	<C>
Home sales revenue	\$ 1,112,439	\$ 742,576	\$ 515,428
Land sales revenue	7,378	1,598	5,039
	-----	-----	-----
	1,119,817	744,174	520,467
	-----	-----	-----
Cost of home sales	(898,343)	(585,440)	(411,203)
Cost of land sales	(6,578)	(1,474)	(4,446)
	-----	-----	-----
	(904,921)	(586,914)	(415,649)
	-----	-----	-----
Home sales gross profit	214,096	157,136	104,225
Land sales gross profit	800	124	593
	-----	-----	-----
	214,896	157,260	104,818
	-----	-----	-----
Commissions and other sales costs	(65,291)	(41,085)	(28,680)
General and administrative expenses	(41,496)	(35,723)	(21,215)
Interest expense	--	--	(8)
Other income, net	5,435	2,884	1,847
	-----	-----	-----
Earnings before income taxes and extraordinary items	113,544	83,336	56,762
Income taxes	(43,607)	(32,444)	(21,000)
	-----	-----	-----
Earnings before extraordinary items	69,937	50,892	35,762
Extraordinary items, net of tax effects	--	(233)	--
	-----	-----	-----
Net earnings	\$ 69,937	\$ 50,659	\$ 35,762
	=====	=====	=====
Earnings per share:			
Basic:			
Earnings before extraordinary items	\$ 5.64	\$ 4.80	\$ 3.46
Extraordinary items, net of tax effects	--	(0.02)	--
	-----	-----	-----
Net earnings per share	\$ 5.64	\$ 4.78	\$ 3.46
	=====	=====	=====
Diluted:			
Earnings before extraordinary items	\$ 5.31	\$ 4.32	\$ 3.13
Extraordinary items, net of tax effects	--	(0.02)	--
	-----	-----	-----
Net earnings per share	\$ 5.31	\$ 4.30	\$ 3.13
	=====	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(IN THOUSANDS)

	NUMBER OF SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1999	10,950	\$ 110	\$ 100,352	\$ (8,149)	\$ (1,902)	\$ 90,411
Net earnings	--	--	--	35,762	--	35,762
Tax benefit from stock option exercises	--	--	1,917	--	--	1,917
Exercise of stock options	718	6	2,044	--	--	2,050
Contingent shares issued	178	2	(2)	--	--	--
Stock option and contingent stock compensation expenses	--	--	73	--	--	73
Purchase of treasury stock	--	--	--	--	(9,114)	(9,114)
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2000	11,846	118	104,384	27,613	(11,016)	121,099
Net earnings	--	--	--	50,659	--	50,659
Tax benefit from stock option exercises	--	--	2,486	--	--	2,486
Exercise of stock options	768	8	2,542	--	--	2,550

Purchase of treasury stock	--	--	--	--	(207)	(207)
Balance at December 31, 2001	12,614	126	109,412	78,272	(11,223)	176,587
Net earnings	--	--	--	69,937	--	69,937
Tax benefit from stock option exercises	--	--	5,222	--	--	5,222
Exercise of stock options	601	6	3,006	--	--	3,012
Purchase of treasury stock	--	--	--	--	(17,150)	(17,150)
Issuance of common stock upon public offering	2,012	20	79,680	--	--	79,700
Balance at December 31, 2002	15,227	\$ 152	\$ 197,320	\$ 148,209	\$ (28,373)	\$ 317,308

</TABLE>

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	\$ 69,937	\$ 50,659	\$ 35,762
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Depreciation and amortization	6,780	5,741	3,407
(Increase) decrease in deferred tax asset before extraordinary items	(89)	(2,069)	156
Stock option and contingent stock compensation expenses	--	--	73
Tax benefit from stock option exercises	5,222	2,486	1,917
Changes in assets and liabilities, net of effect of acquisitions in 2002 and 2001:			
Increase in real estate	(54,896)	(64,386)	(40,295)
Increase in deposits on real estate under option or contract	(29,088)	(12,102)	(8,551)
Increase in receivables and prepaid expenses and other assets	(13,854)	(10,816)	(1,241)
Increase in accounts payable and accrued liabilities	10,291	13,232	12,368
(Decrease) increase in home sale deposits	(139)	118	2,656
Net cash (used in) provided by operating activities	(5,836)	(17,137)	6,252
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for acquisitions	(129,582)	(65,759)	(5,158)
Increase in goodwill	(4,938)	(2,710)	--
Purchases of property and equipment	(8,285)	(7,270)	(3,017)
Net cash used in investing activities	(142,805)	(75,739)	(8,175)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings	816,153	527,910	447,269
Repayments of debt	(729,857)	(578,391)	(447,054)
Proceeds from issuance of senior notes	--	165,000	--
Repayments of senior notes	--	(25,000)	--
Proceeds from sale of common stock, net	79,700	--	--
Purchase of treasury stock	(17,150)	(207)	(9,114)
Proceeds from exercises of stock options	3,012	2,550	1,797
Net cash provided by (used in) financing activities	151,858	91,862	(7,102)
Net increase (decrease) in cash and cash equivalents	3,217	(1,014)	(9,025)
Cash and cash equivalents, beginning of period	3,383	4,397	13,422
Cash and cash equivalents, end of period	\$ 6,600	\$ 3,383	\$ 4,397

</TABLE>

See Supplemental Disclosure of Cash Flow Information at Note 8.

See accompanying notes to consolidated financial statements

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MERITAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS. We are a leading designer and builder of single-family homes in the rapidly growing Sunbelt states of Texas, Arizona, California and Nevada. We focus on providing a broad range of first-time, move-up and luxury homes to our targeted customer base. We and our predecessors have operated in Arizona since 1985, in Texas since 1987 and in Northern California since 1989. In 2002 we acquired Hammonds Homes (Hammonds), a builder of primarily move-up homes in Houston, Austin and Dallas, Texas, and Perma-Bilt Homes (Perma-Bilt), a homebuilder that serves the first-time and move-up markets in the Las Vegas, Nevada area.

BASIS OF PRESENTATION. The accompanying consolidated financial statements include our accounts and those of our consolidated subsidiaries. Intercompany balances and transactions have been eliminated in consolidation, and certain prior year amounts have been reclassified to be consistent with current financial statement presentation. Financial results include the operations of Hancock Communities (Hancock) from May 31, 2001, Hammonds from July 1, 2002 and Perma-Bilt from October 1, 2002, the effective dates of the acquisitions (see Note 4).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. 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. Certain accounting policies involve significant judgments, assumptions and estimates by management that have a material impact on the carrying value of certain assets and liabilities, and revenue and costs, which we consider to be critical accounting policies. The judgments, assumptions and estimates we use are based on historical experience, knowledge of the accounts and other factors which we believe to be reasonable under the circumstances and 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 could 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 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 or 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.

CASH AND CASH EQUIVALENTS. Liquid investments with an initial maturity of three months or less are classified as cash equivalents. Amounts in transit from title companies for home closings of approximately \$5.2 million and \$317,000 are included in cash and cash equivalents at December 31, 2002 and 2001, respectively.

REAL ESTATE. Real estate consists of finished home sites and home sites under development, completed homes and homes under construction, and land held for development. Costs capitalized include direct construction costs for homes, development period interest and certain common costs that benefit the entire community. Common costs are incurred on a community-by-community basis and allocated to residential lots based on the number of lots to be built in the project, which approximates the relative sales value method.

An impairment loss is recorded when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the cash flows generated by future disposition. In such cases, amounts are carried at the lower of cost or estimated fair value less disposal costs.

Deposits paid related to land options and contracts to purchase land are capitalized when incurred and classified as deposits on real estate under option or contract until the related land is purchased. The deposits are then transferred to real estate at the time the lots are acquired. Deposits are charged to expense if the land acquisition is no longer considered probable.

COST OF HOME SALES. Cost of home sales includes direct home construction costs, closing costs, land acquisition and development costs, development period interest, and common costs. Direct construction costs are accumulated during the period of construction and charged to cost of sales under specific

identification methods, as are closing costs. Land acquisition and development costs, interest and common costs are allocated based on the number of homes to be built in each community, which approximates the relative sales value method.

Estimated future warranty costs are charged to cost of sales in the period when the revenues from the related home closings are recognized. Costs are accrued based upon historical experience and generally range from 0.45% to 0.75% of the home's sales price. (See Note 11.)

REVENUE RECOGNITION. Revenues from sales of residential real estate and related activities are recognized when closings have occurred, the buyer has made the required minimum down payment and other criteria for sale and profit recognition are satisfied.

PROPERTY AND EQUIPMENT. Property and equipment consists of approximately \$3.3 million of computer and office equipment and approximately \$10.7 million of model home furnishings, and is stated at cost less accumulated depreciation. Accumulated depreciation related to these assets amounted to approximately \$10.5 million and \$7.1 million at December 31, 2002 and 2001, respectively. Depreciation is generally calculated using the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Maintenance and repair costs are expensed as incurred.

DEFERRED COSTS. We incurred costs of approximately \$5.2 million related to the 2001 issuance of our 9.75% senior notes, due June 2011 and approximately \$1.5 million in bank fees related to the addition of our December 2002 credit facility. We have deferred these costs and are amortizing them using the effective interest method over the life of the debt. At December 31, 2002 and 2001, approximately \$5.9 million and \$4.9 million, respectively, of deferred costs, net of amortization, were included on our balance sheets within prepaid expenses and other assets.

INCOME TAXES. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in future years and are subsequently adjusted for changes in the rates. The effect on deferred tax assets and liabilities of a change in tax rates is a charge or credit to deferred tax expense in the period of enactment.

STOCK SPLIT. On April 2, 2002, our Board of Directors declared a two-for-one split of our common stock in the form of a stock dividend to stockholders of record on April 12, 2002. The additional shares were distributed on April 26, 2002. All share and per share amounts have been restated to reflect the split.

EARNINGS PER SHARE. We compute basic earnings per share by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if dilutive securities or contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings.

STOCK-BASED COMPENSATION. See discussion of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," under this note, "Impact of Recently Issued Accounting Standards".

At December 31, 2002, we had one stock-based employee compensation plan, which is described more fully in Note 6. 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." 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. As allowed by SFAS No. 123, we have elected to continue to apply the intrinsic value-based method of accounting described above, and have adopted the disclosure requirements of SFAS No. 123. As we do not issue options with exercise prices below the market value on the date of the grant, we do not recognize compensation expense for our stock-based plan. Had compensation cost for these plans been determined pursuant to SFAS No. 123, our net earnings and earnings per share would have been reduced to the following pro forma amounts.

YEARS ENDED DECEMBER 31,

(IN THOUSANDS,
EXCEPT PER SHARE AMOUNTS)

		2002	2001	2000
		-----	-----	-----
Net earnings	As reported	\$ 69,937	\$ 50,659	\$ 35,762
	Deduct*	(2,237)	(1,464)	(298)
	Pro forma	\$ 67,700	\$ 49,195	\$ 35,464
		=====	=====	=====
Basic earnings per share	As reported	\$ 5.64	\$ 4.78	\$ 3.46
	Pro forma	\$ 5.46	\$ 4.64	\$ 3.43
Diluted earnings per share	As reported	\$ 5.31	\$ 4.30	\$ 3.13
	Pro forma	\$ 5.14	\$ 4.18	\$ 3.10

*Deduct: Total stock-based employee compensation expense determined under fair value based method for awards, net of related tax effects. See Note 6 for assumptions used to determine fair value.

To date, we have only granted options to employees and non-employee directors.

GOODWILL. Effective January 1, 2002, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Upon the adoption of SFAS No. 142, goodwill is no longer subject to amortization. Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. If the carrying amount of the net assets of an identified reporting unit exceeds the fair value of that reporting unit, goodwill is considered to be impaired. We continually evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill may not be recoverable. In evaluating impairment, we base our estimates of fair value on an analysis of selected business acquisitions in the homebuilding industry provided to us by an independent third party. Such evaluations for impairment are significantly impacted by the amount a buyer is willing to pay in the current market for a like business. If the goodwill is considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the fair value of the net assets identified in our reporting units. See "Impact of Recently Issued Accounting Standards" for further information on goodwill.

FAIR VALUE OF FINANCIAL INSTRUMENTS. We determine fair value of financial instruments as required by SFAS No. 107, "Disclosures about Fair Value of Financial Instruments."

The estimated fair value of our 9.75% senior notes at December 31, 2002 and 2001 was \$162.0 million and \$160.4 million, respectively, based on independent dealer quotes. The recorded amount of our senior notes at December 31, 2002 and 2001 was \$155.0 million.

Our revolving credit facility and acquisition and development loans carry interest rates that are variable and/or comparable to current market rates based on the nature of the obligations, their terms and remaining maturity, and therefore, the cost basis approximates fair value.

Due to the short term nature of other financial assets and liabilities, we consider the carrying amounts of our short-term financial instruments to be at fair value.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS. In January 2003, the FASB issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities". This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", addresses consolidation by business enterprises of variable interest entities (selected entities with related contractual, ownership, voting or other monetary interests, including certain special purpose entities), and requires certain additional disclosure with respect to these entities. The provisions of FIN 46 are applicable immediately to variable interest entities created after January 31, 2003. A public entity with a variable interest in a variable interest entity created before February 1, 2003, shall apply the provisions of FIN 46 to that entity no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. We do not expect the requirements of FIN 46 to have a material impact on our consolidated financial statements.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This amendment to FASB Statement No. 123 provides alternative methods of transition for a voluntary change to the

fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of this

statement are effective for financial statements of interim or annual periods after December 15, 2002. We do not intend to change to the fair value method of accounting. The required disclosures are included in the stock-based compensation section of this note.

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to guarantees. In general, FIN 45 applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes that are related to an asset, liability, or equity security of the guaranteed party. Certain guarantee contracts are excluded from both the disclosure and recognition requirements of this interpretation, including, among others, guarantees relating to employee compensation, residual value guarantees under capital lease arrangements, commercial letters of credit, loan commitments, subordinated interests in a special purpose entity, and guarantees of a company's own performance. Other guarantees are subject to the disclosure requirements of FIN 45 but not to the recognition provisions and include, among others, a guarantee accounted for as a derivative instrument under SFAS 133, a parent's guarantee of debt owed to a third party by its subsidiary or vice versa, and a guarantee which is based on performance, not price. The disclosure requirements of FIN 45 are effective for the Company as of December 31, 2002 and require disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligations under the guarantee. The recognition requirements of FIN 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. We do not expect the requirements of FIN 45 to have a material impact on our consolidated financial statements. For disclosures required by FIN 45 applicable to us, see Note 11, "Commitments and Contingencies."

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," that supersedes APB Opinion No. 17. Under SFAS 142, goodwill and intangible assets deemed to have indefinite lives are no longer amortized, but are to be reviewed at least annually for impairment, under impairment guidelines established in the statement. SFAS 142 also changes the amortization methodology in intangible assets that are deemed to have finite lives and adds to required disclosures regarding goodwill and intangible assets. SFAS 142 is effective for fiscal years beginning after December 15, 2001. We adopted SFAS 142 on January 1, 2002 and our unamortized balance of goodwill as of that date was approximately \$30.4 million. Beginning in 2002, we ceased our amortization of goodwill. Goodwill amortization for 2001 and 2000 was approximately \$1.4 million and \$1.1 million, respectively. If SFAS No. 142 had been in effect in 2001 and 2000, net earnings for the years ended December 31, 2001 and 2000 would have been \$51.5 million and \$36.4 million, respectively, and diluted earnings per share would have been \$4.38 and \$3.19, respectively.

During 2002, under guidelines contained in the statement, management performed an analysis concerning potential impairment of the goodwill carried and determined that no impairment existed. A subsequent assessment is being performed in the first quarter of 2003, and to date, no impairment has been found to exist. See Note 4, "Acquisitions".

NOTE 2 - REAL ESTATE AND CAPITALIZED INTEREST

The components of real estate at December 31 are as follows (in thousands):

	2002	2001
	-----	-----
Homes under contract, in production	\$191,761	\$135,005
Finished home sites	123,500	81,151
Home sites under development	66,552	57,291
Homes held for resale	55,273	33,278
Model homes	19,160	18,289
Land held for development	28,724	5,224
	-----	-----
	\$484,970	\$330,238
	=====	=====

We capitalize certain interest costs incurred during development and construction. Capitalized interest is allocated to real estate under development and charged to cost of sales when the related property is closed. Summaries of interest incurred, interest capitalized and interest expensed follow (in thousands):

	2002	2001
Interest capitalized, beginning of year	\$ 8,746	\$ 5,426
Interest capitalized	19,294	16,623
Amortization to cost of home and land sales	(19,259)	(13,303)
Interest capitalized, end of year	\$ 8,781	\$ 8,746
Interest incurred	\$ 19,294	\$ 16,623
Interest capitalized	(19,294)	(16,623)
Interest expensed	\$ --	\$ --

The purchase of real estate under option contracts with specific performance is dependent upon the completion of certain requirements by the sellers and us. At December 31, 2002, we had approximately 779 home sites with an aggregate purchase price of approximately \$34.8 million under option contracts with specific performance. Real estate under option or contract and related deposits are summarized below (dollars in thousands):

<TABLE>
<CAPTION>

	NUMBER OF HOME SITES	DEPOSITS ON REAL ESTATE UNDER OPTION OR CONTRACT	LETTERS OF CREDIT ON REAL ESTATE UNDER OPTION OR CONTRACT
<S>	<C>	<C>	<C>
Real estate under option or contract with specific performance	611	\$ 6,010	\$ 2,017
Real estate under option or contract with non-specific performance	19,950	71,506	13,118
	20,561	\$ 77,516	\$ 15,135

</TABLE>

NOTE 3 - NOTES PAYABLE

Notes payable at December 31 consist of the following:

	2002	2001
	(IN THOUSANDS)	
\$250 million unsecured revolving credit facility maturing December 12, 2005 with extension provisions, with interest payable monthly approximating prime (4.25% at December 31, 2002) or LIBOR (approximately 1.383% at December 31, 2002) plus 2.0%.	\$ 107,565	\$ --
\$100 million bank revolving construction line of credit. Paid in full during 2002.	--	617
\$90 million bank revolving construction line of credit. Paid in full during 2002.	--	15,590
Acquisition and development seller carry back financing, interest payable monthly at rates ranging from prime to prime plus 0.25% or at a fixed rate of 10% per annum; payable at the earlier of funding of construction financing or the maturity date of the individual projects, secured by first deeds of trust on real estate	2,362	6,204
Senior unsecured notes, maturing June 1, 2011, interest only payments at 9.75% per annum, payable semi-annually	155,000	155,000
Other	--	150
Total	\$ 264,927	\$ 177,561

In May 2001, we issued \$165 million in principal amount of 9.75% senior notes due June 1, 2011. Approximately \$15.9 million of this amount was used to repay existing senior notes. The early repayment of debt resulted in prepayment fees of approximately \$731,000, which, net of the related income tax benefit of approximately \$286,000, resulted in an extraordinary loss of \$445,000.

In September 2001, we purchased and retired \$10 million in principal amount of our outstanding 9.75% senior notes for 93.25% of par. The purchases resulted in an extraordinary gain of \$212,000 (net of approximately \$136,000 in income taxes).

In February 2003 we completed an add-on offering of \$50 million in aggregate principal amount of our 9.75% senior notes due June 1, 2001. The notes were issued at a price of 103.25% of their face amount to yield 9.054%, and together with the May 2001 offering, constitute a single series of notes.

Scheduled maturities of notes payable as of December 31, 2002 follow (in thousands):

YEARS ENDED DECEMBER 31, -----	
2003	\$ 1,808
2004	554
2005	107,565
2006	--
2007	--
Thereafter	155,000

	\$264,927
	=====

Obligations to pay principal and interest on our bank credit facility and senior unsecured notes are guaranteed by all of our wholly-owned subsidiaries (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 Corporation (the parent company) has no independent assets or operations 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.

The bank credit facility and senior unsecured notes contain covenants which require maintenance of certain levels of tangible net worth, compliance with certain minimum financial ratios and place limitations on the payment of dividends and limit incurrence of indebtedness, asset dispositions and creations of liens, among other items. As of December 31, 2002 and 2001 and for the years then ended we were in compliance with these covenants.

NOTE 4 - ACQUISITIONS

PERMA-BILT ACQUISITION. Effective October 1, 2002, we purchased the homebuilding assets of Perma-Bilt Homes ("Perma-Bilt Homes" or "Perma-Bilt"), a builder of single-family homes in the Las Vegas, Nevada metropolitan area. The purchase price was approximately \$46.6 million in cash including the repayment of existing debt in the amount of \$16.7 million. We also assumed accounts payable, accrued liabilities and home sale deposits totaling \$5.8 million. In addition, we agreed to an earn-out of 10% of the pre-tax profits of Perma-Bilt, payable in cash over three years. Perma-Bilt Homes builds a wide range of homes with a focus on serving the move-up housing markets in Nevada.

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

HAMMONDS ACQUISITION. On July 1, 2002, we acquired substantially all of the homebuilding and related assets of Hammonds Homes, Ltd., and Crystal City Land & Cattle, Ltd., (collectively, "Hammonds Homes" or "Hammonds"). The purchase price was approximately \$83.4 million in cash plus the assumption of accounts payable, accrued liabilities, and home sale deposits totaling \$11.0 million and a note payable totaling \$1.1 million. Established in 1987, Hammonds Homes builds a wide range of homes in communities throughout the Houston, Dallas/Ft. Worth and Austin, Texas areas with a focus on serving the move-up housing market.

HANCOCK ACQUISITION. On May 30, 2001, we acquired substantially all of the homebuilding and related assets of HC Builders, Inc. and Hancock Communities, L.L.C. (collectively, "Hancock Communities" or "Hancock") The purchase price was \$65.8 million in cash, plus the assumption of accounts payable, accrued liabilities and home sales deposits totaling \$9.4 million and a note payable totaling \$1.9 million. In addition, we granted the founder of Hancock, an earn-out, payable in cash over three years, equal to 20% of Hancock's pre-tax net income after a 10.5% charge on capital. Hancock serves the first-time and move-up markets throughout the Phoenix area.

The following unaudited pro forma financial data for the years ended December 31, 2002, 2001 and 2000 has been prepared as if the acquisition of the assets and liabilities of Hancock on May 30, 2001, had occurred on January 1, 2000, and as if the acquisitions of Hammonds on July 1, 2002 and Perma-Bilt on October 1, 2002 had occurred on January 1, 2001. Unaudited pro forma financial data is presented for informational purposes only and is based on historical information. This information may not be indicative of our actual amounts had the transactions occurred on the dates listed above, nor does it purport to represent future periods (in thousands except per share amounts):

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
Revenue	\$1,269,703	\$1,063,733	\$ 704,118
Earnings before extraordinary items	75,568	69,357	43,422
Net earnings	75,568	69,569	42,976
Diluted EPS before extraordinary items	6.09	5.89	3.80
Diluted EPS after extraordinary items	5.74	5.91	3.76

GOODWILL. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the assets acquired. The acquisitions of Hammonds, Perma-Bilt and Hancock were recorded using the purchase method of accounting with the results of operations of these entities included in our consolidated financial statements as of the date of the acquisition. The purchase prices were 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 \$21.3 million, \$17.2 million and \$11.4 million for Hammonds, Perma-Bilt and Hancock, respectively, were recorded as goodwill, which is presented on the consolidated balance sheet. The Hancock goodwill was being amortized on a straight line basis over a period of twenty years during fiscal 2001.

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

The changes in the carrying amount of goodwill related to our reportable segments for the year ended December 31, 2002 are as follows (in thousands):

<TABLE>
<CAPTION>

	TEXAS	ARIZONA	CALIFORNIA	NEVADA	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
Balance, beginning of year	\$13,457	\$15,084	\$ 1,828	\$ --	\$30,369
Goodwill acquired during the year	21,250	--	--	17,228	38,478
Increase in goodwill agreements due to earnout	--	4,571	--	367	4,938
Balance, end of year	\$34,707	\$19,655	\$ 1,828	\$17,595	\$73,785

</TABLE>

NOTE 5 - EARNINGS PER SHARE

A summary of the reconciliation from basic earnings per share to diluted earnings per share for the years ended December 31, follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	2002	2001	2000
<S>	<C>	<C>	<C>
Earnings before extraordinary items*	\$ 69,937	\$ 50,892	\$ 35,762
Extraordinary items, net of tax effects	--	(233)	--
Net earnings	\$ 69,937	\$ 50,659	\$ 35,762
Weighted average number of shares outstanding	12,405	10,610	10,342
BASIC:			
Basic earnings per share before extraordinary items	\$ 5.64	\$ 4.80	\$ 3.46
Extraordinary items	--	(0.02)	--
Basic earnings per share	\$ 5.64	\$ 4.78	\$ 3.46
DILUTED:			
Weighted average number of shares outstanding	12,405	10,610	10,342
Effect of dilutive securities:			
Contingent shares and warrants	--	--	38
Options to acquire common stock	766	1,166	1,048

Diluted weighted common shares outstanding	13,171	11,776	11,428
	=====	=====	=====
Diluted earnings per share before extraordinary items	\$ 5.31	\$ 4.32	\$ 3.13
Extraordinary items	--	(0.02)	--
	-----	-----	-----
Diluted earnings per share	\$ 5.31	\$ 4.30	\$ 3.13
	=====	=====	=====
Antidilutive stock options not included in the calculation of diluted earnings per share	307	--	76
	=====	=====	=====

</TABLE>

* There were no reconciling items between earnings before extraordinary items on a basic or diluted basis.

NOTE 6 - STOCK-BASED COMPENSATION

Our Board of Directors administers our current stock option plan which has been approved by our stockholders. The plan authorizes grants of incentive stock options and non-qualified stock options to our executives, directors, employees and consultants and provides a means of performance-based compensation in order to attract and retain qualified employees. At December 31, 2002, a total of 1,656,150 shares of Meritage common stock were reserved for issuance upon exercise of stock options granted under this plan. The options vest over periods from two to five years from the date such options were granted, are based on continued employment or service and expire five to ten years after the date of grant.

We apply APB Opinion No. 25 and related interpretations in accounting for our plan. Under APB No. 25, if the exercise price of our stock options is at least equal to the market price of the underlying stock on the date of the

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

grant, no compensation expense is recognized. Pro forma information regarding net earnings and net earnings per share is required by SFAS No. 148 and is included in Note 1.

The fair value for these options was established at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for the years presented:

	2002	2001	2000
	----	----	----
Expected dividend yield	0%	0%	0%
Risk-free interest rate	4.57%	4.79%	6.71%
Expected volatility	55%	55%	47%
Expected life (in years)	7	6	6
Weighted average fair value of options	\$23.48	\$16.64	\$ 5.67

OTHER OPTIONS

In connection with our merger and combination with Legacy Homes, Messrs. Hilton and Landon each received 333,334 (adjusted for our 2-for-1 stock split) non-qualified stock options with three year vesting periods. The exercise price of these options was \$2.625 (adjusted for our 2-for-1 stock split) per share, which was negotiated at the time of the transactions. All of these options were exercised by December 31, 2002.

SUMMARY OF STOCK OPTION ACTIVITY:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,				
	2002		2001		
	-----	-----	-----	-----	-----
2000					
WEIGHTED		WEIGHTED		WEIGHTED	
AVERAGE		AVERAGE		AVERAGE	
EXERCISE		EXERCISE		EXERCISE	
PRICE	OPTIONS	PRICE	OPTIONS	PRICE	OPTIONS
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
<C>					

Options outstanding at beginning of year	1,620,726	\$ 18.12	1,788,000	\$ 4.37	2,346,452
\$ 3.83					
Granted	320,000	38.76	643,900	15.17	179,600
5.22					
Exercised	(600,956)	4.83	(768,294)	3.32	(718,052)
2.50					
Canceled	(21,420)	17.25	(42,880)	7.88	(20,000)
6.09					
Options outstanding at end of year	1,318,350	\$ 17.98	1,620,726	\$ 9.06	1,788,000
\$ 4.37					
Options exercisable at end of year	285,690		588,588		1,175,400
Price range of options exercised	\$2.81 - \$14.43		\$2.625 - \$8.815		\$2.185 - \$7.125
Price range of options outstanding	\$2.81 - \$45.80		\$2.625 - \$20.885		\$2.625 - \$9.00
Total shares reserved at end of year	1,656,150		1,657,108		2,453,142

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

STOCK OPTIONS OUTSTANDING AT DECEMBER 31, 2002, WERE:

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICES	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$ 2.81 - \$ 9.00	445,830	3.2 years	\$ 6.53	198,910	\$ 6.34
\$ 14.00 - \$ 21.00	555,020	4.4 years	15.29	86,780	15.83
\$ 31.00 - \$ 45.80	317,500	6.6 years	38.76	--	--
	1,318,350	4.8 years	\$ 17.98	285,690	\$ 9.22

</TABLE>

NOTE 7 - INCOME TAXES

Total income tax expense (benefit) was allocated as follows (in thousands):

	2002	2001	2000
Income from continuing operations	\$ 43,607	\$ 32,444	\$ 21,000
Extraordinary items	--	(149)	--
	\$ 43,607	\$ 32,295	\$ 21,000

Components of income tax expense attributable to income from continuing operations are (in thousands):

	2002	2001	2000
Current taxes:			
Federal	\$ 37,839	\$ 29,295	\$ 18,255
State	5,857	5,218	2,589
	43,696	34,513	20,844
Deferred taxes:			
Federal	(75)	(1,742)	140
State	(14)	(327)	16
	(89)	(2,069)	156
Total	\$ 43,607	\$ 32,444	\$ 21,000

Income taxes differ for the years ended December 31, 2002, 2001 and 2000, from the amounts computed using the expected federal statutory income tax rate of 35% as a result of the following (in thousands):

	2002 -----	2001 -----	2000 -----
Expected taxes at current federal statutory income tax rate	\$ 39,740	\$ 29,355	\$ 19,299
State income taxes	3,815	3,097	1,719
Non-deductible merger/acquisition costs and other	52	(8)	(18)
	-----	-----	-----
Income tax expense	\$ 43,607	\$ 32,444	\$ 21,000
	=====	=====	=====

The actual tax provision differs from the expected tax expense computed by applying the applicable United States federal corporate tax rate of 35% and the composite state tax rates, which range from 0.0% to 6.4% to the income before taxes for the years ended December 31, 2002, 2001 and 2000. This is principally due to merger/acquisition costs and other various income and expense items that are not deductible for tax purposes, including certain meal and entertainment deductions.

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

Deferred tax assets and liabilities have been recognized in the consolidated balance sheets due to the following temporary differences at December 31, 2002 and 2001 (in thousands):

	2002 -----	2001 -----
Deferred tax assets:		
Warranty reserve	\$ 1,854	\$ 931
Real estate and fixed asset basis differences	2,296	450
Wages payable	690	1,719
Other	761	400
	-----	-----
Total deferred tax assets	5,601	3,500
Deferred tax liabilities:		
Deductible merger/acquisition costs	(2,900)	(888)
	-----	-----
Net deferred tax asset	\$ 2,701	\$ 2,612
	=====	=====

We believe it is more likely than not that future operating results will generate sufficient taxable income to realize the net deferred tax asset.

NOTE 8 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

The 2002 acquisitions of Hammonds and Perma-Bilt and the 2001 acquisition of Hancock resulted in the following changes in assets and liabilities:

	2002 -----	2001 -----
Increase in real estate	\$ (99,836)	\$ (54,545)
Increase in deposits on real estate under option or contract	(3,176)	(8,899)
Increase in receivables and other assets	(3,514)	(543)
Increase in goodwill	(38,479)	(11,423)
Increase in property and equipment	(2,481)	(1,632)
Increase in accounts payable and accrued liabilities	14,142	6,890
Increase in home sale deposits	2,692	2,503
Increase in notes payable	1,070	1,890
	-----	-----
Net cash paid for acquisition	\$ (129,582)	\$ (65,759)
	=====	=====

	2002 -----	2001 -----	2000 -----
Cash paid during the year for:			
Interest	\$ 18,613	\$ 14,722	\$ 8,403
Income taxes	\$ 35,404	\$ 31,160	\$ 18,786

NOTE 9 - RELATED PARTY TRANSACTIONS

We have transacted business with related or affiliated companies and with certain officers and directors of the Company. We believe that the terms and fees negotiated for all transactions listed below are no less favorable than those that could be negotiated in arm's length transactions.

Since 1997, we have leased office space in Plano, Texas from Home Financial Services, a Texas partnership owned by John Landon, our co-chief executive

officer, and his wife. The lease expires in May 2005. Rents paid to the partnership were \$225,182, \$193,771, and \$185,613, in 2002, 2001 and 2000, respectively, and were recorded as general and administrative expenses on our consolidated statements of earnings.

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

During 2002, we chartered an aircraft from a company in which Steve Hilton, our co-chief executive officer, has an ownership interest. The total amount paid for the charter service in 2002 was approximately \$128,000 which was included within general and administrative expenses on our consolidated statements of earnings.

We paid legal fees of approximately \$432,000, \$420,000 and \$311,000 to law firms of which C. Timothy White, one of our directors, is a partner, in 2002, 2001 and 2000, respectively. These fees were recorded as general and administrative expenses on our consolidated statements of earnings.

One of our directors, Ray Oppel, has invested in various limited partnerships that enter into landbanking transactions with us. Mr. Oppel's limited partnership ownership percentage in these entities ranges from 21.5% to 34.2%. Mr. Oppel also has a 7.5% limited partnership interest in a joint venture that sells lots to Hammonds Homes, which was made prior to our acquisition of Hammonds. By the end of 2001, Mr. Oppel had discontinued making investments in landbanking transactions that involved sales to Meritage.

In connection with our 2001 acquisition we assumed various existing transactions between Greg Hancock and Hancock Communities. Greg Hancock was the founder of Hancock Communities and from June 2002 until February 2003 was a division president of Meritage. The following agreements are still in place:

Mr. Hancock is the majority owner of a venture that is developing a master planned community in Buckeye, Arizona. We have entered into an option contract to purchase approximately 586 acres of residential land in this community. At December 31, 2002, we had paid option deposits to the venture totaling \$750,000, which is included in deposits on real estate under option or contract on our accompanying balance sheet. In 2002 we purchased approximately 200 acres of this residential land from the venture at a cost of approximately \$5.2 million. We did not purchase land from this entity in 2001. We also perform certain planning and construction supervision functions for the venture for which we are paid a management fee of 3% of the development costs. We earned approximately \$808,700 and \$173,000 in 2002 and 2001, respectively, pursuant to this arrangement, which we recorded as other income in our statement of earnings.

At December 31, 2001, we owed approximately \$1.9 million to a venture controlled by Mr. Hancock that had sold land to Hancock. The note payable was repaid in full in January 2002.

At December 31, 2001, Mr. Hancock owed us approximately \$340,000, related to the resolution of various post-closing matters pertaining to the Hancock acquisition. This obligation was recorded as a receivable on our balance sheet and was paid in full in January 2002.

In 2002 we purchased land from an independent third party to whom Mr. Hancock had loaned money for the purpose of making the underlying debt service payments on a parcel of land. In connection with our acquisition of this parcel, we assumed the seller's obligation to repay the loan to Mr. Hancock, and at December 31, 2002, we had a note payable to him for \$850,000. This note relates to a development in Arizona and will be repaid to Mr. Hancock as the homes in that community close. The note is carried on our consolidated balance sheet within notes payable.

NOTE 10 - SEGMENT INFORMATION

During 2002 we changed the composition of our reportable segments. We classify our operations into four primary operating segments: Texas, Arizona, California and Nevada. These segments generate revenue through home sales to external customers and are not dependent on any one major customer. In 2001, we classified our operations into two segments, first-time and volume priced homes, and mid to luxury priced homes. This previous classification structure was based on placing our various divisions into the two categories based on the primary price range of homes built by that division. We changed our classification structure because as our divisions broadened the price ranges of homes they build, it became impractical to place a division in one or the other category. Accordingly, the current structure summarizes our divisions by the states in which they are located. We have restated the corresponding items of segment information for earlier periods presented.

Operational information relating to our business segments follows. Information has been included for Hammonds from July 1, 2002 and for Perma-Bilt from October 1, 2002, the effective acquisition dates. Certain information has not been included by segment due to the immateriality of the amount to the segment or in total. We evaluate segment performance based on several factors,

of which the primary financial measure is earnings before interest, taxes and

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

extraordinary items (EBIT). The accounting policies of the business segments are the same as those described in Note 1. There are no significant transactions between our primary segments.

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000
	----- (IN THOUSANDS) -----		
HOME SALES REVENUE:			
Texas	\$ 387,264	\$ 259,725	\$ 214,472
Arizona	445,275	325,918	175,674
California	245,640	156,933	125,282
Nevada	34,260	--	--
Total	\$ 1,112,439	\$ 742,576	\$ 515,428
	=====	=====	=====
EBIT:			
Texas	\$ 42,918	\$ 43,420	\$ 35,082
Arizona	57,685	35,432	17,666
California	36,418	23,604	16,819
Nevada	2,056	--	--
Corporate and other	(6,274)	(5,816)	(3,626)
Total	\$ 132,803	\$ 96,640	\$ 65,941
	=====	=====	=====

	DECEMBER 31,		
	2002	2001	2000
	----- (IN THOUSANDS) -----		
ASSETS AT YEAR END:			
Texas	\$ 274,163	\$ 139,288	\$ 108,238
Arizona	230,176	198,637	102,746
California	113,467	88,056	53,723
Nevada	62,143	--	--
Corporate and other	11,839	10,734	2,368
Total	\$ 691,788	\$ 436,715	\$ 267,075
	=====	=====	=====

NOTE 11- COMMITMENTS AND CONTINGENCIES

We are involved in various routine legal proceedings incidental to our business, some of which are covered by insurance. With respect to all pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, potential losses related to those matters are not considered probable. We have accrued approximately \$937,000 for losses related to potential litigation where our ultimate exposure is considered probable and the potential loss can be reasonably estimated which is classified within accrued liabilities on our December 31, 2002 balance sheet. We believe that none of these matters will have a material adverse impact upon our consolidated financial condition, results of operations or cash flows.

In the normal course of business, we provide standby letters of credit and performance bonds issued to third parties to secure performance under various contracts. At December 31, 2002, we had outstanding letters of credit of \$16.2 million and performance bonds of \$72.9 million. We do not believe that these letters of credit or bonds will be drawn upon.

As a part of our model home construction activities, we enter into lease transactions with third parties. The total cost, including land, and construction of model homes leased by us under these lease agreements is approximately \$38.6 million, all of which is excluded from our balance sheet as of December 31, 2002.

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

We lease office facilities, model homes and equipment under various operating lease agreements. Approximate minimum lease payments for non-cancelable operating leases as of December 31, 2002, are as follows (in thousands):

YEARS ENDED	
DECEMBER 31,	
2003.....	\$ 3,645

2004.....	1,973
2005.....	1,248
2006.....	242
2007.....	19
Thereafter.....	--

	\$ 7,127
	=====

Rent expense approximated \$3.4 million, \$2.5 million and \$1.6 million in 2002, 2001 and 2000, respectively, and is recorded as general and administrative expense.

We have certain obligations related to post-construction warranties and defects related to homes sold. Historically, these amounts have not been material and we do not anticipate future obligations to be material. At December 31, 2002, we had approximately \$6.7 million in reserves for various warranty claims. Summaries of our warranty reserve follow:

	YEARS ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Warranty reserve, beginning of year	\$ 4,071	\$ 2,320
Additions to reserve	7,041	4,771
Warranty claims and expenses	(4,436)	(3,020)
	-----	-----
Warranty reserve, end of year	\$ 6,676	\$ 4,071
	=====	=====

Warranty reserves are included in accrued liabilities within the accompanying consolidated balance sheets. Additions to warranty reserves are included within cost of sales in the accompanying statements of earnings.

NOTE 12 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly results for the years ended December 31, 2002 and 2001 follow (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	FIRST	SECOND	THIRD	FOURTH
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
2002				
- ----				
Revenue	\$ 169,731	\$ 251,441	\$ 329,129	\$ 369,516
Gross profit	31,636	50,092	64,406	68,762
Earnings before income taxes	14,043	24,806	36,746	37,949
Net earnings	8,566	14,938	22,437	23,996
Per Share Data:				
Basic earnings per share	\$ 0.77	\$ 1.28	\$ 1.66	\$ 1.80
Diluted earnings per share	\$ 0.72	\$ 1.19	\$ 1.58	\$ 1.72
2001				
- ----				
Revenue	\$ 116,706	\$ 175,408	\$ 207,177	\$ 244,883
Gross profit	23,596	37,636	45,709	50,319
Earnings before income taxes and extraordinary items	12,181	21,144	23,991	26,020
Extraordinary items, net of tax effects	--	(445)	212	--
Net earnings	7,389	12,493	14,887	15,890
Per Share Data:				
Basic earnings per share	\$ 0.72	\$ 1.22	\$ 1.37	\$ 1.47
Extraordinary items, net of tax effects	--	(.04)	.02	--
	-----	-----	-----	-----
Net earnings per share	\$ 0.72	\$ 1.18	\$ 1.39	\$ 1.47
	=====	=====	=====	=====
Diluted earnings per share				
Earnings before extraordinary items	\$ 0.64	\$ 1.10	\$ 1.23	\$ 1.35
Extraordinary items, net of tax effects	--	(0.04)	0.02	--
	-----	-----	-----	-----
Net earnings per share	\$ 0.64	\$ 1.06	\$ 1.25	\$ 1.35
	=====	=====	=====	=====

</TABLE>

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with per share amounts for the year.

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required in response to this item is incorporated by reference from our definitive proxy statement for our 2003 Annual Meeting of stockholders to be held on May 21, 2003, which proxy statement will be filed with the SEC not later than 120 days after year end. With the exception of the foregoing information and other information specifically incorporated by reference into this Form 10-K Report, our 2003 Proxy Statement is not being filed as a part of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information required in response to this item is incorporated by reference from our definitive proxy statement for our 2003 Annual Meeting of stockholders to be held on May 21, 2003, which proxy statement will be filed with the SEC not later than 120 days after year end.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

EQUITY COMPENSATION PLAN INFORMATION

The following sets forth information as of December 31, 2002 about the number of shares of our common stock to be issued upon exercise of outstanding options and the number of shares of our common stock remaining available for future issuance under existing equity compensation plans for (1) plans approved by stockholders and (2) plans not approved by stockholders. We have no outstanding warrants or stock appreciation rights.

<TABLE>
<CAPTION>

PLAN CATEGORY -----	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS -----	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS -----	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (A)) -----
	(a)	(b)	(c)
<S>	<C>	<C>	<C>
Equity Compensation Plans Approved by Stockholders	1,318,350	\$17.98	337,800
Equity Compensation Plans Not Approved by Stockholders	--	--	--
	-----	-----	-----
Total	1,318,350	\$17.98	337,800
	=====	=====	=====

</TABLE>

At December 31, 2002, we did not have any equity compensation plans that had been adopted without stockholder approval.

Additional information required in response to this item is incorporated by reference from our definitive proxy statement for our 2003 Annual Meeting of stockholders to be held on May 21, 2003, which proxy statement will be filed with the SEC not later than 120 days after year end.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required in response to this item is incorporated by reference from our definitive proxy statement for our 2003 Annual Meeting of stockholders to be held on May 21, 2003, which proxy statement will be filed with the SEC not later than 120 days after year end.

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ITEM 14. 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 formalized our disclosure controls and procedures. Our co-chief executive officers and principal financial officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-14(c) and 15d-14(c), as of a date within 90 days prior to the filing date of this report (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 timely alerting them to material information relating to Meritage (and our consolidated subsidiaries) required to be included in our periodic SEC filings. Since the Evaluation Date, there have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the

Evaluation Date.

ITEM 15. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional audit services rendered by our principal accountant, KPMG LLP, for the audit of our annual financial statements for 2002 and 2001, and fees billed for other services rendered by KPMG LLP.

	2002	2001
	-----	-----
Audit fees	\$238,245	\$150,000
Audit related fees (1)	134,074	110,808
	-----	-----
Audit and audit related fees	372,319	260,808
Tax fees (2)	119,893	240,845
All other fees (3)	--	24,186
	-----	-----
Total fees	\$492,212	\$525,839
	=====	=====

- (1) Audit related fees consisted principally of fees for services related to SEC filings and research, the 2002 acquisitions of Hammonds and Perma-Bilt, our 2002 equity offering and the audit of our 401(k) Plan.
- (2) Tax fees consisted of fees for income tax consulting and tax compliance, including preparation of our state and federal income tax returns.
- (3) All other fees consisted of fees for management advisory services.

PART IV

ITEM 16. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

PAGE OR
METHOD OF FILING

(a) FINANCIAL STATEMENTS AND SCHEDULES

(i) Financial Statements:

- (1) Report of KPMG LLP Page 27
- (2) Consolidated Financial Statements and Notes to Consolidated Financial Statements of the Company, including Consolidated Balance Sheets as of December 31, 2002 and 2001 and related Consolidated Statements of Earnings, Stockholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2002 Page 28

(ii) Financial Statement Schedules:

Schedules have been omitted because of the absence of conditions under which they are required or because the required material information is included in the Consolidated Financial Statements or Notes to the Consolidated Financial Statements included herein.

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(b) REPORTS ON FORM 8-K

On October 9, 2002, we filed a Current Report on Form 8-K describing the completion of our acquisition of the homebuilding assets of Perma-Bilt Homes.

On October 23, 2002, we filed a Current Report on Form 8K/A amending Form 8-K dated October 7, 2002 to include transaction documents relating to our acquisition of Perma-Bilt Homes.

(c) EXHIBITS

<TABLE> <CAPTION> EXHIBIT NUMBER	DESCRIPTION	PAGE OR METHOD OF FILING
-----	-----	-----
<S>	<C>	<C>
2.1	Agreement and Plan of Reorganization, dated as of September 13, 1996, by and among Homeplex, the Monterey Merging Companies and the Monterey Stockholders	Incorporated by reference to Exhibit 2 of Form S-4 Registration Statement No. 333-15937.

2.2	Agreement of Purchase and Sale of Assets, dated as of May 20, 1997, by and among Monterey, Legacy Homes, Ltd., Legacy Enterprises, Inc., and John and Eleanor Landon	Incorporated by reference to Exhibit 2 of Form 8-K/A dated June 18, 1997.
2.3 Q for	Agreement of Purchase and Sale of Assets, dated as of June 15, 1998, by and among the Company, Sterling Communities, S.H. Capital, Inc., Sterling Financial Investments, Inc., Steve Hafener and W. Leon Pyle	Incorporated by reference to Exhibit 2.2 of Form 10- the quarterly period ended June 30, 1998.
2.4 K	Master Transaction Agreement, dated May 7, 2001, by and among the Company, Hancock-MTH Builders, Inc., Hancock-MTH Communities, Inc., HC Builders, Inc. and Hancock Communities, L.L.C.	Incorporated by reference to Exhibit 2.1 of Form 8- dated May 10, 2001.
2.4.1 K	Amendment No. 1 to Master Transaction Agreement and Agreement of Purchase and Sale of Assets, dated May 30, 2001, by and between Meritage Corporation, Meritage-MTH Communities, Inc., HC Builders, Inc., Hancock Communities, L.L.C. and American Homes West, Incorporated	Incorporated by reference to Exhibit 2.1 of Form 8- dated June 6, 2001.
2.5 8-K	Master Transaction Agreement, dated June 12, 2002, by and among the Company, MTH Homes-Texas, L.P., Hammonds Homes Ltd., Crystal City Land & Cattle, Ltd., Hammonds Homes I, LLC, Crystal City I, LLC and Ronnie D. Hammonds	Incorporated by reference to Exhibit 10.1 of Form dated July 12, 2002.
2.5.1 8-K	Amendment No. 1 to Master Transaction Agreement, dated June 12, 2002, by and among the Company, MTH Homes-Texas, L.P., Hammonds Homes Ltd., Crystal City Land & Cattle, Ltd., Hammonds Homes I, LLC, Crystal City I, LLC and Ronnie D. Hammonds	Incorporated by reference to Exhibit 10.2 of Form dated July 12, 2002.
</TABLE>		
49		
<TABLE>		
<S>		
2.6 8-K/A	Master Transaction Agreement, dated October 7, 2002, by and among the Company, MTH-homes Nevada, Inc., Perma-Bilt, A Nevada Corporation, and Zenith National Insurance Corp.	Incorporated by reference to Exhibit 10.1 of Form dated October 7, 2002.
3.1 10-Q for	Amendment to Articles of Incorporation	Incorporated by reference to Exhibit 3.1 of Form the quarterly period ended September 30, 1998.
3.2 dated	Restated Articles of Incorporation	Incorporated by reference to Exhibit 3 of Form 8-K June 20, 2002.
3.3 3	Amended and Restated Bylaws	Incorporated by reference to Exhibit 3.3 of Form S- #333-58793.
4.1 3	Form of Specimen of Common Stock Certificate	Incorporated by reference to Exhibit 4.2 of Form S- dated May 1, 2002.
4.3 K	Indenture, dated May 31, 2001, by and among the Company, the Guarantors named therein and Wells Fargo Bank, N.A.	Incorporated by reference to Exhibit 4.1 of Form 8- dated June 6, 2001.
4.3.1	First Supplemental Indenture, dated September 20, 2001, by and among the Company, Hulen Park Venture, LLC, Meritage Holdings, L.L.C., the Guarantors named therein and Wells Fargo Bank, N.A.	Filed herewith.
4.3.2	Second Supplemental Indenture, dated July 12, 2002, by and among the Company, MTH Homes-Texas, L.P., MTH-Texas GP II, Inc., MTH-Texas LP, II, Inc., the Guarantors named therein and Wells Fargo Bank, N.A.	Filed herewith.
4.3.3	Third Supplemental Indenture, dated October 21, 2002, by and among the Company, MTH-Homes Nevada,	Filed herewith.

Inc., the Guarantors named therein and Wells Fargo Bank, N.A.

4.3.4	Fourth Supplemental Indenture, dated February 19, 2003 by and among the Company, MTH-Cavalier, LLC, the Guarantors named therein and Wells Fargo Bank, N.A.	Filed herewith.
10.1	\$250 Million Credit Agreement, dated December 12, 2002, by and among the Company, Guaranty Bank, Fleet National Bank, Bank One, NA and the other lenders thereto.	Filed herewith.
10.2	2001 Annual Incentive Plan*	Incorporated by reference to Exhibit B of the Proxy Statement for the 2001 Annual Meeting of
Stockholders.		
10.3 8-K	Employment Agreement, dated May 30, 2001, by and among the Company, Hancock MTH Builders, Inc., Hancock Communities, Inc. and Greg Hancock*	Incorporated by reference to Exhibit 10.2 of Form dated June 6, 2001.
</TABLE>		
50		
<TABLE>		
<S>		
10.4 10-Q	Employment Agreement between the Company and Larry W. Seay*	Incorporated by reference to Exhibit 10.1 of Form for the quarterly period ended September 30, 2001.
10.5 10-Q	Change of Control Agreement between the Company and Steven J. Hilton*	Incorporated by reference to Exhibit 10.3 of Form for the quarterly period ended March 30, 2000.
10.6 10-Q	Change of Control Agreement between the Company and John R. Landon*	Incorporated by reference to Exhibit 10.4 of Form for the quarterly period ended March 30, 2000.
10.7 10-Q	Change of Control Agreement between the Company and Larry W. Seay*	Incorporated by reference to Exhibit 10.5 of Form for the quarterly period ended March 30, 2000.
10.8 10-Q	Change of Control Agreement between the Company and Richard T. Morgan*	Incorporated by reference to Exhibit 10.6 of Form for the quarterly period ended March 30, 2000.
10.9 8-K	Deferred Bonus Agreement-2001 Award Year- between the Company and Larry W. Seay*	Incorporated by reference to Exhibit 10.2 of Form dated June 20, 2002.
10.10	Deferred Bonus Agreement-2002 Award Year- between the Company and Larry W. Seay*	Filed herewith.
10.11 8-K	Deferred Bonus Agreement-2001 Award Year- between the Company and Richard T. Morgan*	Incorporated by reference to Exhibit 10.3 of Form dated June 20, 2002.
10.12	Deferred Bonus Agreement-2001 Award Year- between the Company and Richard T. Morgan*	Filed herewith.
10.13 8-K	Registration Rights Agreement, dated February 21, 2003, by and among the Company, the Guarantors named therein, Deutsche Bank Securities, Inc., UBS Warburg LLC, Banc One Capital Markets, Inc. and Fleet Securities, Inc.	Incorporated by reference to Exhibit 10.1 of Form dated February 21, 2003.
14	Code of Ethics	Filed herewith.
21	List of Subsidiaries	Filed herewith.
23.1	Consent of KPMG LLP	Filed herewith.
24	Powers of Attorney	See signature page.
99.1	Certificate of Steven J. Hilton, Co-Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
99.2	Certificate of John R. Landon, Co-Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
99.3	Certificate of Larry W. Seay, Chief Financial Officer, pursuant to Section 906 of the	Filed herewith.

</TABLE>

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* Indicates a management contract or compensation plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, this 31st day of March 2003.

MERITAGE CORPORATION,
a Maryland Corporation

BY /s/ STEVEN J. HILTON

Steven J. Hilton
Co-Chairman and Chief Executive Officer

BY /s/ JOHN R. LANDON

John R. Landon
Co-Chairman and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Steven J. Hilton, John R. Landon and Larry W. Seay, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this Form 10-K Annual Report, and to file the same, with all exhibits thereto and other documents in connection therewith the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act of things requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person hereby ratifying and confirming all that said attorneys-in-fact and agents, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to these requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report on Form 10-K below:

SIGNATURE -----	TITLE -----	DATE ----
/s/ JOHN R. LANDON ----- John R. Landon	Co-Chairman and Chief Executive Officer	March 31, 2003
/s/ STEVEN J. HILTON ----- Steven J. Hilton	Co-Chairman and Chief Executive Officer	March 31, 2003
/s/ LARRY W. SEAY ----- Larry W. Seay	Chief Financial Officer, Vice President-Finance, and Secretary (Principal Financial Officer)	March 31, 2003
/s/ VICKI L. BIGGS ----- Vicki L. Biggs	Controller and Chief Accounting Officer	March 31, 2003
/s/ RAYMOND OPPEL ----- Raymond Oppel	Director	March 31, 2003
/s/ ROBERT G. SARVER ----- Robert G. Sarver	Director	March 31, 2003
/s/ C. TIMOTHY WHITE ----- C. Timothy White	Director	March 31, 2003
/s/ PETER L. AX ----- Peter L. Ax	Director	March 31, 2003
/s/ WILLIAM CAMPBELL ----- William Campbell	Director	March 31, 2003

CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER

I, John R. Landon, certify that:

1. I have reviewed this annual report on Form 10-K of Meritage Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ JOHN R. LANDON

John R. Landon
Co-Chief Executive Officer

CERTIFICATION OF THE CO-CHIEF EXECUTIVE OFFICER

I, Steven J. Hilton, certify that:

1. I have reviewed this annual report on Form 10-K of Meritage Corporation;
2. Based on my knowledge, this annual 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 annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ STEVEN J. HILTON

Steven J. Hilton
Co-Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Larry W. Seay, certify that:

1. I have reviewed this annual report on Form 10-K of Meritage Corporation;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 31, 2003

/s/ LARRY W. SEAY

Larry W. Seay
Chief Financial Officer

FIRST SUPPLEMENTAL INDENTURE, dated as of September 20, 2001 (the "FIRST SUPPLEMENTAL INDENTURE") between Meritage Corporation, a corporation organized under the laws of the State of Maryland (the "ISSUER"), the Guarantors named therein, Hulen Park Venture, LLC, a Texas limited liability company, Meritage Holdings, L.L.C., a Texas Limited Liability Company ("ADDITIONAL Guarantors") and Wells Fargo Bank, National Association, as trustee (the "TRUSTEE"), under the Indenture (as defined below). Capitalized terms used and not defined herein shall have the same meanings given in the Indenture unless otherwise indicated.

WHEREAS, the Issuer, the Guarantors thereto and the Trustee are parties to that certain Indenture dated as of May 30, 2001 (the "INDENTURE") pursuant to which the Company issued its 9 3/4% Senior Notes 2011 (the "NOTES") and the Guarantors guaranteed the obligations of the Issuer under the Indenture and the Notes;

WHEREAS, pursuant to Section 4.13 of the Indenture, if the Issuer acquires or creates any additional subsidiary which is a Restricted Subsidiary, each such subsidiary shall execute and deliver a supplemental indenture pursuant to which such subsidiary shall unconditionally guaranty the Issuer's obligations under the Notes;

WHEREAS, the Additional Guarantors are Restricted Subsidiaries of the Issuer;

WHEREAS, the Issuer and the Trustee desire to have the Additional Guarantors enter into this First Supplemental Indenture and agree to guaranty the obligations of the Issuer under the Indenture and the Notes and the Additional Guarantors desire to enter into this First Supplemental Indenture and to guaranty the obligations of the Issuer under the Indenture and the Notes as of such date;

WHEREAS, Section 8.01 of the Indenture provides that the Issuer, the Guarantors and the Trustee may, without the written consent of the Holders of the outstanding Notes, amend the Indenture as provided herein;

WHEREAS, by entering into this First Supplemental Indenture, the Issuer and the Trustee have consented to amend the Indenture in accordance with the terms and conditions herein;

WHEREAS, each Guarantor hereby acknowledges and consents to amend the Indenture in accordance with the terms and conditions herein; and

WHEREAS, all acts and things prescribed by the Articles of Organization (as now in effect) of the Additional Guarantors necessary to make this First Supplemental Indenture a valid instrument legally binding on the Additional Guarantors for the purposes herein expressed, in accordance with its terms, have been duly done and performed.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Additional Guarantors and the Trustee hereby agree for the benefit of each other and the equal and ratable benefit of the Holders of the Notes as follows:

1. ADDITIONAL GUARANTORS AS GUARANTOR. As of the date hereof and pursuant to this First Supplemental Indenture, the Additional Guarantors shall become Guarantors under the definition of Guarantor in the Indenture in accordance with the terms and conditions of the Indenture and shall assume all rights and obligations of a Guarantor thereunder.

2. COMPLIANCE WITH AND FULFILLMENT OF CONDITION OF SECTION 4.13. The execution and delivery of this First Supplemental Indenture by the Additional Guarantors (along with such documentation relating thereto as the Trustee shall require fulfills the obligations of the Issuer under Section 4.13 of the Indenture.

3. CONSTRUCTION. For all purposes of this First Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the defined terms and expressions used herein shall have the same meanings as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this First Supplemental Indenture refer to this First Supplemental Indenture as a whole and not to any particular Section hereof.

4. TRUSTEE ACCEPTANCE. The Trustee accepts the amendment of the Indenture effected by this First Supplemental Indenture, as hereby amended, but only upon the terms and conditions set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee in the performance of its duties and obligations under the Indenture, as hereby amended. Without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of each of the Issuer and the Additional Guarantors, respectively, and makes no representations as to the validity or enforceability against any of the Issuer or the Additional

Guarantors.

5. INDENTURE RATIFIED. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

6. HOLDERS BOUND. This First Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of the Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

7. SUCCESSORS AND ASSIGNS. This First Supplemental Indenture shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8. COUNTERPARTS. This First Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

9. GOVERNING LAW. This First Supplemental Indenture shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to principles of conflicts of laws.

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IN WITNESS WHEREOF, the Issuer, the Additional Guarantors and the Trustee have caused this First Supplemental Indenture to be duly executed as of the date first above written.

ISSUER:

MERITAGE CORPORATION

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Larry W. Seay

Larry W. Seay
Its: Chief Executive Officer,
Vice President-Finance,
Secretary and Treasurer

ADDITIONAL GUARANTORS:

HULEN PARK VENTURE, LLC

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

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

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

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By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer 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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

TRUSTEE:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: /s/ Jeanie Mar

Jeanie Mar
Its: Vice President

MONTEREY HOMES ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

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By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CROSSING, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MONTEREY HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CONSTRUCTION, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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MERITAGE HOMES OF ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MTH-TEXAS GP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MTH-TEXAS LP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

LEGACY/MONTEREY HOMES L.P.

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice-President

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By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH BUILDERS, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH COMMUNITIES, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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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/ John R. Landon

John R. Landon

Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton

Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan

Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay

Its: Vice-President, Treasurer and Secretary

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SECOND SUPPLEMENTAL INDENTURE, dated as of July 12, 2002 (the "SECOND SUPPLEMENTAL INDENTURE") between Meritage Corporation, a corporation organized under the laws of the State of Maryland (the "ISSUER"), the Guarantors named therein, MTH Homes-Texas, L.P. a Texas limited partnership, MTH-Texas GP II, Inc., an Arizona corporation, MTH-Texas LP II, Inc., an Arizona corporation (the "ADDITIONAL GUARANTORS") and Wells Fargo Bank, National Association, as trustee (the "TRUSTEE"), under the Indenture (as defined below). Capitalized terms used and not defined herein shall have the same meanings given in the Indenture unless otherwise indicated.

WHEREAS, the Issuer, the Guarantors thereto and the Trustee are parties to that certain Indenture dated as of May 30, 2001 (the "INDENTURE") pursuant to which the Company issued its 9 3/4% Senior Notes 2011 (the "Notes") and the Guarantors guaranteed the obligations of the Issuer under the Indenture and the Notes;

WHEREAS, pursuant to Section 4.13 of the Indenture, if the Issuer acquires or creates any additional subsidiary which is a Restricted Subsidiary, each such subsidiary shall execute and deliver a supplemental indenture pursuant to which such subsidiary shall unconditionally guaranty the Issuer's obligations under the Notes;

WHEREAS, the Issuer, the Guarantors thereto, Hulen Park Venture, LLC, Meritage Holdings, L.L.C. and the Trustee are parties to that certain First Supplemental Indenture, dated as of September 20, 2001 (the "FIRST SUPPLEMENTAL INDENTURE") pursuant to which Hulen Park Venture, LLC and Meritage Holdings, L.L.C. were added as Guarantors;

WHEREAS, the Additional Guarantors are Restricted Subsidiaries of the Issuer;

WHEREAS, the Issuer and the Trustee desire to have the Additional Guarantors enter into this Second Supplemental Indenture and agree to guaranty the obligations of the Issuer under the Indenture and the Notes and the Additional Guarantors desire to enter into this Second Supplemental Indenture and to guaranty the obligations of the Issuer under the Indenture and the Notes as of such date;

WHEREAS, Section 8.01 of the Indenture provides that the Issuer, the Guarantors and the Trustee may, without the written consent of the Holders of the outstanding Notes, amend the Indenture as provided herein;

WHEREAS, by entering into this Second Supplemental Indenture, the Issuer and the Trustee have consented to amend the Indenture in accordance with the terms and conditions herein;

WHEREAS, each Guarantor hereby acknowledges and consents to amend the Indenture in accordance with the terms and conditions herein; and

WHEREAS, all acts and things prescribed by the Certificate of Limited Partnership or the Articles of Incorporation, as the case may be, (as now in effect) of the Additional Guarantors necessary to make this Second Supplemental Indenture a valid instrument legally binding on the Additional Guarantors for the purposes herein expressed, in accordance with its terms, have been duly done and performed.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Additional Guarantors and the Trustee hereby agree for the benefit of each other and the equal and ratable benefit of the Holders of the Notes as follows:

1. ADDITIONAL GUARANTORS AS GUARANTOR. As of the date hereof and pursuant to this Second Supplemental Indenture, the Additional Guarantors shall become Guarantors under the definition of Guarantor in the Indenture in accordance with the terms and conditions of the Indenture and shall assume all rights and obligations of a Guarantor thereunder.

2. COMPLIANCE WITH AND FULFILLMENT OF CONDITION OF SECTION 4.13. The execution and delivery of this Second Supplemental Indenture by the Additional Guarantors (along with such documentation relating thereto as the Trustee shall require) fulfills the obligations of the Issuer under Section 4.13 of the Indenture.

3. CONSTRUCTION. For all purposes of this Second Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the defined terms and expressions used herein shall have the same meanings as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this Second Supplemental Indenture refer to this Second Supplemental Indenture as a whole and not to any particular Section hereof.

4. TRUSTEE ACCEPTANCE. The Trustee accepts the amendment of the Indenture effected by this Second Supplemental Indenture, as hereby amended, but only upon the terms and conditions set forth in the Indenture, as hereby amended,

including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee in the performance of its duties and obligations under the Indenture, as hereby amended. Without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of each of the Issuer and the Additional Guarantors, respectively, and makes no representations as to the validity or enforceability against any of the Issuer or the Additional Guarantors.

5. INDENTURE RATIFIED. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

6. HOLDERS BOUND. This Second Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of the Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

7. SUCCESSORS AND ASSIGNS. This Second Supplemental Indenture shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8. COUNTERPARTS. This Second Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

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9. GOVERNING LAW. This Second Supplemental Indenture shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to principles of conflicts of laws.

IN WITNESS WHEREOF, the Issuer, the Additional Guarantors and the Trustee have caused this Second Supplemental Indenture to be duly executed as of the date first above written.

ISSUER:

MERITAGE CORPORATION

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Larry W. Seay

Larry W. Seay
Its: Chief Executive Officer,
Vice President-Finance,
Secretary and Treasurer

ADDITIONAL GUARANTORS:

MTH HOMES-TEXAS, L.P.

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

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and
Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

MTH-TEXAS GP II, INC.

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and
Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

MTH-TEXAS LP II, INC.

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and
Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

TRUSTEE:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: /s/ Jeanie Mar

Jeanie Mar
Its: Vice President

MONTEREY HOMES ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CROSSING, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton

Title: Co-CEO

MONTEREY HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CONSTRUCTION, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Co-CEO

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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MERITAGE HOMES OF ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MTH-TEXAS GP, INC.

By: Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MTH-TEXAS LP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

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LEGACY/MONTEREY HOMES L.P.

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH BUILDERS, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH COMMUNITIES, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer 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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

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By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer 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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance,
Texas Division, Chief Financial Officer
and Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

THIRD SUPPLEMENTAL INDENTURE, dated as of October 21, 2002 (the "THIRD SUPPLEMENTAL INDENTURE") between Meritage Corporation, a corporation organized under the laws of the State of Maryland (the "ISSUER"), the Guarantors named therein, MTH-Homes Nevada, Inc., an Arizona corporation (the "ADDITIONAL GUARANTOR") and Wells Fargo Bank, National Association, as trustee (the "Trustee"), under the Indenture (as defined below). Capitalized terms used and not defined herein shall have the same meanings given in the Indenture unless otherwise indicated.

WHEREAS, the Issuer, the Guarantors thereto and the Trustee are parties to that certain Indenture dated as of May 30, 2001 (the "INDENTURE") pursuant to which the Company issued its 9 3/4% Senior Notes 2011 (the "NOTES") and the Guarantors guaranteed the obligations of the Issuer under the Indenture and the Notes;

WHEREAS, pursuant to Section 4.13 of the Indenture, if the Issuer acquires or creates any additional subsidiary which is a Restricted Subsidiary, each such subsidiary shall execute and deliver a supplemental indenture pursuant to which such subsidiary shall unconditionally guaranty the Issuer's obligations under the Notes;

WHEREAS, the Issuer, the Guarantors thereto, Hulen Park Venture, LLC, Meritage Holdings, L.L.C. and the Trustee are parties to that certain First Supplemental Indenture, dated as of September 20, 2001 (the "FIRST SUPPLEMENTAL INDENTURE") pursuant to which Hulen Park Venture, LLC and Meritage Holdings, L.L.C. were added as Guarantors;

WHEREAS, the Issuer, the Guarantors thereto, MTH Homes-Texas, L.P., MTH-Texas GP II, Inc., MTH-Texas LP II, Inc. and the Trustee are parties to that certain Second Supplemental Indenture, dated as of July 12, 2002 (the "SECOND SUPPLEMENTAL INDENTURE") pursuant to which MTH Homes-Texas, L.P., MTH-Texas GP II, Inc. and MTH-Texas LP II, Inc. were added as Guarantors;

WHEREAS, the Additional Guarantor is a Restricted Subsidiary of the Issuer;

WHEREAS, the Issuer and the Trustee desire to have the Additional Guarantor enter into this Third Supplemental Indenture and agree to guaranty the obligations of the Issuer under the Indenture and the Notes and the Additional Guarantor desires to enter into this Third Supplemental Indenture and to guaranty the obligations of the Issuer under the Indenture and the Notes as of such date;

WHEREAS, Section 8.01 of the Indenture provides that the Issuer, the Guarantors and the Trustee may, without the written consent of the Holders of the outstanding Notes, amend the Indenture as provided herein;

WHEREAS, by entering into this Third Supplemental Indenture, the Issuer and the Trustee have consented to amend the Indenture in accordance with the terms and conditions herein;

WHEREAS, each Guarantor hereby acknowledges and consents to amend the Indenture in accordance with the terms and conditions herein; and

WHEREAS, all acts and things prescribed by the Articles of Incorporation (as now in effect) of the Additional Guarantor necessary to make this Third Supplemental Indenture a valid instrument legally binding on the Additional Guarantor for the purposes herein expressed, in accordance with its terms, have been duly done and performed.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Additional Guarantor and the Trustee hereby agree for the benefit of each other and the equal and ratable benefit of the Holders of the Notes as follows:

1. ADDITIONAL GUARANTOR AS GUARANTOR. As of the date hereof and pursuant to this Third Supplemental Indenture, the Additional Guarantor shall become Guarantor under the definition of Guarantor in the Indenture in accordance with the terms and conditions of the Indenture and shall assume all rights and obligations of a Guarantor thereunder.

2. COMPLIANCE WITH AND FULFILLMENT OF CONDITION OF SECTION 4.13. The execution and delivery of this Third Supplemental Indenture by the Additional Guarantor (along with such documentation relating thereto as the Trustee shall require) fulfills the obligations of the Issuer under Section 4.13 of the Indenture.

3. CONSTRUCTION. For all purposes of this Third Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the defined terms and expressions used herein shall have the same meanings as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this Third Supplemental Indenture refer to this Third Supplemental Indenture as a whole and not to any particular Section hereof.

4. TRUSTEE ACCEPTANCE. The Trustee accepts the amendment of the Indenture effected by this Third Supplemental Indenture, as hereby amended, but only upon the terms and conditions set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee in the performance of its duties and obligations under the Indenture, as hereby amended. Without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of each of the Issuer and the Additional Guarantor, respectively, and makes no representations as to the validity or enforceability against either the Issuer or the Additional Guarantor.

5. INDENTURE RATIFIED. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

6. HOLDERS BOUND. This Third Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of the Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

7. SUCCESSORS AND ASSIGNS. This Third Supplemental Indenture shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

-2-

8. COUNTERPARTS. This Third Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

9. GOVERNING LAW. This Third Supplemental Indenture shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to principles of conflicts of laws.

IN WITNESS WHEREOF, the Issuer, the Additional Guarantor and the Trustee have caused this Third Supplemental Indenture to be duly executed as of the date first above written.

ISSUER:

MERITAGE CORPORATION

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Larry W. Seay

Larry W. Seay
Its: Chief Executive Officer,
Vice President-Finance,
Secretary and Treasurer

ADDITIONAL GUARANTOR:

MTH-HOMES NEVADA, INC.

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman, President and
Chief Executive Officer

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President and Secretary

-3-

TRUSTEE:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: /s/ Jeanie Mar

Jeanie Mar
Its: Vice President

MONTEREY HOMES ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CROSSING, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MONTEREY HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

-4-

MERITAGE PASEO CONSTRUCTION, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Co-CEO

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES OF ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MTH-TEXAS GP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

-5-
MTH-TEXAS LP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

LEGACY/MONTEREY HOMES L.P.

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ John R. Landon

Name: John R. Landon
Title: Co-CEO

MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH BUILDERS, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

-6-
HANCOCK-MTH COMMUNITIES, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance, Texas
Division, Chief Financial Officer and
Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

-7-

HULEN PARK VENTURE, LLC

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

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

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance, Texas
Division, Chief Financial Officer and
Assistant Secretary

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer 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/ John R. Landon

John R. Landon
Its: Co-Chairman and Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President of Finance, Texas
Division, Chief Financial Officer and
Assistant Secretary

-8-

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

MTH HOMES-TEXAS, L.P.

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

Partner

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and Chief
Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

MTH-TEXAS GP II, INC.

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and
Chief Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

-9-

MTH-TEXAS LP II, INC.

By: /s/ John R. Landon

John R. Landon
Its: Co-Chairman, President and Chief
Executive Officer

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

By: /s/ Richard T. Morgan

Richard T. Morgan
Its: Vice President and Chief Financial
Officer

-10-

FOURTH SUPPLEMENTAL INDENTURE, dated as of February 19, 2003 (the "FOURTH SUPPLEMENTAL INDENTURE") between Meritage Corporation, a corporation organized under the laws of the State of Maryland (the "ISSUER"), the Guarantors named therein, MTH-Cavalier, LLC, an Arizona limited liability company (the "ADDITIONAL GUARANTOR") and Wells Fargo Bank, National Association, as trustee (the "TRUSTEE"), under the Indenture (as defined below). Capitalized terms used and not defined herein shall have the same meanings given in the Indenture unless otherwise indicated.

WHEREAS, the Issuer, the Guarantors thereto and the Trustee are parties to that certain Indenture dated as of May 30, 2001 (the "INDENTURE") pursuant to which the Company issued its 9 3/4% Senior Notes 2011 (the "Notes") and the Guarantors guaranteed the obligations of the Issuer under the Indenture and the Notes;

WHEREAS, pursuant to Section 4.13 of the Indenture, if the Issuer acquires or creates any additional subsidiary which is a Restricted Subsidiary, each such subsidiary shall execute and deliver a supplemental indenture pursuant to which such subsidiary shall unconditionally guaranty the Issuer's obligations under the Notes;

WHEREAS, the Issuer, the Guarantors thereto, Hulen Park Venture, LLC, Meritage Holdings, L.L.C. and the Trustee are parties to that certain First Supplemental Indenture, dated as of September 20, 2001 (the "FIRST SUPPLEMENTAL INDENTURE") pursuant to which Hulen Park Venture, LLC and Meritage Holdings, L.L.C. were added as Guarantors;

WHEREAS, the Issuer, the Guarantors thereto, MTH Homes-Texas, L.P., MTH-Texas GP II, Inc., MTH-Texas LP II, Inc. and the Trustee are parties to that certain Second Supplemental Indenture, dated as of July 12, 2002 (the "SECOND SUPPLEMENTAL INDENTURE") pursuant to which MTH Homes-Texas, L.P., MTH-Texas GP II, Inc. and MTH-Texas LP II, Inc. were added as Guarantors;

WHEREAS, the Issuer, the Guarantors thereto, MTH Homes-Nevada, Inc. and the Trustee are parties to that certain Third Supplemental Indenture, dated as of October 21, 2002 (the "THIRD SUPPLEMENTAL INDENTURE") pursuant to which MTH Homes-Nevada, Inc. was added as Guarantor;

WHEREAS, the Additional Guarantor is a Restricted Subsidiary of the Issuer;

WHEREAS, the Issuer and the Trustee desire to have the Additional Guarantor enter into this Fourth Supplemental Indenture and agree to guaranty the obligations of the Issuer under the Indenture and the Notes and the Additional Guarantor desires to enter into this Fourth Supplemental Indenture and to guaranty the obligations of the Issuer under the Indenture and the Notes as of such date;

WHEREAS, Section 8.01 of the Indenture provides that the Issuer, the Guarantors and the Trustee may, without the written consent of the Holders of the outstanding Notes, amend the Indenture as provided herein;

WHEREAS, by entering into this Fourth Supplemental Indenture, the Issuer and the Trustee have consented to amend the Indenture in accordance with the terms and conditions herein;

WHEREAS, each Guarantor hereby acknowledges and consents to amend the Indenture in accordance with the terms and conditions herein; and

WHEREAS, all acts and things prescribed by the Articles of Organization and Operating Agreement (as now in effect) of the Additional Guarantor necessary to make this Fourth Supplemental Indenture a valid instrument legally binding on the Additional Guarantor for the purposes herein expressed, in accordance with its terms, have been duly done and performed.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Additional Guarantor and the Trustee hereby agree for the benefit of each other and the equal and ratable benefit of the Holders of the Notes as follows:

1. ADDITIONAL GUARANTOR AS GUARANTOR. As of the date hereof and pursuant to this Fourth Supplemental Indenture, the Additional Guarantor shall become a Guarantor under the definition of Guarantor in the Indenture in accordance with the terms and conditions of the Indenture and shall assume all rights and obligations of a Guarantor thereunder.

2. COMPLIANCE WITH AND FULFILLMENT OF CONDITION OF SECTION 4.13. The execution and delivery of this Fourth Supplemental Indenture by the Additional Guarantor (along with such documentation relating thereto as the Trustee shall require) fulfills the obligations of the Issuer under Section 4.13 of the Indenture.

3. CONSTRUCTION. For all purposes of this Fourth Supplemental Indenture, except as otherwise herein expressly provided or unless the context otherwise requires: (i) the defined terms and expressions used herein shall have the same

meanings as corresponding terms and expressions used in the Indenture; and (ii) the words "herein," "hereof" and "hereby" and other words of similar import used in this Fourth Supplemental Indenture refer to this Fourth Supplemental Indenture as a whole and not to any particular Section hereof.

4. TRUSTEE ACCEPTANCE. The Trustee accepts the amendment of the Indenture effected by this Fourth Supplemental Indenture, as hereby amended, but only upon the terms and conditions set forth in the Indenture, as hereby amended, including the terms and provisions defining and limiting the liabilities and responsibilities of the Trustee in the performance of its duties and obligations under the Indenture, as hereby amended. Without limiting the generality of the foregoing, the Trustee has no responsibility for the correctness of the recitals of fact herein contained which shall be taken as the statements of each of the Issuer and the Additional Guarantor, respectively, and makes no representations as to the validity or enforceability against either the Issuer or the Additional Guarantor.

5. INDENTURE RATIFIED. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect.

-2-

6. HOLDERS BOUND. This Fourth Supplemental Indenture shall form a part of the Indenture for all purposes, and every Holder of the Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

7. SUCCESSORS AND ASSIGNS. This Fourth Supplemental Indenture shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

8. COUNTERPARTS. This Fourth Supplemental Indenture may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original, and all of such counterparts shall together constitute one and the same instrument.

9. GOVERNING LAW. This Fourth Supplemental Indenture shall be governed by and construed in accordance with the internal laws of the State of New York without giving effect to principles of conflicts of laws.

IN WITNESS WHEREOF, the Issuer, the Additional Guarantor and the Trustee have caused this Fourth Supplemental Indenture to be duly executed as of the date first above written.

ISSUER:

MERITAGE CORPORATION

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer

By: /s/ Larry W. Seay

Larry W. Seay
Its: Chief Executive Officer,
Vice President-Finance,
Secretary and Treasurer

ADDITIONAL GUARANTOR:

MTH-CAVALIER, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

-3-

TRUSTEE:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

By: /s/ Jeanie Mar

Jeanie Mar

Its: Vice President

MONTEREY HOMES ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE PASEO CROSSING, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MONTEREY HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

-4-

MERITAGE PASEO CONSTRUCTION, LLC

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Co-CEO

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES OF ARIZONA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MERITAGE HOMES CONSTRUCTION, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

MTH-TEXAS GP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President, Treasurer and
Secretary

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-Chairman and Chief Executive
Officer

-5-

MTH-TEXAS LP, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-Chairman

LEGACY/MONTEREY HOMES L.P.

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

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-Chairman

MERITAGE HOMES OF NORTHERN CALIFORNIA, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

HANCOCK-MTH BUILDERS, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

-6-

HANCOCK-MTH COMMUNITIES, INC.

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Vice President

By: /s/ Steven J. Hilton

Name: Steven J. Hilton
Title: Co-CEO

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/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer 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/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

-7-

MERITAGE HOLDINGS, L.L.C.

By: Legacy/Monterey Homes L.P., its Sole
Member
By: MTH-Texas GP, Inc., its General Partner
By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman and Chief Executive Officer
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice-President, Treasurer and Secretary

MTH HOMES-TEXAS, L.P.

By: MTH-Texas GP II, Inc., its General
Partner
By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

MTH-TEXAS GP II, INC.

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary

-8-

MTH-TEXAS LP II, INC.

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman
By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President, Treasurer and Secretary
MTH-HOMES NEVADA, INC.

By: /s/ Steven J. Hilton

Steven J. Hilton
Its: Co-Chairman, President and Chief
Executive Officer

By: /s/ Larry W. Seay

Larry W. Seay
Its: Vice President and Secretary

CREDIT AGREEMENT

Dated as of December 12, 2002

among

MERITAGE CORPORATION,
as the Borrower,

GUARANTY BANK
as Administrative Agent and Swing Line Lender,

FLEET NATIONAL BANK,
as Syndication Agent,

BANK ONE, NA,
as Documentation Agent,

and

The Other Lenders Party Hereto

GUARANTY BANK,

as

Sole Lead Arranger and Sole Book Manager

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CREDIT AGREEMENT

This CREDIT AGREEMENT ("AGREEMENT") is entered into as of December 12, 2002, among MERITAGE CORPORATION, a Maryland corporation (the "BORROWER"), each lender from time to time party hereto (collectively, the "LENDERS" and individually, a "LENDER"), GUARANTY BANK, as Administrative Agent and Swing Line Lender, FLEET NATIONAL BANK, as Syndication Agent, and BANK ONE, NA, as Documentation Agent.

The Borrower has requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I.

DEFINITIONS AND ACCOUNTING TERMS

1.01 DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings set forth below:

"ACQUIRED BUSINESS" has the meaning specified in SECTION 1.03(c).

"ACQUISITION" means the acquisition by any Person of (a) a majority of the Equity Interests of another Person, (b) all or substantially all of the assets of another Person or (c) all or substantially all of a line of business of another Person, in each case (i) whether or not involving a merger or consolidation with such other Person and (ii) whether in one transaction or a series of related transactions.

"ACQUISITION CONSIDERATION" means the consideration given by the Borrower or any of its Subsidiaries for an Acquisition, including but not limited to the sum of (without duplication) (a) the fair market value of any cash, property (including Equity Interests) or services given, plus (b) the amount of any Indebtedness assumed, incurred or guaranteed (to the extent not otherwise

included) in connection with such Acquisition by the Borrower or any of its Subsidiaries.

"ADMINISTRATIVE AGENT" means Guaranty Bank in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

"ADMINISTRATIVE AGENT'S OFFICE" means the Administrative Agent's address and, as appropriate, account as set forth on SCHEDULE 10.02, or such other address or account as the Administrative Agent may from time to time notify the Borrower and the Lenders.

"ADMINISTRATIVE REPLY FORM" means an Administrative Reply Form in a form supplied by the Administrative Agent.

"AFFILIATE" means with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. "Control" means the possession, directly or indirectly, of the power to direct or cause the

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direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "CONTROLLING" and "CONTROLLED" have meanings correlative thereto. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, power to vote 10% or more of the Voting Stock of such Person.

"AGENT-RELATED PERSONS" means the Administrative Agent, together with its Affiliates (including, in the case of Guaranty Bank in its capacity as the Administrative Agent, the Arranger), and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

"AGGREGATE COMMITMENTS" means the Commitments of all the Lenders.

"AGREEMENT" means this Credit Agreement.

"APPLICABLE LAW" means (a) in respect of any Person, all provisions of Laws applicable to such Person, and all orders and decrees of all courts and determinations of arbitrators applicable to such Person and (b) in respect of contracts made or performed in the State of Texas, "APPLICABLE LAW" shall also mean the laws of the United States of America, including, without limitation the foregoing, 12 USC Sections 85 and 86, as amended to the date hereof and as the same may be amended at any time and from time to time hereafter, and any other statute of the United States of America now or at any time hereafter prescribing the maximum rates of interest on loans and extensions of credit, and the laws of the State of Texas.

"APPLICABLE RATE" means the following percentages per annum:

<TABLE>
<CAPTION>

	PRICING LEVEL	LEVERAGE RATIO	COMMITMENT FEE	EURODOLLAR RATE; ALL LETTERS OF CREDIT	BASE RATE
<S>	<C>		<C>	<C>	<C>
	1	Greater than 2.00 to 1	0.500%	2.250%	0.500%
	2	Greater than 1.50 to 1 but less than or equal to 2.00 to 1	0.375%	2.000%	0.250%
	3	Greater than 1.25 to 1 but less than or equal to 1.50 to 1	0.300%	1.750%	0.000%
	4	Less than or equal to 1.25 to 1	0.275%	1.500%	0.000%

</TABLE>

Any increase or decrease in the Applicable Rate resulting from a change in the Leverage Ratio shall become effective as of the first Business Day immediately following the date a Compliance Certificate is delivered pursuant to SECTION 6.02(B); PROVIDED, HOWEVER, that (x) if a Compliance Certificate is not delivered when due in accordance with such Section, or (y) there shall occur an Event of Default, then Pricing Level 1 shall apply as of the first Business Day after the date on which such Compliance Certificate was required to have been delivered or such Event of Default shall have occurred, as applicable. Thereafter, as to clause (x) above only, any decrease in the Applicable Rate resulting from a change in the Leverage Ratio shall become effective as of the first Business Day immediately following the date a Compliance Certificate is delivered. In addition to the Leverage Ratio required above, in connection with a decrease in the Applicable Rate to Pricing Level 4, such decrease shall occur

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only if the Borrower shall have and maintain a Debt Rating of at least BB- by S&P and Ba3 by Moody's. Thereafter, if Pricing Level 4 is in effect and a publicly announced downgrade in either Debt Rating shall occur, the Applicable

Rate shall be increased to Pricing Level 3 effective during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change. Notwithstanding the foregoing, the Applicable Rate in effect from and after the Closing Date to but not including the first Business Day immediately following the date the first Compliance Certificate is delivered pursuant to SECTION 6.02(b) shall be Pricing Level 2.

"ARRANGER" means Guaranty Bank, in its capacity as sole lead arranger and sole book manager.

"ASSIGNMENT AND ASSUMPTION" means an Assignment and Assumption substantially in the form of EXHIBIT E.

"ATTORNEY COSTS" means and includes all fees, expenses and disbursements of any law firm or other external counsel and, without duplication, the allocated cost of internal legal services and all expenses and disbursements of internal counsel.

"ATTRIBUTABLE INDEBTEDNESS" means on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

"AUDITED FINANCIAL STATEMENTS" means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended December 31, 2001, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto.

"AVAILABILITY PERIOD" means the period from and including the Closing Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to SECTION 2.06, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to SECTION 8.02.

"BASE RATE" means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Guaranty Bank as its "prime rate." The "prime rate" is a rate set by Guaranty Bank based upon various factors including Guaranty Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Guaranty Bank shall take effect at the opening of business on the day specified in the public announcement of such change.

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"BASE RATE LOAN" means a Loan that bears interest based on the Base Rate.

"BORROWER" has the meaning specified in the introductory paragraph hereto.

"BORROWING" means a Revolving Borrowing or a Swing Line Borrowing, as the context may require.

"BORROWING BASE" means with respect to an Inventory Valuation Date for which it is to be determined, an amount equal to the sum (without duplication) of the following assets of each Loan Party (but only to the extent that such assets set forth in subparagraph (a) below are not subject to any Liens and such assets set forth in subparagraphs (b) through (h) below are not subject to any Liens other than Permitted Liens):

(a) 100% of Cash and Receivables (which shall not include cash used to collateralize L/C Obligations);

(b) 90% of the Net Book Value of Presold Units;

(c) 80% of the Net Book Value of Eligible Model Units;

(d) 80% of the Net Book Value of Unsold Units Under Construction;

(e) 80% of the Net Book Value of Completed Unsold Units Less Than 18 Months Since Completion;

(f) 70% of the Net Book Value of Finished Lots;

(g) 60% of the Net Book Value Land/Lots Under Development; and

(h) 50% of the Net Book Value of Unimproved Entitled Land;

PROVIDED, HOWEVER, that (i) at no time shall more than 50% of the Borrowing Base be comprised of the items set forth in subparagraphs (f), (g) and (h)

above, (ii) at no time shall more than 25% of the Borrowing Base be comprised of the items set forth in subparagraphs (g) and (h) above and (iii) at no time shall the aggregate amount of condominiums exceed 15% of the aggregate number of Units comprising the items set forth in subparagraphs (b), (c), (d) and (e) in the aggregate.

"BORROWING BASE ASSETS" means Cash, Receivables, Presold Units, Eligible Model Units, Unsold Units Under Construction, Completed Unsold Units Less Than 18 Months Since Completion, Finished Lots, Land/Lots Under Development and Unimproved Entitled Land of the Borrower and the Guarantors included in the calculation of the Borrowing Base.

"BORROWING BASE CERTIFICATE" means the Certificate in the form of EXHIBIT H hereto, or in such other form acceptable to the Administrative Agent, executed by a Responsible Officer of the Borrower.

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"BORROWING BASE DEBT" means as of any date of determination, all Consolidated Indebtedness as of such date of determination, including without limitation the Obligations and the Senior Notes, but excluding (a) any portion of any Subordinated Debt of any Loan Party which is due and payable more than one year from such date of determination and (b) Indebtedness secured by Liens on assets that are not part of any of the Borrowing Base Assets, but only to the extent that the Indebtedness (i) secured by any Lien on such asset does not exceed the Net Book Value of such asset as determined by GAAP and (ii) does not exceed in aggregate amount the amount set forth in SECTION 7.03(f).

"BUSINESS DAY" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Administrative Agent's Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

"CAPITAL LEASE" means as of any date, any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on the balance sheet of the lessee.

"CASH" means unrestricted cash.

"CASH AND CASH EQUIVALENTS" means (a) Cash; (b) marketable obligations issued or unconditionally guaranteed by the U.S. Government or issued by any of its agencies and backed by the full faith and credit of the U.S., in each case maturing within one year from the date of acquisition (and investments in mutual funds investing primarily in those obligations); (c) short-term investment grade domestic and eurodollar certificates of deposit or time deposits that are fully insured by the Federal Deposit Insurance Corporation or are issued by commercial banks having combined capital, surplus, and undivided profits of not less than \$500,000,000 (as shown on its most recently published statement of condition); (d) commercial paper and similar obligations rated "P-1" by Moody's or "A-1" by S&P; (e) readily marketable tax-free municipal bonds of a domestic issuer rated "AAA" by Moody's, or "AAA" by S&P, and maturing within one year from the date of issuance (and investments in mutual funds investing primarily in those bonds); and (f) demand deposit accounts maintained in the ordinary course of business.

"CASH COLLATERALIZE" has the meaning specified in SECTION 2.03(g).

"CHANGE OF CONTROL" means with respect to any Person, an event or series of events by which:

(a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding the Permitted Holders, any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire (such right, an "OPTION RIGHT"), whether such right is exercisable immediately or only after the passage of time),

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directly or indirectly, of 25% or more of the equity securities of such Person entitled to vote for members of the board of directors or equivalent governing body of such Person on a fully-diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right); or

(b) during any period of 24 consecutive months, a majority of the members of the board of directors or other equivalent governing body of such Person cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority

of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body.

"CLOSING DATE" means the first date all the conditions precedent in SECTION 4.01 are satisfied or waived in accordance with SECTION 4.01 (or, in the case of SECTION 4.01(b), waived by the Person entitled to receive the applicable payment).

"CODE" means the Internal Revenue Code of 1986.

"COMMITMENT" means as to each Lender, its obligation to (a) make Revolving Loans to the Borrower pursuant to SECTION 2.01, (b) purchase participations in L/C Obligations, and (c) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on SCHEDULE 2.01, in any Assignment and Assumption pursuant to which such Lender becomes a party hereto, or in any amendment hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

"COMPLETED UNSOLD UNITS LESS THAN 18 MONTHS SINCE COMPLETION" means as of any date, all Units (excluding Model Units), for which construction has been "completed" less than 18 months before such date, but for which there is in existence no Contract For Sale. Construction will be considered "completed" when the temporary certificate of occupancy or the certificate of occupancy has been issued, whichever occurs first.

"COMPLIANCE CERTIFICATE" means a certificate substantially in the form of EXHIBIT D, with such changes, or in such other form, as agreed to by the Administrative Agent, executed by a Responsible Officer of the Borrower.

"CONSENTING LENDERS" has the meaning specified in SECTION 2.14(b).

"CONSOLIDATED EBITDA" means for any period, the Consolidated Net Income of the Loan Parties PLUS, to the extent deducted from revenues in determining Consolidated Net Income, (a) Consolidated Interest Expense, (b) expense for income taxes paid or accrued, (c) depreciation, (d) amortization, (e) all other non-cash items reducing Consolidated Net Income (excluding any non-cash charge that results in an accrual of a reserve for cash charges in the future) and (f) the amount of dividends accrued or payable by the Loan Parties in respect of Disqualified Equity Interests or any Preferred Stock of any Restricted

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Subsidiary (excluding any amount payable to any Loan Party), which amount shall be "grossed up" to include any applicable taxes on income that would be used to pay such dividends, PROVIDED, HOWEVER, that interest, dividends or other payments or accruals of a consolidated Subsidiary that is not wholly owned shall be included only to the extent of the interest of such Person in such Subsidiary.

"CONSOLIDATED INDEBTEDNESS" means as of any date of determination, for the Loan Parties on a consolidated basis, Indebtedness of the Loan Parties as of such date, but excluding Indebtedness of one Loan Party to another Loan Party.

"CONSOLIDATED INTEREST EXPENSE" means for any period, for the Loan Parties on a consolidated basis, the interest expense and interest and other charges amortized to cost of home sales and cost of land sales for the Loan Parties for such period.

"CONSOLIDATED INTEREST INCURRED" means for any period, the aggregate amount (without duplication and determined in each case in accordance with GAAP) of (a) interest (excluding interest on Indebtedness of a Loan Party to another Loan Party) incurred, whether such interest was expensed or capitalized, paid, accrued, or scheduled to be paid or accrued by any of the Loan Parties during such period, including (i) original issue discount and non-cash interest payments or accruals, (ii) the interest portion of all deferred payment obligations, and (iii) all commissions, discounts and other fees and charges owed with respect to bankers' acceptances and letter of credit financings and Swap Contracts, in each case to the extent attributable to such period PLUS (b) the amount of dividends accrued or payable by the Loan Parties in respect of Disqualified Equity Interests or any Preferred Stock of any Restricted Subsidiary (excluding any amount payable to any Loan Party), which amount shall be "grossed up" to include applicable taxes on income that would be used to pay such in dividends, PROVIDED, HOWEVER, that interest, dividends or other payments or accruals of a consolidated Subsidiary that is not wholly owned shall be included only to the extent of the interest of such Person in such Subsidiary. For purposes of this definition, (x) interest on Capital Leases shall be deemed to accrue at an interest rate reasonably determined by the Borrower to be the rate of interest implicit in such Capital Leases in accordance with GAAP and (y) without duplication, interest expense attributable to any Indebtedness of another Person represented by any Guarantee of a Loan Party shall be deemed to be the interest expense attributable to the Indebtedness guaranteed.

"CONSOLIDATED NET INCOME" means with respect to any Person for any period, the net income (or loss) of such Person and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; PROVIDED, that (a) net income (or loss) of any other Person which is not a Subsidiary of the Person or is accounted for by such specified Person by the equity method of accounting shall be included only to the extent of the amount of dividends or distributions paid to the specified Person or a Subsidiary of such Person, (b) all gains and losses which are either extraordinary (as determined in accordance with GAAP) or are either unusual or nonrecurring (including any gain from the sale or other disposition of assets outside the ordinary course of business or from the issuance or sale of any Equity Interests), shall be excluded, and (c) the net income, if positive, of any of such Person's consolidated Subsidiaries to the extent that the declaration or payment of dividends or similar distributions is not at the time permitted by operation of the terms of its charter or bylaws or any other agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such consolidated Subsidiary shall be

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excluded, PROVIDED, HOWEVER, in the case of exclusions from Consolidated Net Income set forth in CLAUSES (b) and (c) above, such amounts shall be excluded only to the extent included in computing such net income (or loss) in accordance with GAAP and without duplication.

"CONSOLIDATED TANGIBLE NET WORTH" means as of any date of determination, for Loan Parties on a consolidated basis, Shareholders' Equity of the Loan Parties on that date MINUS the Intangible Assets of the Loan Parties on that date.

"CONTRACT FOR SALE" means a bona fide written sale and purchase agreement between a Loan Party and a third Person purchaser who (a) is not an Affiliate of any Loan Party, and (b) has made an earnest money deposit or down payment of at least \$1,000; PROVIDED, HOWEVER, that such agreement shall not contain any contingency clause other than the contingency that the purchaser shall have obtained mortgage financing.

"CONTRACTUAL OBLIGATION" means as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"CONTROL" has the meaning specified in the definition of "AFFILIATE."

"CREDIT EXTENSION" means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

"DEBT RATINGS" means, as of any date, the lowest rating that has been recently announced by either S&P or Moody's, as the case may be, for any non-credit-enhanced, senior unsecured long-term debt of the Borrower.

"DEBTOR RELIEF LAWS" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"DEFAULT" means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

"DEFAULT RATE" means an interest rate equal to (a) the Base Rate PLUS (b) the Applicable Rate, if any, applicable to Base Rate Loans PLUS (c) 2% per annum; PROVIDED, HOWEVER, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, in each case to the fullest extent permitted by applicable Laws.

"DEFAULTING LENDER" means any Lender that (a) has failed to fund any portion of the Revolving Loans, participations in L/C Obligations or participations in Swing Line Loans required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the

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date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"DISPOSITION" or "DISPOSE" means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

"DISQUALIFIED EQUITY INTERESTS" means (a) except as set forth in clause (b)

below, with respect to any Person, Equity Interests of such Person that, by its terms or by the terms of any security into which it is convertible, exercisable or exchangeable, is, or upon the happening of an event or the passage of time would be, required to be redeemed or repurchased (including at the option of the holder thereof) by such Person or any of its Subsidiaries, in whole or in part, on or prior to the Scheduled Maturity Date, and (b) with respect to any Subsidiary of such Person (including with respect to any Subsidiary of the Borrower), any Equity Interests other than any common stock with no preference, privileges, or redemption or repayment provisions.

"DOCUMENTATION AGENT" means Bank One, NA, in its capacity as documentation agent under any of the Loan Documents.

"DOLLAR" and "\$" mean lawful money of the United States.

"ELIGIBLE ASSIGNEE" has the meaning specified in SECTION 10.07(g).

"ELIGIBLE MODEL UNITS" means Model Units that have not been completed for more than 36 months after the last production Unit in the Project (for which such Model Unit is used as a Model) has been closed.

"ENTITLED LAND" means Land that has all requisite vested residential zoning for the construction of Units.

"ENVIRONMENTAL LAWS" means any and all Federal, state, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

"ENVIRONMENTAL LIABILITY" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

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"EQUITY INTERESTS" means as to any Person, the equity interests in such Person, including, without limitation, the shares of each class of capital stock in any Person that is a corporation, each class of partnership interest in any Person that is a partnership, and each class of membership interest in any Person that is a limited liability company, and any warrants or options to purchase or otherwise acquire any such equity interests.

"ERISA" means the Employee Retirement Income Security Act of 1974.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA EVENT" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

"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, 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, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

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(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 would be offered by Guaranty Bank to 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.

"EURODOLLAR RATE LOAN" means a Revolving Loan that bears interest at a rate based on the Eurodollar Rate.

"EVENT OF DEFAULT" has the meaning specified in SECTION 8.01.

"EXISTING CREDIT FACILITIES" means these certain credit facilities of the Borrower and its Subsidiaries set forth on SCHEDULE 1.01(b) which are to be paid in full on the Closing Date without further loan or funding commitments thereunder.

"EXISTING L/C'S" has the meaning specified in SECTION 2.03(m).

"FEDERAL FUNDS RATE" means for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank on the Business Day next succeeding such day; PROVIDED that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Guaranty Bank on such day on such transactions as determined by the Administrative Agent.

"FEE LETTER" means the letter agreement, dated September 18, 2002, among the Borrower, the Administrative Agent and the Arranger, and any other fee letter entered into from time to time among the Administrative Agent, the Borrower and the Arranger, or any of them.

"FINISHED LOTS" means parcels of Entitled Land which are duly recorded and platted for the construction of Units with vested zoning for such use, with respect to which substantially all utilities and major infrastructure has been completed and stubbed to site, and all requisite governmental consents and approvals required for a building permit to be issued have been, or could be, obtained and construction commenced without the satisfaction of any further conditions; PROVIDED, HOWEVER, that the term "FINISHED LOTS" shall not include any real property upon which the construction of a Unit has commenced.

"FOREIGN LENDER" has the meaning specified in SECTION 10.15(a) (i).

"FRB" means the Board of Governors of the Federal Reserve System of the United States.

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"GAAP" means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"GUARANTEE" means as to any Person, any (a) obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i)

to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "GUARANTEE" as a verb has a corresponding meaning.

"GUARANTIED PARTIES" has the meaning given to such term in the Guaranty.

"GUARANTORS" means each Restricted Subsidiary of the Borrower existing on the Closing Date and each Restricted Subsidiary that becomes an additional Guarantor pursuant to SECTION 6.12.

"GUARANTY" means each Guaranty made by the Guarantors in favor of the Administrative Agent on behalf of the Guaranteed Parties, substantially in the form of EXHIBIT F.

"GUARANTY BANK" means Guaranty Bank and its successors.

"HAZARDOUS MATERIALS" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes

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and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"HIGHEST LAWFUL RATE" means at the particular time in question the maximum rate of interest which, under Applicable Law, any Lender is then permitted to charge on the Obligations. If the maximum rate of interest which, under Applicable Law, any Lender is permitted to charge on the Obligations shall change after the date hereof, the Highest Lawful Rate shall be automatically increased or decreased, as the case may be, from time to time as of the effective time of each change in the Highest Lawful Rate without notice to the Borrower. For purposes of determining the Highest Lawful Rate under Applicable Law, the indicated rate ceiling shall be the lesser of (a) (i) the "WEEKLY CEILING", as that expression is defined in Section 303.003 of the Texas Finance Code, as amended, or (ii) if available in accordance with the terms thereof and at the Administrative Agent's option after notice to the Borrower and otherwise in accordance with the terms of Section 303.103 of the Texas Finance Code, as amended, the "ANNUALIZED CEILING" and (b) (i) if the amount outstanding under this Agreement is less than \$250,000, twenty-four percent (24%), or (ii) if the amount under this Agreement is equal to or greater than \$250,000, twenty-eight percent (28%) per annum.

"HONOR DATE" has the meaning specified in SECTION 2.03(c) (i).

"ICC" has the meaning specified in SECTION 2.03(h).

"INDEBTEDNESS" means as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (except the following items shall not be included as Indebtedness: (i) trade accounts payable that are not more than 30 days past the date the invoice was approved and entered into the computer system by such Person and also including any trade payables that are in dispute and (ii) accrued expenses incurred by such Person in the ordinary course of business);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) obligations under Capital Leases;

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(g) Synthetic Lease Obligations and Off-Balance Sheet Liabilities;

(h) obligations in respect to Redeemable Stock of such Person;

(i) any Receivables Facility Attributed Indebtedness;

(j) any "withdrawal liability" of such Person as such term is defined under Part I of Subtitle E of Title IV of ERISA; and

(k) all Guarantees by such Person in respect of any of the foregoing of another Person.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date. The amount of any Capital Lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

Notwithstanding the foregoing, (1) earn-outs or similar profit sharing arrangements provided for in Acquisition agreements which are determined on the basis of future operating earnings or similar performance criteria (which are not determinable at the time of acquisition) of the acquired assets or entities, (2) deferred income taxes and surety bonds arising in the ordinary course of business, (3) any liabilities arising under rolling options and similar contracts for the acquisition of real property incurred in the ordinary course of business, and (4) any liabilities arising under model home leases shall not be considered Indebtedness to the extent such items are not required to be capitalized in accordance with GAAP.

"INDEMNIFIED LIABILITIES" has the meaning set forth in SECTION 10.05.

"INDEMNITEES" has the meaning set forth in SECTION 10.05.

"INTANGIBLE ASSETS" means assets that are considered to be intangible assets under GAAP, including customer lists, goodwill, computer software, copyrights, trade names, trademarks, patents, franchises, licenses, unamortized deferred charges and unamortized debt discount.

"INTEREST COVERAGE RATIO" means as of any date of determination, the ratio of (a) Consolidated EBITDA for the period of four fiscal quarters ended on such date to (b) Consolidated Interest Incurred for such four fiscal quarters.

"INTEREST PAYMENT DATE" means (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; PROVIDED, HOWEVER, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the first Business Day of each January, April, July and October shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), the first Business Day of each January, April, July and October and the Maturity Date.

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"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 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.

"INVENTORY VALUATION DATE" means the last day of the most recent calendar

month with respect to which the Borrower is required to have delivered a Borrowing Base Certificate pursuant to SECTION 6.02(c).

"INVESTMENT" means as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"IP RIGHTS" has the meaning set forth in SECTION 5.17.

"IRS" means the United States Internal Revenue Service.

"LAND" means land owned by any Loan Party, which land is held for future development or sale.

"LAND/LOTS UNDER DEVELOPMENT" means Entitled Land on which grading or construction of on-site infrastructure improvements has begun, and, for which all necessary zoning approvals have been obtained and are in full force and effect, and which does not qualify as a Presold Unit, an Unsold Unit Under Construction or a Finished Lot.

"LAWS" means collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses,

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authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

"L/C ADVANCE" means with respect to each Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

"L/C BORROWING" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Revolving Borrowing.

"L/C CREDIT EXTENSION" means with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

"L/C ISSUER" means Guaranty Bank in its capacity as issuer of Letters of Credit hereunder, or such other Lender or Lenders as the Borrower, the Administrative Agent and such other Lender or Lenders may agree upon that may also issue Letters of Credit hereunder.

"L/C OBLIGATIONS" means as at any date of determination, the aggregate undrawn amount of all outstanding Letters of Credit PLUS the aggregate of all Unreimbursed Amounts, including all L/C Borrowings.

"LENDER" has the meaning specified in the introductory paragraph hereto and, as the context requires, includes the L/C Issuer and the Swing Line Lender.

"LENDING OFFICE" means as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Reply Form, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

"LETTER OF CREDIT" means any letter of credit issued hereunder. A Letter of Credit may be a commercial letter of credit or a standby letter of credit.

"LETTER OF CREDIT APPLICATION" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

"LETTER OF CREDIT EXPIRATION DATE" means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

"LETTER OF CREDIT SUBLIMIT" means an amount equal to \$40,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Commitments.

"LEVERAGE RATIO" means as of any date of determination, the ratio of (a) Consolidated Indebtedness on such date (which, for the purpose of calculating the Leverage Ratio only, shall include accrued expenses of the Loan Parties

incurred in the ordinary course of business) to (b) Consolidated Tangible Net Worth on such date.

"LIEN" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention

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agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

"LOAN" means an extension of credit by a Lender to the Borrower under ARTICLE II in the form of a Revolving Loan or a Swing Line Loan.

"LOAN DOCUMENTS" means this Agreement, the Notes, the Fee Letter, each Guaranty, each Request for Credit Extension, each Compliance Certificate, and any other agreement executed, delivered or performable by any Loan Party in connection herewith or as security for the Obligations (excluding, however, any Swap Contract with a Lender or an Affiliate of a Lender).

"LOAN PARTIES" means collectively, the Borrower and each Guarantor.

"MATERIAL ADVERSE EFFECT" means any of the following events: (a) a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of the Borrower or the Loan Parties taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party; or (d) the occurrence of any event or circumstance the effects of which will result in, or could reasonably be expected to result in, a Default.

"MATURITY DATE" means the earlier of (a) the Scheduled Maturity Date or (b) such earlier date that (i) the Obligations become due and payable pursuant to this Agreement (whether by acceleration, prepayment in full, scheduled reduction or otherwise) or (ii) there shall exist an Event of Default under SECTION 8.1(f).

"MODEL UNITS" means all Units which are initially used as models or sales offices to market a particular Project and that are not intended to be sold until all or substantially all other Units in such particular Project are sold.

"MOODY'S" means Moody's Investors Service, Inc., or any successor rating agency.

"MULTIEMPLOYER PLAN" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"NET AVAILABLE PROCEEDS" means, with respect to any Disposition, the proceeds thereof in the form of Cash and Cash Equivalents, net of:

(i) brokerage commissions and other fees and expenses (including fees and expenses of legal counsel, accountants and investment banks) of such Disposition paid to parties other than the Borrower or Affiliates of the Borrower;

(ii) provisions of taxes payable as a result of such Disposition (after taking into account any available tax credits or deductions and any tax sharing arrangements);

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(iii) amounts required to be paid by any Person (other than the Borrower or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Disposition or having a Lien thereon;

(iv) payments of unassumed liabilities (not constituting Indebtedness) relating to the assets sold at the time of, or within 30 days after the date of, such Disposition; and

(v) appropriate amounts to be provided by the Borrower or any Restricted Subsidiary, as the case may be, as a reserve required in accordance with GAAP against any liabilities associated with such Disposition and retained by the Borrower or any Restricted Subsidiary, as the case may be, after such Disposition, including pensions and other post-employment benefit liabilities under any indemnification obligations associated with such Disposition, all as reflected in an certificate of a Responsible Officer delivered to the Administrative Agent; provided, however, that any amounts remaining after adjustments, revaluations or liquidations of such reserves shall constitute Net Available Proceeds.

"NET BOOK VALUE" means, with respect to an asset owned by a Loan Party, the gross investment of such Loan Party in the asset, less all reserves (including loss reserves and reserves for depreciation) attributable to that asset, all

determined in accordance with GAAP.

"NON-CONSENTING LENDER" has the meaning specified in SECTION 2.14(a).

"NON-RECOURSE INDEBTEDNESS" with respect to any Person means Indebtedness of such Person (i) for which the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within ninety (90) days after the acquisition of such property and for which no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness, or (ii) that refinances Indebtedness described in clause (i) and for which the recourse is limited to the same extent described in clause (i).

"NOTES" means the Revolving Loan Notes and the Swing Line Note.

"OBLIGATIONS" means all debts, liabilities and obligations of any Loan Party arising under any Loan Document or any Swap Contract entered into with any Lender or any Affiliate of any Lender, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising, and shall also include all fees, expenses and other amounts owing to any Lender pursuant to cash management, depository accounts (including chargebacks) or similar agreements. Without limiting the generality of the foregoing, "OBLIGATIONS" includes all amounts which would be owed by any Loan Party or any other Person (other than Administrative Agent or Lenders) to Administrative Agent, Lenders or any Affiliate of a Lender under any Loan Document, but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving any Loan Party or any other Person (including all such amounts which would become due or would be secured but for the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding of any other Loan Party or any other Person under any Debtor Relief Law).

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"OFF-BALANCE SHEET LIABILITIES" means with respect to any Person as of any date of determination thereof, without duplication and to the extent not included as a liability on the consolidated balance sheet of such Person and its Subsidiaries in accordance with GAAP: (a) with respect to any asset securitization transaction (including any accounts receivable purchase facility) (i) the unrecovered investment of purchasers or transferees of assets so transferred, and (ii) any other payment, recourse, repurchase, hold harmless, indemnity or similar obligation of such Person or any of its Subsidiaries in respect of assets transferred or payments made in respect thereof, other than limited recourse provisions that are customary for transactions of such type and that neither (x) have the effect of limiting the loss or credit risk of such purchasers or transferees with respect to payment or performance by the obligors of the assets so transferred nor (y) impair the characterization of the transaction as a true sale under applicable Laws (including Debtor Relief Laws); (b) the monetary obligations under any financing lease or so-called "synthetic," tax retention or off-balance sheet lease transaction which, upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness; (c) any other monetary obligation arising with respect to any other transaction which (i) upon the application of any Debtor Relief Law to such Person or any of its Subsidiaries, would be characterized as indebtedness or (ii) is the functional equivalent of or takes the place of borrowing but which does not constitute a liability on the consolidated balance sheet of such Person and its Subsidiaries (for purposes of this clause (c), any transaction structured to provide tax deductibility as interest expense of any dividend, coupon or other periodic payment will be deemed to be the functional equivalent of a borrowing); PROVIDED, HOWEVER, that (A) liabilities arising under rolling options and similar contracts for the acquisition of real property incurred in the ordinary course of business and (B) liabilities arising under model home leases in the ordinary course of business shall not be deemed to be "Off-Balance Sheet Liabilities".

"ORGANIZATION DOCUMENTS" means (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"OUTSTANDING AMOUNT" means (i) with respect to Revolving Loans and Swing Line Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Revolving Loans and Swing Line Loans, as the case may be, occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such

date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

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"PARTICIPANT" has the meaning specified in SECTION 10.07(d).

"PBGC" means the Pension Benefit Guaranty Corporation.

"PENSION PLAN" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"PERMITTED HOLDERS" means Steven J. Hilton and John R. Landon, their respective wives and children, any corporation, limited liability company or partnership in which either of them has voting control and is the direct and beneficial owner of a majority of the Equity Interests and any trust for the benefit of either of them or their wives or children.

"PERMITTED LIENS" means as to any Loan Party, any of the following:

(a) Liens for taxes, assessments or governmental charges or levies on such Loan Party's property if the same (i) shall not at the time be delinquent or thereafter can be paid without penalty, or (ii) are being contested in good faith and by appropriate proceedings and for which adequate reserves shall have been established on such Loan Party's books in accordance with GAAP;

(b) Liens imposed by Law, such as carriers', warehousemen's, mechanics' and materialmen's Liens and other similar Liens arising in the ordinary course of business with respect to amounts that either (i) are not yet delinquent, or (ii) are delinquent but are being contested in a timely manner in good faith by appropriate proceedings and for which adequate reserves shall have been established on such Loan Party's books in accordance with GAAP;

(c) utility easements, rights of way, zoning restrictions, covenants, conditions, restrictions, reservations, and such other burdens, encumbrances or charges against Real Estate, or other minor irregularities of title, as are of a nature generally existing with respect to properties of a similar character and which do not in any material way interfere with the use thereof or the sale thereof in the ordinary course of business of such Loan Party or materially detract from the value of the Real Estate subject thereto;

(d) easements, dedications, assessment district or similar Liens in connection with municipal financing and other similar encumbrances or charges, in each case reasonably necessary or appropriate for the development of Real Estate of such Loan Party, and which are granted in the ordinary course of the business of such Loan Party, and which in the aggregate do not materially burden or impair the fair market value or use of such real property (or the Project to which it is related) for the purposes for which it is or may reasonably be expected to be held;

(e) any option or right of first refusal to purchase real property or marketing deed of trust granted to the master developer or the seller of real property that arises as a result of the non-use or non-development of

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such real property by such Loan Party or relates to the coordinated marketing and promotion by the master developer;

(f) any agreement or contract to participate in income or revenue or pay lot premiums, in each case derived from the sale of Units or Finished Lots and granted in the ordinary course of business to the seller of the real property upon which the Unit or Finished Lot is constructed or improved, as the case may be;

(g) leases or subleases (or any Liens related thereto) granted to others that do not materially interfere with the ordinary course of business of a Loan Party;

(h) Liens arising from filing Uniform Commercial Code financing statements regarding leases;

(i) attachment or judgment Liens not giving rise to a Default and which are being contested in good faith by appropriate proceedings; and

(j) any option, contract or other agreement to sell an asset, provided such sale is not otherwise prohibited under this Agreement.

"PERMITTED UNRESTRICTED SUBSIDIARY INDEBTEDNESS" means Indebtedness of an Unrestricted Subsidiary (a) as to which neither the Borrower nor any Restricted Subsidiary (i) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (ii) is directly or indirectly liable as a guarantor or otherwise, or (iii) constitutes the lender; (b) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Notes) of the Borrower or any Restricted Subsidiary to declare a default on the other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and (c) as to which the lenders have been notified in writing that they will not have any recourse to the Equity Interests or assets of the Borrower or any Restricted Subsidiary.

"PERSON" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"PLAN" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

"PREFERRED STOCK" means, with respect to any Person, any and all preferred or preference stock or other Equity Interests (however designated) of such Person whether now outstanding or issued after the Closing Date.

"PRESOLD UNITS" means a Unit owned by any Loan Party that is subject to a Contract For Sale for sale in the ordinary course of such Loan Party's business of such Unit and the related lot.

"PRO RATA SHARE" means with respect to each Lender at any time, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Commitment of such Lender at such time

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and the denominator of which is the amount of the Aggregate Commitments at such time; PROVIDED that if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to SECTION 8.02, then the Pro Rata Share of each Lender shall be determined based on the Pro Rata Share of such Lender immediately prior to such termination and after giving effect to any subsequent assignments made pursuant to the terms hereof. The initial Pro Rata Share of each Lender is set forth opposite the name of such Lender on SCHEDULE 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

"PROJECT" means a parcel of Real Estate owned by a Loan Party which is to be developed or sold as a part of a common scheme.

"PUBLIC INDEBTEDNESS" means unsecured Indebtedness evidenced by notes, debentures, or other similar instruments issued after the Closing Date pursuant to either (a) a registered public offering or (b) a private placement of such instruments in accordance with an exemption from registration under the Securities Act of 1933 and/or the Securities Exchange Act of 1934 or similar law.

"REAL ESTATE" means land, rights in land and interests therein (including, without limitation, leasehold interests), and equipment, structures, improvements, furnishings, fixtures and buildings (including a mobile home of the type usually installed on a developed site) located on or used in connection with land, rights in land or interests therein (including leasehold interests), but shall not include mortgages or interests therein.

"RECEIVABLES" means the net proceeds payable to, but not received by, any Loan Party following a Unit Closing.

"RECEIVABLES FACILITY ATTRIBUTED INDEBTEDNESS" means the amount of obligations outstanding under a receivables purchase facility on any date of determination that would be characterized as principal if such were structured as a secured lending transaction rather than a purchase.

"REDEEMABLE STOCK" means any Equity Interests of the Borrower or any of its Restricted Subsidiaries which prior to January 12, 2006 is (a) mandatorily redeemable, (b) redeemable at the option of the holder thereof or (c) convertible into Indebtedness of the Borrower or any of its Restricted Subsidiaries.

"REFINANCING INDEBTEDNESS" has the meaning set forth in the definition of Restricted Payments.

"REGISTER" has the meaning set forth in SECTION 10.07(c).

"RELEASE DATE" means the date upon which all Obligations are paid in full and the Commitments are terminated.

"REPORTABLE EVENT" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

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"REQUEST FOR CREDIT EXTENSION" means (a) with respect to a Borrowing, conversion or continuation of Revolving Loans, a Revolving Loan Notice, (b) with respect to an L/C Credit Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice.

"REQUIRED LENDERS" means as of any date of determination, Lenders having at least 66 2/3% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to SECTION 8.02, Lenders holding in the aggregate at least 66 2/3% of the Total Outstandings (with the aggregate amount of each Lender's risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed "held" by such Lender for purposes of this definition); PROVIDED that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

"RESPONSIBLE OFFICER" means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of a Loan Party or the controller of the Borrower. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

"RESTRICTED PAYMENT" means (a) any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interest of the Borrower or any Restricted Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interest or of any option, warrant or other right to acquire any such Equity Interest and (b) any payment or prepayment of principal, interest, premium or penalty on the Senior Notes or any other Public Indebtedness or Subordinated Debt of any Loan Party or any defeasance, redemption, purchase, repurchase or other acquisition or retirement for value, in whole or in part, of the Senior Notes or any other Public Indebtedness or Subordinated Debt (including, without limitation, the setting aside or the deposit of funds therefor); PROVIDED, HOWEVER, a refinancing of the Senior Notes or any other Public Indebtedness or Subordinated Debt, to the extent consisting of the repayment of the Senior Notes or any other Public Indebtedness or such Subordinated Debt and the simultaneous incurring of new Indebtedness in respect of the Senior Notes or such other Public Indebtedness or Subordinated Debt ("REFINANCING INDEBTEDNESS"), respectively, shall not constitute a Restricted Payment so long as (i) the Refinancing Indebtedness is subordinated to or PARI PASSU with the Obligations (or Guarantor's obligations under its Guaranty, as applicable) to the same extent as the Indebtedness being refunded, refinanced or extended, and (ii) the Refinancing Indebtedness is scheduled to mature no earlier than the current maturity date of such Indebtedness.

"RESTRICTED SUBSIDIARY" means any Subsidiary of the Borrower which is not an Unrestricted Subsidiary.

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"REVOLVING BORROWING" means a borrowing consisting of simultaneous Revolving Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Lenders pursuant to SECTION 2.01.

"REVOLVING LOAN" has the meaning specified in SECTION 2.01.

"REVOLVING LOAN NOTICE" means a notice of (a) a Revolving Borrowing, (b) a conversion of Revolving Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to SECTION 2.02(A), which, if in writing, shall be substantially in the form of EXHIBIT A.

"REVOLVING NOTE" means a promissory note made by the Borrower in favor of a Lender evidencing Revolving Loans made by such Lender, substantially in the form of EXHIBIT C.

"SALE AND LEASEBACK TRANSACTION" means any transaction providing for the leasing to any Loan Party of any property or to any Person in exchange for funds which have been or are to be advanced by such Person on the security of, or for the transfer of, such property.

"SCHEDULED MATURITY DATE" means December 12, 2005, as the same may be extended pursuant to SECTION 2.14.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc., or any successor rating agency.

"SEC" means the Securities and Exchange Commission, or any Governmental

Authority succeeding to any of its principal functions.

"SENIOR AND SUBORDINATED INDEBTEDNESS" means the Senior Notes and any Subordinated Debt.

"SENIOR NOTE INDENTURE" means that certain Indenture, dated as of May 30, 2001, among the Borrower, the guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, entered into with respect to the Senior Notes.

"SENIOR NOTES" means the 9-3/4% Senior Notes of the Borrower due 2011 in the original principal amount of \$165,000,000, with any such amendments or modifications as permitted by SECTION 7.13, and any Refinancing Indebtedness in respect of the Senior Notes.

SHAREHOLDERS' EQUITY" means as of any date of determination, consolidated shareholders' equity of the Loan Parties as of that date determined in accordance with GAAP.

"SOLVENT" means, with respect to any Person, as of any date of determination, that the fair value of the assets of such Person (at fair valuation) is, on the date of determination, greater than the total amount of liabilities (including contingent and unliquidated liabilities) of such Person as of such date, that the present fair saleable value of the assets of such Person will, as of such date, be greater than the amount that will be required to pay the probable liability of such Person on its debts as such debts become absolute and matured, and that, as of such date, such Person will be able to pay all liabilities of such Person as such liabilities mature and such Person does not have unreasonably small capital with which to carry on its business. In computing the amount of contingent or unliquidated liabilities at any time, such

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liabilities will be computed at the amount which, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability discounted to present value at rates believed to be reasonable by such Person.

"SUBORDINATED DEBT" means any Indebtedness of the Borrower or any Restricted Subsidiary which is expressly subordinated to the Obligations at all times (including in respect of any amendment or modification thereto) pursuant to terms satisfactory to the Required Lenders.

"SUBSIDIARY" of a Person means with respect to any Person (a) any corporation, limited liability company, association or other business entity (other than a partnership), of which more than fifty percent (50%) of the total voting power of the Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Board of Directors or other governing body thereof are at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (b) any partnership (i) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (ii) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination hereof). Unless otherwise specified, all references herein to a "SUBSIDIARY" or to "SUBSIDIARIES" shall refer to a Subsidiary or Subsidiaries of the Borrower.

"SWAP CONTRACT" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "MASTER AGREEMENT"), including any such obligations or liabilities under any Master Agreement.

"SWAP TERMINATION VALUE" means in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

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"SWING LINE" means the revolving credit facility made available by the Swing Line Lender pursuant to SECTION 2.04.

"SWING LINE BORROWING" means a borrowing of a Swing Line Loan pursuant to SECTION 2.04.

"SWING LINE LENDER" means Guaranty Bank in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

"SWING LINE LOAN" has the meaning specified in SECTION 2.04(a).

"SWING LINE LOAN NOTICE" means a notice of a Swing Line Borrowing pursuant to SECTION 2.04(B), which, if in writing, shall be substantially in the form of EXHIBIT B. "SWING LINE NOTE" means a promissory note made by the Borrower in favor of the Swing Line Lender evidencing Swing Line Loans made by such Lender, substantially in the favor of EXHIBIT I.

"SWING LINE SUBLIMIT" means an amount equal to the lesser of (a) \$25,000,000 and (b) the Aggregate Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Commitments.

"SYNDICATION AGENT" means Fleet National Bank, in its capacity as syndication agent under any of the Loan Documents.

"SYNTHETIC LEASE OBLIGATION" means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment); PROVIDED, HOWEVER, that model home leases entered into in the ordinary course of business of such Person and consistent with practices of such Person prior to the Closing Date shall not be considered Synthetic Lease Obligations.

"TOTAL OUTSTANDINGS" means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

"TYPE" means with respect to a Revolving Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

"UNENTITLED LAND" means any Land which is not zoned to permit single family residences as a use by right (or a comparable classification under local Law).

"UNFUNDED PENSION LIABILITY" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

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"UNIMPROVED ENTITLED LAND" means Entitled Land that is not Land/Lots Under Development, Finished Lots or any real property upon which the construction of Units has commenced (as described in the definition of "UNSOLD UNITS UNDER CONSTRUCTION").

"UNIT" means a single-family dwelling (where construction has commenced as described in the definition of "UNSOLD UNITS UNDER CONSTRUCTION"), whether detached or attached (including condominiums, but excluding mobile homes), including the parcel of Land in which such dwelling is located.

"UNIT CLOSING" means a closing of the sale of a Unit by a Loan Party to a bona fide purchaser for value that is not an Affiliate of a Loan Party.

"UNITED STATES" and "U.S." mean the United States of America.

"UNREIMBURSED AMOUNT" has the meaning set forth in SECTION 2.03(c)(i).

"UNRESTRICTED SUBSIDIARY" means (1) any Subsidiary of the Borrower designated by the board of directors of the Borrower from time to time as a "Unrestricted Subsidiary" pursuant to a resolution of the board of directors and (2) any Subsidiary of an Unrestricted Subsidiary, but only to the extent such Subsidiary:

(i) has no Indebtedness other than Permitted Unrestricted Subsidiary Indebtedness;

(ii) is not party to any agreement, contract, arrangement or understanding with the Borrower or any Restricted Subsidiary of the Borrower unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Borrower or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Borrower;

(iii) is a Person with respect to which neither the Borrower nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) maintain or preserve such Person's

financial condition or to cause such person to achieve any specified levels of operating results;

(iv) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Borrower or any of its Restricted Subsidiaries, unless such guarantee or credit support is released upon such designation; and

(v) is designated an "Unrestricted Subsidiary" under the Senior Note Indenture or any Refinancing Indebtedness relating thereto.

Any designation of a Restricted Subsidiary of the Borrower as an Unrestricted Subsidiary shall be evidenced to the Administrative Agent by filing with the Administrative Agent a certified copy of the resolution of the board of directors giving effect to such designation and an certificate of a Responsible Officer certifying that such designation complied with the preceding conditions. If at any time an Unrestricted Subsidiary shall fail to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be deemed an Unrestricted Subsidiary for purposes of this Agreement and any Indebtedness of such Subsidiary shall be deemed to be incurred by a Restricted

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Subsidiary of the Borrower as of such date. Notwithstanding anything to the contrary contained herein, each Guarantor shall at all times be a Restricted Subsidiary for all purposes hereunder, and Borrower shall not designate a Guarantor as an Unrestricted Subsidiary. As of the Closing Date, the Borrower shall be deemed to have designated Texas Home Mortgage Corporation and MTH-Mortgage, LLC as Unrestricted Subsidiaries.

"UNSOLD UNITS" means any Unit which is not a Presold Unit or a Model Unit.

"UNSOLD UNITS UNDER CONSTRUCTION" means all Units for which building permits have been issued and construction has commenced but not completed, and for which there is no Contract For Sale. Construction will be considered to have "commenced" when the slab or foundation for the Unit has been completed.

"VOTING STOCK" of any Person means Equity Interests of any class or classes having ordinary voting power for the election of at least a majority of the members of the board of directors, managing general partners or the equivalent governing body of such Person, irrespective of whether, at the time, Equity Interests of any other class or classes or such entity shall have or might have voting power by reason of the happening of any contingency.

1.02 OTHER INTERPRETIVE PROVISIONS. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) (i) The words "HEREIN," "HERETO," "HEREOF" and "HEREUNDER" and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof.

(ii) Article, Section, Exhibit and Schedule references are to the Loan Document in which such reference appears.

(iii) The term "INCLUDING" is by way of example and not limitation.

(iv) The term "DOCUMENTS" includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form.

(c) In the computation of periods of time from a specified date to a later specified date, the word "FROM" means "FROM AND INCLUDING;" the words "TO" and "UNTIL" each mean "TO BUT EXCLUDING;" and the word "THROUGH" means "TO AND INCLUDING."

(d) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

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1.03 ACCOUNTING TERMS.

(a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, EXCEPT as otherwise specifically prescribed herein.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the

Borrower or the Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); PROVIDED THAT, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) In the event that the Borrower shall acquire, pursuant to an Acquisition permitted under this Agreement, (i) a majority of the Equity Interests of another Person, (ii) all or substantially all of the assets of another Person or (iii) all or substantially all of a line of business of another Person (the "ACQUIRED BUSINESS") and, provided that (A) the Borrower shall have furnished to the Administrative Agent, and the Administrative Agent shall have approved (1) consolidated balance sheets and related consolidated statements of earnings, stockholders' equity and cash flows of the Acquired Business for the most recently concluded fiscal year of the Acquired Business, prepared in accordance with GAAP consistently applied and audited and reported upon by a firm of independent certified public accountants of recognized standing acceptable to the Administrative Agent (such audit to be unqualified) and (2) for any quarters of the next succeeding fiscal year that are concluded as of the date of such Acquisition, a consolidated balance sheet of the Acquired Business as of the end of the most recent quarter, and the related consolidated statement of earnings and cash flows of the Acquired Business for the period from the beginning of the current fiscal year to the end of that quarter, all prepared in accordance with GAAP consistently applied, unaudited but certified to be true and accurate, subject to normal year-end audit adjustments, by the chief financial officer of the Acquired Business and (B) the Acquired Business shall either become or be merged into, or its assets shall be acquired by, a Guarantor hereunder, then, from and after such Acquisition, the Borrower shall include in the determination of Consolidated EBITDA, Consolidated Interest Expense, Consolidated Interest Incurred and Consolidated Net Income, for any applicable period for which such amounts are to be determined pursuant to this Agreement, such Acquired Business as if such Acquired Business had been a Loan Party during such period.

1.04 ROUNDING. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and

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rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 REFERENCES TO AGREEMENTS AND LAWS. Unless otherwise expressly provided herein, (a) references to Organization Documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions and rulings consolidating, amending, replacing, supplementing or interpreting such Law.

1.06 TIMES OF DAY. Unless otherwise specified, all references herein to times of day shall be references to Central Time (daylight or standard, as applicable).

1.07 LETTER OF CREDIT AMOUNTS. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to mean the maximum face amount of such Letter of Credit after giving effect to all increases thereof contemplated by such Letter of Credit or the Letter of Credit Application therefor, whether or not such maximum face amount is in effect at such time.

ARTICLE II.

THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 REVOLVING LOANS.

(a) Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "REVOLVING LOAN") to the Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Commitment; PROVIDED, HOWEVER, that after giving effect to any Revolving Borrowing, (i) the Total Outstandings shall not exceed the Aggregate Commitments, (ii) the aggregate Outstanding Amount of the Revolving Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, PLUS such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment and (iii) except as

provided in Section 2.01(b) below, the aggregate principal amount of all Borrowing Base Debt shall not exceed the Borrowing Base determined as of the most recent Inventory Valuation Date. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this SECTION 2.01, prepay under SECTION 2.05, and reborrow under this SECTION 2.01. Revolving Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

(b) Notwithstanding the provisions of SECTION 2.01(A) above, the Borrower may elect to deliver to Administrative Agent a Borrowing Base Certificate in anticipation of an Investment as a result of an Acquisition that includes all assets that would have been included in the Borrowing Base had the Acquisition been consummated as of the last Inventory Valuation Date, provided, however, that such Borrowing Base Certificate shall (i) be delivered by the Borrower to

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the Administrative Agent at least three days prior to the anticipated closing of such Acquisition and (ii) expressly state that it is delivered in anticipation of, and shall only be effective hereunder for purposes of the Revolving Borrowings made on or after, the consummation of such Acquisition. Upon or after the consummation of such Acquisition, such Borrowing Base Certificate shall be effective for determining the maximum amount available for any Revolving Loan in accordance with SECTION 2.01(a) above.

2.02 BORROWINGS, CONVERSIONS AND CONTINUATIONS OF REVOLVING LOANS.

(a) Each Revolving Borrowing, each conversion of Revolving Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans or of any conversion of Eurodollar Rate Loans to Base Rate Revolving Loans, and (ii) on the requested date of any Borrowing of Base Rate Revolving Loans. Each telephonic notice by the Borrower pursuant to this SECTION 2.02(b) must be confirmed promptly by delivery to the Administrative Agent of a written Revolving Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Except as provided in SECTIONS 2.03(c) and 2.04(c), each Borrowing of or conversion to Base Rate Revolving Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof. Each Revolving Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Revolving Borrowing, a conversion of Revolving Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Revolving Loans to be borrowed, converted or continued, (iv) the Type of Revolving Loans to be borrowed or to which existing Revolving Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Revolving Loan in a Revolving Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Revolving Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Revolving Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Revolving Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Pro Rata Share of the applicable Revolving Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding subsection. In the case of a Revolving Borrowing, each Lender shall make the amount of its Revolving Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Revolving Loan Notice. Upon satisfaction of the applicable conditions set forth in SECTION 4.02 (and, if such Borrowing is the initial Credit

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Extension, SECTION 4.01), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Guaranty Bank with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower; PROVIDED, HOWEVER, that if, on the date the Revolving Loan Notice with respect to such Borrowing is given by the Borrower, there are Swing Line Loans or L/C Borrowings outstanding, then the proceeds of such Borrowing shall be applied, FIRST, to the payment in full of any such L/C Borrowings, SECOND, to the payment in full of any such Swing Line Loans, and THIRD, to the Borrower as provided above.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan. During the existence of a Default, no Loans may be requested as, converted to or continued as Eurodollar Rate Loans without the consent of the Required Lenders.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. The determination of the Eurodollar Rate by the Administrative Agent shall be conclusive in the absence of manifest error. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Guaranty Bank's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Revolving Borrowings, all conversions of Revolving Loans from one Type to the other, and all continuations of Revolving Loans as the same Type, there shall not be more than ten Interest Periods in effect with respect to Revolving Loans.

2.03 LETTERS OF CREDIT.

(a) THE LETTER OF CREDIT COMMITMENT.

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the other Lenders set forth in this SECTION 2.03, (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrower or certain Restricted Subsidiaries, and to amend or renew Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drafts under the Letters of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower; PROVIDED that no L/C Issuer shall be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in any Letter of Credit if as of the date of such L/C Credit Extension, (I) the Total Outstandings would exceed the Aggregate Commitments, (II) the aggregate Outstanding Amount of the Revolving Loans of any Lender, PLUS such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, PLUS such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans would exceed such Lender's Commitment, (III) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit or (IV) the aggregate principal

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amount of all Borrowing Base Debt would exceed the Borrowing Base determined as of the most recent Inventory Valuation Date. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed.

(ii) No L/C Issuer shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the L/C Issuer in good faith deems material to it;

(B) the expiry date of such requested Letter of Credit would occur more than twenty-four months after the date of issuance or last renewal, unless the Required Lenders have approved such expiry date;

(C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date;

(D) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer;

(E) such Letter of Credit is denominated in a currency other than Dollars; or

(F) the face amount of such Letter of Credit exceeds \$20,000,000.

(iii) The L/C Issuer shall be under no obligation to amend any Letter of Credit if (A) the L/C Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) PROCEDURES FOR ISSUANCE AND AMENDMENT OF LETTERS OF CREDIT.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the L/C Issuer for Letters of Credit to be issued by it (with a copy to the Administrative

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Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Application must be received by the L/C Issuer and the Administrative Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the L/C Issuer may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the L/C Issuer will provide the Administrative Agent with a copy thereof. Upon receipt by the L/C Issuer of confirmation from the Administrative Agent that the requested issuance or amendment is permitted in accordance with the terms hereof, then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer issuing such Letter of Credit a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Pro Rata Share TIMES the amount of such Letter of Credit.

(iii) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) DRAWINGS AND REIMBURSEMENTS; FUNDING OF PARTICIPATIONS.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer for such Letter of Credit shall notify the Borrower and the Administrative Agent thereof. Not later than 11:00 a.m. on the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "HONOR DATE"), the Borrower shall reimburse the L/C Issuer through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the L/C Issuer by such time, the Administrative Agent shall

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promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the "UNREIMBURSED AMOUNT"), and the amount of such Lender's Pro Rata Share thereof. In such event, the Borrower shall be deemed to have requested a Revolving Borrowing of Base Rate Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in SECTION 2.02 for the principal amount of Base Rate Loans, but subject to the amount of the unutilized portion of the Aggregate Commitments and the conditions set forth in SECTION 4.02 (other than the delivery of a Revolving Loan Notice). Any notice given by the L/C Issuer or the Administrative Agent pursuant to this SECTION 2.03(C)(I) may be given by telephone if immediately confirmed

in writing; PROVIDED that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender (including the Lender acting as L/C Issuer) shall upon any notice pursuant to SECTION 2.03(c)(i) make funds available to the Administrative Agent for the account of the L/C Issuer at the Administrative Agent's Office in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of SECTION 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Revolving Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the L/C Issuer.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Revolving Borrowing of Base Rate Loans because the conditions set forth in SECTION 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to the Administrative Agent for the account of the L/C Issuer pursuant to SECTION 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this SECTION 2.03.

(iv) Until each Lender funds its Revolving Loan or L/C Advance pursuant to this SECTION 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Pro Rata Share of such amount shall be solely for the account of the L/C Issuer.

(v) Each Lender's obligation to make Revolving Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this SECTION 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the L/C Issuer, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the L/C Issuer for the

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amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Administrative Agent for the account of the L/C Issuer any amount required to be paid by such Lender pursuant to the foregoing provisions of this SECTION 2.03(c) by the time specified in SECTION 2.03(c)(ii), the L/C Issuer shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of the L/C Issuer submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) REPAYMENT OF PARTICIPATIONS.

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with SECTION 2.03(c), if the Administrative Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Pro Rata Share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of the L/C Issuer pursuant to SECTION 2.03(c)(i) is required to be returned under any of the circumstances described in SECTION 10.06 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each Lender shall pay to the Administrative Agent for the account of the L/C Issuer its Pro Rata Share thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

(e) OBLIGATIONS ABSOLUTE. The obligation of the Borrower to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any L/C Issuer or any

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other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by any L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by any L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will immediately notify the L/C Issuer. The Borrower shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) ROLE OF L/C ISSUER. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, no L/C Issuer shall have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, any Agent-Related Person nor any of the respective correspondents, participants or assignees of the L/C Issuer shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Letter of Credit Application. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; PROVIDED, HOWEVER, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of any L/C Issuer, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of any L/C Issuer, shall be liable or responsible for any of the matters described in clauses (i) through (v) of SECTION 2.03(e); PROVIDED, HOWEVER, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against a L/C Issuer, and such L/C Issuer may be

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liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by the L/C Issuer's willful misconduct or gross negligence or the L/C Issuer's willful failure to pay under any Letter of Credit issued by it after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, any L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and no L/C Issuer shall be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit issued by it or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove

to be invalid or ineffective for any reason.

(g) CASH COLLATERAL. Upon the request of the Administrative Agent, (i) if any L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an L/C Borrowing, or (ii) if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, the Borrower shall immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the date of such L/C Borrowing or the Letter of Credit Expiration Date, as the case may be). For purposes hereof, "CASH Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of each L/C Issuer and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Administrative Agent and the L/C Issuers (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative Agent, for the benefit of the L/C Issuers and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Guaranty Bank.

(h) APPLICABILITY OF ISP98 AND UCP. Unless otherwise expressly agreed by the L/C Issuer and the Borrower when a Letter of Credit is, (i) the rules of the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance) shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance (including the ICC decision published by the Commission on Banking Technique and Practice on April 6, 1998 regarding the European single currency (euro)) shall apply to each commercial Letter of Credit.

(i) LETTER OF CREDIT FEES. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Pro Rata Share a Letter of Credit fee for each Letter of Credit equal to the Applicable Rate for Letters of Credit TIMES the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such letter of credit fees shall be computed on a quarterly basis in arrears. Such letter of credit fees shall be due and payable on the first Business Day of each January, April, July and October, commencing with the first such date to occur after the issuance of such Letter of Credit,

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on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily maximum amount of each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(j) FRONTING FEE AND DOCUMENTARY AND PROCESSING CHARGES PAYABLE TO L/C ISSUER. The Borrower shall pay directly to the L/C Issuer for its own account a fronting fee with respect to each Letter of Credit issued by the L/C Issuer at a per annum rate equal to 0.125% TIMES the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such letter of credit fees shall be computed on a quarterly basis in arrears. Such letter of credit fees shall be due and payable on the first Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, or the Letter of Credit Expiration Date and thereafter on demand. In addition, the Borrower shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) CONFLICT WITH LETTER OF CREDIT APPLICATION. In the event of any conflict between the terms hereof and the terms of any Letter of Credit Application, the terms hereof shall control.

(l) OBLIGATIONS OF L/C ISSUER. Except to the extent that a Lender shall have agreed to be designated as a L/C Issuer, no Lender shall have any obligation to accept or approve any request for, or to issue, amend or extend, any Letter of Credit.

(m) EXISTING LETTERS OF CREDIT. The Administrative Agent and Wells Fargo, each as a letter of credit issuer pursuant to the Existing Credit Facilities, issued prior to the date hereof and there are currently outstanding pursuant to the Existing Credit Facilities those certain letters of credit identified on SCHEDULE 2.03(m) hereto (the "EXISTING L/CS"). The Existing L/Cs shall remain outstanding after the date of this Agreement and, from and after the date of this Agreement, shall constitute Letters of Credit for all purposes under this Agreement and shall be subject to all terms and conditions hereof. On the Closing Date the participation of the Lenders pursuant to the Existing Credit

Facilities in the Existing L/Cs shall terminate and the Administrative Agent and Wells Fargo, as the case may be, as issuer shall be deemed to have unconditionally and irrevocably sold to each Lender and each Lender shall be deemed, without further action by any party hereto, to have unconditionally and irrevocably purchased from the such issuer a participation in each Existing L/C as a Letter of Credit pursuant to SECTION 2.03(c).

2.04 SWING LINE LOANS.

(a) THE SWING LINE. Subject to the terms and conditions set forth herein, the Swing Line Lender agrees to make loans (each such loan, a "SWING LINE LOAN") to the Borrower from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Pro Rata Share of the Outstanding Amount of Revolving Loans and L/C Obligations of the Lender acting as Swing Line Lender, may exceed

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the amount of such Lender's Commitment; PROVIDED, HOWEVER, that after giving effect to any Swing Line Loan, (i) the Total Outstandings shall not exceed the Aggregate Commitments, (ii) the aggregate Outstanding Amount of the Revolving Loans of any Lender (other than the Swing Line Lender), PLUS such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations, PLUS such Lender's Pro Rata Share of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, and (iii) the aggregate principal amount of all Borrowing Base Debt shall not exceed the Borrowing Base determined as of the most recent Inventory Valuation Date, and PROVIDED, FURTHER, that the Borrower shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, the Borrower may borrow under this SECTION 2.04, prepay under SECTION 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall be a Base Rate Loan. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Pro Rata Share TIMES the amount of such Swing Line Loan.

(b) BORROWING PROCEDURES. Each Swing Line Borrowing shall be made upon the Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of \$100,000, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of SECTION 2.04(A), or (B) that one or more of the applicable conditions specified in ARTICLE IV is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Borrower at its office by crediting the account of the Borrower on the books of the Swing Line Lender in immediately available funds.

(c) REFINANCING OF SWING LINE LOANS.

(i) The Swing Line Lender at any time in its sole and absolute discretion may request, on behalf of the Borrower (which hereby irrevocably authorizes the Swing Line Lender to so request on its behalf), that each Lender make a Base Rate Revolving Loan in an amount equal to such Lender's Pro Rata Share of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to

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be a Revolving Loan Notice for purposes hereof) and in accordance with the requirements of SECTION 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Aggregate Commitments. The Swing Line Lender shall furnish the Borrower with a copy of the applicable Revolving Loan Notice promptly after delivering such notice to the Administrative Agent. Each Lender shall make an amount equal to its Pro Rata Share of the amount specified in such Revolving Loan Notice available to the Administrative Agent in immediately available funds for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in such Revolving Loan Notice, whereupon, subject to SECTION 2.04(c)(ii), each Lender that so makes funds available shall be

deemed to have made a Base Rate Revolving Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Revolving Borrowing in accordance with SECTION 2.04(c)(i), the request for Base Rate Revolving Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Lenders fund its risk participation in the relevant Swing Line Loan and each Lender's payment to the Administrative Agent for the account of the Swing Line Lender pursuant to SECTION 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this SECTION 2.04(c) by the time specified in SECTION 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Lender's obligation to make Revolving Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this SECTION 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, the Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) REPAYMENT OF PARTICIPATIONS.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will

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distribute to such Lender its Pro Rata Share of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in SECTION 10.06 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Pro Rata Share thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender.

(e) INTEREST FOR ACCOUNT OF SWING LINE LENDER. The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its Base Rate Revolving Loan or risk participation pursuant to this SECTION 2.04 to refinance such Lender's Pro Rata Share of any Swing Line Loan, interest in respect of such Pro Rata Share shall be solely for the account of the Swing Line Lender.

(f) PAYMENTS DIRECTLY TO SWING LINE LENDER. The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

2.05 PREPAYMENTS.

(a) The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Revolving Loans in whole or in part without premium or penalty; PROVIDED that (i) such notice must be received by the Administrative Agent not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Revolving Loans; (ii) any prepayment of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof; and (iii) any prepayment of Base Rate Revolving Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such

prepayment and the Type(s) of Revolving Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Pro Rata Share of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest thereon, together with any additional amounts required pursuant to SECTION 3.05. Each such prepayment shall be applied to the Revolving Loans of the Lenders in accordance with their respective Pro Rata Shares.

(b) The Borrower may, upon notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; PROVIDED that (i) such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such

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prepayment shall be in a minimum principal amount of \$100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) If for any reason the Total Outstandings at any time exceed the Aggregate Commitments then in effect, the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; PROVIDED, HOWEVER, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this SECTION 2.05(c) unless after the prepayment in full of the Revolving Loans and Swing Line Loans the Total Outstandings exceed the Aggregate Commitments then in effect.

2.06 TERMINATION OR REDUCTION OF COMMITMENTS. The Borrower may, upon notice to the Administrative Agent, terminate the Aggregate Commitments, or from time to time permanently reduce the Aggregate Commitments; PROVIDED that (i) any such notice shall be received by the Administrative Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Aggregate Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Aggregate Commitments, and (iv) if, after giving effect to any reduction of the Aggregate Commitments, the Letter of Credit Sublimit or the Swing Line Sublimit exceeds the amount of the Aggregate Commitments, such Sublimit shall be automatically reduced by the amount of such excess. The Administrative Agent will promptly notify the Lenders of any such notice of termination or reduction of the Aggregate Commitments. Any reduction of the Aggregate Commitments shall be applied to the Commitment of each Lender according to its Pro Rata Share. All commitment fees accrued until the effective date of any termination of the Aggregate Commitments shall be paid on the effective date of such termination.

2.07 REPAYMENT OF LOANS.

(a) The Borrower shall repay to the Lenders on the Maturity Date the aggregate principal amount of Revolving Loans outstanding on such date and all other outstanding and unpaid Obligations.

(b) The Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date five Business Days after such Loan is made and (ii) the Maturity Date.

2.08 INTEREST.

(a) Subject to the provisions of subsection (b) below, (i) each Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the lesser of (A) the Eurodollar Rate for such Interest Period PLUS the Applicable Rate or (B) the Highest Lawful Rate; (ii) each Base Rate Revolving Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the lesser of (A) the Base Rate PLUS the Applicable Rate or (B) the Highest Lawful Rate; and (iii) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable

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borrowing date at a rate per annum equal to the lesser of (A) the Base Rate PLUS the Applicable Rate or (B) the Highest Lawful Rate.

(b) If any amount payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Furthermore, upon the request of the Required Lenders, while any Event of Default exists, the Borrower shall pay interest on the principal amount of all outstanding Obligations hereunder at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on past due amounts (including interest on past due

interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 FEES. In addition to certain fees described in subsections (i) and (j) of SECTION 2.03:

(a) COMMITMENT FEE. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Pro Rata Share, a commitment fee equal to the Applicable Rate TIMES the actual daily amount by which the Aggregate Commitments exceed the sum of (i) the Outstanding Amount of Revolving Loans and (ii) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in ARTICLE IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) OTHER FEES.

(i) The Borrower shall pay to the Arranger and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

(ii) The Borrower shall pay to the Lenders such fees as shall have been separately agreed upon in writing in the amounts and at the times so specified. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 COMPUTATION OF INTEREST AND FEES. All computations of interest for Base Rate Loans when the Base Rate is determined by Guaranty Bank's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and

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actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, PROVIDED that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day.

2.11 EVIDENCE OF DEBT.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

2.12 PAYMENTS GENERALLY.

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as

otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein. The Administrative Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 1:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

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(b) Subject to the provisions of the definition of "INTEREST PERIOD", if any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(c) Unless the Borrower or any Lender has notified the Administrative Agent, prior to the date any payment is required to be made by it to the Administrative Agent hereunder, that the Borrower or such Lender, as the case may be, will not make such payment, the Administrative Agent may assume that the Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to the Administrative Agent in immediately available funds, then:

(i) if the Borrower failed to make such payment, each Lender shall forthwith on demand repay to the Administrative Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent in immediately available funds at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to the Administrative Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by the Administrative Agent to the Borrower to the date such amount is recovered by the Administrative Agent (the "COMPENSATION PERIOD") at a rate per annum equal to the Federal Funds Rate from time to time in effect. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Revolving Loan included in the applicable Borrowing. If such Lender does not pay such amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent may make a demand therefor upon the Borrower, and the Borrower shall pay such amount to the Administrative Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable Borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitment or to prejudice any rights which the Administrative Agent or the Borrower may have against any Lender as a result of any default by such Lender hereunder.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (c) shall be conclusive, absent manifest error.

(d) If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this ARTICLE II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in ARTICLE IV are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall return such funds (in like funds as

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received from such Lender) to such Lender, with interest at the Federal Funds Rate for each day that such funds are not returned to such Lender.

(e) The obligations of the Lenders hereunder to make Revolving Loans and to fund participations in Letters of Credit and Swing Line Loans are several and not joint. The failure of any Lender to make any Revolving Loan or to fund any such participation on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Revolving Loan or purchase its participation.

(f) Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 SHARING OF PAYMENTS. If, other than as expressly provided elsewhere

herein, any Lender shall obtain on account of the Revolving Loans made by it, or the participations in L/C Obligations or in Swing Line Loans held by it, any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder) thereof, such Lender shall immediately (a) notify the Administrative Agent of such fact, and (b) purchase from the other Lenders such participations in the Revolving Loans made by them and/or such subparticipations in the participations in L/C Obligations or Swing Line Loans held by them, as the case may be, as shall be necessary to cause such purchasing Lender to share the excess payment in respect of such Revolving Loans or such participations, as the case may be, pro rata with each of them; PROVIDED, HOWEVER, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender under any of the circumstances described in SECTION 10.06 (including pursuant to any settlement entered into by the purchasing Lender in its discretion), such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered, without further interest thereon. The Borrower agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to SECTION 10.09) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify the Lenders following any such purchases or repayments. Each Lender that purchases a participation pursuant to this Section shall from and after such purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased.

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2.14 EXTENSION OF SCHEDULED MATURITY DATE.

(a) The Borrower may request extensions of the then Scheduled Maturity Date by making such request in writing at least ninety (90) days prior to each anniversary of this Agreement. Within 30 days of delivery of such notice, each Lender shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Lender's sole and absolute discretion). Any Lender not responding within the above time period shall be deemed not to have consented to such extension. The Administrative Agent shall promptly notify the Borrower and the Lenders of the Lenders' responses. If any Lender declines, or is deemed to have declined, to consent to such extension (such Lender being a "NON-CONSENTING Lender"), the Borrower may cause any such Non-Consenting Lender to be replaced as a Lender pursuant to SECTION 10.16.

(b) The Scheduled Maturity Date shall be extended only if Lenders holding at least 66-2/3% of the Aggregate Commitments (calculated prior to giving effect to any replacements of Non-Consenting Lenders permitted herein) and all Lenders (after giving effect to any replacements of Non-Consenting Lenders permitted herein) (the "CONSENTING LENDERS") have consented thereto. If so extended, the Maturity Date, as to the Consenting Lenders, shall be extended to the same date in the following year, effective as of the Maturity Date then in effect (such existing Scheduled Maturity Date being the "EXTENSION EFFECTIVE DATE"); PROVIDED, HOWEVER, the Scheduled Maturity Date shall not be so extended as to any Non-Consenting Lender. To the extent that the Maturity Date is not extended to any Lender pursuant to this SECTION 2.14 and such Non-Consenting Lender is not replaced in accordance with SECTION 10.16 on or prior to the Extension Effective Date, the Commitment and Obligations of such Non-Consenting Lender shall automatically terminate and become due and payable, in whole on such unextended Scheduled Maturity Date, without further notice or other action to or by the Borrower, such Non-Consenting Lender or any other Person, and the failure of the Borrower to pay the same shall constitute an Event of Default under SECTION 8.1(a)(i) (which Event of Default may not be waived without the consent of each Lender, including the Non-Consenting Lender, as provided in SECTION 10.01(c)). The Administrative Agent and the Borrower shall promptly confirm to the Lenders such extension and the Extension Effective Date. As a condition precedent to such extension, the Borrower shall deliver to the Administrative Agent a certificate of each Loan Party dated as of the Extension Effective Date (in sufficient copies for each Lender) signed by a Responsible Officer of such Loan Party (i) certifying and attaching the resolutions adopted by such Loan Party approving or consenting to such extension and (ii) in the case of the Borrower, certifying that, before and after giving effect to such extension, (A) the representations and warranties contained in ARTICLE V and the other Loan Documents are true and correct on and as of the Extension Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this SECTION 2.14, the representations and warranties contained in subsections (a) and (b) of SECTION 5.05 shall be deemed to refer to the most recent statements furnished pursuant to subsections (a) and

(b), respectively, of SECTION 6.01, and (B) no Default exists. The Borrower shall prepay any Revolving Loans outstanding on the Extension Effective Date (and pay any additional amounts required pursuant to SECTION 3.05) to the extent necessary to keep outstanding Revolving Loans ratable with any revised and new Pro Rata Shares of all the Lenders effective as of the Extension Effective Date.

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(c) This Section shall supersede any provisions in SECTION 10.01 to the contrary.

ARTICLE III.

TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 TAXES.

(a) Except as provided below in this SECTION 3.01, any and all payments by the Borrower to or for the account of the Administrative Agent or any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, EXCLUDING, in the case of the Administrative Agent and each Lender or its applicable lending office, or any branch or affiliate thereof, taxes imposed on or measured by its net income (including net income taxes imposed by means of a backup withholding tax) franchise taxes, branch taxes, taxes on doing business or taxes measured by or imposed under the overall capital or net worth of any Lender or its applicable lending office, or any branch or affiliate thereof, in each case imposed (i) by the jurisdiction (or any political subdivision thereof) under the Laws of which the Administrative Agent, or such Lender, applicable lending office or branch or affiliate is organized or is located, or in which the principal executive office of the Administrative Agent or any Lender is located, or any nation within which such jurisdiction located (or any political subdivision thereof); or (ii) by reason of any present or former connection between the jurisdiction imposing such tax and the Administrative Agent or such Lender, applicable lending office, branch or affiliate other than a connection arising from the Administrative Agent or such Lender having executed, delivered or performed its obligation under, or received payment under or enforced this Agreement (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as "TAXES"). If the Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to the Administrative Agent or any Lender, (i) the sum payable shall be increased as necessary to yield to the Administrative Agent and such Lender an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (iv) within 30 days after the date of such payment, the Borrower shall furnish to the Administrative Agent (which shall forward the same to such Lender) the original or a certified copy of a receipt evidencing payment thereof; PROVIDED, however, that Borrower shall be entitled to deduct and withhold any Taxes and shall not be required to increase any such amounts payable to any Lender with respect to Taxes (i) that are directly attributable to such Lender's failure to comply with the requirements of SECTION 10.15 of this Agreement and (ii) that are U.S. withholding taxes required on amounts payable to such Lender at the time such Lender becomes a party to this Agreement.

(b) In addition, the Borrower agrees to pay any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as "OTHER TAXES").

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(c) If the Borrower shall be required to pay any Taxes or Other Taxes from or in respect of any sum payable under any Loan Document to the Administrative Agent or any Lender, the Borrower shall also pay to the Administrative Agent or to such Lender, as the case may be, but without duplication in respect of any other such amounts payable hereunder, at the time interest is paid, such additional amount that the Administrative Agent or such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that the Administrative Agent or such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) The Borrower agrees to indemnify the Administrative Agent and each Lender for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by the Administrative Agent and such Lender, (ii) amounts payable under SECTION 3.01(c) and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment

under this subsection (d) shall be made within 30 days after the date the Lender or the Administrative Agent makes a demand therefor.

(e) Any Lender claiming any additional amounts payable pursuant to this SECTION 3.01 shall use its reasonable best efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its lending office, if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts which may thereafter accrue and would not, in the reasonable judgment of such Lender, be disadvantageous to such Lender.

(f) Each Lender (and the Administrative Agent with respect to payments to the Administrative Agent for its own account) agrees that (i) it will take all reasonable actions by all usual means to maintain all exemptions, if any, available to it from United States withholding taxes (whether available by treaty, existing administrative waiver, by virtue of the location or any Lender's lending office) and (ii) otherwise cooperate with the Borrower to minimize amounts payable by it under this SECTION 3.01; PROVIDED, HOWEVER, the Lenders and the Administrative Agent shall not be obligated by reason of this SECTION 3.01(f) to contest the payment of any Taxes or Other Taxes or to disclose any information regarding its tax affairs or tax computations or reorder its tax or other affairs or tax or other planning. Subject to the foregoing, to the extent the Borrower pays sums pursuant to this SECTION 3.01 and any Lender or the Administrative Agent receives a refund of any or all of such sums, such refund shall be applied to reduce any amounts then due and owing under this Agreement or, to the extent that no amounts are due and owing under this Agreement at the time such refunds are received, the party receiving such refund shall promptly pay over all such refunded sums to the Borrower, provided that no Default is in existence at such time.

3.02 ILLEGALITY. If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue

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Eurodollar Rate Loans or to convert Base Rate Revolving Loans to Eurodollar Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), prepay or, if applicable, convert all Eurodollar Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted. Each Lender agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender.

3.03 INABILITY TO DETERMINE RATES. If the Required Lenders determine that for any reason adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan, or that the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Revolving Borrowing of Base Rate Loans in the amount specified therein.

3.04 INCREASED COST AND REDUCED RETURN; CAPITAL ADEQUACY; RESERVES ON EURODOLLAR RATE LOANS.

(a) If any Lender determines that as a result of the introduction of or any change in or in the interpretation of any Law, or such Lender's compliance therewith, there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Loans or (as the case may be) issuing or participating in Letters of Credit, or a reduction in the amount received or receivable by such Lender in connection with any of the foregoing (excluding for purposes of this subsection (a) any such increased costs or reduction in amount resulting from (i) Taxes or Other Taxes (as to which SECTION 3.01 shall govern), (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or any foreign jurisdiction or any political subdivision of either thereof under the Laws of which such Lender is organized or has its Lending Office, and (iii) reserve requirements contemplated by SECTION 3.04(c), then from time to time upon demand of such Lender (with a copy of such demand to the Administrative Agent), the Borrower shall pay to such

Lender such additional amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender determines that the introduction of any Law regarding capital adequacy or any change therein or in the interpretation thereof, or compliance by such Lender (or its Lending Office) therewith, has the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder

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(taking into consideration its policies with respect to capital adequacy and such Lender's desired return on capital), then from time to time upon demand of such Lender (with a copy of such demand to the Administrative Agent), the Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such reduction.

(c) The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, PROVIDED the Borrower shall have received at least 15 days' prior notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice 15 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 15 days from receipt of such notice.

3.05 FUNDING LOSSES. Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Loan other than a Base Rate Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to SECTION 10.16;

including any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrower to the Lenders under this SECTION 3.05, each Lender shall be deemed to have funded each Eurodollar Rate Loan made by it at the Eurodollar Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such Eurodollar Rate Loan was in fact so funded.

3.06 MATTERS APPLICABLE TO ALL REQUESTS FOR COMPENSATION.

(a) A certificate of the Administrative Agent or any Lender claiming compensation under this ARTICLE III and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, the Administrative Agent or such Lender may use any reasonable averaging and attribution methods.

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(b) Upon any Lender's making a claim for compensation under SECTION 3.01 or 3.04, the Borrower may replace such Lender in accordance with SECTION 10.16.

3.07 SURVIVAL. All of the Borrower's obligations under this ARTICLE III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV.

CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 CONDITIONS OF INITIAL CREDIT EXTENSION. The obligation of each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent in form and substance satisfactory to the Administrative Agent:

(a) The Administrative Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to the Administrative Agent and its legal counsel:

(i) executed counterparts of this Agreement and the Guaranty, sufficient in number for distribution to the Administrative Agent, each Lender and the Borrower;

(ii) Revolving Loan Notes executed by the Borrower in favor of each Lender requesting a Revolving Loan Note, each in a principal amount equal to such Lender's Commitment;

(iii) a Swing Line Note executed by the Borrower in favor of the Swing Line Lender, in a principal amount equal to the Swing Line Sublimit;

(iv) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(v) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(vi) a favorable opinion of Snell & Wilmer, L.L.P., counsel to the Loan Parties (and local counsel for each Loan Party that is organized under the Laws of other than Arizona, California and Nevada), addressed to the Administrative Agent and each Lender, as to the matters set forth in EXHIBIT G and such other matters concerning the Loan Parties and the Loan Documents as the Required Lenders may reasonably request;

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(vii) copies of central filing UCC searches of the Borrower and its Subsidiaries, each such search showing no Liens except Liens permitted pursuant to SECTION 7.01;

(viii) a certificate of a Responsible Officer of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(ix) a certificate signed by a Responsible Officer of the Borrower certifying (A) that the conditions specified in SECTIONS 4.02(a) and (b) have been satisfied, and (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect; and (C) a calculation of the Leverage Ratio as of the last day of the fiscal quarter of the Borrower most recently ended prior to the Closing Date;

(x) evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect;

(xi) evidence that the Existing Credit Facilities have been or concurrently with the Closing Date is being terminated and all Liens securing obligations under the Existing Credit Agreement have been or concurrently with the Closing Date are being released;

(xii) an executed Borrowing Base Certificate as of October 31, 2002;

(xiii) evidence satisfactory to the Agent that as of the Closing Date, assuming the Total Outstandings equal to the Aggregate Commitment, that the Total Outstanding would be permitted under Section 4.06 of the Senior Note Indenture;

(xiv) evidence that MTH-Mortgage has been designated an "Unrestricted Subsidiary" under the Senior Note Indenture; and

(xv) such other assurances, certificates, documents, consents or opinions as the Administrative Agent, the L/C Issuer, the Swing Line Lender or the Required Lenders reasonably may require.

(b) Any fees required to be paid on or before the Closing Date shall have been paid, and all Fee Letters shall be in full force and effect.

(c) Unless waived by the Administrative Agent, the Borrower shall have paid all Attorney Costs of the Administrative Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrower and the Administrative Agent).

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(d) The Closing Date shall have occurred on or before December 31, 2002.

4.02 CONDITIONS TO ALL CREDIT EXTENSIONS. The obligation of each Lender to honor any Request for Credit Extension (other than a Revolving Loan Notice requesting only a conversion of Revolving Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower and each other Loan Party contained in ARTICLE V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, and except that for purposes of this SECTION 4.02, the representations and warranties contained in subsections (a) and (b) of SECTION 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of SECTION 6.01.

(b) No Default shall exist, or would result from such proposed Credit Extension.

(c) The Administrative Agent and, if applicable, the L/C Issuer or the Swing Line Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Revolving Loan Notice requesting only a conversion of Revolving Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that (a) the conditions specified in SECTIONS 4.02(A) and (B) have been satisfied on and as of the date of the applicable Credit Extension and (b) the proposed Credit Extension is permitted to be made pursuant to Section 4.06 of the Senior Note Indenture.

ARTICLE V.

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders that:

5.01 EXISTENCE, QUALIFICATION AND POWER; COMPLIANCE WITH LAWS. Each Loan Party (a) is a corporation, partnership or limited liability company duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license, and (d) is in compliance with all Laws; except in each case referred to in clause (b) (i), (c) or (d), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

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5.02 AUTHORIZATION; NO CONTRAVENTION. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, (i) any Contractual Obligation to which such Person is a party or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law.

5.03 GOVERNMENTAL AUTHORIZATION; OTHER CONSENTS. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document.

5.04 BINDING EFFECT. This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms.

5.05 FINANCIAL STATEMENTS; NO MATERIAL ADVERSE EFFECT.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of the Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited consolidated financial statements of the Borrower and its Subsidiaries dated September 30, 2002, and the related consolidated statements of income or operations, shareholders' equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) SCHEDULE 5.05 sets forth all material indebtedness and other liabilities, direct or contingent, of the Borrower and its consolidated Restricted Subsidiaries incurred since the date of the financial statements referred to in SECTION 5.05(b) which the Borrower reasonably believes would be required to be reported on its financial statements as filed with the SEC, including material commitments and Indebtedness (but excluding accrued liabilities for taxes).

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(d) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(e) The Borrower and its Restricted Subsidiaries have no Off-Balance Sheet Liabilities, except as set forth on SCHEDULE 5.05(e).

5.06 LITIGATION. Except as set forth on SCHEDULE 5.06, there are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Borrower after due and diligent investigation, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against the Borrower or any of its Restricted Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect; PROVIDED, HOWEVER, that actions, suits, proceedings, claims or disputes for damages in an aggregate amount not greater than \$10,000,000 shall not be deemed for purposes of this SECTION 5.06 to result in a Material Adverse Effect.

5.07 NO DEFAULT. Neither the Borrower nor any Restricted Subsidiary is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 OWNERSHIP OF PROPERTY; LIENS. Each of the Borrower and each Restricted Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of the Borrower and its Restricted Subsidiaries is subject to no Liens, other than Liens permitted by SECTION 7.01.

5.09 ENVIRONMENTAL COMPLIANCE. The Borrower and its Restricted Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof the Borrower has reasonably concluded that such Environmental Laws and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

5.10 INSURANCE. The properties of the Borrower and its Restricted Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of the Borrower, in such amounts, with such deductibles and covering such risks as are customarily carried by companies engaged in

similar businesses and owning similar properties in localities where the Borrower or the applicable Restricted Subsidiary operates.

5.11 TAXES. The Borrower and its Restricted Subsidiaries have filed all Federal, state and other material tax returns and reports required to be filed, and have paid all Federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties,

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income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against the Borrower or any Restricted Subsidiary that would, if made, have a Material Adverse Effect, and there are no items that would give rise to a substantial understatement penalty for the Borrower or any Restricted Subsidiary. There are no tax agreements among any of the Borrower and its Restricted Subsidiaries. With respect to Federal tax returns through 1998, the period for assessment under Applicable Law has expired.

5.12 ERISA COMPLIANCE.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the best knowledge of the Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the best knowledge of the Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could be reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither the Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither the Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

5.13 CAPITALIZATION; SUBSIDIARIES; JOINT VENTURES. SCHEDULE 5.13 contains a complete and accurate list of (a) all Subsidiaries of the Borrower, including, with respect to each Subsidiary, (i) its state of incorporation or organization, (ii) all jurisdictions (if any) in which it is qualified as a foreign corporation, (iii) the number of shares of its Equity Interests outstanding, and (iv) the number and percentage of those shares owned by the Borrower and/or by any other Subsidiary, and (b) each entity investment in any corporation or other entity which is not a Subsidiary. All Equity Interests of each Restricted Subsidiary of the Borrower are validly issued, fully paid and nonassessable and all capital contributions and other consideration required to be paid in connection with the issuance of any Equity Interests have been made or paid, as the case may be. All of the outstanding Equity Interests of each Restricted Subsidiary owned by the Borrower or another Restricted Subsidiary as specified

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on SCHEDULE 5.13 are owned free and clear of all Liens, security interests, equity or other beneficial interests, charges and encumbrances of any kind whatsoever, except for Permitted Liens. Neither the Borrower nor any other Loan Party owns of record or beneficially any shares of the Equity Interests or other equity interests of any Person that is not a Guarantor, except (a) Persons in which such Loan Party is permitted to invest pursuant to SECTION 7.03(g), (b) Unrestricted Subsidiaries in existence on the Closing Date and (c) Investments disclosed in SCHEDULE 5.13(b). None of the Borrower or any Restricted Subsidiary has issued any Redeemable Stock.

5.14 MARGIN REGULATIONS; INVESTMENT COMPANY ACT; PUBLIC UTILITY HOLDING COMPANY ACT.

(a) The Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. Following the application of the proceeds of each Borrowing or drawing under each Letter of Credit, not more than 25% of the value of the assets (either of the Borrower

only or of the Borrower and its Restricted Subsidiaries on a consolidated basis) subject to the provisions of SECTION 7.01 or subject to any restriction contained in any agreement or instrument between the Borrower and any Lender or any Affiliate of any Lender relating to Indebtedness and within the scope of SECTION 8.01(e) will be margin stock.

(b) None of the Borrower, any Person Controlling the Borrower, or any Restricted Subsidiary (i) is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.15 DISCLOSURE. The Borrower has disclosed to the Administrative Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Restricted Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED that, with respect to projected financial information, the Borrower represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 COMPLIANCE WITH LAWS. Each of the Borrower and each Restricted Subsidiary is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

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5.17 INTELLECTUAL PROPERTY; LICENSES, ETC. The Borrower and its Restricted Subsidiaries own, or possess the right to use, all of the trademarks, service marks, trade names, copyrights, patents, patent rights, franchises, licenses and other intellectual property rights (collectively, "IP RIGHTS") that are reasonably necessary for the operation of their respective businesses, without conflict with the rights of any other Person. To the best knowledge of the Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by the Borrower or any Restricted Subsidiary infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Borrower, threatened, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.18 SOLVENCY. The Borrower is, and the Borrower and its Restricted Subsidiaries are on a consolidated basis, solvent.

5.19 BUSINESSES. The Borrower is presently engaged, or may in the future engage, directly or through wholly owned Subsidiaries in the business of home building; land acquisition, development and sale for home building; home sales; and mortgage loan origination, title insurance and other related ancillary business to such home sales, including commercial development for light retail and mixed use ancillary to the Borrower's master plan communities; PROVIDED that real estate activity outside of home building activity and not ancillary to existing business of the Borrower (including industrial, retail and office development other than as set forth above with respect to the Borrower's master plan communities, but excluding development of corporate headquarters for the Borrower) shall not be a permitted business activity.

5.20 COMMON ENTERPRISE. The Borrower and its Restricted Subsidiaries are engaged in the businesses set forth in SECTION 5.19 as of the Closing Date, as well as in certain other businesses. These operations require financing on a basis such that the credit supplied can be made available from time to time to the Borrower and various of its Restricted Subsidiaries, as required for the continued successful operation of the Borrower and its Restricted Subsidiaries as a whole. The Borrower has requested the Lender to make credit available hereunder primarily for the purposes set forth in SECTION 6.11 and generally for the purposes of financing the operations of the Borrower and its Restricted Subsidiaries. The Borrower and each of its Restricted Subsidiaries expects to derive benefit (and the Board of Directors of the Borrower and each of its Restricted Subsidiaries has determined that such Restricted Subsidiary may reasonably be expected to derive benefit), directly or indirectly, from a portion of the credit extended by the Lenders hereunder, both in its separate capacity and as a member of the group of companies, since the successful operation and condition of the Borrower and each of its Restricted Subsidiaries is dependent on the continued successful performance of the functions of the

group as a whole. The Borrower acknowledges that, but for the agreement by each of the Guarantors to execute and deliver the Guaranty, the Administrative Agent and the Lenders would not have made available the credit facilities established hereby on the terms set forth herein.

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ARTICLE VI.

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall, and shall (except in the case of the covenants set forth in SECTIONS 6.01, 6.02, 6.03 and 6.11) cause each Restricted Subsidiary to:

6.01 FINANCIAL STATEMENTS. Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a consolidated and consolidating balance sheet of the Borrower and its Subsidiaries, a consolidated and consolidating balance sheet of the Borrower and its Restricted Subsidiaries as at the end of such fiscal year, and the related consolidated and consolidating statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report with respect to the consolidated balance sheet of the Borrower and its Subsidiaries and related consolidated statements of income or operations, shareholders' equity and cash flows and opinion of an independent certified public accountant of nationally recognized standing reasonably acceptable to the Required Lenders, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit; and

(b) as soon as available, but in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower, a consolidated and consolidating balance sheet of the Borrower and its Subsidiaries, a consolidated and consolidating balance sheet of the Borrower and its Restricted Subsidiaries as at the end of such fiscal quarter, and the related consolidated and consolidating statements of income or operations, shareholders' equity and cash flows for such fiscal quarter and for the portion of the Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of the Borrower as fairly presenting the financial condition, results of operations, shareholders' equity and cash flows of the Borrower and its Restricted Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes.

As to any information contained in materials furnished pursuant to SECTION 6.02(e), the Borrower shall not be separately required to furnish such information under clause (a) or (b) above, but the foregoing shall not be in derogation of the obligation of the Borrower to furnish the information and materials described in subsections (a) and (b) above at the times specified therein.

6.02 CERTIFICATES; OTHER INFORMATION. Deliver to the Administrative Agent and each Lender, in form and detail satisfactory to the Administrative Agent and the Required Lenders:

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(a) concurrently with the delivery of the financial statements referred to in SECTION 6.01(a), a certificate of its independent certified public accountants certifying such financial statements and stating that in making the examination necessary therefor no knowledge was obtained of any Default under the financial covenants set forth in SECTION 7.11 or, if any such Default shall exist, stating the nature and status of such event;

(b) concurrently with the delivery of the financial statements referred to in SECTIONS 6.01(a) and (b), a duly completed Compliance Certificate signed by a Responsible Officer of the Borrower;

(c) as soon as available, and in any event within 25 days after the last day of each calendar month or more frequently, as requested by the Administrative Agent, a Borrowing Base Certificate showing the computation of the Borrowing Base in reasonable detail as of the close of business on the last day of such month, signed by a Responsible Officer of the Borrower;

(d) promptly after any request by the Administrative Agent, copies of any detailed audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of the

Borrower by independent accountants in connection with the accounts or books of the Borrower or any Restricted Subsidiary, or any audit of any of them;

(e) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Borrower, and copies of all annual, regular, periodic and special reports and registration statements which the Borrower may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to the Administrative Agent pursuant hereto, including without limitation, form 10-Q within 45 days of each fiscal quarter end and form 10-K within 90 days of each fiscal year end;

(f) at least 15 days prior to the end of each fiscal year of the Borrower, an annual budget of the Borrower and its Restricted Subsidiaries containing, among other things, pro forma financial statements for the next fiscal year; and

(g) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Restricted Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent may from time to time reasonably request.

Documents required to be delivered pursuant to SECTION 6.01(a) or (b) or SECTION 6.02(e) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Borrower posts such documents, or provides a link thereto on the Borrower's website on the Internet at the website address listed on SCHEDULE 10.02; or (ii) on which such documents are posted on the Borrower's behalf on IntraLinks/IntraAgency or another relevant website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); PROVIDED that: (i) the Borrower shall deliver paper copies of such documents to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies

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until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender and (ii) the Borrower shall notify (which may be by facsimile or electronic mail) the Administrative Agent and each Lender of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (I.E., soft copies) of such documents. Notwithstanding anything contained herein, in every instance the Borrower shall be required to provide paper copies of the Compliance Certificates required by SECTION 6.02(c) to the Administrative Agent and each of the Lenders. Except for such Compliance Certificates, the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

6.03 NOTICES. Promptly notify the Administrative Agent:

(a) of the occurrence of any Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect;

(c) of the occurrence of any ERISA Event;

(d) of any announcement by Moody's or S&P of any change or possible change or withdrawal in a Debt Rating; and

(e) of any material change in accounting policies or financial reporting practices by the Borrower or any Restricted Subsidiary.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth details of the occurrence referred to therein and stating what action the Borrower has taken and proposes to take with respect thereto. Each notice pursuant to SECTION 6.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached.

6.04 PAYMENT OF OBLIGATIONS. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by the Borrower or such Restricted Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness, in each case where the failure to do so could reasonably be expected to have a Material Adverse Effect.

6.05 PRESERVATION OF EXISTENCE, ETC. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization except in a transaction permitted by SECTION 7.04 or 7.05; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve

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or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

6.06 MAINTENANCE OF PROPERTIES. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.07 MAINTENANCE OF INSURANCE. Maintain with financially sound and reputable insurance companies not Affiliates of the Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons.

6.08 COMPLIANCE WITH LAWS. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, write, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 BOOKS AND RECORDS. Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Borrower or such Restricted Subsidiary, as the case may be.

6.10 INSPECTION RIGHTS. Permit representatives and independent contractors of the Administrative Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Borrower; PROVIDED, however, (a) other than inspections conducted during the existence and continuance of an Event of Default, no more than two such inspections may be conducted during any fiscal year, one of which may be by the Administrative Agent, and the Borrower shall only be liable for the expenses of the Administrative Agent in connection with any such inspection and (b) that when an Event of Default exists and is continuing the Administrative Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of the Borrower at any time during normal business hours with twenty-four hours advance notice and without limit as to number.

6.11 USE OF PROCEEDS. Use the proceeds of the Credit Extensions (a) to repay all amounts owed under the Existing Credit Facilities and (b) for general corporate purposes, including Acquisitions, not in contravention of any Law or of any Loan Document.

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6.12 ADDITIONAL GUARANTORS.

(a) Subject to SECTION 6.12(b), notify the Administrative Agent at the time that any Person becomes a Restricted Subsidiary, and within 30 days, cause such Person to (i) become a Guarantor by executing and delivering to the Administrative Agent a counterpart of the Guaranty or such other document as the Administrative Agent shall deem appropriate for such purpose, and (ii) deliver to the Administrative Agent documents of the types referred to in clauses (iii) and (iv) of SECTION 4.01(a) and a favorable opinion of counsel to such Person located in the jurisdiction of organization of such Person in form, content and scope reasonably satisfactory to the Administrative Agent.

(b) Notwithstanding any other provision in this Agreement, a Subsidiary shall not be required to become a Guarantor in the manner contemplated by SECTION 6.12(a) if prior to the expiration of such 30 day period, such Subsidiary is designated an Unrestricted Subsidiary in accordance with the provisions of this Agreement.

ARTICLE VII.

NEGATIVE COVENANTS

From the Closing Date, so long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Restricted Subsidiary to, directly or indirectly:

7.01 LIENS. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Permitted Liens;

(b) Liens pursuant to any Loan Document;

(c) Liens existing on the date hereof and listed on SCHEDULE 7.01 and any renewals or extensions thereof, PROVIDED that the property covered thereby is not increased and any renewal or extension of the obligations secured or benefited thereby is permitted by SECTION 7.03(a);

(d) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;

(e) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety bonds (other than bonds related to judgments or litigation), performance bonds and other obligations of a like nature incurred in the ordinary course of business; and

(f) Liens securing Indebtedness permitted under SECTION 7.03(f) PROVIDED that such Liens do not extend to any Borrowing Base Assets.

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7.02 INVESTMENTS. Make any Investments, except:

(a) Investments other than those permitted by subsections (b) through (i) below existing on the Closing Date and listed on SCHEDULE 7.02;

(b) Investments in Cash and Cash Equivalents;

(c) Investments of the Borrower in any wholly-owned Guarantor and Investments of any Restricted Subsidiary in the Borrower or in another wholly-owned Guarantor;

(d) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(e) Guarantees permitted by SECTION 7.03;

(f) Investments as a result of Acquisitions, if each of the following conditions has been satisfied: (i) immediately before and after giving effect to such Acquisition, no Default shall have occurred and be continuing, (ii) such Acquisition shall not be opposed by the board of directors of the Person or assets being acquired, (iii) the Administrative Agent shall have received written notice thereof at least 15 Business Days prior to the date of such Acquisition, (iv) for Acquisitions in which the Acquisition Consideration is in excess of \$50,000,000, the Administrative Agent shall have received at least seven Business Days prior to the date of such Acquisition a Compliance Certificate (A) setting forth the covenant calculations both on or prior to and after giving effect to the proposed Acquisition, and (B) certifying that no Default shall have occurred and be continuing after giving effect to such Acquisition, (v) for Acquisitions in which the Acquisitions Consideration is equal to or less than \$50,000,000, the Administrative Agent shall have received no later than the date of such Acquisition a certificate, executed by a Responsible Officer of the Borrower, certifying that, after giving effect to the proposed Acquisition, no Default shall have occurred and be continuing, (vi) the assets, property or business acquired shall be in the business described in SECTION 5.19, and (vii) if such Acquisition results in a Restricted Subsidiary, the requirements of SECTION 6.12 are satisfied;

(g) lease, utility and other similar deposits in the ordinary course of business;

(h) Investments made by the Borrower or a Guarantor for consideration given by the Borrower or any Guarantor consisting only of Equity Interests other than Disqualified Equity Interests; and

(i) Investments other than those permitted by subsections (a) through (h) above (but including any Investments in Unrestricted Subsidiaries in existence on the Closing Date and Investments disclosed on SCHEDULE 5.13(b) that are not in Guarantors) in Persons that are in the business described in SECTION 5.19 not

to exceed in aggregate amount outstanding at any time 15% of Consolidated Tangible Net Worth.

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7.03 INDEBTEDNESS. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness, other than that permitted by subsections (b) through (g) below, outstanding on the Closing Date and listed on SCHEDULE 7.03 and any refinancings, refundings, renewals or extensions thereof; PROVIDED that the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing plus an amount equal to any existing commitments unutilized thereunder;

(b) Indebtedness under the Loan Documents;

(c) Guarantees of the Borrower or any Guarantor in respect of Indebtedness otherwise permitted hereunder of the Borrower or any other Guarantor;

(d) obligations (contingent or otherwise) of the Borrower or any Restricted Subsidiary existing or arising under any Swap Contract, PROVIDED that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person, and not for purposes of speculation or taking a "market view;" and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments on outstanding transactions to the defaulting party;

(e) unsecured Indebtedness including Public Indebtedness (but excluding any type of working capital or similar line of credit); PROVIDED, that there exists no Default both before and after giving effect to such Indebtedness;

(f) (i) secured Indebtedness, PROVIDED that such Liens are permitted pursuant to SECTION 7.01 and are on assets other than Borrowing Base Assets, (ii) the aggregate amount of Indebtedness in respect of any of the foregoing outstanding at any time (which shall include any Indebtedness listed on SCHEDULE 7.03 which is secured) shall not exceed 10% of Consolidated Tangible Net Worth and (iii) there exists no Default both before and after giving effect to such Indebtedness; and

(g) Indebtedness of the Borrower to any Guarantor and Indebtedness of any Guarantor owed to the Borrower or another Guarantor.

7.04 FUNDAMENTAL CHANGES. Merge, dissolve, liquidate, consolidate with or into another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Restricted Subsidiary may merge with (i) the Borrower, PROVIDED that the Borrower shall be the continuing or surviving Person, (ii) any one or more other Restricted Subsidiaries, PROVIDED that when any Guarantor is merging with another Restricted Subsidiary, the Guarantor shall be the continuing or surviving Person or (iii) any Person, provided that such Person formed by or

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surviving such consolidation or merger becomes a Guarantor pursuant to SECTION 6.12 and is a Restricted Subsidiary;

(b) any Restricted Subsidiary may Dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise) to the Borrower or to another Restricted Subsidiary; PROVIDED that if the transferor in such a transaction is a Guarantor, then the transferee must either be the Borrower or a Guarantor; and

(c) the Borrower or any Restricted Subsidiary may make any Investment permitted by SECTION 7.02(f).

7.05 DISPOSITIONS. Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of assets in the ordinary course of business, including, without limitation, sales (directly or indirectly), dedications and other donations to Governmental Authorities, leases and sales and leasebacks of Units and Land;

(c) Dispositions of assets in which the Net Available Proceeds therefrom are used within one year to (i) repay any Indebtedness under the Loan Documents,

(ii) repay any Indebtedness which was secured by the assets sold in such Disposition, and/or (iii) invest all or any part of the Net Available Proceeds thereof in the purchase of assets (other than securities, unless such securities represent Equity Interests in an entity engaged solely in the business described in SECTION 5.19, such entity becomes a Restricted Subsidiary and the Borrower or a Restricted Subsidiary acquires voting and management control of such entity) to be used by the Borrower or any Restricted Subsidiary in the business described in SECTION 5.19, PROVIDED HOWEVER, if after one year from such Disposition and on the date of the proposed payment referred to immediately hereafter, there is no Indebtedness outstanding under this Agreement, the Borrower may repay any amounts required under Section 4.09 of the Senior Note Indenture or similar provisions contained in any Refinancing Indebtedness relating thereto or in any Public Indebtedness;

(d) Dispositions of property by any Restricted Subsidiary to the Borrower or to a wholly-owned Restricted Subsidiary; PROVIDED that if the transferor of such property is a Guarantor, the transferee thereof must either be the Borrower or a Guarantor;

(e) Dispositions permitted by SECTIONS 7.02, 7.04 and 7.06;

(f) transfers of Cash and Cash Equivalents;

(g) the creation or realization of any Lien permitted by SECTION 7.01; and

(h) dispositions of mortgage liens and related assets and mortgage backed securities in the ordinary course of business;

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PROVIDED, HOWEVER, that any Disposition pursuant to clauses (a), (b), (c), (f) and (h) shall be for fair market value.

7.06 RESTRICTED PAYMENTS. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that:

(a) each Restricted Subsidiary may declare and make dividends and any other Restricted Payments to the Borrower and to any Guarantor;

(b) the Borrower and each Restricted Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common equity interests of such Person;

(c) the Borrower may make regularly scheduled payments of principal and interest on the Senior Notes or other Public Indebtedness or any Subordinated Debt of any Loan Party;

(d) the Borrower may (i) declare or pay cash dividends, (ii) repurchase shares of its capital stock, (iii) redeem its capital stock held by officers, directors or employees of former officers, directors or employees (or their transferees, estates or beneficiaries under their estates), upon their death, disability, retirement, severance or termination of employment or service; and (iv) repurchase or acquire any outstanding Public Indebtedness Securities, PROVIDED, however, in no event shall (y) the aggregate amount of such cash dividends, repurchases, redemptions and acquisitions referred to in clauses (i) through (iv) immediately above during any period of four consecutive fiscal quarters exceed 50% of Consolidated Net Income (if greater than zero) earned during the most recently completed four fiscal quarters and (z) notwithstanding anything in clause (y) immediately preceding, the aggregate proposed amount of Public Indebtedness securities repurchased or acquired during any period of four consecutive fiscal quarters exceed \$10,000,000; (e) the Borrower may repurchase its capital stock upon the exercise of stock options if the capital stock represents a portion of the exercise price;

PROVIDED THAT immediately before and immediately after any Restricted Payment otherwise permitted above, no Default exists or would result therefrom.

7.07 CHANGE IN NATURE OF BUSINESS. Engage in any material line of business substantially different from those lines of business conducted by the Borrower and its Subsidiaries on the date hereof or any business substantially related or incidental thereto.

7.08 TRANSACTIONS WITH AFFILIATES. Enter into any transaction of any kind with any Affiliate (other than with the Borrower or a Guarantor) of the Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Borrower or such Restricted Subsidiary as would be obtainable by the Borrower or such Restricted Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate; PROVIDED, HOWEVER, that SECTION 7.08 shall not be deemed to prohibit:

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(a) reasonable director, officer, employee and consultant compensation (including bonuses) and other benefits (including retirement, health, stock and other benefit plans) and indemnification arrangement;

(b) any agreement as in effect on the Closing Date and set forth on SCHEDULE 7.08 or any extension, amendment or modification thereto (so long as any such extension, amendment or modification satisfies the requirements set forth in the first paragraph of this SECTION 7.08);

(c) Restricted Payments of the type described in clause (a) of the definition of "RESTRICTED PAYMENT" and which are made in accordance with SECTION 7.06; and

(d) sale of Borrower's capital stock or Subordinated Debt for cash to an Affiliate.

7.09 BURDENSOME AGREEMENTS. Enter into any Contractual Obligation that (a) limits the ability (i) of any Restricted Subsidiary to make Restricted Payments to the Borrower or any Guarantor or to otherwise transfer property to the Borrower or any Guarantor, (ii) of any Restricted Subsidiary to Guarantee the Indebtedness of the Borrower or (iii) of the Borrower or any Restricted Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person; PROVIDED, HOWEVER, that this clause (iii) shall not prohibit (1) any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under SECTION 7.03(f) solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness or (2) any negative pledge incurred or provided in favor of any holder of any Public Indebtedness permitted under SECTION 7.03(e); or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person, PROVIDED that this clause (b) shall not prohibit the requirement of granting a pari passu Lien in favor of any holder of any Public Indebtedness permitted under SECTION 7.03(e) if the Obligations hereunder are required to be secured; PROVIDED, FURTHER, HOWEVER, (x) the foregoing shall not apply to restrictions imposed by Law, this Agreement or any other Loan Documents or the Senior Notes, (y) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to a sale of a Subsidiary or all or substantially all of its assets pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is sold and such sale is permitted hereunder, and (z) clause (iii) shall not apply to customary provisions in leases restricting the assignment thereof.

7.10 USE OF PROCEEDS. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the FRB) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose in violation of Regulation U of FRB.

7.11 FINANCIAL COVENANTS.

(a) MINIMUM NET WORTH. Permit Consolidated Tangible Net Worth at any time to be less than the sum of \$180,000,000 plus (b) an amount equal to 50% of Consolidated Net Income earned in each full fiscal quarter ending after the Closing Date (with no deduction for a net loss in any such fiscal quarter), plus (c) an amount equal to 75% of the aggregate increases in Consolidated Tangible Net Worth of the Borrower and its Restricted Subsidiaries after the Closing Date

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by reason of the issuance and sale of Equity Interests or other equity interests of the Borrower or any Restricted Subsidiary (other than issuances to the Borrower or a wholly-owned Restricted Subsidiary), including upon any conversion of debt securities of the Borrower into such Equity Interests or other equity interests, plus (d) an amount equal to the Net Worth of any Person that becomes a Restricted Subsidiary or is merged into or consolidated with the Borrower or any Restricted Subsidiary or substantially all of the assets of which are acquired by the Borrower or any Restricted Subsidiary, in each case after the Closing Date.

(b) LEVERAGE RATIO. Permit the Leverage Ratio at any time during any period of four fiscal quarters of the Borrower to be greater than 2.25 to 1.

(c) INTEREST COVERAGE RATIO. Permit the Interest Coverage Ratio at any time during any period of four fiscal quarters of the Borrower to be less than 2.00 to 1.

(d) BORROWING BASE. Permit the Borrowing Base Debt to exceed the Borrowing Base at any time.

(e) TOTAL LAND RESTRICTIONS. Permit the sum of (a) the Net Book Value of Unentitled Land, plus (b) the Net Book Value of Unimproved Entitled Land, plus (c) the Net Book Value of Land/Lots Under Development, plus (d) the Net Book Value of Finished Lots to exceed 125% of Consolidated Tangible Net Worth at any time.

(f) RAW LAND RESTRICTIONS. Permit the sum of (a) the Net Book Value of Unentitled Land plus (b) the Net Book Value of Unimproved Entitled Land to exceed 20% of Consolidated Tangible Net Worth.

(g) UNSOLD UNITS. Permit the number of Unsold Units existing as of the end of any fiscal quarter to exceed 25% of the number of Unit Closings within the four fiscal quarters ending on the last day of such fiscal quarter.

(h) MODEL UNITS. Permit the number of Model Units existing as of the end of any fiscal quarter to exceed 10% of the number of Unit Closings within the four fiscal quarters ending on the last day of such fiscal quarter.

7.12 FISCAL YEAR AND ACCOUNTING METHODS. Change its fiscal year or its method of accounting (other than immaterial changes in methods or as required by GAAP or to conform an Acquired Business to the Borrower's practices).

7.13 AMENDMENT AND WAIVERS OF SENIOR NOTES. Change or permit any Restricted Subsidiary to change or amend or accept any waiver or consent with respect to, any document, instrument or agreement relating to the Senior Notes or the Senior Note Indenture that would result in (a) an increase in the principal, interest, overdue interest, fees or other amounts payable under the Senior Notes, (b) an acceleration in any date fixed for payment or prepayment of principal, interest, fees or other amounts payable under the Senior Notes (including, without limitation, as a result of any redemption), (c) a change in the definition of "CHANGE OF CONTROL" or "CHANGE IN CONTROL" or similar event or circumstance, however defined or designated, as provided in the Senior Notes or the Senior Note Indenture which would result in such definition being more restrictive than such definition in this Agreement, (d) a change in any covenant, term or

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provision in the Senior Notes or the Senior Note Indenture which would result in such term or provision being more restrictive than the terms of this Agreement and the other Loan Documents or (e) a change in any term or provision of the Senior Notes or the Senior Note Indenture that could reasonably be expected to have, in any material respect, an adverse effect in the interest of the Lenders.

7.14 SALE AND LEASEBACK. Enter into any Sale and Leaseback Transaction (directly or indirectly) with any person other than among the Borrower and any Subsidiary Guarantor (to the extent such transaction is otherwise permitted hereunder), except for the sale and leaseback of Model Units.

7.15 OFF-BALANCE SHEET LIABILITIES. Create, incur, assume or suffer to exist any Off-Balance Sheet Liabilities.

ARTICLE VIII.

EVENTS OF DEFAULT AND REMEDIES

8.01 EVENTS OF DEFAULT. Any of the following shall constitute an Event of Default:

(a) NON-PAYMENT. The Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or (ii) within three days after the same becomes due, any interest on any Loan or on any L/C Obligation, or any commitment or other fee due hereunder, or (iii) within five days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) SPECIFIC COVENANTS. The Borrower fails to perform or observe any term, covenant or agreement contained in any of SECTION 6.03(a), 6.05 (with respect to the existence of the Borrower or its Restricted Subsidiaries), 6.10 or 6.12 or ARTICLE VII; or

(c) OTHER DEFAULTS. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days; or

(d) REPRESENTATIONS AND WARRANTIES. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of the Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed made; or

(e) CROSS-DEFAULT. (i) The Borrower or any Restricted Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn Revolving or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than \$7,500,000 and such failure continues after the expiration of any applicable grace period, or (B) fails to observe or perform any other agreement or condition (after the expiration of any applicable grace period and after notice from the holders

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thereof, if required) relating to any such Indebtedness or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event

is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which the Borrower or any Restricted Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which the Borrower or any Restricted Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Borrower or such Restricted Subsidiary as a result thereof is greater \$7,500,000; or

(f) INSOLVENCY PROCEEDINGS, ETC. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; or

(g) INABILITY TO PAY DEBTS; ATTACHMENT. (i) The Borrower or any Restricted Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 30 days after its issue or levy; or

(h) JUDGMENTS. There is entered against the Borrower or any Restricted Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding \$7,500,000 (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 10 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$7,500,000, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the

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expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$7,500,000; or

(j) INVALIDITY OF LOAN DOCUMENTS. Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or thereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(k) CHANGE OF CONTROL. There occurs any Change of Control with respect to the Borrower.

8.02 REMEDIES UPON EVENT OF DEFAULT. If any Event of Default occurs and is continuing, the Administrative Agent may in its discretion, or shall, at the request of, the Required Lenders (or any Non-Consenting Lender that is not paid all amounts due and owing to such Non-Consenting Lender on the date and as further provided in the third sentence of SECTION 2.14(b)), take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and/or any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such commitments and/or obligations shall be terminated, as applicable;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable

hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents or applicable law;

PROVIDED, HOWEVER, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower or any Guarantor under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of any L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Administrative Agent or any Lender.

8.03 APPLICATION OF FUNDS. After the occurrence of an Event of Default, any amounts received on account of the Obligations shall be applied by the Administrative Agent in the following order:

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FIRST, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under ARTICLE III) payable to the Administrative Agent in its capacity as such (other than the annual administrative fee of the Administrative Agent);

SECOND, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest, amounts owing under any Swap Contracts and the annual administrative fee of the Administrative Agent) payable to the Lenders (including Attorney Costs and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause SECOND payable to them;

THIRD, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and L/C Borrowings, ratably among the Lenders in proportion to the respective amounts described in this clause THIRD payable to them;

FOURTH, to payment of that portion of the Obligations constituting unpaid principal of the Loans and L/C Borrowings, ratably among the Lenders in proportion to the respective amounts described in this clause FOURTH held by them;

FIFTH, to the Administrative Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit;

SIXTH, to the Administrative Agent, its annual administrative fee;

SEVENTH, to payment of that portion of the Obligations constituting all amounts owed under any Swap Contract included in the Obligations (at the Swap Termination Value), ratable among the Lenders in proportion to the respective amounts described in this clause SEVENTH held by them;

EIGHTH, to any remaining outstanding and unpaid Obligations, ratably among the Lenders in proportion to the respective amounts described in this clause EIGHTH held by them; and

LAST, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Borrower or as otherwise required by Law.

Subject to SECTION 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause FIFTH above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

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ARTICLE IX.

ADMINISTRATIVE AGENT

9.01 APPOINTMENT AND AUTHORIZATION OF ADMINISTRATIVE AGENT.

(a) Each Lender hereby irrevocably appoints, designates and authorizes the Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary

contained elsewhere herein or in any other Loan Document, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall the Administrative Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against the Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Loan Documents with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) Each L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each L/C Issuer shall have all of the benefits and immunities (i) provided to the Administrative Agent in this ARTICLE IX with respect to any acts taken or omissions suffered by such L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in this ARTICLE IX and in the definition of "Agent-Related Person" included such L/C Issuer with respect to such acts or omissions, and (ii) as additionally provided herein with respect to such L/C Issuer.

9.02 DELEGATION OF DUTIES. The Administrative Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

9.03 LIABILITY OF ADMINISTRATIVE AGENT. No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Lender or participant for any recital, statement, representation or warranty made by any Loan Party or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by the

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Administrative Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Loan Party or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party or any Affiliate thereof.

9.04 RELIANCE BY ADMINISTRATIVE AGENT.

(a) The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to any Loan Party), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders (or (i) such greater number of Lenders as may be expressly required hereby in any instance or (ii) any Non-Consenting Lender that is not paid all amounts due and owing to such Non-Consenting Lender on the date and as further provided in the third sentence of SECTION 2.14(b)) and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders.

(b) For purposes of determining compliance with the conditions specified in SECTION 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless the Administrative Agent shall have received

notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

9.05 NOTICE OF DEFAULT. The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to the Administrative Agent for the account of the Lenders, unless the Administrative Agent shall have received written notice from a Lender or the Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default." The Administrative Agent will notify the Lenders of its receipt of any such notice. The Administrative Agent shall take such action with respect to such Default as may be directed by the Required Lenders in accordance with ARTICLE VIII; PROVIDED, HOWEVER, that unless and until the Administrative Agent has received any such direction, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of the Lenders.

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9.06 CREDIT DECISION; DISCLOSURE OF INFORMATION BY ADMINISTRATIVE AGENT. Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by the Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Loan Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their respective Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to the Borrower and the other Loan Parties hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, and other condition and creditworthiness of the Borrower and the other Loan Parties. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent herein, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person.

9.07 INDEMNIFICATION OF ADMINISTRATIVE AGENT. WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREBY ARE CONSUMMATED, THE LENDERS SHALL SEVERALLY INDEMNIFY UPON DEMAND EACH AGENT-RELATED PERSON (TO THE EXTENT NOT REIMBURSED BY OR ON BEHALF OF ANY LOAN PARTY AND WITHOUT LIMITING THE OBLIGATION OF ANY LOAN PARTY TO DO SO), PRO RATA IN ACCORDANCE WITH ITS SPECIFIED PRO RATA SHARE, AND HOLD HARMLESS EACH AGENT-RELATED PERSON FROM AND AGAINST ANY AND ALL INDEMNIFIED LIABILITIES INCURRED BY IT; (WHETHER OR NOT ARISING OUT OF THE NEGLIGENCE OF SUCH AGENT-RELATED PERSON) PROVIDED, HOWEVER, THAT NO LENDER SHALL BE LIABLE FOR THE PAYMENT TO ANY AGENT-RELATED PERSON OF ANY PORTION OF SUCH INDEMNIFIED LIABILITIES TO THE EXTENT DETERMINED IN A FINAL, NONAPPEALABLE JUDGMENT BY A COURT OF COMPETENT JURISDICTION TO HAVE RESULTED FROM SUCH AGENT-RELATED PERSON'S OWN GROSS NEGLIGENCE OR WILLFUL MISCONDUCT; PROVIDED, HOWEVER, THAT NO ACTION TAKEN IN ACCORDANCE WITH THE DIRECTIONS OF THE REQUIRED LENDERS SHALL BE DEEMED TO CONSTITUTE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT FOR PURPOSES OF THIS SECTION. WITHOUT LIMITATION OF THE FOREGOING, EACH LENDER SHALL REIMBURSE THE

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ADMINISTRATIVE AGENT UPON DEMAND FOR ITS RATABLE SHARE OF ANY COSTS OR OUT-OF-POCKET EXPENSES (INCLUDING ATTORNEY COSTS) INCURRED BY THE ADMINISTRATIVE AGENT IN CONNECTION WITH THE PREPARATION, EXECUTION, DELIVERY, ADMINISTRATION, MODIFICATION, AMENDMENT OR ENFORCEMENT (WHETHER THROUGH NEGOTIATIONS, LEGAL PROCEEDINGS OR OTHERWISE) OF, OR LEGAL ADVICE IN RESPECT OF RIGHTS OR RESPONSIBILITIES UNDER, THIS AGREEMENT, ANY OTHER LOAN DOCUMENT, OR ANY DOCUMENT CONTEMPLATED BY OR REFERRED TO HEREIN, TO THE EXTENT THAT THE ADMINISTRATIVE AGENT IS NOT REIMBURSED FOR SUCH EXPENSES BY OR ON BEHALF OF THE BORROWER. THE UNDERTAKING IN THIS SECTION SHALL SURVIVE TERMINATION OF THE AGGREGATE COMMITMENTS, THE PAYMENT OF ALL OTHER OBLIGATIONS AND THE RESIGNATION OF THE ADMINISTRATIVE AGENT.

9.08 ADMINISTRATIVE AGENT IN ITS INDIVIDUAL CAPACITY. Guaranty Bank and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Loan Parties and their respective Affiliates as though Guaranty Bank were not the Administrative Agent or a L/C Issuer hereunder and without notice to or

consent of the Lenders. The Lenders acknowledge that, pursuant to such activities, Guaranty Bank or its Affiliates may receive information regarding any Loan Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Loan Party or such Affiliate) and acknowledge that the Administrative Agent shall be under no obligation to provide such information to them. With respect to its Loans, Guaranty Bank shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not the Administrative Agent or a L/C Issuer, and the terms "Lender" and "Lenders" include Guaranty Bank in its individual capacity.

9.09 SUCCESSOR ADMINISTRATIVE AGENT. The Administrative Agent may resign as Administrative Agent upon 30 days' notice to the Lenders and may be removed at any time with or without cause by the Required Lenders; provided that any such removal or resignation by Guaranty Bank shall also constitute its removal and resignation as a L/C Issuer and Swing Line Lender. If the Administrative Agent is removed or resigns under this Agreement, the Required Lenders shall appoint from among the Lenders a successor administrative agent for the Lenders, which successor administrative agent (a) shall be a commercial bank or federal savings bank organized under the laws of the United States of America or of any State thereof and (b) shall be consented to by the Borrower at all times other than during the existence of an Event of Default (which consent of the Borrower shall not be unreasonably withheld or delayed). If no successor administrative agent is appointed prior to the effective date of the removal or resignation of the Administrative Agent, the Administrative Agent may appoint, after consulting with the Lenders and the Borrower, a successor administrative agent from among the Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, the Person acting as such successor administrative agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and Swing Line Lender and the respective terms "Administrative Agent" and "Swing Line Lender" shall mean such successor administrative agent and swing line lender, and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated and the retiring Swing Line

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Lender's rights, powers and duties as such shall be terminated, without any other or further act or deed on the part of such retiring Administrative Agent or Swing Line Lender or any other Lender. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this ARTICLE IX and SECTIONS 10.04 and 10.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is 30 days following a retiring Administrative Agent's notice of resignation or removal by the Required Lenders, the retiring Administrative Agent's resignation or removal shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

9.10 ADMINISTRATIVE AGENT MAY FILE PROOFS OF CLAIM. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders and the Administrative Agent under SECTIONS 2.03(i) and (j), 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under SECTIONS 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.

9.11 GUARANTY MATTERS. The Lenders irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or to be sold as part of or in connection with any sale permitted hereunder or under any other Loan Document, or (iii) subject to SECTION 10.01, if approved, authorized or ratified in writing by the Required Lenders;

(b) to release any Guarantor from its obligations under the Guaranty if such Person ceases to be a Restricted Subsidiary as a result of a transaction permitted hereunder.

Upon request by the Administrative Agent at any time, the Required Lenders will confirm in writing the Administrative Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Guaranty pursuant to this SECTION 9.12.

9.12 OTHER AGENTS; ARRANGERS AND MANAGERS. None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a "syndication agent," "documentation agent," "co-agent," "book manager," "lead manager," "arranger," "lead arranger" or "co-arranger" shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

9.13 RELATED OBLIGATIONS. If and to the extent this Agreement applies, the benefit of the Loan Documents and of the provisions of this Agreement and the Guaranty shall extend to and be available in respect of any obligation arising under any Swap Contract that is otherwise owed to any Lender or any Affiliate of a Lender (collectively, "RELATED OBLIGATIONS") solely on the condition and understanding, as among the Administrative Agent and the Lenders, that (a) the Related Obligations shall be entitled to the benefit of the Loan Documents to the extent expressly set forth in this Agreement and the other Loan Documents and to such extent the Administrative Agent shall hold, and have the right and power to act with respect to, the Guaranty on behalf and as agent for the holders of the Related Obligations, but the Administrative Agent is otherwise acting solely as agent for the Lenders and shall have no fiduciary duty, duty of loyalty, duty of care, duty of disclosure or other obligation whatsoever to any holder of Related Obligations; (b) all matters, acts and omissions relating in any manner to the Guaranty shall be governed solely by the provisions of this Agreement and the Guaranty and no separate Lien, right, power or remedy shall arise or exist in favor of any Guaranteed Party (as defined in the Guaranty) under any separate instrument or agreement or in respect of any Related Obligation; (c) each Guaranteed Party shall be bound by all actions taken or omitted, in accordance with the terms of this Agreement and the Guaranty by the Administrative Agent and the Required Lenders, each of whom shall be entitled to act at its sole discretion and exclusively in its own interest given its own Commitment and its own interest in the Loans, L/C Obligations and other

Obligations to it arising under this Agreement or the other Loan Documents, without any duty or liability to any other Guaranteed Party or as to any Related Obligation and without regard to whether any Related Obligation remains outstanding or is otherwise affected or put in jeopardy thereby; (d) no holder of Related Obligations and no other Guaranteed Party (except the Administrative Agent and the Lenders, to the extent set forth in this Agreement) shall have any right to be notified of, or to direct, require or be heard with respect to, any action taken or omitted under this Agreement or the other Loan Documents; and (e) no holder of any Related Obligation shall exercise any right of setoff, banker's lien or similar right, except as expressly provided in SECTION 10.09. Notwithstanding any other provision in this SECTION 9.13, no third party shall obtain any rights or benefits pursuant to this SECTION 9.13 and no third party shall exercise any right of setoff, bankers' lien or similar right pursuant to SECTION 10.09.

ARTICLE X.

MISCELLANEOUS

10.01 AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrower or the applicable Loan Party, as the case may be, and acknowledged by the Administrative Agent, and each such

waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; PROVIDED, HOWEVER, that no such amendment, waiver or consent shall:

(a) waive any condition set forth in SECTION 4.01(a) without the written consent of each Lender;

(b) subject to SECTION 2.14, extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to SECTION 8.02) without the written consent of each Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to the Lenders (or any of them) hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (iv) of the second proviso to this SECTION 10.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; PROVIDED, HOWEVER, that only the consent of the Required Lenders shall be necessary (i) to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used herein) unless the effect of such amendment would be to reduce the rate of interest on any Loan or L/C Borrowing or to reduce any fee payable hereunder;

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(e) change SECTION 2.13 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender;

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(g) release any Guarantor from the Guaranty without the written consent of each Lender; or

(h) permit the Borrower to transfer or assign any of its Obligations hereunder without the written consent of each Lender;

and, PROVIDED FURTHER, that (i) no amendment, waiver or consent shall, unless in writing and signed by a L/C Issuer in addition to the Lenders required above, affect the rights or duties of such L/C Issuer under this Agreement or any Letter of Credit Application relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iv) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

10.02 NOTICES AND OTHER COMMUNICATIONS; FACSIMILE COPIES.

(a) GENERAL. Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or (subject to subsection (c) below) electronic mail address, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrower, the Administrative Agent, a L/C Issuer or the Swing Line Lender, to the address, facsimile number, electronic mail address or telephone number specified for such Person on Schedule 10.02 or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties; and

(ii) if to any other Lender, to the address, facsimile number, electronic mail address or telephone number specified in its Administrative Questionnaire or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the Borrower, the Administrative Agent, the L/C Issuer and the Swing Line Lender.

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All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (B) if delivered by mail, four Business Days after deposit in the mails, postage prepaid; (C) if delivered by facsimile, when sent and receipt has been confirmed by telephone; and (D) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (c) below), when delivered; PROVIDED, HOWEVER, that notices and other communications to the Administrative Agent, the L/C Issuer and the Swing Line Lender pursuant to ARTICLE II shall not be effective until actually received by such Person. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(b) EFFECTIVENESS OF FACSIMILE DOCUMENTS AND SIGNATURES. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on all Loan Parties, the Administrative Agent and the Lenders. The Administrative Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; PROVIDED, HOWEVER, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

(c) LIMITED USE OF ELECTRONIC MAIL. Electronic mail and Internet and intranet websites may be used only to distribute routine communications, such as financial statements and other information as provided in Section 6.02, and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) RELIANCE BY ADMINISTRATIVE AGENT AND LENDERS. The Administrative Agent and the Lenders shall be entitled to rely and act upon any notices (including telephonic Revolving Loan Notices and Swing Line Loan Notices) purportedly given by or on behalf of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Borrower shall indemnify each Agent-Related Person and each Lender from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Borrower. All telephonic notices to and other communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

10.03 NO WAIVER; CUMULATIVE REMEDIES. No failure by any Lender or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

10.04 ATTORNEY COSTS, EXPENSES AND TAXES. The Borrower agrees (a) to pay or reimburse the Administrative Agent and Arranger for all reasonable costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment,

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waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all reasonable Attorney Costs, and (b) to pay or reimburse the Administrative Agent and each Lender for all costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the Obligations and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. The foregoing costs and expenses shall include all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by the Administrative Agent and the cost of independent public accountants and other outside experts retained by the Administrative Agent or any Lender. All amounts due under this SECTION 10.04 shall be payable within ten Business Days after demand therefor. The agreements in this Section shall survive the termination of the Aggregate Commitments and repayment of all other Obligations.

10.05 INDEMNIFICATION BY THE BORROWER. WHETHER OR NOT THE TRANSACTIONS CONTEMPLATED HEREBY ARE CONSUMMATED, THE BORROWER SHALL INDEMNIFY AND HOLD HARMLESS EACH AGENT-RELATED PERSON, EACH LENDER AND THEIR RESPECTIVE AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, COUNSEL, AGENTS AND ATTORNEYS-IN-FACT (COLLECTIVELY THE "INDEMNITEES") FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, CLAIMS, DEMANDS, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES AND DISBURSEMENTS (INCLUDING ATTORNEY COSTS) OF ANY KIND OR NATURE WHATSOEVER WHICH MAY AT ANY TIME BE IMPOSED ON, INCURRED BY OR

ASSERTED AGAINST ANY SUCH INDEMNITEE IN ANY WAY RELATING TO OR ARISING OUT OF OR IN CONNECTION WITH (A) THE EXECUTION, DELIVERY, ENFORCEMENT, PERFORMANCE OR ADMINISTRATION OF ANY LOAN DOCUMENT OR ANY OTHER AGREEMENT, LETTER OR INSTRUMENT DELIVERED IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED THEREBY OR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED THEREBY, (B) ANY COMMITMENT, LOAN OR LETTER OF CREDIT OR THE USE OR PROPOSED USE OF THE PROCEEDS THEREFROM (INCLUDING ANY REFUSAL BY THE L/C ISSUER TO HONOR A DEMAND FOR PAYMENT UNDER A LETTER OF CREDIT IF THE DOCUMENTS PRESENTED IN CONNECTION WITH SUCH DEMAND DO NOT STRICTLY COMPLY WITH THE TERMS OF SUCH LETTER OF CREDIT), OR (C) ANY ACTUAL OR ALLEGED PRESENCE OR RELEASE OF HAZARDOUS MATERIALS ON OR FROM ANY PROPERTY CURRENTLY OR FORMERLY OWNED OR OPERATED BY THE BORROWER, ANY SUBSIDIARY OR ANY OTHER LOAN PARTY, OR ANY ENVIRONMENTAL LIABILITY RELATED IN ANY WAY TO THE BORROWER, ANY SUBSIDIARY OR ANY OTHER LOAN PARTY, IN EACH CASE WHICH ARISES BECAUSE OF ANY TRANSACTIONS UNDER OR IN CONNECTION WITH ANY LOAN DOCUMENT OR WHICH RELATES TO PROPERTY OBTAINED BY ANY LENDER PURSUANT TO OR AS A RESULT OF ANY LOAN DOCUMENT, OR (D) ANY ACTUAL OR PROSPECTIVE CLAIM, LITIGATION, INVESTIGATION OR PROCEEDING RELATING TO ANY OF THE FOREGOING, WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY (INCLUDING ANY INVESTIGATION OF, PREPARATION

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FOR, SETTLEMENT OF, OR DEFENSE OF ANY PENDING OR THREATENED CLAIM, INVESTIGATION, LITIGATION OR PROCEEDING) AND REGARDLESS OF WHETHER ANY INDEMNITEE IS A PARTY THERETO (ALL THE FOREGOING, COLLECTIVELY, THE "INDEMNIFIED LIABILITIES"), IN ALL CASES, WHETHER OR NOT CAUSED BY OR ARISING, IN WHOLE OR IN PART, OUT OF THE NEGLIGENCE OF THE INDEMNITEE; PROVIDED THAT SUCH INDEMNITY SHALL NOT, AS TO ANY INDEMNITEE, BE AVAILABLE TO THE EXTENT THAT SUCH LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, CLAIMS, DEMANDS, ACTIONS, JUDGMENTS, SUITS, COSTS, EXPENSES OR DISBURSEMENTS ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE. NO INDEMNITEE SHALL BE LIABLE FOR ANY DAMAGES ARISING FROM THE USE BY OTHERS OF ANY INFORMATION OR OTHER MATERIALS OBTAINED THROUGH INTRALINKS OR OTHER SIMILAR INFORMATION TRANSMISSION SYSTEMS IN CONNECTION WITH THIS AGREEMENT, UNLESS SUCH DAMAGES ARE DETERMINED BY A COURT OF COMPETENT JURISDICTION BY FINAL AND NONAPPEALABLE JUDGMENT TO HAVE RESULTED FROM THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF SUCH INDEMNITEE. NO INDEMNITEE SHALL HAVE ANY LIABILITY FOR ANY INDIRECT OR CONSEQUENTIAL DAMAGES RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR ARISING OUT OF ITS ACTIVITIES IN CONNECTION HERewith OR THEREWITH (WHETHER BEFORE OR AFTER THE CLOSING DATE). ALL AMOUNTS DUE UNDER THIS SECTION 10.05 SHALL BE PAYABLE WITHIN TEN BUSINESS DAYS AFTER DEMAND THEREFOR. THE AGREEMENTS IN THIS SECTION SHALL SURVIVE THE RESIGNATION OF THE ADMINISTRATIVE AGENT, THE REPLACEMENT OF ANY LENDER, THE TERMINATION OF THE AGGREGATE COMMITMENTS AND THE REPAYMENT, SATISFACTION OR DISCHARGE OF ALL THE OTHER OBLIGATIONS.

10.06 PAYMENTS SET ASIDE. To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent or any Lender, or the Administrative Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to the Administrative Agent upon demand its applicable share of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect.

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10.07 SUCCESSORS AND ASSIGNS.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this

subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); PROVIDED that (i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund (as defined in subsection (g) of this Section) with respect to a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); (ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to rights in respect of Swing Line Loans; (iii) any assignment of a Commitment must be approved by the Administrative Agent, each L/C Issuer and the Swing Line Lender (each such consent not to be unreasonably withheld or delayed) unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and (iv) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500. Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of SECTIONS

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3.01, 3.04, 3.05, 10.04 and 10.05 with respect to facts and circumstances occurring prior to the effective date of such assignment). Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "REGISTER"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Any Lender may at any time, without the consent of, or notice to, the Borrower, the Administrative Agent, or any other Person, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "PARTICIPANT") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); PROVIDED that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; PROVIDED that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to SECTION 10.01 that directly affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of SECTIONS 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of SECTION 10.09 as though it were a Lender, PROVIDED such Participant agrees to be subject to SECTION 2.13 as though it were a Lender.

(e) A Participant shall not be entitled to receive any greater payment

under SECTION 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of SECTION 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with SECTION 10.15 as though it were a Lender.

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(f) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; PROVIDED that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) As used herein, the following terms have the following meanings:

"ELIGIBLE ASSIGNEE" means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural person) approved by (i) the Administrative Agent, the L/C Issuer and the Swing Line Lender, and (ii) unless an Event of Default has occurred and is continuing, the Borrower (each such approval not to be unreasonably withheld or delayed); PROVIDED that notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of the Borrower's Affiliates or Subsidiaries.

"FUND" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"APPROVED FUND" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(h) Notwithstanding anything to the contrary contained herein, if at any time Guaranty Bank assigns all of its Commitment and Loans pursuant to subsection (b) above, Guaranty Bank may, (i) upon 30 days' notice to the Borrower and the Lenders, resign as L/C Issuer and/or (ii) upon 30 days' notice to the Borrower, resign as Swing Line Lender. In the event of any such resignation as L/C Issuer or Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder; PROVIDED, HOWEVER, that no failure by the Borrower to appoint any such successor shall affect the resignation of Guaranty Bank as L/C Issuer or Swing Line Lender, as the case may be. If Guaranty Bank resigns as a L/C Issuer, it shall retain all the rights and obligations of a L/C Issuer hereunder with respect to all Letters of Credit issued by it and outstanding as of the effective date of its resignation as a L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Revolving Loans or fund risk participations in Unreimbursed Amounts pursuant to SECTION 2.03(c)). If Guaranty Bank resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to make Base Rate Revolving Loans or fund risk participations in outstanding Swing Line Loans pursuant to SECTION 2.04(c).

10.08 CONFIDENTIALITY. Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure

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is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder; (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any Eligible Assignee of or Participant in, or any prospective Eligible Assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of the Loan Parties; (g) with the consent of the Borrower; (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Borrower; or (i) to the National Association of Insurance Commissioners or any other similar organization. In addition, the Administrative Agent and the Lenders may disclose

the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry, and service providers to the Administrative Agent and the Lenders in connection with the administration and management of this Agreement, the other Loan Documents, the Commitments, and the Credit Extensions. For the purposes of this Section, "INFORMATION" means all information received from any Loan Party relating to any Loan Party or its business, other than any such information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by any Loan Party; PROVIDED that, in the case of information received from a Loan Party after the date hereof, such information is clearly identified in writing at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

10.09 SET-OFF. In addition to any rights and remedies of the Lenders provided by law, upon the occurrence and during the continuance of any Event of Default, each Lender is authorized at any time and from time to time, without prior notice to the Borrower or any other Loan Party, any such notice being waived by the Borrower (on its own behalf and on behalf of each Loan Party) to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the respective Loan Parties against any and all Obligations owing to such Lender hereunder or under any other Loan Document, now or hereafter existing, irrespective of whether or not the Administrative Agent or such Lender shall have made demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or denominated in a currency different from that of the applicable deposit or indebtedness. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application made by such Lender; PROVIDED, HOWEVER, that the failure to give such notice shall not affect the validity of such set-off and application.

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10.10 INTEREST RATE LIMITATION. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the Highest Lawful Rate. If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Highest Lawful Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Highest Lawful Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

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

10.12 INTEGRATION. This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control; PROVIDED that the inclusion of supplemental rights or remedies in favor of the Administrative Agent or the Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.13 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension other than pursuant to a notice in writing to the Administrative Agent from a Responsible Officer of the Borrower stating that a Default has occurred, and shall continue in full force and effect until all Loans and other Obligation hereunder are paid in full or any Letters of Credit are either cancelled or fully collateralized in accordance with SECTION 2.03(g).

10.14 SEVERABILITY. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the

parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

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10.15 TAX FORMS. (a) (i) Each Lender that is not a "United States person" within the meaning of Section 7701(a)(30) of the Code (a "FOREIGN LENDER") shall deliver to the Administrative Agent, prior to receipt of any payment subject to withholding under the Code (or upon accepting an assignment of an interest herein), two duly signed completed copies of either IRS Form W-8BEN or any successor thereto (relating to such Foreign Lender and entitling it to an exemption from, or reduction of, withholding tax on all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement) or IRS Form W-8ECI or any successor thereto (relating to all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement) or such other evidence satisfactory to the Borrower and the Administrative Agent that such Foreign Lender is entitled to an exemption from, or reduction of, U.S. withholding tax, including any exemption pursuant to Section 881(c) of the Code. Thereafter and from time to time, each such Foreign Lender shall (A) promptly submit to the Administrative Agent such additional duly completed and signed copies of one of such forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to the Borrower and the Administrative Agent of any available exemption from or reduction of, United States withholding taxes in respect of all payments to be made to such Foreign Lender by the Borrower pursuant to this Agreement, (B) promptly notify the Administrative Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (C) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Lending Office) to avoid any requirement of applicable Laws that the Borrower make any deduction or withholding for taxes from amounts payable to such Foreign Lender.

(ii) Each Foreign Lender, to the extent it does not act or ceases to act for its own account with respect to any portion of any sums paid or payable to such Lender under any of the Loan Documents (for example, in the case of a typical participation by such Lender), shall deliver to the Administrative Agent on the date when such Foreign Lender ceases to act for its own account with respect to any portion of any such sums paid or payable, and at such other times as may be necessary in the determination of the Administrative Agent (in the reasonable exercise of its discretion), (A) two duly signed completed copies of the forms or statements required to be provided by such Lender as set forth above, to establish the portion of any such sums paid or payable with respect to which such Lender acts for its own account that is not subject to U.S. withholding tax, and (B) two duly signed completed copies of IRS Form W-8IMY (or any successor thereto), together with any information such Lender chooses to transmit with such form, and any other certificate or statement of exemption required under the Code, to establish that such Lender is not acting for its own account with respect to a portion of any such sums payable to such Lender.

(iii) The Borrower shall not be required to pay any additional amount to any Foreign Lender under SECTION 3.01 (A) with respect to any Taxes required to be deducted or withheld on the basis of the information, certificates or statements of exemption such Lender transmits with an IRS Form W-8IMY pursuant to this SECTION 10.15(a) or (B) if such Lender shall have failed to satisfy the foregoing provisions of this SECTION 10.15(a); PROVIDED that if such Lender shall have satisfied the requirement of this SECTION 10.15(a) on the date such Lender became a Lender or ceased to act for its own account with respect to any payment under any of the Loan Documents, nothing in this SECTION 10.15(a) shall

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relieve the Borrower of its obligation to pay any amounts pursuant to SECTION 3.01 in the event that, as a result of any change in any applicable law, treaty or governmental rule, regulation or order, or any change in the interpretation, administration or application thereof, such Lender is no longer properly entitled to deliver forms, certificates or other evidence at a subsequent date establishing the fact that such Lender or other Person for the account of which such Lender receives any sums payable under any of the Loan Documents is not subject to withholding or is subject to withholding at a reduced rate.

(iv) The Administrative Agent may, without reduction, withhold any Taxes required to be deducted and withheld from any payment under any of the Loan Documents with respect to which the Borrower is not required to pay additional amounts under this SECTION 10.15(A).

(b) Upon the request of the Administrative Agent, each Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Code shall deliver to the Administrative Agent two duly signed completed copies of IRS Form W-9. If such Lender fails to deliver such forms, then the Administrative Agent may withhold from any interest payment to such Lender an amount equivalent to the applicable back-up withholding tax imposed by the Code,

without reduction.

(c) If any Governmental Authority asserts that the Administrative Agent did not properly withhold or backup withhold, as the case may be, any tax or other amount from payments made to or for the account of any Lender, such Lender shall indemnify the Administrative Agent therefor, including all penalties and interest, any taxes imposed by any jurisdiction on the amounts payable to the Administrative Agent under this Section, and costs and expenses (including Attorney Costs) of the Administrative Agent. The obligation of the Lenders under this Section shall survive the termination of the Aggregate Commitments, repayment of all other Obligations hereunder and the resignation of the Administrative Agent.

10.16 REPLACEMENT OF LENDERS. Under any circumstances set forth herein providing that the Borrower shall have the right to replace a Lender as a party to this Agreement, the Borrower may, upon notice to such Lender and the Administrative Agent, replace such Lender by causing such Lender to assign its Commitment (with the assignment fee to be paid by the Borrower in such instance) pursuant to SECTION 10.07(b) to one or more other Lenders or Eligible Assignees procured by the Borrower; PROVIDED, HOWEVER, that if the Borrower elects to exercise such right with respect to any Lender pursuant to SECTION 3.06(b), it shall be obligated to replace all Lenders that have made similar requests for compensation pursuant to SECTION 3.01 or 3.04. The Borrower shall (x) pay in full all principal, interest, fees and other amounts owing to such Lender through the date of replacement (including any amounts payable pursuant to SECTION 3.05), (y) provide appropriate assurances and indemnities (which may include letters of credit) to the L/C Issuer and the Swing Line Lender as each may reasonably require with respect to any continuing obligation to fund participation interests in any L/C Obligations or any Swing Line Loans then outstanding, and (z) release such Lender from its obligations under the Loan Documents. Any Lender being replaced shall execute and deliver an Assignment and Assumption with respect to such Lender's Commitment and outstanding Loans and participations in L/C Obligations and Swing Line Loans.

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10.17 GOVERNING LAW.

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, the LAW OF THE STATE OF TEXAS applicable to agreements made and to be performed entirely within such State; PROVIDED THAT THE ADMINISTRATIVE Agent AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS SITTING IN DALLAS COUNTY OR OF THE UNITED STATES FOR THE NORTHERN DISTRICT OF TEXAS (DALLAS DIVISION), AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF ANY LOAN DOCUMENT OR OTHER DOCUMENT RELATED THERETO. THE BORROWER, THE ADMINISTRATIVE Agent AND EACH LENDER WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY THE LAW OF SUCH STATE.

10.18 WAIVER OF RIGHT TO TRIAL BY JURY. EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

10.19 ENTIRE AGREEMENT. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

MERITAGE CORPORATION

By: /s/ Larry W. Seay

Name: Larry W. Seay
Title: Chief Financial Officer

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GUARANTY BANK, AS ADMINISTRATIVE AGENT

By: /s/ Sam A. Meade

Name: Sam A. Meade
Title: Senior Vice President

96
GUARANTY BANK, AS A LENDER AND SWING
LINE LENDER

By: /s/ Sam A. Meade

Name: Sam A. Meade
Title: Senior Vice President

97
FLEET NATIONAL BANK, AS A LENDER

By: /s/ Bill Lamb

Name: Bill Lamb
Title: Vice President

98
BANK ONE, NA, A NATIONAL ASSOCIATION,
AS A LENDER

By: /s/ Paul Engler

Name: Paul Engler
Title: Vice President

99
WELLS FARGO BANK ARIZONA NATIONAL
ASSOCIATION, AS A LENDER

By: /s/ Victoria Benedict

Name: Victoria Benedict
Title: Senior Vice President

100
U.S. BANK NATIONAL ASSOCIATION,
A NATIONAL BANKING ASSOCIATION,
AS A LENDER

By: /s/ Adrian B. Montero

Name: Adrian B. Montero
Title: Relationship Manager

101
CALIFORNIA BANK AND TRUST, A CALIFORNIA
BANKING CORPORATION, AS A LENDER

By: /s/ Stephanie Lark

Name: Stephanie Lark

Title: Vice President

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COMPASS BANK, AN ALABAMA BANKING
CORPORATION, AS A LENDER

By: /s/ Clint Anderson

Name: Clint Anderson
Title: Vice President

DEFERRED BONUS AGREEMENT

2002 AWARD YEAR

THIS DEFERRED BONUS AGREEMENT (the "Agreement") is entered into as of March 14, 2003, by Larry W. Seay (the "Executive") and Meritage Corporation, a Maryland corporation (the "Company").

1. PURPOSE.

The purpose of this Agreement is to reward Executive for his service for the Company.

2. COMPANY CONTRIBUTION.

The Company agrees to make a "Company Contribution" of \$45,455 to the Deferred Bonus Account established pursuant to Section 3 effective as of December 31, 2002. The purpose of this Company Contribution is to further compensate Executive for his many years of service to the Company as a tool to retain the valuable services of the Executive.

3. DEFERRED COMPENSATION ACCOUNT.

The Company shall maintain a bookkeeping account (the "Deferred Bonus Account") to which it shall credit the Company Contribution in accordance with Section 2. Interest shall be credited to the Deferred Bonus Account in accordance with Section 5, below. The Deferred Compensation Account is a bookkeeping account only and Executive shall not have any claim to any particular assets of the Company.

4. VESTING.

(a) As of the date of this Agreement, the Company Contribution credited to Executive's Deferred Bonus Account shall be unvested and subject to forfeiture on the termination of Executive's employment for any reason prior to January 1, 2006. If Executive continues to be employed by the Company on and through December 31, 2005, Executive shall be fully vested in amounts credited to his Deferred Bonus Account and his rights and interests therein shall not be forfeitable.

(b) Notwithstanding the previous paragraph 4(a), if the Executive is terminated without "cause", upon a "change of control", or upon the "death" or "disability" of Executive, (as defined in the Executives' Employment Agreement), all amounts due under this Agreement shall fully vest and shall be payable within 30 days of the Executives' termination.

5. INTEREST.

Each December 31, the Company shall credit the Deferred Bonus Account with interest calculated at an annual rate equal to 1.5% plus the prime rate as announced in the WALL STREET JOURNAL on the first business day of each year compounded annually (or, if no prime rate is announced in the WALL STREET JOURNAL on such date, then on the first day of each year in which the prime rate is reported in the WALL STREET JOURNAL), or such other greater interest rate as determined by the Company in its discretion.

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6. DISTRIBUTION OF BENEFITS.

(a) DISTRIBUTION OF BENEFITS. Payment to Executive shall occur within thirty (30) days of the effective date of Executive's vesting in his Deferred Bonus Account. For purposes of determining the distributable amount, the Deferred Bonus Account shall be valued through the day prior to the day on which the Deferred Bonus Account is distributed, less any claim, debt, reimbursement, recoupment, or offset the Company may have against Executive.

(b) IN-SERVICE DISTRIBUTIONS. Executive shall have no right to borrow money from his Deferred Bonus Account nor shall he be allowed to receive a distribution except as provided above.

(c) METHOD OF DISTRIBUTION. Distribution of benefits shall be made in one cash lump sum.

7. INALIENABILITY OF BENEFITS.

(a) GENERAL PROHIBITION. Executive, nor creditors of Executive, shall have any right to assign, pledge, hypothecate, anticipate or in any way create a lien upon Executive's interest created under this Agreement. All payments to be made to Executive shall be made only upon his personal receipt or endorsement, and no interest under this Agreement shall be subject to assignment or transfer or otherwise be alienable, either by voluntary or involuntary act or by operation of law or equity, or subject to attachment, execution, garnishment, sequestration, levy or other seizure under any legal, equitable or other

process, or be liable in any way for the debts or defaults of Executive.

(b) PERMITTED ARRANGEMENTS. This Section shall not preclude arrangements for the withholding of applicable taxes from payments under this Agreement, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is not part of an arrangement constituting an assignment or alienation).

8. BINDING NATURE OF AGREEMENT.

This Agreement shall be binding upon the heirs, executors, administrators, successors and assigns of any and all interested parties, present and future.

9. NATURE OF PAYMENTS.

Executive shall, for the purpose of this Agreement, be treated as general creditors of the Company. Nothing in this Agreement or any action taken pursuant to this Agreement shall create or be construed to create a fiduciary relationship between the Company and Executive, or any other person.

10. DISPUTE RESOLUTION.

All claims, disputes and other matters in question between the parties arising under this Agreement shall, unless otherwise provided herein, be resolved in accordance with the dispute resolution provisions set forth in Executive's Employment Agreement. If no such agreement is in effect, or if the Employment Agreement in effect at the time of Executive's termination of

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employment does not include a dispute resolution provision, all claims, disputes and other matters in question between the parties arising under this Agreement shall be decided in accordance with the dispute resolution provisions stated below:

(a) MEDIATION. Any and all disputes arising under, pertaining to or touching upon this Agreement, or the statutory rights or obligations of either party hereto, shall, if not settled by negotiation, be subject to non-binding mediation before an independent mediator selected by the parties pursuant to Section 10(d). Notwithstanding the foregoing, both Executive and Company may seek preliminary judicial relief if such action is necessary to avoid irreparable damage during the pendency of the proceedings described in this Section 10. Any demand for mediation shall be made in writing and served upon the other party to the dispute, by certified mail, return receipt requested, at the address specified in the signature blocks of this agreement. The demand shall set forth with reasonable specificity the basis of the dispute and the relief sought. The mediation hearing will occur at a time and place convenient to the parties within 30 days of the date of selection or appointment of the mediator.

(b) ARBITRATION. In the event that the dispute is not settled through mediation, the parties shall then proceed to binding arbitration before an independent arbitrator selected pursuant to Section 10(d). The mediator shall not serve as the arbitrator. EXCEPT AS PROVIDED IN SECTION 10(a), ALL DISPUTES INVOLVING ALLEGED UNLAWFUL EMPLOYMENT DISCRIMINATION, TERMINATION BY ALLEGED BREACH OF CONTRACT OR POLICY, OR ALLEGED EMPLOYMENT TORT COMMITTED BY COMPANY OR A REPRESENTATIVE OF COMPANY, INCLUDING CLAIMS OF VIOLATIONS OF FEDERAL OR STATE DISCRIMINATION STATUTES OR PUBLIC POLICY, SHALL BE RESOLVED PURSUANT TO THIS SECTION 10 AND THERE SHALL BE NO RECOURSE TO COURT, WITH OR WITHOUT A JURY TRIAL. The arbitration hearing shall occur at a time and place convenient to the parties within 90 days of selection or appointment of the arbitrator, or as otherwise agreed to. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. ss.ss. 1-16 and the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") in effect on the date of the first notice of demand for arbitration. Notwithstanding any provisions in such rules to the contrary, the arbitrator shall issue findings of fact and conclusions of law, and an award, within 15 days of the date of the hearing unless the parties otherwise agree.

(c) DAMAGES. In case of breach of contract or policy, damages shall be limited to contract damages. In cases of discrimination claims prohibited by statute, the arbitrator may direct payment consistent with the applicable statute. In cases of employment tort, the arbitrator may award punitive damages if proved by clear and convincing evidence. Issues of procedure, arbitrability, or confirmation of award shall be governed by the Federal Arbitration Act, 9 U.S.C. ss.ss. 1-16, except that court review of the arbitrator's award shall be that of an appellate court reviewing a decision of a trial judge sitting without a jury.

(d) SELECTION OF MEDIATOR OR ARBITRATOR. The parties shall select the mediator and arbitrator from a panel list made available by the AAA. If the parties are unable to agree to a mediator or an arbitrator within 10 days of receipt of a demand for mediation or arbitration, the mediator or arbitrator will be chosen by alternatively striking from a list of five mediators or arbitrators obtained by Company from the AAA. Executive shall have the first strike.

(e) FEES AND EXPENSES. The fees of the AAA and Mediation/Arbitration shall be borne equally by the parties, unless ordered otherwise by the Arbitrator. Each party shall bear its own attorney's fees and other expenses, unless ordered otherwise by the Arbitrator.

11. VALIDITY.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. NO EMPLOYMENT OR SERVICE CONTRACT.

Except as may be otherwise provided in the Executive's Employment Agreement, nothing in this Agreement shall confer upon Executive any right to continue in the service of the Company (or any parent or subsidiary corporation of the Company employing or retaining Executive) for any period of time.

13. AMENDMENT AND TERMINATION.

Any amendment, modification, change, or termination of this Agreement must be done so in writing and signed by both parties.

14. GOVERNING LAW.

The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Arizona.

15. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

16. EFFECT ON EMPLOYMENT AGREEMENT.

This Agreement supplements, and does not replace, Executive's Employment Agreement as it may be amended or replaced from time to time. If there are any conflicts between the provisions of this Agreement and Executive's Employment Agreement, the provisions of this Agreement shall control.

17. ENTIRE AGREEMENT.

This Agreement sets forth the entire agreement between Executive and the Company concerning the subject matter discussed in this Agreement and supersedes all prior agreements, promises, covenants, arrangements, communications, and representations or warranties, whether written or oral, by any officer, employee, or representative of the Company. Any prior agreements or understandings with respect to the subject matter set forth in this Agreement are hereby terminated and canceled.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

MERITAGE CORPORATION
8501 E. Princess Drive, #290
Scottsdale, AZ 85255

By: /s/ Steven J. Hilton

Its: Co-CEO

EXECUTIVE

Larry W. Seay
/s/ Larry W. Seay

Address: _____

DEFERRED BONUS AGREEMENT

2002 AWARD YEAR

THIS DEFERRED BONUS AGREEMENT (the "Agreement") is entered into as of March 14, 2003, by Richard T. Morgan (the "Executive") and Meritage Corporation, a Maryland corporation (the "Company").

1. PURPOSE.

The purpose of this Agreement is to reward Executive for his service for the Company.

2. COMPANY CONTRIBUTION.

The Company agrees to make a "Company Contribution" of \$45,455 to the Deferred Bonus Account established pursuant to Section 3 effective as of December 31, 2002. The purpose of this Company Contribution is to further compensate Executive for his many years of service to the Company as a tool to retain the valuable services of the Executive.

3. DEFERRED COMPENSATION ACCOUNT.

The Company shall maintain a bookkeeping account (the "Deferred Bonus Account") to which it shall credit the Company Contribution in accordance with Section 2. Interest shall be credited to the Deferred Bonus Account in accordance with Section 5, below. The Deferred Compensation Account is a bookkeeping account only and Executive shall not have any claim to any particular assets of the Company.

4. VESTING.

As of the date of this Agreement, the Company Contribution credited to Executive's Deferred Bonus Account shall be unvested and subject to forfeiture on the termination of Executive's employment for any reason prior to January 1, 2006. If Executive continues to be employed by the Company on and through December 31, 2005, Executive shall be fully vested in amounts credited to his Deferred Bonus Account and his rights and interests therein shall not be forfeitable.

5. INTEREST.

Each December 31, the Company shall credit the Deferred Bonus Account with interest calculated at an annual rate equal to 1.5% plus the prime rate as announced in the WALL STREET JOURNAL on the first business day of each year compounded annually (or, if no prime rate is announced in the WALL STREET JOURNAL on such date, then on the first day of each year in which the prime rate is reported in the WALL STREET JOURNAL), or such other greater interest rate as determined by the Company in its discretion.

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6. DISTRIBUTION OF BENEFITS.

(a) DISTRIBUTION OF BENEFITS. Payment to Executive shall occur within thirty (30) days of the effective date of Executive's vesting in his Deferred Bonus Account. For purposes of determining the distributable amount, the Deferred Bonus Account shall be valued through the day prior to the day on which the Deferred Bonus Account is distributed, less any claim, debt, reimbursement, recoupment, or offset the Company may have against Executive.

(b) IN-SERVICE DISTRIBUTIONS. Executive shall have no right to borrow money from his Deferred Bonus Account nor shall he be allowed to receive a distribution except as provided above.

(c) METHOD OF DISTRIBUTION. Distribution of benefits shall be made in one cash lump sum.

7. INALIENABILITY OF BENEFITS.

(a) GENERAL PROHIBITION. Executive, nor creditors of Executive, shall have any right to assign, pledge, hypothecate, anticipate or in any way create a lien upon Executive's interest created under this Agreement. All payments to be made to Executive shall be made only upon his personal receipt or endorsement, and no interest under this Agreement shall be subject to assignment or transfer or otherwise be alienable, either by voluntary or involuntary act or by operation of law or equity, or subject to attachment, execution, garnishment, sequestration, levy or other seizure under any legal, equitable or other process, or be liable in any way for the debts or defaults of Executive.

(b) PERMITTED ARRANGEMENTS. This Section shall not preclude arrangements for the withholding of applicable taxes from payments under this Agreement, or arrangements for direct deposit of benefit payments to an account in a bank, savings and loan association or credit union (provided that such arrangement is

not part of an arrangement constituting an assignment or alienation).

8. BINDING NATURE OF AGREEMENT.

This Agreement shall be binding upon the heirs, executors, administrators, successors and assigns of any and all interested parties, present and future.

9. NATURE OF PAYMENTS.

Executive shall, for the purpose of this Agreement, be treated as general creditors of the Company. Nothing in this Agreement or any action taken pursuant to this Agreement shall create or be construed to create a fiduciary relationship between the Company and Executive, or any other person.

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10. DISPUTE RESOLUTION.

All claims, disputes and other matters in question between the parties arising under this Agreement shall be decided in accordance with the dispute resolution provisions stated below:

(a) MEDIATION. Any and all disputes arising under, pertaining to or touching upon this Agreement, or the statutory rights or obligations of either party hereto, shall, if not settled by negotiation, be subject to non-binding mediation before an independent mediator selected by the parties pursuant to Section 10(d). Notwithstanding the foregoing, both Executive and Company may seek preliminary judicial relief if such action is necessary to avoid irreparable damage during the pendency of the proceedings described in this Section 10. Any demand for mediation shall be made in writing and served upon the other party to the dispute, by certified mail, return receipt requested, at the address specified in the signature blocks of this agreement. The demand shall set forth with reasonable specificity the basis of the dispute and the relief sought. The mediation hearing will occur at a time and place convenient to the parties within 30 days of the date of selection or appointment of the mediator.

(b) ARBITRATION. In the event that the dispute is not settled through mediation, the parties shall then proceed to binding arbitration before an independent arbitrator selected pursuant to Section 10(d). The mediator shall not serve as the arbitrator. EXCEPT AS PROVIDED IN SECTION 10(a), ALL DISPUTES INVOLVING ALLEGED UNLAWFUL EMPLOYMENT DISCRIMINATION, TERMINATION BY ALLEGED BREACH OF CONTRACT OR POLICY, OR ALLEGED EMPLOYMENT TORT COMMITTED BY COMPANY OR A REPRESENTATIVE OF COMPANY, INCLUDING CLAIMS OF VIOLATIONS OF FEDERAL OR STATE DISCRIMINATION STATUTES OR PUBLIC POLICY, SHALL BE RESOLVED PURSUANT TO THIS SECTION 10 AND THERE SHALL BE NO RECOURSE TO COURT, WITH OR WITHOUT A JURY TRIAL. The arbitration hearing shall occur at a time and place convenient to the parties within 90 days of selection or appointment of the arbitrator, or as otherwise agreed to. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. ss.ss. 1-16 and the National Rules for the Resolution of Employment Disputes of the American Arbitration Association ("AAA") in effect on the date of the first notice of demand for arbitration. Notwithstanding any provisions in such rules to the contrary, the arbitrator shall issue findings of fact and conclusions of law, and an award, within 15 days of the date of the hearing unless the parties otherwise agree.

(c) DAMAGES. In case of breach of contract or policy, damages shall be limited to contract damages. In cases of discrimination claims prohibited by statute, the arbitrator may direct payment consistent with the applicable statute. In cases of employment tort, the arbitrator may award punitive damages if proved by clear and convincing evidence. Issues of procedure, arbitrability, or confirmation of award shall be governed by the Federal Arbitration Act, 9 U.S.C. ss.ss. 1-16, except that court review of the arbitrator's award shall be that of an appellate court reviewing a decision of a trial judge sitting without a jury.

(d) SELECTION OF MEDIATOR OR ARBITRATOR. The parties shall select the mediator and arbitrator from a panel list made available by the AAA. If the parties are unable to agree to a mediator or an arbitrator within 10 days of receipt of a demand for mediation or arbitration, the mediator or arbitrator

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will be chosen by alternatively striking from a list of five mediators or arbitrators obtained by Company from the AAA. Executive shall have the first strike.

(e) FEES AND EXPENSES. The fees of the AAA and Mediation/Arbitration shall be borne equally by the parties, unless ordered otherwise by the Arbitrator. Each party shall bear its own attorney's fees and other expenses, unless ordered otherwise by the Arbitrator.

11. VALIDITY.

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. NO EMPLOYMENT OR SERVICE CONTRACT.

Nothing in this Agreement shall confer upon Executive any right to continue in the service of the Company (or any parent or subsidiary corporation of the Company employing or retaining Executive) for any period of time.

13. AMENDMENT AND TERMINATION.

Any amendment, modification, change, or termination of this Agreement must be done so in writing and signed by both parties.

14. GOVERNING LAW.

The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of Arizona.

15. COUNTERPARTS.

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same instrument.

16. ENTIRE AGREEMENT.

This Agreement sets forth the entire agreement between Executive and the Company concerning the subject matter discussed in this Agreement and supersedes all prior agreements, promises, covenants, arrangements, communications, and representations or warranties, whether written or oral, by any officer, employee, or representative of the Company. Any prior agreements or understandings with respect to the subject matter set forth in this Agreement are hereby terminated and canceled.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

MERITAGE CORPORATION

8501 E. Princess Drive, #290
Scottsdale, AZ 85255

By: /s/ Larry W. Seay

Its: Vice President

EXECUTIVE

Richard T. Morgan

/s/ Richard T. Morgan

Address: _____

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MERITAGE CORPORATION

CODE OF ETHICS

Meritage Corporation is committed to conducting our business consistent with the highest ethical and legal standards. This Code reinforces our commitment to these standards and provides each employee of Meritage, as well as Meritage's affiliated and subsidiary companies, with guidance and perspective in understanding business ethics at Meritage.

It is designed to guide and help us identify activities and behaviors that are appropriate in conducting business and those that are not. No code of conduct can hope to spell out the appropriate moral conduct and ethical behavior for every situation we may confront. In the final analysis, we must rely on our own good judgment.

Whenever we find ourselves with a difficult decision to make, we must seek counsel from our colleagues, our supervisors and, most importantly, our own conscience and common sense. Specific interpretation or application of any guidelines or other content of this Code should be requested from any one of the following persons:

<TABLE>

<S> <C>

Steve Hilton (SHILTON@MERITAGECORP.COM or 480-609-3330) the Company's Co-CEO;
 John Landon (JLANDON@MERITAGECORP.COM or 972-612-8085) the Company's Co-CEO;
 Rick Morgan (RMORGAN@LEGHOMES.COM or 972-612-8085), the Company's Treasurer; or
 Larry Seay (LSEAY@MERITAGECORP.COM or 480-609-3336), the Company's Chief Financial Officer;

</TABLE>

YOUR RESPONSIBILITIES

Meritage believes that ethical behavior is good business. Meritage employees share certain responsibilities, but individually each is accountable for:

- * Conducting Meritage's business with integrity and operating in compliance with all applicable laws.
- * Avoiding situations where personal interests are, or appear to be, in conflict with Meritage's interests.
- * Treating all customers, suppliers and fellow employees in an honest and fair manner.
- * Safeguarding properly using Meritage's proprietary information, assets and resources, as well as those of other organizations.
- * Maintaining confidentiality of nonpublic information and not acting on such information for personal gain.

We are sometimes faced with situations where pressure exists to act unethically. However, at Meritage we depend on each other to conduct our business with honesty and integrity. If you are unsure in any situation, ask yourself these questions:

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- * Is this action legal?
- * Does it comply with our values?
- * Would you feel comfortable telling someone else about your decision?

Compromises in behavior that lead to violations of our standards will not be considered a benefit to the company and may result in disciplinary action, up to and including termination of employment.

Unethical or unlawful behavior hurts Meritage, but also hurts us as employees, our customers and our stockholders. As an employee, you can play a major role in ensuring ethical and legal compliance by reporting known or suspected wrongdoing within the company. If you discover or suspect an illegal, dishonest or unethical act is being committed or a violation is reported to you, we want you to report it immediately to your supervisor, your Division President, or John Landon and Steve Hilton, our Co-CEO's; Rick Morgan, our Treasurer; or Larry Seay our CFO. Employees will not be disciplined or otherwise retaliated against as a result of reporting such matters.

CONFLICTS OF INTEREST

All employees have a responsibility to avoid situations and relationships that involve actual or potential conflicts of interest. Generally, a conflict of interest arises whenever an employee's personal interests diverge from his or her responsibilities to Meritage or from Meritage's best interests. Put another way, a conflict of interest is created whenever an activity, association or relationship of yours might impair your independent exercise of judgment in the company's best interest.

Examples of situations that could be perceived as conflicts of interest and should be avoided include:

- * Conducting company business with a firm owned, partially owned, or controlled by an employee or an employee's relatives or friends.
- * Ownership of a financial interest in Meritage's competitors. Ownership of less than three percent of stock of a publicly traded company that competes or does business with Meritage is permissible.
- * Working as an employee or a consultant for a competitor, regulatory governmental entity, customer or supplier of Meritage, or doing any work for a third party that may adversely affect your performance or judgment on the job or diminish your ability to devote the necessary time and attention to your duties.
- * Using company property, materials, supplies, funds or other resources for personal purposes, or appropriating or diverting to others any business opportunity or idea in which Meritage might have an interest.

These situations, and others like them, where loyalties to Meritage could be compromised, must be avoided. Employees who believe they are involved in a potential conflict of interest have a responsibility to discuss it with their supervisor, your Division President or Meritage's Chief Financial Officer.

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GIFTS AND ENTERTAINMENT

All decisions regarding the purchasing of materials, supplies and services must be made on the basis of competitive price, quality and performance in a way that preserves Meritage's integrity. Giving or accepting anything of value is inappropriate if it could be reasonably interpreted as an effort to influence a business relationship or decision. The difference between a gift and a bribe is a question of intent. It is impermissible to accept or request any form of kickback or bribe. A bribe or a kickback includes any item or favor provided for the purpose of improperly obtaining favorable treatment or seeking a competitive advantage. Such efforts should never be used to accomplish indirectly what Meritage could not properly or legally do directly.

In certain situations or on certain occasions, small gifts of nominal value may be presented to customers or potential customers, such as specialty advertising items bearing the corporate logo, tickets to local sports, civic or cultural events and/or restaurant meals or refreshments.

Standards governing the acceptance of gifts from suppliers or their agents mirror those relating to the giving of gifts to our customers and/or potential customers, in that acceptance of a significant gift could be construed as improperly influencing the selection of a vendor or the awarding of a contract. Gifts of a nominal value of less than \$100 may be accepted on an infrequent or occasional basis, such as during the holiday season, as a reasonable business courtesy. Routine entertainment by suppliers that is business related --such as business meals, sports outings or cultural events --is acceptable.

Ultimately, each employee must exercise good business judgment in deciding which situations are unacceptable. Bottom line: If there is ever any doubt as to the acceptability of any gift or entertainment activity, consult with your supervisor.

PROTECTION AND USE OF CORPORATE ASSETS

All employees are responsible for ensuring that appropriate measures are taken to properly protect Meritage's corporate assets. Employees are expected to assist in the protection of all confidential and proprietary information, including technical, financial, marketing and other business information, which, if made available to Meritage's competitors or the public, would be advantageous to such competitors and detrimental to Meritage. Protection of such information is critical to our ability to grow and compete.

Meritage's computer systems, electronic mail (e-mail), voice mail and Internet access are employer-provided technologies and company property. The use of Meritage's computer systems, e-mail, voice mail and Internet access are primarily for matters of concern to Meritage's operations, and not for communications of a personal nature. Such non-business related use should be on an infrequent basis. Employees may not use these assets to display, transmit or store inappropriate materials at any time.

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ANTITRUST

The free enterprise system rests on the proposition that free and open competition is the best way to ensure an adequate supply of goods and services at reasonable prices. The antitrust laws of the U.S. are intended to protect and promote vigorous and fair competition. All Meritage employees must adhere strictly to both the spirit and the letter of antitrust laws of the U.S. Violation of antitrust laws can result in severe civil and criminal penalties, including imprisonment for individuals, and Meritage can be subjected to substantial fines and damage awards.

All employees must obtain advice from the Chief Financial Officer before engaging in any conduct or practice that may be regulated by antitrust laws. The

Chief Financial Officer will consult as necessary with our outside legal counsel on any such matters.

The following agreements, arrangements or understandings with competitors, whether oral or in writing, should always be avoided:

- * Agreements to fix prices or boycott specified suppliers.
- * Agreements to allocate products, territories or markets.
- * Agreements to exchange competitively sensitive information, especially prices.
- * Agreements that limit the production or sale of our products.

Contacts with competitors are sensitive and risky, since courts can infer an agreement or collusion from such contacts when they are followed by common action or behavior. In all contacts with competitors, employees must avoid discussing prices, terms and conditions of sale, costs, inventories, competition, marketing plans or studies, production plans and capabilities, and any other proprietary or confidential information.

If any competitor initiates a discussion involving the subjects above, an employee should immediately excuse himself/herself from the conversation and immediately report the matter to the Chief Financial Officer.

Meritage employees should normally avoid all contacts with competitors if they have authority over the pricing, terms or conditions of sale of Meritage homes.

INSIDER TRADING

It is illegal to buy or sell securities (either personally or on behalf of others) on the basis of material, nonpublic information. It also is illegal to communicate (i.e., to "tip") material, nonpublic information to others so that they may buy or sell securities on the basis of that information. All Meritage employees who know material, nonpublic information about Meritage or any other company are prohibited from trading (directly or indirectly), or tipping others to trade in the securities of that company.

Material, nonpublic information is factual information that a reasonable investor would want to know before making an investment decision. Examples of material, nonpublic information may include:

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- * Quarterly or annual financial results
- * Financial forecasts
- * Significant financial developments
- * Possible mergers, acquisitions, joint ventures or divestitures
- * Information about important contracts
- * Significant new developments

These prohibitions continue for as long as the information you know remains material and nonpublic. Anyone who gives such nonpublic information to others may be subject to disciplinary action and possible criminal prosecution. Guidance on questions about specific transactions should be obtained from Meritage's Chief Financial Officer in advance of the transaction. In addition, Meritage maintains a detailed insider trading policy that must be complied with by all employees.

ADVERTISING, MARKETING AND PROMOTION

It is Meritage's policy to be truthful, fair and honest in the advertising, marketing, and promotion of its products. All advertising and promotion of Meritage products should be appropriate in nature to a homebuilder company.

FINANCIAL INTEGRITY; RECORD RETENTION

Meritage's books, records and accounts are to be maintained in a manner that accurately reflects all financial transactions in conformity with generally accepted accounting principles. An employee shall not:

- * Improperly accelerate or defer expenses or revenues to achieve financial results or goals.
- * Maintain any undisclosed or unrecorded funds or "off the book" assets.
- * Establish or maintain improper, misleading, incomplete or fraudulent accounting documentation or financial reporting.
- * Make any payment for purposes other than those described in the documents supporting the payment.
- * Sign any documents believed to be inaccurate or untruthful.

Meritage maintains a detailed Record Retention Policy. Any employee that becomes aware of any investigation, litigation, administrative proceeding or other governmental or regulatory proceeding must immediately consult with the Chief Financial Officer regarding any records relating to that matter. If necessary, the Chief Financial Officer will consult with Meritage's outside legal counsel regarding the appropriate steps that should be taken in regard to records relating to any such proceeding. Federal and state law provides for

imprisonment and severe penalties for any person who alters, mutilates, conceals or destroys a record or an object with intent to impair the availability of such item or influence the investigation of a governmental department or agency.

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ACCOUNTING CONCERNS

Employees are encouraged to talk to their supervisor, Chief Financial Officer or Chairman of the Audit Committee regarding any concerns that they have pertaining to the Company's accounting, internal controls or audit practices. It is our policy not to allow retaliation for reports of misconduct or potential misconduct by others made in good faith by employees. To the extent possible, the reporting of potential issues will be kept confidential.

RELATIONS WITH EMPLOYEES

Meritage recognizes that its continued success depends on the development and fair treatment of all of its employees. Meritage is committed to providing equal opportunity for employment and advancement at every level of employment on the basis of ability and aptitude, without regard to race, sex, age, religion, national origin, disability, or any other classification protected by federal, state and local laws and ordinances. Similarly, Meritage is committed to maintaining a workplace that is free from harassment by a co-worker, supervisor, vendor or customer.

If you feel you are being discriminated or harassed, you should contact your supervisor, a Human Resources Manager or any other member of management you feel comfortable discussing the matter with. In addition, employees can report such conduct to the Chief Financial Officer. Employees will not be disciplined or otherwise retaliated against as a result of reporting such conduct.

ALCOHOL AND DRUGS IN THE WORKPLACE

Meritage has a responsibility to all of its employees to provide a safe workplace, including a drug and alcohol-free workplace. Meritage reinforces its commitment by prohibiting employees from using, possessing, distributing or being under the influence of illegal drugs or alcohol at any time while on company premises or performing company business at any location.

WORKPLACE HEALTH, SAFETY AND ENVIRONMENT

Meritage is committed to the safety and health of its employees. Providing and maintaining a safe work environment and instituting and following work practices to safeguard employees must be a primary consideration for all of us. Reviewing all of our businesses and identifying where we can act to improve safety awareness is an ongoing task to which the entire corporation and each employee should be dedicated. There is no job so important that we cannot take the time to complete it safely.

Safe work practices also include exercising good judgment with regard to the environmental aspects of our business. Additionally, discharge and disposition of hazardous materials should be performed only in a manner that complies with environmental protection laws.

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MERITAGE CORPORATION
LIST OF SUBSIDIARIES

Monterey Homes Arizona, Inc.
Monterey Homes Construction, Inc.
Meritage Homes of Arizona, Inc.
Meritage Paseo Crossing, LLC
Meritage Homes Construction, Inc.
Meritage Paseo Construction, LLC
Hancock-MTH Communities, Inc.
Hancock-MTH Builders, Inc.
MTH-Texas GP, Inc.
MTH-Texas GP II, Inc.
MTH-Texas LP, Inc.
MTH-Texas LP II, Inc.
MTH-Homes Texas, L.P.
MTH-Homes Nevada, Inc.
Meritage Holdings, L.L.C.
Meritage Homes of Northern California, Inc.
MTH Mortgage, LLC
MTH-Cavalier, LLC
Legacy/Monterey Homes, L.P.
Legacy Operating Company, L.P.
Hulen Park Venture, L.L.C.
Texas Home Mortgage Corporation

INDEPENDENT AUDITORS' CONSENT

The Board of Directors
Meritage Corporation:

We consent to incorporation by reference in Registration Statement Nos. 333-58793 and 333-87398 on Form S-3 of Meritage Corporation and to incorporation by reference in Registration Statement Nos. 333-191960, 333-37859, 333-75629 and 333-39036 on Form S-8 of Meritage Corporation of our report dated February 6, 2003, with respect to the consolidated balance sheets of Meritage Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002, which report appears in the December 31, 2002 annual report on Form 10-K of Meritage Corporation.

Our report refers to a change in accounting for goodwill and other intangible assets in 2002.

/s/ KPMG LLP

Phoenix, Arizona
March 31, 2003

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 Annual Report of Meritage Corporation (the "Company") on Form 10-K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven J. Hilton, Co-Chief Executive Officer of the Company certify, to the best of my knowledge, that:

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

MERITAGE CORPORATION,
a Maryland Corporation

BY /s/ STEVEN J. HILTON

Steven J. Hilton
CO-CHIEF EXECUTIVE OFFICER

Date: March 31, 2003

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 Annual Report of Meritage Corporation (the "Company") on Form 10-K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John R. Landon, Co-Chief Executive Officer of the Company certify, to the best of my knowledge, that:

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

MERITAGE CORPORATION,
a Maryland Corporation

BY /s/ JOHN R. LANDON

John R. Landon
CO-CHIEF EXECUTIVE OFFICER

Date: March 31, 2003

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 Annual Report of Meritage Corporation (the "Company") on Form 10-K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Larry W. Seay, Chief Financial Officer of the Company certify, to the best of my knowledge, that:

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

MERITAGE CORPORATION,
a Maryland Corporation

BY /s/ LARRY W. SEAY

Larry W. Seay
CHIEF FINANCIAL OFFICER

Date: March 31, 2003