SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001

OR

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

COMMISSION FILE NUMBER 1-9977

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

MARYLAND	86-0611231
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6613 NORTH SCOTTSDALE ROAD, SUITE 200 SCOTTSDALE, ARIZONA	85250
(Address of Principal Executive Offices)	(Zip Code)

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

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS: YES [X] NO [ ]

AS OF NOVEMBER 10, 2001, 5,412,006 SHARES OF MERITAGE CORPORATION COMMON STOCK WERE OUTSTANDING.

MERITAGE CORPORATION
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2001

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

<TABLE>
<CAPTION>

<S>	SEPTEMBER 30, 2001 (UNAUDITED) <C>	DECEMBER 31, 2000 <C>
ASSETS		
Cash and cash equivalents	$ 1,456	$ 4,397
Real estate under development	346,277	211,307
Deposits on real estate under option or contract	40,635	24,251
Receivables	4,377	2,179
Deferred tax asset	1,961	543
Goodwill	29,355	17,675
Property and equipment, net	8,949	4,717
Other assets	7,178	2,006
Total Assets	$ 440,188	$ 267,075
LIABILITIES		
Accounts payable and accrued liabilities	$ 78,119	$ 48,907
Home sale deposits	15,929	10,917
Notes payable	186,082	86,152
Total Liabilities	280,130	145,976
STOCKHOLDERS' EQUITY		
Common stock, par value $0.01. Authorized 50,000,000 shares; issued and outstanding 6,208,969 shares at September 30, 2001 and 5,922,822 shares at December 31, 2000	62	59
Additional paid-in capital	106,919	102,526
Retained earnings	64,300	29,530
Treasury stock at cost; 818,963 shares at September 30, 2001 and 811,963 at December 31, 2000	(11,223)	(11,016)
Total Stockholders' Equity	160,058	121,099
Total Liabilities and Stockholders' Equity	$ 440,188	$ 267,075

</TABLE>

See accompanying notes to consolidated financial statements.

MERITAGE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Home sales revenue	$ 207,177	$ 134,464	$ 497,693	$ 346,919
Land sales revenue	--	1,412	1,598	4,115
	207,177	135,876	499,291	351,034
Cost of home sales	(161,468)	(105,629)	(390,876)	(277,111)
Cost of land sales	--	(1,264)	(1,474)	(3,648)
	(161,468)	(106,893)	(392,350)	(280,759)
Home sales gross profit	45,709	28,835	106,817	69,808

Land sales gross profit	--	148	124	467
	45,709	28,983	106,941	70,275
Commissions and other sales costs	(10,954)	(7,291)	(27,402)	(19,528)
General and administrative costs	(11,433)	(5,364)	(24,251)	(14,213)
Interest expense	--	(1)	(1)	(6)
Other income, net	669	319	2,030	1,274
Earnings before income taxes and extraordinary items	23,991	16,646	57,317	37,802
Income taxes	(9,316)	(6,137)	(22,314)	(13,949)
Earnings before extraordinary items	14,675	10,509	35,003	23,853
Extraordinary items, net of tax effects	212	--	(233)	--
Net earnings	$ 14,887	$ 10,509	$ 34,770	$ 23,853
Earnings per share:				
Basic:				
Earnings before extraordinary items	$ 2.73	$ 2.06	$ 6.64	$ 4.57
Extraordinary items, net of tax effects	0.04	--	(0.04)	--
Net earnings per share	$ 2.77	$ 2.06	$ 6.60	$ 4.57
Diluted:				
Earnings before extraordinary items	$ 2.46	$ 1.85	$ 6.02	$ 4.15
Extraordinary items, net of tax effects	0.04	--	(0.04)	--
Net earnings per share	$ 2.50	$ 1.85	$ 5.98	$ 4.15

</TABLE>

See accompanying notes to consolidated financial statements.

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

<TABLE>
<CAPTION>

<S>	NINE MONTHS ENDED SEPTEMBER 30, 2001 <C>	2000 <C>
	(IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 34,770	$ 23,853
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	3,747	2,320
(Increase) decrease in deferred tax asset before extraordinary item	(1,418)	28
Stock option compensation expense	--	73
Tax benefit from stock option exercise	2,376	--
Change in assets and liabilities, net of effect of acquisition in 2001:		
Increase in real estate under development	(80,425)	(51,452)
Increase in deposits on real estate under option or contract	(7,485)	(3,394)
Increase in receivables and other assets	(8,316)	(350)
Increase in accounts payable and accrued liabilities	22,322	7,455
Increase in home sale deposits	2,509	4,300
Net cash used in operating activities	(31,920)	(17,167)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash paid for acquisition	(65,759)	(5,158)
Purchases of property and equipment	(5,115)	(2,206)
Net cash used in investing activities	(70,874)	(7,364)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings	551,809	318,723
Repayments of debt	(453,769)	(298,093)
Repurchase of stock	(207)	(8,507)
Proceeds from exercises of stock options	2,020	564
Net cash provided by financing activities	99,853	12,687

Net decrease in cash and cash equivalents	(2,941)	(11,844)
Cash and cash equivalents at beginning of period	4,397	13,422
Cash and cash equivalents at end of period	$ 1,456	$ 1,578

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:
The acquisition of Hancock Communities resulted in the following changes in assets and liabilities:

Real estate under development	$ (54,545)
Deposits on real estate under option or contract	(8,899)
Receivables and other assets	(543)
Accounts payable and accrued liabilities	6,890
Home sale deposits	2,503
Goodwill	(11,423)
Property and equipment	(1,632)
Borrowings	1,890
Net cash paid for acquisition	$ (65,759)

</TABLE>

See accompanying notes to consolidated financial statements.

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

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

We develop, construct and sell new high-quality, single-family homes in the semi-custom luxury, move-up and entry-level markets. We operate in the Dallas/Fort Worth, Austin and Houston, Texas markets as Legacy Homes, in the Phoenix/Scottsdale and Tucson, Arizona markets as Monterey Homes, Hancock Communities and Meritage Homes, and in the East San Francisco Bay and Sacramento, California markets as Meritage Homes.

BASIS OF PRESENTATION. The consolidated financial statements include the accounts of Meritage Corporation and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation and certain prior period amounts have been reclassified to be consistent with current financial statement presentation. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly present our financial position, results of operations and cash flows for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

NOTE 2 - REAL ESTATE UNDER DEVELOPMENT AND CAPITALIZED INTEREST

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

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Homes under contract, in production	$159,589	$ 92,881
Finished home sites	84,014	60,630
Home sites under development	55,999	27,636
Model homes and homes held for resale	43,626	26,937
Land held for development	3,049	3,223
	$346,277	$211,307

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 property is delivered to the buyer. A summary of interest capitalized and interest expensed follows (in thousands):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Beginning unamortized capitalized interest	$ 7,248	$ 4,911	$ 5,426	$ 3,971
Interest capitalized	5,430	2,975	11,868	7,617
Amortized to cost of home and land sales	(3,576)	(2,203)	(8,192)	(5,905)
Ending unamortized capitalized interest	$ 9,102	$ 5,683	$ 9,102	$ 5,683
Interest incurred	$ 5,430	$ 2,976	$ 11,869	$ 7,623

Interest capitalized	(5,430)	(2,975)	(11,868)	(7,617)
Interest expensed	$ --	$ 1	$ 1	$ 6

</TABLE>

NOTE 3 - NOTES PAYABLE

Notes payable consists of:

<TABLE>
<CAPTION>

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
$100 million bank revolving construction line of credit, interest payable monthly approximating prime (6.0% at September 30, 2001) or LIBOR (rates varying from 2.57% to 2.66% at September 30, 2001) plus 2.0%, payable at the earlier of close of escrow, maturity date of individual homes and lots within the collateral pool or over a 24-month period beginning June 1, 2003, secured by first deeds of trust on real estate	$ 9,880	$ 50,354
$75 million bank revolving construction line of credit, interest payable monthly approximating prime or LIBOR plus 2.0%, payable at the earlier of close of escrow, maturity date of individual homes and lots within the line or May 31, 2002, secured by first deeds of trust on real estate	14,998	17,269
Acquisition and development seller carry back financing, interest payable monthly at fixed rates of 9% and 10% per annum; payable at the maturity date of the individual projects, secured by first deeds of trust on land	6,204	3,516
Senior unsecured notes, maturing June 1, 2011, annual interest of 9.75% payable semi-annually	155,000	--
Senior unsecured notes, paid in full May 30, 2001	--	15,000
Other	--	13
Total	$186,082	$ 86,152

</TABLE>

NOTE 4 - EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
BASIC:				
Earnings before extraordinary items	$ 14,675	$ 10,509	$ 35,003	$ 23,853
Extraordinary items, net of tax effects	212	--	(233)	--
Net earnings	$ 14,887	$ 10,509	$ 34,770	$ 23,853
Weighted average number of shares outstanding	5,367	5,097	5,264	5,224
Basic earnings per share before extraordinary items	$ 2.73	$ 2.06	$ 6.64	$ 4.57
Extraordinary items	.04	--	(.04)	--
Basic earnings per share	$ 2.77	$ 2.06	$ 6.60	$ 4.57

DILUTED:				
Earnings before extraordinary items	$ 14,675	$ 10,509	$ 35,003	$ 23,853
Extraordinary items, net of tax effects	212	--	(233)	--
Net earnings	$ 14,887	$ 10,509	$ 34,770	$ 23,853
Weighted average number of shares outstanding	5,367	5,097	5,264	5,224
Effect of dilutive securities:				
Contingent shares and warrants	--	--	--	25
Options to acquire common stock	596	582	546	496
Diluted weighted common shares outstanding	5,963	5,679	5,810	5,745
Diluted earnings per share before extraordinary items	$ 2.46	$ 1.85	$ 6.02	$ 4.15
Extraordinary items	0.04	--	(0.04)	--
Diluted earnings per share	$ 2.50	$ 1.85	$ 5.98	$ 4.15
Antidilutive stock options not included in diluted EPS	--	102	--	265

</TABLE>

NOTE 5 - EXTRAORDINARY ITEMS

During the quarter ended September 30, 2001 we recognized an extraordinary gain of $212,000, net of related income tax effect of $136,000. This gain resulted from the purchase and retirement of $10 million in principal of our 9.75% senior notes due June 1, 2011, which we bought back at 93.25.

The nine months ended September 30, 2001, includes as an extraordinary item a $446,000 loss, net of a $285,000 tax benefit, due to the early extinguishment of $15 million of senior unsecured debt in May 2001.

NOTE 6 - INCOME TAXES

Total income tax expense for the three and nine months ended September 30, 2001 was allocated as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2001
Income from continuing operations	$ 9,316	$ 22,314
Extraordinary items	136	(149)
	$ 9,452	$ 22,165

Income tax expense attributable to income from continuing operations consists of (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Current:				
Federal	$ 8,743	$ 5,263	$ 20,162	$ 12,202
State	1,933	710	3,571	1,719
	10,676	5,973	23,733	13,921
Deferred:				
Federal	(1,178)	147	(1,212)	25
State	(182)	17	(207)	3
	(1,360)	164	(1,419)	28
Total	$ 9,316	$ 6,137	$ 22,314	$ 13,949

NOTE 7 - SEGMENT INFORMATION

We classify our operations into three primary geographic segments: Texas, Arizona and California. These segments generate revenue through the sale of homes to external customers. We are not dependent on any one major customer.

Operational information relating to the different business segments follows. 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 and taxes (EBIT). The accounting policies of the business segments are the same as those described in Notes 1 and 2. There are no significant transactions between segments.

NOTE 7 - SEGMENT INFORMATION (CONT.)

<TABLE>
<CAPTION>

<S>	THREE MONTHS ENDED SEPTEMBER 30, 2001 <C>	THREE MONTHS ENDED SEPTEMBER 30, 2000 <C>	NINE MONTHS ENDED SEPTEMBER 30, 2001 <C>	NINE MONTHS ENDED SEPTEMBER 30, 2000 <C>
	(IN THOUSANDS)			
HOME SALES REVENUE:				
Texas	$ 62,306	$ 58,932	$ 185,264	$ 160,643
Arizona	100,794	45,168	201,154	99,367
California	44,077	30,364	111,275	86,909
Total	$ 207,177	$ 134,464	$ 497,693	$ 346,919
EBIT:				
Texas	$ 10,892	$ 10,449	$ 31,954	$ 26,228
Arizona	10,063	4,862	19,487	8,619
California	8,098	5,033	17,392	12,975
Corporate and other	(1,486)	(1,493)	(3,323)	(4,109)
Total	$ 27,567	$ 18,851	$ 65,510	$ 43,713
AMORTIZATION OF CAPITALIZED INTEREST:				
Texas	$ 625	$ 585	$ 1,772	$ 1,876
Arizona	2,001	1,213	4,417	2,724
California	950	405	2,003	1,305
Total	$ 3,576	$ 2,203	$ 8,192	$ 5,905

	AT SEPTEMBER 30, 2001	AT DECEMBER 31, 2000
	(IN THOUSANDS)	
ASSETS:		
Texas	$140,077	$108,238
Arizona	217,497	102,746
California	80,722	53,723
Corporate	1,892	2,368
Total	$440,188	$267,075

</TABLE>

NOTE 8 - 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"). The purchase price was $65.8 million in cash, plus the assumption of trade payables, accrued liabilities and customer deposit liabilities totaling $9.4 million and a note totaling $1.9 million. In addition, we granted to Greg Hancock, the founder of Hancock Communities, an earn-out, payable over three years, equal to 20% of Hancock's pre-tax net income after a 10.5% charge on capital. Hancock designs, builds and markets a wide range of high-quality homes in the Phoenix, Arizona area with a focus on serving the entry-level and move-up single-family housing markets and is currently developing affordable age-restricted adult communities. During 2000, Hancock closed 1,143 homes at an average selling price of $160,700, resulting in total revenues of $183.7 million and EBITDA of $16.9 million.

This acquisition was accounted for using the purchase method of accounting. Accordingly, the Company recorded goodwill of approximately $11.4 million, which represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired and liabilities assumed. Such amount is being amortized over a period of 20 years.

The following unaudited pro forma financial data for the three and nine months ended September 30, 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. Unaudited pro forma financial data is presented for informational purposes only and is based on historical information. This information may not be indicative of the actual amounts of the Company had the events occurred on the date listed above, nor does it purport to represent future periods (in thousands except per share data):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Revenue	$207,177	$194,294	$552,001	$486,925
Earnings before extraordinary items	14,675	12,671	40,728	28,311
Net earnings	14,887	12,671	40,940	27,865
Diluted EPS before extraordinary items	2.46	2.23	7.01	4.93
Diluted EPS after extraordinary items	2.50	2.23	7.05	4.85

NOTE 9 - NEW ACCOUNTING PRONOUNCEMENTS

On October 3, 2001, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, it retains many of the fundamental provisions of that Statement.

Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, REPORTING THE RESULTS OF OPERATIONS--REPORTING THE EFFECTS OF DISPOSAL OF A SEGMENT OF A BUSINESS, AND EXTRAORDINARY, UNUSUAL AND INFREQUENTLY OCCURRING EVENTS AND TRANSACTIONS, for the disposal of a segment of a business. However, it retains the requirement in Opinion No. 30 to report separately discontinued operations and extends that reporting to a COMPONENT OF AN ENTITY that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. By broadening the presentation of discontinued operations to include more disposal transactions, the FASB has enhanced managements' ability to provide information that helps financial statement users to assess the effects of a disposal transaction on the ongoing operations of an entity. Statement No. 144 is effective for fiscal years beginning after December 15, 2001. At the current time, management believes that the adoption of this statement on January 1, 2002 will not have a material impact on our financial position.

In July 2001, the FASB issued Statement No. 141, BUSINESS COMBINATIONS, and Statement No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF.

The Company is required to adopt the provisions of Statement 141 immediately, except with regard to business combinations initiated prior to July 1, 2001, and Statement 142 effective January 1, 2002. Furthermore, any goodwill and any intangible assets determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment, in accordance with the appropriate pre-Statement 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed

before July 1, 2001 will continue to be amortized until the adoption of Statement 142.

Statement 141 will require, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of September 30, 2001, the Company had unamortized goodwill in the amount of approximately $29.4 million, which will be subject to the transition provisions of Statement 142. Amortization expense related to goodwill was $1,004,000 and $1,067,000 for the nine months ended September 30, 2001 and for the year ended December 31, 2000, respectively. The Company has not determined the impact of the immediate adoption of Statement 141 or the adoption of Statement 142 on January 1, 2002.

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

This Quarterly Report on Form 10-Q contains forward-looking statements. The words "believe," "expect," "anticipate," and "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Such statements include the expected benefits of the Hancock acquisition, including future closings and Hancock's contribution to our revenue and earnings, projections of revenue, income or loss, capital expenditures, backlog, plans for future operations, financing needs or plans and liquidity, and plans relating to our housing products or services, as well as assumptions relating to the foregoing. Our past performance or past or present economic conditions in our housing markets may not be indicative of future performance and conditions.

Actual results may differ materially from those expressed in forward-looking statements. Risks identified in Exhibit 99 to this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2000, including under the captions "Business", "Market for the Registrant's Common Stock and Related Stockholder Matters", in the Notes to the Consolidated Financial Statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations, Factors That May Affect Our Future Results and Financial Condition," and "Special Note of Caution Regarding Forward-Looking Statements" describe factors, among others, that could contribute to or cause such differences. These factors may also affect our business generally. Additional factors that could cause actual results to differ materially from those expressed in such forward-looking statements and that could affect our business generally, are described in our Form S-4 filed with the SEC on July 18, 2001. As a result of these factors, the Company's stock and bond prices may fluctuate dramatically.

RESULTS OF OPERATIONS

The following discussion and analysis provides information regarding our results of operations for the three and nine month periods ended September 30, 2001 and 2000. All material balances and transactions between us and our subsidiaries have been eliminated in consolidation. In management's opinion, the data reflects all adjustments, consisting of only normal recurring adjustments, necessary to fairly present our financial position and results of operations for the periods presented in accordance with accounting principles generally accepted in the United States of America. The results of operations for any interim period are not necessarily indicative of results expected for a full fiscal year.

HOME SALES REVENUE, SALES CONTRACTS AND NET SALES BACKLOG

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

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		PERCENTAGE INCREASE	NINE MONTHS ENDED SEPTEMBER 30,		PERCENTAGE INCREASE
HOME SALES REVENUE	2001	2000	(DECREASE)	2001	2000	(DECREASE)

<S>	<C>	<C>	<C>	<C>	<C>	<C>
TOTAL						
Dollars	$ 207,177	$ 134,464	54%	$ 497,693	$ 346,919	43%
Homes closed	938	588	60%	2,227	1,553	43%
Average sales price	$ 220.9	$ 228.7	(3)%	$ 223.5	$ 223.4	*
TEXAS						
Dollars	$ 62,306	$ 58,932	6%	$ 185,263	$ 160,643	15%
Homes closed	357	334	7%	1,077	939	15%
Average sales price	$ 174.5	$ 176.4	(1)%	$ 172.0	$ 171.1	*
ARIZONA						
Dollars	$ 100,794	$ 45,168	123%	$ 201,155	$ 99,367	102%
Homes closed	469	165	184%	863	361	139%
Average sales price	$ 214.9	$ 273.7	(22)%	$ 233.1	$ 275.3	(15)%
CALIFORNIA						
Dollars	$ 44,077	$ 30,364	45%	$ 111,275	$ 86,909	28%
Homes closed	112	89	26%	287	253	13%
Average sales price	$ 393.5	$ 341.2	15%	$ 387.7	$ 343.5	13%

</TABLE>

- ----------
* Less than one percent

<TABLE>
<CAPTION>

SALES CONTRACTS	THREE MONTHS ENDED SEPTEMBER 30, 2001	THREE MONTHS ENDED SEPTEMBER 30, 2000	PERCENTAGE INCREASE (DECREASE)	NINE MONTHS ENDED SEPTEMBER 30, 2001	NINE MONTHS ENDED SEPTEMBER 30, 2000	PERCENTAGE INCREASE (DECREASE)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
TOTAL						
Dollars	$ 161,486	$173,930	(7)%	$ 513,237	$ 470,601	9%
Homes ordered	723	731	(1)%	2,220	1,950	14%
Average sales price	$ 223.4	$ 237.9	(6)%	$ 231.2	$ 241.3	(4)%
TEXAS						
Dollars	$ 50,409	$ 71,684	(30)%	$ 193,241	$ 190,166	2%
Homes ordered	297	422	(30)%	1,156	1,094	6%
Average sales price	$ 169.7	$ 169.9	*	$ 167.2	$ 173.8	(4)%
ARIZONA						
Dollars	$ 84,197	$ 59,912	41%	$ 220,025	$ 148,771	48%
Homes ordered	359	194	85%	814	474	72%
Average sales price	$ 234.5	$ 308.8	(24)%	$ 270.3	$ 313.9	(14)%
CALIFORNIA						
Dollars	$ 26,880	$ 42,334	(37)%	$ 99,971	$ 131,664	(24)%
Homes ordered	67	115	(42)%	250	382	(35)%
Average sales price	$ 401.2	$ 368.1	9%	$ 399.9	$ 344.7	16%

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* Less than one percent

NET SALES BACKLOG	AT SEPTEMBER 30, 2001	AT SEPTEMBER 30, 2000	PERCENTAGE INCREASE (DECREASE)
TOTAL			
Dollars	$432,968	$344,566	26%
Homes in backlog	1,849	1,390	33%
Average sales price	$ 234.2	$ 247.9	(6)%
TEXAS			
Dollars	$127,542	$123,505	3%
Homes in backlog	774	721	7%
Average sales price	$ 164.8	$ 171.3	(4)%
ARIZONA			
Dollars	$241,604	$143,722	68%
Homes in backlog	905	437	107%
Average sales price	$ 267.0	$ 328.9	(19)%
CALIFORNIA			
Dollars	$ 63,822	$ 77,339	(18)%
Homes in backlog	170	232	(27)%
Average sales price	$ 375.4	$ 333.4	13%

HOME SALES REVENUE. The increases in total home sales revenue and number of homes closed in the third quarter and first nine months of 2001 compared to the same periods of 2000 resulted mainly from strong markets at the time the orders

for these closings were taken in all of our divisions, continued growth in our mid-priced communities in Arizona and the addition of Hancock Communities to our operations in Phoenix, Arizona, which was acquired on May 30, 2001. During the three and nine months ended September 30, 2000, 313 and 383 Hancock homes were closed, respectively.

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. Sales contracts for the nine months ended September 30, 2001 are up from the previous year, due to 304 contracts from the Hancock acquisition and the strength of our markets earlier in the year. Total sales contracts decreased in the third quarter of 2001 compared to the same period of 2000 due mainly, we believe, to a combination of factors, including a difficult comparison to the prior year's very strong sales results, slowing in our high-end Monterey Scottsdale product and in our move-up Austin product, compounded by the events of September 11. These factors were mostly offset by the inclusion of 234 Hancock sales contracts in the third quarter of 2001. Historically, we have experienced a cancellation rate approximating 23% of gross sales, which we believe is consistent with industry norms. For the quarter, cancellation rates increased to 31% which we believe was caused by September 11.

NET SALES BACKLOG. Backlog represents net sales contracts that have not closed. Total dollar backlog at September 30, 2001 increased 26% over the September 30, 2000 amount due to an increase in the number of homes in backlog. The number of homes in backlog at September 30, 2001 increased 33% over the same date in the prior year. These increases resulted mainly from our Hancock acquisition.

OTHER OPERATING INFORMATION

<TABLE>
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	2001	2000	PERCENTAGE INCREASE (DECREASE)	2001	2000	PERCENTAGE INCREASE (DECREASE)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
HOME SALES GROSS PROFIT						
Dollars	$45,709	$28,835	58.5%	$106,817	$69,808	53.0%
Percentage of home sales revenues	22.1%	21.4%	*	21.5%	20.1%	1.4%
COMMISSIONS AND OTHER SALES COSTS						
Dollars	$10,954	$ 7,291	50.2%	$ 27,402	$19,528	40.3%
Percent of home sales revenue	5.3%	5.4%	*	5.5%	5.6%	*
GENERAL AND ADMINISTRATIVE COSTS						
Dollars	$11,433	$ 5,364	113.1%	$ 24,251	$14,213	70.6%
Percent of total revenue	5.5%	3.9%	1.6	4.9%	4.0%	*
INCOME TAXES						
Dollars	$ 9,316	$ 6,137	51.8%	$ 22,314	$13,949	60.0%
Percent of income before taxes and extraordinary items	38.8%	36.9%	1.9%	38.9%	36.9%	2.0%

</TABLE>

* Less than one percent

HOME SALES GROSS PROFIT. Gross profit equals home sales revenue, net of housing cost of sales, which include developed lot costs, home construction costs, amortization of common community costs (such as the cost of model complex and architectural, legal and zoning costs), interest, sales tax, warranty, construction overhead and closing costs. The dollar increases in gross profit for the three and nine months ended September 30, 2001 are attributable to the greater number of home closings and due to the strong housing markets that existed at the time these homes were sold. We were also able to benefit from a reasonably favorable environment for controlling construction costs.

COMMISSIONS AND OTHER SALES COSTS. Commissions and other sales costs, such as advertising and sales office expenses, were approximately $11.0 million, or 5.3% of home sales revenue, in the three months ended September 30, 2001, as compared to approximately $7.3 million, or 5.4% of home sales revenue, in the third quarter of 2000. For the first nine months of 2001, commissions and other sales costs were approximately $27.4 million or 5.5% of home sales revenue, compared with $19.5 million, or 5.6% of home sales revenue, for the nine months of 2000.

GENERAL AND ADMINISTRATIVE COSTS. General and administrative costs were approximately $11.4 million, or 5.5% of total revenue, in the third quarter of

2001, as compared to approximately $5.4 million, or 3.9% of total revenue, in 2000. General and administrative costs were approximately $24.3 million, or 4.9% of total revenue, in the first nine months of 2001, as compared to approximately $14.2 million, or 4.0% of total revenue, for the same period of 2000. General and administrative costs in 2001 were higher as a percentage of revenue, in comparison to the prior year due to a general overall increase in these costs, and due to the strong closing performance of our Northern California region, which resulted in a larger-than-typical earn-out payment per the terms of the purchase contract when we acquired the division. The earn-out, which terminates in June 2002, is calculated based on 20 percent of the pre-tax earnings of the Northern California region after reduction for a capital charge.

INCOME TAXES. The increases in income taxes for the quarter and nine months ended September 30, 2001 from the prior year resulted from an increase in pre-tax income, along with a slightly higher effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of working capital are land purchases, lot development and home construction. We use a combination of borrowings and funds generated by operations to meet our working capital requirements.

At September 30, 2001, we had short-term secured revolving construction loan and acquisition and development facilities totaling $185.0 million, of which approximately $24.9 million was outstanding. An additional $123.7 million of unborrowed funds supported by approved collateral were available under our credit facilities at that date, subject to compliance with the financial and other covenants in our loan agreements. This additional borrowing is limited to approximately $69 million under such loan covenants.

In September 2001, we purchased and retired $10 million in principal amount of our 9.75% senior notes due June 1, 2011. The purchases were made at 93.25% of par and resulted in an extraordinary gain of $212,000, net of related income tax effect of $136,000.

The 9.75% senior unsecured notes require us to comply with a number of covenants including:

1) Limitations on additional indebtedness,
2) Limitations on the payment of dividends, redemption of equity interests and certain investments,
3) Maintenance of a minimum level of consolidated tangible net worth,
4) Limitations on liens securing certain obligations, and
5) Limitations on the sale of assets, mergers and consolidations and transactions with affiliates.

We believe that our current borrowing capacity, cash on hand at September 30, 2001 and anticipated cash flows from operations are sufficient to meet liquidity needs for the foreseeable future. There is no assurance, however, that future amounts available from our sources of liquidity 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 our other credit agreements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We do not enter into derivative financial instruments for trading purposes, although we do have other financial instruments in the form of notes payable and senior debt. Our lines of credit and credit facilities are at variable interest rates and are subject to market risk in the form of interest rate fluctuations. The interest rate on our senior debt is at a fixed rate.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION	PAGE OR METHOD OF FILING
10.1	Employment Agreement between the Company and Larry W. Seay, dated October 1, 2001	Filed herewith
99	Private Securities Litigation Reform Act of 1995 Safe Harbor Compliance Statement for Forward-Looking Statements	Filed herewith

(B) REPORTS ON FORM 8-K

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly cause this report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized, this 14th day of November 2001.

MERITAGE CORPORATION,
a Maryland Corporation

BY /s/ LARRY W. SEAY

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

Exhibit 10.1

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is made as of this 1st day of October, 2001 by and between MERITAGE CORORATION, a Maryland corporation (the "Company") and Larry W. Seay, an individual ("Executive"). If Executive is presently or subsequently becomes employed by a subsidiary of Company, the term "Company" shall be deemed to refer collectively to Meritage Corporation and the subsidiary or subsidiaries which employs Executive.

RECITALS

A. COMPANY BUSINESS. The Company's principal business is homebuilding.

B. EXECUTIVE EXPERIENCE. Since April 1, 1996, Executive has served as Vice President - Finance, Chief Financial Officer ("CFO"), Treasurer and Secretary of the Company.

C. AGREEMENT PURPOSE. The Company desires to employ Executive, and Executive desires to be employed by Company, on the terms and condition set forth herein.

NOW THEREFORE, in consideration of the mutual covenants, agreements, representations, and warranties contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. DEFINITIONS. As used herein:

(a) "CAUSE" shall include the following:

i) Employee's wrongful misappropriation of any money or other assets or properties of the Company;

ii) Executive is convicted of committing a felony, or engages in conduct involving fraud, moral turpitude, dishonesty, gross misconduct, embezzlement, theft, or similar matters that are detrimental to Company;

iii) Employee's willful disregard of his primary duties to the Company or policies of the Company.

(b) "CHANGE OF CONTROL". A Change of Control of the Company shall mean: (a) the purchase or other acquisition by any person, entity, or group of persons, within the meaning of section 13 (d) or 14 (d) of the Securities Exchange Act of 1934 as amended (the "Act") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of more than 50% of either the outstanding share of common stock of the Company or the combined voting power of the Company's then outstanding voting securities entitled to vote generally; (b) the approval by the stockholders of the Company of a reorganization, merger, or consolidation,

in each case with respect to which persons who were stockholders of the Company immediately prior to such reorganization, merger, or consolidation do not, immediately thereafter, own more than 50% of the combined voting power entitled to vote generally in the election of directors of the reorganized, merged, or consolidated company's then outstanding securities; or (c) a liquidation or dissolution of the Company or the sale of all or substantially all of the Company's assets.

(c) "COMPANY CONFIDENTIAL INFORMATION" shall mean confidential, proprietary information or trade secrets of Company and its subsidiaries, including, without limitation, the following: (1) customer and vendor lists and customer and vendor information as complied by Company and its subsidiaries, including pricing, sale and contract terms and conditions, contract expirations, and other compiled customer and vendor information; Company's and its subsidiaries' internal practices and procedures; (3) Company's and its subsidiaries' financial condition and financial results of operation; (4) information relating to Company's and its subsidiaries' real estate holding or commitments, lot positions, strategic planning, sales, financing, insurance, purchasing, marketing, promotion, distribution, and selling activities, whether now existing, or acquired, developed, or made available anytime in the future to or by Company or its subsidiaries; (5) all information which Executive has a reasonable basis to consider confidential or which is treated by Company or its subsidiaries as confidential; and (6) any and all information having independent economic value to Company or its subsidiaries that is not generally known to, and not readily ascertainable by proper means by, persons who can obtain economic value from its disclosure or use. Executive acknowledges that such information is Company Confidential Information whether disclosed to or learned by Executive or originated by Executive during his employment by Company or any of its subsidiaries. In the event that information is not clearly and obviously publicly available, all information about Company or its subsidiaries shall be presumed to be confidential. In the event of a

dispute or litigation, Executive will have the burden of proof by clear and convincing evidence that such information is not confidential.

(d) "DEMOTION EVENT" shall include a demotion or relocation of Executive, a material chance in Executive's duties without Executive's consent, a reduction from the previous year in Executive's base salary without Executive's consent, or any action taken by the Company specifically to limit Executive's ability to earn a bonus comparable to his prior year's bonus. Notwithstanding the foregoing, the assignment of certain controller and treasury duties to a corporate controller who shall report to Executive shall not be considered a Demotion Event.

(e) "TERMINATION" shall mean termination of Executive's employment with Company pursuant to Sections 17 through 21 hereof.

2. TERM OF AGREEMENT. This Agreement will commence as of October 1, 2001, and shall terminate on December 31, 2003, unless earlier terminated in accordance with, and subject to, the other provision hereof (the "Term"). This Agreement will automatically renew for successive one-year terms unless one of the parties hereto gives notice of non-renewal at least ninety (90) days before the scheduled renewal date.

3. POSITION WITH COMPANY. During the Term, Executive shall serve as Vice President - Finance, CFO, Treasurer and Secretary of Company, shall devote his full time and efforts to the affairs of Company, and shall faithfully and diligently perform all duties commensurate with such position, including, without limitation, those duties reasonably requested by Company's Board of Directors. Without limitation of the foregoing, Executive shall: (i) manage financing and capital arrangements; (ii) supervise controller function; (iii) supervise treasury function; (iv) supervise public reporting and stockholder relations; (v) supervise information and data processing systems, and (vi) support merger and acquisition efforts. Executive shall be subject to and comply with all of Company's policies and procedures.

4. SALARY. Executive shall be entitled to receive a minimum base salary from Company in the amount of $200,000 annually, payable in equal installments in accordance with Company's general salary payment policies in effect during the Term hereof (the "Minimum Base Salary"). The Minimum Base Salary may be increased at such times and in such amounts as Company's Board of Directors shall determine in its sole discretion.

5. BONUS AND STOCK OPTION. The Board of Directors may, from time to time, at its discretion, pay performance bonuses to Executive, which shall based on a target ranging from 75 percent to 100 percent of base salary. Any such performance bonus may be paid in cash or Company stock, in the discretion of the Board of Directors. In addition, the Board of Directors may, form time to time, at its discretion, grant Executive options under the Company's stock option plan.

6. VACATION AND SICK LEAVE. Executive shall be entitled to take reasonable vacation, holiday and sick leave, subject to the Company's reasonable limits and policies.

7. BENEFIT PLANS. Executive shall be eligible to participate in all benefit plans made available to Company employees from time to time. Nothing herein shall restrict Company's ability to terminate or modify any benefit plan or arrangement.

8. EXPENSES. Company shall pay for or reimburse Executive for all ordinary and necessary business expenses incurred or paid by Executive in furtherance of Company's business, subject to and in accordance with Company's policies and procedures of general application. The Company shall provide Executive a car allowance of $500 per month.

9. STAFF MANUAL. All other terms of Executives employment shall be governed by the Company employee manual (the "Employee Manual"). The Company reserves the right to amend the Employee Manual, from time to time, and Executive shall be subject to changes made so long as such changes are applied to all Company employees.

10. COVENANTS OF EXECUTIVE. (a) Executive hereby covenants and agrees that, during the term of this Agreement, Executive will not engage, directly or indirectly, either as principal, partner, joint venturer, consultant or

independent contractor, agent, or proprietor or in any other manner participate in the ownership, management, operation, or control of any person, firm, partnership, limited liability company, corporation, or other entity which engages in the business or providing any products or services, including, without limitation, home building products or services, which are competitive with those products or services offered or sold by Company or its subsidiaries within any jurisdiction in which Company or its subsidiaries does or proposes to do business. The covenants set forth in this paragraph 10(a) shall expire upon cessation of Executive's employment for any reason.

(b) Executive hereby covenants and agrees that, during the term of the Agreement, and for a period of one year after the last date on which the Executive is employed by the Company, Executive will not:

(i) Directly or indirectly solicit for employment (whether as an employee, consultant, independent contractor, or otherwise) any person who is any employee, independent contractor or the like of Company or any of its subsidiaries, unless Company gives its written consent to such employment or offer of employment.

(ii) Call on or directly or indirectly solicit or divert or take away from Company or any of its subsidiaries (including, without limitation, by divulging to any competitor or potential competitor or company or its subsidiaries) any person, firm, corporation, or other entity who was a customer of prospective customer of the Company during Executive's term of Employment.

11. CONFIDENTIALITY AND NONDISCLOSURE. It is understood that in the course of Executive's employment with Company, Executive will become acquainted with Company Confidential Information. Executive recognizes that Company Confidential Information has been developed or acquired at great expense, is proprietary to Company or its subsidiaries, and is an shall remain the exclusive property of Company. Accordingly, Executive hereby covenants and agrees that he will not, without the express written consent of Company, during Executive's employment with Company or its subsidiaries and thereafter or until such time as Company Confidential Information becomes generally known, or readily ascertainable by proper means, by persons unrelated to Company or its subsidiaries, disclose to others, copy, make any use of, or remove from Company's or its subsidiaries' premises any Company Confidential Information, except as Executive's duties for Company or its subsidiaries may specifically require. In the event of dispute or litigation, Executive shall have the burden of proof by clear and convincing evidence that the Company Confidential Information has become generally known, or readily ascertainable by proper means, by persons unrelated to Company or its subsidiaries.

12. ACKNOWLEDGMENT; RELIEF FOR VIOLATION. Executive hereby agrees that the period of time provided for in Sections 10 and 11 and the territorial restrictions and other provisions and restrictions set forth therein are reasonable and necessary to protect Company, its subsidiaries and its and their successors and assigns in the use and employment of the good will of the business conducted by Company and its subsidiaries. Executive further agrees that damages cannot compensate Company in the event of a violation of Section 10 or 11, and than, if such violation should occur, injunctive relief shall be

essential for the protection of Company, its subsidiaries, and its and their successors and assigns. Accordingly, Executive hereby covenants and agrees that, in the event any of the provisions of Sections 10 and 11 shall be violated or breached, Company shall be entitled to obtain injunctive relief against Executive, without bond but upon due notice, in addition to such further or other relief as may appertain at equity or law. Obtainment of such an injunction by Company shall not be considered an election of remedies or a waiver of any right to assert any other remedies which Company has at law or in equity. No waiver of any breach or violation hereof shall be implied from forbearance or failure by Company to take action thereon. Executive hereby agrees that he has such skills and abilities that the provisions of Sections 10 and 11 will not prevent him from earning a living. Each party agrees to pay its own costs and expenses in enforcing any provision of this Agreement.

13. EXTENSION DURING BREACH. Executive agrees that the time period described in Sections 10 and 11 shall be extended for a period equal to the duration of any breach of such provisions by Executive.

14. NO CONFLICTS OF INTEREST.

(a) During the period of Executive's employment with Company, Executive will not independently engage in the same or a similar line of business as Company or its subsidiaries, or, directly or indirectly, serve, advise, or be employed by any individual, firm, partnership, association, corporation, or other entity engaged in the same or similar line or lines of business.

(b) Executive is not a promoter, director, employee, or officer of, or consultant or independent contractor to, a business organized for profit, nor will Executive become a promoter, director, employee, or officer of, or consultant to, such a business while employed by Company or its subsidiaries without first obtaining the prior written approval of Company. Executive disclaims any such relationship or position with any such business. Should Executive become a promoter, director, employee, or officer of, or a consultant to, a business organized for profit upon obtaining such prior written approval, Executive understands that Executive has a continuing obligation to advise Company at such time of any activity of Company, or such other business that presents Executive with a conflict of interest as an employee of Company.

(c) Should any matter of dealing in which Executive is involved, or hereafter becomes involved, on his own behalf or as an employee of Company, appear to present a possible conflict of interest under any Company policy then in effect, Executive will promptly disclose the facts to Company's Board of Directors so that a determination can be made as to whether a conflict of interest does exist. Executive will take whatever action is requested of Executive by Company or its Board of Directors to resolve any conflict which it finds to exist, including severing the relationship which creates the conflict.

(d) Notwithstanding anything herein to the contrary, Executive may make investments in commercial properties or land development ventures provided they are not competitive with the business of the Company, and may own less than 1% of stock in publicly traded homebuilders.

15. RETURN OF COMPANY MATERIAL AND COMPANY CONFIDENTIAL INFORMATION. Upon Termination, Executive shall promptly deliver to Company the originals and all copies of any and all materials, documents, notes, manuals, or lists containing or embodying Company Confidential Information or relating directly or indirectly to the business of Company in the possession or control of Executive.

16. NO AGREEMENT WITH OTHERS. Executive represents, warrants, and agrees that Executive is not a party to any agreement with any other person or business entity, including former employers, that in any way affects Executive's employment by Company or relates to the same subject matter of this Agreement or conflicts with his obligations under this Agreement, or restricts Executive's services to Company.

17. TERMINATION FOR CAUSE. The Company may terminate this Agreement for Cause by giving written notice of Termination and, with respect to a purported violation of Section 1 (a)(i), (ii) or (iii) of this Agreement that is curable in such time period, shall afford Executive an opportunity to cure or disprove the purported violation for the thirty-day period following such notice. Upon Termination of Executive for Cause, Executive shall be entitled to receive only the Minimum Base Salary, the amount of any unpaid performance bonus earned in any complete fiscal year of the Company preceding the date of termination, and any benefits as are due Executive through the effective date of such Termination. No prorated bonus shall be paid to Executive upon a Termination for Cause.

18. TERMINATION BY COMPANY WITHOUT CAUSE. If Executive is terminated without Cause, Executive shall be entitled to receive an amount equal to 75% of Executive's base salary and 75% of Executive's average bonus for the previous three fiscal years and the vesting of Executive's stock options shall be accelerated, as if Executive had held them through the end of the following fiscal year. Executive may terminate his employment upon the occurrence of a Demotion Event and such termination shall be deemed a Termination without Cause. Any amounts due to Executive under this paragraph shall be paid to Executive in six (6) equal monthly payments or in a lump sum (to be paid within twenty (20) days after Termination), at the Executive's discretion, following Termination. If the Executive elects to take the payments due under this paragraph over a six month period, he shall be entitled, to the extent permitted by law and the plans, to continued participation in the Company's benefit plans for such period. If the Executive elects to take a lump sum payment, his participation in the Company's benefit plans shall terminate upon receipt of the lump sum payment.

19. TERMINATION UPON CHANGE OF CONTROL. If, within twelve (12) months following a Change of Control of the Company, Executive voluntarily terminates his employment as a result of a Demotion Event, Executive shall be entitled to receive an amount equal to 100% of Executive's base salary and 100% of Executive's average bonus for the previous three fiscal years and all of Executive's stock options shall vest in full and be immediately exercisable. Any amount due to Executive under this paragraph shall be paid to Executive in twelve (12) equal monthly payments or in a lump sum (to be paid within twenty

(20) days after Termination), at the Executive's discretion, following Termination. If the Executive elects to take the payments due under this paragraph over a twelve month period, he shall be entitled, to the extent permitted by law and the plans, to continued participation in the Company's benefit plans for such period. If the Executive elects to take a lump sum payment, his participation in the Company's benefit plans shall terminate upon receipt of the lump sum payment.

20. TERMINATION UPON DEATH OF EXECUTIVE. If during the term of this Agreement Executive dies, then this Agreement shall terminate and Company shall pay to the estate of Executive only the Minimum Base Salary, the amount of any unpaid bonus earned in any complete fiscal year of the Company preceding the date of Termination, the prorated portion of any objectively determined current year bonus, and any benefits (including any life insurance benefits provided to Executive's estate under Company's standard policies as in effect) as are due through the date of his death. In addition, the vesting of Executive's stock options shall be accelerated, as if the executive has served through the end of the fiscal year of his Termination.

21. TERMINATION UPON DISABILITY OF EXECUTIVE. If during the term of the Agreement Executive is unable to perform the services required of Executive pursuant to this Agreement for a continuous period of ninety (90) days due to disability or incapacity by reason of any physical or mental illness (as reasonable determined by Company by its Board of Directors), then Company shall have the right to terminate this Agreement at the end of such ninety-day period by giving written notice to Executive. Executive shall be entitled to receive only such Minimum Base Salary, the amount of any unpaid bonus earned in any complete fiscal year of the Company preceding the date of termination, the prorated portion of any objectively determined current year bonus, and any benefits as are due Executive through the effective date of such Termination. In addition, the vesting of Executive's stock options shall be accelerated, as if the Executive had served through the end of the fiscal year of his Termination.

22. INDEMNITY. The Company shall indemnify Executive to the fullest extent permitted by the Company's Bylaws. Such indemnification shall survive the termination of this Agreement.

23. ARBITRATION. Any dispute, controversy, or claim, whether contractual or non-contractual, between the parties hereto arising directly or indirectly out of or connected with this Agreement, relating to the breach or alleged breach of any representation, warranty, agreement, or covenant under this Agreement, unless mutually settled by the parties hereto, shall be resolved by binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "AAA"). Any arbitration shall be conducted by arbitrators approved by the AAA and mutually acceptable to Company and Executive. All such disputes, controversies, or claims shall be conducted by a single arbitrator, unless the dispute involves more than $50,000 in the aggregate in which case the arbitration shall be conducted by a panel of three arbitrators. If the parties hereto are unable to agree on the arbitrator(s), then the AAA shall select the arbitrator(s). The resolution of the dispute by the arbitrator(s) shall be final, binding, nonappealable, and fully enforceable by a court of competent jurisdiction under the Federal Arbitration Act. The arbitrator(s) shall award compensatory damages to the prevailing party. The

arbitrator(s) shall have no authority to award consequential or punitive or statutory damages, and the parties hereby waive any claim to those damages to the fullest extent allowed by law. The arbitration award shall be in writing and shall include a statement of the reasons for the award. The arbitration shall be held in Phoenix, Arizona. The arbitrator(s) shall award reasonable attorney's fees and costs to the prevailing party.

24. SEVERABILITY; REFORMATION. In the event any court or arbiter determines that any of the restrictive covenants in this Agreement, or any part thereof, is or are invalid or unenforceable, the reminder of the restrictive covenants shall not thereby be affected and shall be given full effect, without regard to invalid portions. If any of the provisions of this Agreement should ever be deemed to exceed the temporal, geographic, or occupational limitations permitted by applicable laws, those provisions shall be and are hereby reformed to the maximum temporal, geographic, or occupational limitations permitted by law. In the event any court or arbiter refuses to reform this Agreement as provided above, the parties hereto agree to modify the provisions held to be unenforceable to preserve each party's anticipated benefits thereunder.

25. NOTICES. All notices and other communication hereunder shall be in writing and shall be sufficiently given if made by hand delivery, by telecopier, or by registered or certified mail (postage prepaid and return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by it by like notice):

If to Company: Meritage Corporation
6613 N. Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Phone: (602) 998-8700
Fax: (602) 998-9162
Attn: Co-Chairman and Co-CEO

With a copy to: Snell & Wilmer L.L.P.
One Arizona Center
Phoenix, Arizona 85004-0001
Phone: (602) 382-6252
Fax: (602) 382-6070
Attn: Steven D. Pidgeon, Esq.

If to Executive: Larry W. Seay
802 W. El Caminito Drive
Phoenix, Arizona 85021

All such notices and other communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; three business days after being deposited in the mail, postage prepaid, if delivered by mail: and when receipt is acknowledged, if telecopied.

26. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and each counterpart shall constitute an original instrument, but all such separate counterparts shall constitute one and the same Agreement.

27. GOVERNING LAW. The validity, construction, and enforceability of this Agreement shall be governed in all respects by the laws of the State of Arizona, without regard to its conflict of laws rules.

28. ASSIGNMENT. This Agreement shall not be assigned by operation of law or otherwise, except that Company may assign all or any portion of its rights under this Agreement to any Company entity, but no such assignment shall relieve Company of its obligations hereunder, and except that this Agreement may be assigned to any corporation or entity with or into which Company may be merged or consolidated or to which Company transfers all or substantially all of its assets, and such corporation or entity assumes this Agreement and all obligations and undertakings of Company hereunder.

29. FURTHER ASSURANCES. At any time on or after the date hereof, the parties hereto shall each perform such acts, execute and deliver such instruments, assignments, endorsements and other documents and do all such other things consistent with the terms of this Agreement as may be reasonably necessary to accomplish the transaction contemplated in this Agreement or otherwise carryout the purpose of this Agreement.

30. GENDER, NUMBER AND HEADINGS. The masculine, feminine, or neuter pronouns used herein shall be interpreted without regard to gender, and the use of the singular or plural shall be deemed to include the other whenever the context so requires.

31. WAIVER OF PROVISION. The terms, covenants, representations, warranties, and conditions of this Agreement may be waived only by a written instrument executed by the party waiving compliance. The failure of any party at any time to require performance of any provisions hereof shall, in no manner, affect the right at a later date to enforce the same. No waiver by any party of any condition, or breach of any provision, term, covenant, representation, or warranty contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be or construed as a further or continuing waiver of any such condition or of the breach of any other provision, term, covenant, representation, or warranty of this Agreement.

32. ATTORNEYS' FEES AND COSTS. If any legal action or any arbitration or other proceeding is brought for the enforcement of this Agreement, or because of an alleged dispute, breach, default, or misrepresentation in connection with any of the provisions of this Agreement, the successful or prevailing party or parties shall be entitled to recover reasonable attorneys' fees, accounting fees, and other costs incurred in that action or proceeding, in addition to any other relief to which it or they may be entitled.

33. SECTION AND PARAGRAPH HEADINGS. The Article and Section headings in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

34. AMENDMENT. This Agreement may be amended only by an instrument in writing executed by all parties hereto.

35. EXPENSES. Except as otherwise provided herein, each party shall bear its own expenses incident to this Agreement and the transactions contemplated hereby, including without limitation, all fees of counsel, consultants, and accountants.

36. ENTIRE AGREEMENT. This Agreement constitutes and embodies the full and complete understanding and agreement of the parties hereto with respect to the subject matter hereof, and supersedes all prior understandings or agreements, whether oral or in writing.

37. WITHHOLDING. Executive acknowledges and agrees that payments made to Executive by Company pursuant to the terms of this Agreement may be subject to tax withholding and that Company may withhold against payments due Executive any such amounts as well as any other amounts payable by Executive to Company.

38. RELEASE. Receipt by Executive of any of the severance benefits noted in paragraphs 18, 19, 20 and 21 hereof following termination of Executive's employment hereunder shall be subject to Executive's compliance with any reasonable and lawful policies or procedures of Company relating to employee severance including the execution and delivery by Executive of a release reasonably satisfactory to Company and Executive of any and all claims that Executive may have against Company or any related person, except for the continuing obligations provided herein, and an agreement that Executive shall not disparage Company or any of its directors, officers, employees or agents. Concurrent with the termination of Executive's employment hereunder pursuant to paragraphs 18, 19, 20 or 21 hereof, and receipt of a release reasonably satisfactory to the Company and Executive, the Company shall execute and deliver

to Executive a release, reasonably satisfactory to Company and Executive, of any and all claims that Company may have against Executive, except for any claims arising out of Executive's fraudulent or criminal conduct, and an agreement the Company shall not disparage Executive.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement or caused this Agreement to be duly executed on their respective behalf, by their respective officers thereunto duly authorized, all as of the day and year first above written.

MERITAGE CORPORATION, a
Maryland corporation

By:	By:
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Name: Steven J. Hilton	Name: John R. Landon
Its: Co-Chairman and Co-CEO	Its: Co-Chairman and Co-CEO

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Larry W. Seay

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

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

The words "believe," "expect," "anticipate," and "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements in this Form 10-Q include statements concerning the demand for and the pricing of our homes, the expectation of continued positive operating results in the remainder of 2001 and beyond, the expected benefits of the Hancock acquisition, including future home closings and Hancock's future contribution to our revenues and earnings, and our ability to continue positive operating results in light of current economic conditions and the events of September 11. 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 the Company's business, stock and bond prices, include, but are not limited to, the following: (i) changes in national and local economic financial results and other conditions, such as employment levels, availability of mortgage financing, interest rates, consumer confidence, and housing demand; (ii) risks inherent in homebuilding activities, including delays in construction schedules, cost overruns, changes in government regulation, increases in real estate taxes and other local fees; (iii) changes in costs or availability of land, materials, and labor; (iv) fluctuations in real estate values; (v) the timing of home closings and land sales; (vi) Meritage's ability to continue to acquire additional land or options to acquire additional land on acceptable terms; (vii) a relative lack of geographic diversification of Meritage's operations, especially when real estate analysts are predicting that new home sales in certain markets may slow during or after 2001; (viii) Meritage's inability to obtain sufficient capital on terms acceptable to Meritage to fund its planned capital and other expenditures; (ix) changes in local, state and federal rules and regulations governing real estate development and homebuilding activities and environmental matters, including "no growth" or "slow growth" initiatives, building permit allocation ordinances and building moratoriums; (x) expansion by Meritage into new geographic or product markets in which Meritage has little or no operating experience; (xi) the inability of Meritage to identify acquisition candidates that will result in successful combinations; (xii) the failure of Meritage to make acquisitions on terms acceptable to Meritage, or to successfully integrate acquired operations, into Meritage; and (xiii) the loss of key employees of the Company, including Steven J. Hilton and John R. Landon; (xiv) Meritage's significant level of indebtedness and the diversion of cash flow to make debt payments; (xv) restrictions on our business activities imposed by the agreements governing our indebtedness; and (xvi) our inability to repay our indebtedness.

With respect to our acquisition of Hancock, these uncertainties include: (1) the risk that the Hancock business will not be integrated with our existing business successfully; (2) that the market and financial synergies will not be achieved in the time frame anticipated, or at all; (3) that the acquisition will not be accretive to earnings due to unexpected expenses, contingencies or liabilities or due to the financial performance of the Hancock business; (4) that the combined companies will lose key employees, management, suppliers or subcontractors; (5) increased competition; (6) and our ability to successfully manage new housing lines that were previously managed by Hancock or new lines planned for the future.

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