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 June 30, 1998

OR

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

Commission File Number 1-9977

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

Maryland (State or Other Jurisdiction) of Incorporation or Organization)	86-0611231 (I.R.S. Employer Identification No.)
6613 North Scottsdale Road, Suite 200 Scottsdale, Arizona (Address of Principal Executive Offices)	85250 (Zip Code)

(602) 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 August 14, 1998; 5,317,192 shares of Monterey Homes Corporation common stock were outstanding.

MONTEREY HOMES CORPORATION
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1998
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MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	(Unaudited) June 30, 1998	December 31, 1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 5,219,267	$ 8,245,392
Real estate under development	87,925,508	63,955,330
Option deposits	4,810,371	3,070,420
Other receivables	1,153,491	985,708
Residual interests	--	1,421,754
Deferred tax asset	10,404,000	10,404,000
Goodwill	8,871,520	5,970,773
Property and equipment, net	1,920,394	2,046,026
Other assets	633,041	534,101
Total Assets	$ 120,937,592	$ 96,633,504
LIABILITIES		
Accounts payable and accrued liabilities	$ 17,984,868	$ 21,171,301
Home sale deposits	10,127,163	6,204,773
Notes payable	33,316,533	22,892,250
Total Liabilities	61,428,564	50,268,324
STOCKHOLDERS' EQUITY		
Common stock, par value $.01 per share; 50,000,000 shares authorized; issued and outstanding - 5,370,238 shares at June 30, 1998, and 5,255,440 shares at December 31, 1997	53,702	52,554
Additional paid-in capital	98,814,117	97,819,584
Accumulated deficit	(38,948,508)	(51,096,675)
Treasury stock - 53,046 shares	(410,283)	(410,283)
Total Stockholders' Equity	59,509,028	46,365,180
Total Liabilities and Stockholders' Equity	$ 120,937,592	$ 96,633,504

</TABLE>

See accompanying notes to consolidated financial statements.

MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
<S>	<C>	<C>	<C>	<C>
Home sales revenues	$ 55,608,159	$ 24,544,107	$ 92,121,503	$ 37,116,944
Cost of home sales	45,698,437	20,882,044	75,324,372	31,828,546
Gross Profit	9,909,722	3,662,063	16,797,131	5,288,398
Residual and real estate loan interest income	2,028,908	790,818	5,232,667	1,150,112
Mortgage company income, net	44,133	--	72,790	--
Commissions and other sales costs	(2,553,903)	(1,243,662)	(4,894,388)	(1,998,710)
General and administrative expense	(2,273,598)	(1,183,783)	(4,182,056)	(2,275,469)
Interest expense	(115,279)	--	(195,594)	--
Other income, net	202,486	130,432	213,617	305,748
Earnings before income taxes	7,242,469	2,155,868	13,044,167	2,470,079
Income taxes	546,000	197,800	896,000	223,673
Net earnings	$ 6,696,469	$ 1,958,068	$ 12,148,167	$ 2,246,406
Basic earnings per share	$ 1.26	$ 0.43	$ 2.29	$ 0.50
Diluted earnings per share	$ 1.10	$ 0.42	$ 1.99	$ 0.48

</TABLE>

See accompanying notes to consolidated financial statements.

MONTEREY HOMES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<TABLE>
<CAPTION>

	Six Months Ended June 30, 1998	1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$ 12,148,167	$ 2,246,406
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	597,518	382,674
Stock option compensation expense	690,884	346,726
Gain on sale of residual interest	(5,180,046)	--
Increase in real estate under development	(23,970,178)	(9,361,063)
Increase in goodwill	(3,103,346)	--
Increase in option deposits	(1,739,951)	(773,241)
(Increase) decrease in other receivables and other assets	(259,921)	261,694
Increase in home sale deposits	3,922,390	2,933,652
Decrease in accounts payable and accrued liabilities	(3,186,433)	(3,031,389)
Net cash used in operating activities	(20,080,916)	(6,994,541)
Cash flows from investing activities:		
Increase in property and equipment	(274,288)	(157,193)
Proceeds from sale of residual interest	6,600,000	--
Principal payments received on real estate loans	--	1,476,000
Real estate loans funded	--	(428,272)
Decrease in short term investments	--	4,696,495
Net cash used in investing activities	6,325,712	5,587,030
Cash flows from financing activities:		
Borrowings	65,373,666	20,940,662
Repayment of borrowings	(54,949,383)	(27,644,091)
Stock options exercised	304,796	--
Dividends paid	--	(194,330)
Net cash provided by (used in) financing activities	10,729,079	(6,897,759)
Net decrease in cash and cash equivalents	(3,026,125)	(8,305,270)
Cash and cash equivalents at beginning of period	8,245,392	15,567,918
Cash and cash equivalents at end of period	$ 5,219,267	$ 7,262,648

</TABLE>

See accompanying notes to consolidated financial statements

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Monterey Homes Corporation (the "Company") designs, builds and sells distinctive single-family homes in Arizona, Texas and recently, through the acquisition of Sterling Communities, in Northern California. (See Note 8.) The Company builds move-up and semi-custom, luxury homes in the Phoenix and Tucson, Arizona metropolitan areas, and entry-level and move-up homes in the Dallas/Fort Worth, Austin and Houston, Texas metropolitan areas under the name Legacy Homes (See Note 4). The Company has undergone significant growth in recent periods and is pursuing a strategy of expanding the geographic scope of its operations.

Basis of Presentation. The consolidated financial statements include the accounts of Monterey Homes Corporation and its wholly-owned subsidiaries. All significant 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. Amounts for the three and six months ended June 30, 1997 do not include the operations of Legacy Homes. In the opinion of Management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company's financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

NOTE 2 - REAL ESTATE UNDER DEVELOPMENT AND CAPITALIZED INTEREST

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

	(Unaudited) June 30, 1998	December 31, 1997
Homes under contract, in production	$ 45,228	$ 29,183
Finished lots and lots under development	34,046	28,471
Model homes and homes held for resale	8,652	6,301

	$ 87,926	$ 63,955

The Company capitalizes certain interest costs incurred on homes in production and lots under development. Such capitalized interest is allocated to inventory and included in cost of home sales when the units are delivered. The following tables summarize interest capitalized and interest expensed (in thousands):

<TABLE>
<CAPTION>

	Quarter Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Beginning unamortized capitalized interest	$ 2,074	$ 599	$ 1,890	$ --
Interest capitalized	856	894	1,484	1,586
Interest amortized in cost of home sales	(800)	(327)	(1,244)	(420)
Ending unamortized capitalized interest	$ 2,130	$ 1,166	$ 2,130	$ 1,166
Interest incurred	$ 971	$ 894	$ 1,679	$ 1,586
Interest capitalized	(856)	(894)	(1,484)	(1,586)
Interest expense	$ 115	$ --	$ 195	$ --

</TABLE>

NOTE 3 - NOTES PAYABLE

<TABLE>
<CAPTION>

Notes payable consists of the following:

	(Unaudited) June 30, 1998	December 31, 1997
<S>	<C>	<C>
$30 million bank construction line of credit, interest payable monthly approximating prime (8.5% at June 30, 1998), plus .25%, or LIBOR (30 day LIBOR 5.748% at June 30, 1998) plus 2.5% payable at the earlier of close of escrow, maturity date of individual homes within the line or June 19, 2000, secured by first deeds of trust on land	$ 10,015,098	$ 4,663,973
$50 million bank construction line of credit, interest payable monthly approximating prime, or LIBOR plus 2.5% payable at the earlier of close of escrow, maturity date of individual homes within the line or June 1, 1999, secured by first deeds of trust on land	14,764,554	9,769,567
$20 million bank acquisition and development credit facility, interest payable monthly approximating prime plus .5%, or LIBOR plus 3.0% payable at the earlier of funding of construction financing, the maturity date of individual projects within the line or June 19, 2000, secured by first deeds of trust on land	3,785,386	2,393,935
Senior subordinated unsecured notes payable, maturing October 15, 2001, annual interest of 13%, payable semi-annually, principal payable at maturity date	4,700,000	6,000,000
Other	51,495	64,775
Total	$ 33,316,533	$ 22,892,250

</TABLE>

NOTE 4 - LEGACY HOMES COMBINATION

On May 29, 1997, the Company signed a definitive agreement to combine with Legacy Homes, Ltd., Legacy Enterprises, Inc. and John and Eleanor Landon (together, "Legacy Homes"), which included the homebuilding and related mortgage service business of Legacy Homes Ltd. and its affiliates. This transaction (the "Legacy Combination" or "Combination") was effective on July 1, 1997. Legacy Homes designs, builds and sells entry-level and move-up homes, is headquartered in the Dallas/Forth Worth metropolitan area and was founded in 1988 by its current President, John Landon.

In connection with the Legacy Combination, John Landon entered into a four-year employment agreement with the Company and is currently a Managing Director of the Company and President and Chief Executive Officer of the Company's Texas

division. Mr. Landon was also granted an option to purchase 166,667 shares of the Company's common stock and was elected to the Company's Board of Directors.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company as if the Combination had occurred at January 1, 1997, with pro forma adjustments together with related income tax effects. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would actually have resulted had the combination been in effect on the date indicated (dollars in thousands except per share data).

	Three Months ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	Actual	Pro Forma	Actual	Pro Forma
Home sales revenue	$ 55,608	$ 44,642	$ 91,122	$ 76,845
Net earnings	$ 6,696	$ 4,820	$ 12,148	$ 7,084
Diluted earnings per share	$ 1.10	$ .91	$ 1.99	$ 1.32

NOTE 5 - EARNINGS PER SHARE

A summary of the reconciliation from basic earnings per share to diluted earnings per share for the three and six months ended June 30, 1998 and 1997 follows (in thousands, except for per share amounts):

	Three Months Ended June 30		Six Months Ended June 30,	
	1998	1997	1998	1997
Net earnings	$ 6,696	$ 1,958	$ 12,148	$ 2,246
Basic EPS - Weighted average shares outstanding	5,316	4,528	5,311	4,528
Basic earnings per share	$ 1.26	$ .43	$ 2.29	$ .50
Basic EPS - Weighted average shares outstanding	5,316	4,528	5,311	4,528
Effect of dilutive securities:				
Contingent shares	132	65	141	58
Stock options	652	136	662	141
Dilutive EPS - Weighted average shares outstanding	6,100	4,729	6,114	4,727
Diluted earnings per share	$ 1.10	$ .42	$ 1.99	$ .48

NOTE 6 - INCOME TAXES

Income tax expense for the three and six months ended June 30, 1998 was $546,000 and $896,000, respectively. Income tax expense for the three and six months ended June 30, 1997 was $197,800 and $223,673, respectively. The Company currently pays only state income tax and alternative minimum tax. Federal income taxes are not paid due to the net operating loss (NOL) carryforward generated when the Company operated as Homeplex Mortgage Investments Corporation prior to December 31, 1996. The NOL will expire beginning in the year 2007.

NOTE 7 - RESIDUAL INTEREST AND REAL ESTATE LOAN INTEREST INCOME

Sale of Residual Interests

On February 2, 1998, the Company sold five of its Mortgage Securities for approximately $4.6 million, resulting in pre-tax earnings of approximately $3.2 million. On April 1, 1998, the Company sold the last of its Mortgage Securities for $2 million, which resulted in pre-tax earnings of approximately $2 million.

NOTE 8 - SUBSEQUENT EVENTS

Sterling Communities Acquisition

On June 15, 1998, the Company signed a definitive agreement with Sterling Communities, S.H. Capital, Inc., Sterling Financial Investments, Inc., Steve Hafener and W. Leon Pyle (together, the "Sterling Entities"), to acquire substantially all of the assets of Sterling Communities ("Sterling"), a northern California homebuilding business with operations in the San Francisco Bay and Sacramento areas. The transaction was effective as of July 1, 1998.

The consideration for the assets and stock acquired consisted of $6.7 million in cash (paid out of working capital and subject to final accounting adjustments) and deferred contingent payments for the four years following the close of the transaction. The deferred contingent payments will be equal to 20% of the pre-tax income of the Northern California division of the Company. In addition, the Company assumed certain liabilities of Sterling approximating $7.4 million.

The assets purchased from the Sterling Entities principally consist of real property and other residential homebuilding assets located in the San Francisco Bay and Sacramento areas of California. The Company will continue the operations of Sterling under the name Meritage Homes of Northern California.

In connection with the transactions, Steve Hafener has entered into a four-year employment agreement with the Company, pursuant to which he has been appointed Vice President and Division Manager of the Company's newly acquired Northern California operations.

During the year ended December 31, 1997, Sterling closed 105 homes generating revenues of approximately $31.0 million, and earned approximately $2.7 million before taxes and distributions to its partners.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations

This Quarterly Report on Form 10-Q contains forward-looking statements. The words "believe," "expect," "anticipate," and "project" and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of revenues, income or loss, capital expenditures, plans for future operations, financing needs or plans, the impact of inflation, the impact of changes in interest rates, plans relating to products or services of the Company, potential real property acquisitions, and new or planned development projects, as well as assumptions relating to the foregoing.

Statements in Exhibit 99 to this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K, including the Notes to the Consolidated Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations," describe factors, among others, that could contribute to or cause such differences. Additional factors that could cause actual results to differ materially from those expressed in such forward-looking statements are set forth in "Business" and "Market for the Registrant's Common Stock and Related Stockholder Matters" in the Company's December 31, 1997 Annual Report on Form 10-K.

Results Of Operations

The following discussion and analysis provides information regarding the results of operations of the Company and its subsidiaries for the three and six months ended June 30, 1998 and June 30, 1997. All material balances and transactions between the Company and its subsidiaries have been eliminated. 1997 results do not include the operations of Legacy Homes. This discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1997. In the opinion of management, the data reflects all adjustments, consisting only of normal recurring adjustments, necessary to fairly present the Company's financial position and results of operations for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year.

Home Sales Revenue

Home sales revenue is the product of the number of units closed during the period and the average sales price per unit. The following table presents comparative second quarter and first six months 1998 and 1997 housing revenues for the total Company, and the Arizona and Texas divisions individually (dollars in thousands):

<TABLE>
<CAPTION>

	Quarter Ended June 30,			Six Months Ended June 30,		
		Dollar/Unit	Percentage		Dollar/Unit	Percentage

	Quarter Ended June 30,				Six Months Ended June 30,			
	1998	1997	Increase (Decrease)	Increase (Decrease)	1998	1997	Increase (Decrease)	Increase (Decrease)
Total								
Dollars	$ 55,608	$ 24,544	$ 31,064	126.6%	$ 92,122	$ 37,117	$ 55,005	148.2%
Units Closed	323	65	258	396.9%	528	105	423	402.9%
Average Sales Price	$ 172.2	$ 377.6	$ (205.4)	(54.4%)	$ 174.5	$ 353.5	$ (179.0)	(50.1%)
Arizona								
Dollars	$ 19,437	$ 24,544	$ (5,107)	(20.8%)	$ 33,275	$ 37,117	$ (3,842)	(10.4%)
Units Closed	57	65	(8)	(12.3%)	102	105	(3)	(2.9%)
Average Sales Price	$ 341.0	$ 377.6	$ (36.6)	(9.7%)	$ 326.2	$ 353.5	$ (27.3)	(7.7%)
Texas*								
Dollars	$ 36,171	$ 20,098	$ 16,073	80.7%	$ 58,847	$ 39,728	$ 19,119	48.1%
Units Closed	266	140	126	90%	426	273	153	56.0%
Average Sales Price	$ 136.0	$ 143.6	$ (7.6)	(5.3%)	$ 138.1	$ 145.5	$ (7.4)	(5.1%)

*Prior year's Texas information is for comparative purposes only.

Total home sales revenue increased due to the addition of Texas operations. Lower average sales price in 1998 is due to closing lower priced homes in the Texas market, where the Company's focus is on entry-level and move-up homes. The decrease in Arizona closings for the second quarter and first six months was caused primarily by construction delays due to unseasonably wet weather in the first part of the year. The homes with delayed starts are expected to be completed and close during the third and fourth quarters of 1998.

Gross Profit

Gross profit equals home and land sales revenue, net of cost of sales, which includes developed lot costs, unit 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 following table presents comparative first quarter 1998 and 1997 housing gross profit (dollars in thousands):

	Quarter Ended June 30,				Six Months Ended June 30,			
	1998	1997	Increase	Percentage Increase	1998	1997	Increase	Percentage Increase
Total								
Dollars	$ 9,910	$ 3,662	$ 6,248	170.6%	$ 16,797	$ 5,288	$ 11,509	271.6%
Percentage of housing revenues	17.8%	14.9%	2.9%	19.5%	18.2%	14.2%	4.0%	28.2%

The dollar increase in gross profit for the three and six months ended June 30, 1998, is attributable to the number of units closed by the Legacy operations. The total gross profit margin increased in 1998 due to generally higher margins generated in Texas and an improvement in overall margins in Arizona.

Residual Interest and Real Estate Interest Income

The increase in residual interest and real estate loan interest income is primarily due to the 1998 sale of mortgage securities, which resulted in a gain of approximately $2 million in the second quarter of 1998, and a gain of approximately $5 million for the six months ended June 30, 1998.

Selling, General And Administrative Expenses

Selling, general and administrative (SG&A) expenses as a percentage of homebuilding revenues were 8.7% for the three months ended June 30, 1998 compared to 9.9% for the same period in the prior year. For the six month period ended June 30, 1998, SG&A expenses were 9.9% of homebuilding revenues compared to 11.5% in the prior year. The percentage decreases are principally due to the inclusion of revenues from the Legacy Combination, without a corresponding increase in Corporate overhead. In addition, Legacy Homes has traditionally operated at a somewhat lower overhead burden as a percent of sales than the Arizona division.

Liquidity And Capital Resources

The Company's principal uses of working capital are land purchases, lot development and home construction. The Company uses a combination of borrowings

and funds generated by operations to meet its working capital requirements.

At June 30, 1998, the Company had available short-term secured revolving construction loan facilities totaling $80 million and a $20 million acquisition and development facility, of which approximately $24.8 and $3.8 million were outstanding, respectively. An additional $15.2 million of unborrowed funds supported by approved collateral were available under its credit facilities at such date. The Company also had outstanding $4.7 million in unsecured, senior subordinated notes due October 15, 2001, which were issued in October 1994. A provision of the senior subordinated bond indenture provided bondholders with the option, at June 30, 1998, to require the Company to buy back the bonds at 101% of face value. $1,300,000 of the bonds were repurchased from the bondholders by the Company at June 30, 1998.

Management believes that the Company's current borrowing capacity, cash on hand at June 30, 1998 and anticipated cash flows from operations are sufficient to meet liquidity needs for the foreseeable future. There can be no assurance, however, that amounts available in the future from the Company's sources of liquidity will be sufficient to meet the Company's future capital needs and the amount and types of indebtedness that the Company may incur may be limited by the terms of the indenture governing its senior subordinated notes and the credit agreements.

Net Orders

Net orders represent the number of units ordered by customers (net of units canceled) multiplied by the average sales price per units ordered. The following table presents comparative first quarter 1998 and 1997 net orders (dollars in thousands):

<TABLE>
<CAPTION>

	Quarter Ended June 30,				Six Months Ended June 30,			
	1998	1997	Dollar/Unit Increase (Decrease)	Percentage Increase (Decrease)	1998	1997	Dollar/Unit Increase (Decrease)	Percentage Increase (Decrease)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Total								
Dollars	$ 74,069	$ 26,073	$ 47,996	184.1%	$ 160,042	$ 53,941	$ 106,101	196.7%
Units ordered	382	88	294	334.1%	887	169	718	424.9%
Average sales price	$ 193.9	$ 296.3	$ (102.4)	(34.6%)	180.4	$ 319.2	$ (138.8)	(43.5%)
Arizona								
Dollars	$ 34,472	$ 26,073	$ 8,699	33.3%	$ 61,685	$ 53,941	$ 7,744	14.4%
Units ordered	107	88	19	21.6%	187	169	18	10.7%
Average sales price	$ 325.0	$ 296.3	$ 28.7	9.7%	329.9	$ 319.2	$ 10.7	3.4%
Texas*								
Dollars	$ 39,597	$ 26,112	$ 13,485	51.6%	$ 98,357	$ 53,349	$ 45,008	84.4%
Units ordered	275	192	83	43.2%	700	379	321	84.7%
Average sales price	$ 143.0	$ 136.0	$ 7.0	5.1%	$ 140.5	$ 140.8	$ (.3)	**1%

</TABLE>

*Prior year's Texas information is for comparative purposes only.
**Less than 1%

Total net orders increased in the first quarter of 1998 compared to 1997 due to the expansion into Texas and the economic strengths of both the Arizona and Texas markets.

The Company does not include sales which are contingent on the sale of the customer's existing home as orders until the contingency is removed. Historically, the Company has experienced a cancellation rate of less than 16% of gross sales.

Net Sales Backlog

Backlog represents net orders of the Company which have not closed. The following table presents comparative 1998 and 1997 net sales backlog for the total Company, and the Arizona and Texas divisions individually (dollars in thousands):

At June 30,

	1998	1997	Dollar/Unit Increase (Decrease)	Percentage Increase (Decrease)
Total				
Dollars	$166,982	$ 67,177	$ 99,805	149%
Units in backlog	831	184	647	352%
Average sales price	$ 200.9	$ 365.1	$ (164.2)	(50%)
Arizona				
Dollars	$ 85,365	$ 67,177	$ 18,188	27%
Units in backlog	253	184	69	38%
Average sales price	$ 337.4	$ 365.1	$ (27.7)	(8%)
Texas*				
Dollars	$ 81,617	$ 42,678	$ 38,939	91%
Units in backlog	578	303	275	91%
Average sales price	$ 141.2	$ 140.9	$ .3	**1%

*Prior year's Texas information is included for comparative purposes only.
**Less than 1%

Total dollar backlog at June 30, 1998 increased 149% over the previous year due to a substantial increase in units ordered partially offset by a decrease in average sales price. Average sales price as a whole has decreased due to the Legacy Combination, where the focus is on entry-level and move-up homes. Units in total backlog have increased mainly due to the Texas expansion.

Arizona dollar backlog increased 27% over the prior year's due to increased sales, offset slightly by a decrease in average sales price, reflecting the lower prices of homes in currently active communities. Texas dollar and unit backlog at June 30, 1998 is up 91% over the prior year due to increased orders, expansion into the Houston market and the successful introduction of new product offerings in the Austin market designed to meet the demand for less expensive homes.

Seasonality

The Company has historically closed more units 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 their semi-custom, luxury product homes. Management expects that this seasonal trend will continue in the future, but may change slightly as operations expand within the move-up segment of the market.

Year 2000 Issue

The year 2000 issue is the result of computer programs written using two digits (rather than four) to define the applicable year. Computer programs that have time-sensitive software may not recognize dates beginning in the year 2000, which could result in miscalculations or system failures. The Company believes the large majority of the computer software it uses is already year 2000 compliant. The Company is currently working to resolve any remaining potential impact of the year 2000 on the processing of date-sensitive information by the Company's computerized information systems. Based on current information, the costs of addressing potential problems are not expected to have a material adverse impact on the Company's financial position, results of operations or cash flows in future periods. However, the failure of the Company, its contractors, suppliers or financial institutions to resolve the year 2000 issue in a timely manner could result in a material financial risk. The Company is assessing the effect of a failure of its contractors, suppliers or financial institutions to adequately address the year 2000 issue.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

(a) On June 11, 1998, the Company held its Annual Meeting of Shareholders, at which William W. Cleverly, Steven J. Hilton, Alan D. Hamberlin and Raymond Oppel were elected as Class I Directors to serve for a two year term which expires at the Annual Meeting in 2000. Voting results for these nominees are summarized as follows:

	For	Against
William W. Cleverly	3,364,201	8,062
Steven J. Hilton	3,363,868	8,395
Alan D. Hamberlin	3,361,101	11,162
Raymond Oppel	3,362,660	9,603

Additionally, the Shareholders approved an amendment to Monterey Homes Corporation Stock Option Plan which increases the number of

shares of common stock authorized for issuance thereunder from 225,000 to 475,000 shares. Voting results are as follows:

	Approval of Amendment to Stock Option Plan
Shares For	2,953,076
Shares Against	410,070
Shares Abstained	9,117
Shares Not Voted By Brokers	0

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

Exhibit Number	Description	Page or Method of Filing
2.1	Agreement of Purchase and Sale of Assets, dated as of May 20, 1997, by and among the Company, Legacy Homes, Ltd., Legacy Enterprises, Inc., and John and Eleanor Landon	Incorporated by reference to Exhibit 2 of the Form 8-K/A dated June 18, 1997.
2.2	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	Filed herewith.
3.1	Restated Articles of Incorporation of the Company	Incorporated by reference to Exhibit 3.1 of the Post-Effective Amendment No. 1 to the Form S-1 Statement No. 333-29737 ("S-1 #333-29737 Amendment No. 1").

3.2	Amended and Restated Bylaws of the Company	Incorporated by reference to Exhibit 3.3 to the Form S-3 Registration Statement No. 333-58793 ("S-3 #333-58793").
10.1	Amendment to Guaranty Federal Bank Loan	Filed herewith.
10.2	Employment Agreement between the Company and Larry W. Seay	Filed herewith.
10.3	Employment Agreement between the Company and Anthony C. Dinnell	Filed herewith.
27	Financial Data Schedule	Filed herewith.
99	Private Securities Reform Act of 1995 Safe Harbor Compliance Statement for Forward-Looking Statements	Filed herewith

(b) Reports filed on Form 8-K
A Current Report on Form 8-K, dated July 15, 1998 was filed with the Securities and Exchange Commission.

SIGNATURES

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

MONTEREY HOMES CORPORATION
A Maryland Corporation

August 14, 1998

By: \ LARRY W. SEAY
Larry W. Seay
Vice President of Finance &
Chief Financial Officer

AGREEMENT OF PURCHASE AND SALE OF ASSETS

BY AND AMONG

MONTEREY HOMES CORPORATION,

STERLING COMMUNITIES,

S.H. CAPITAL, INC.,

STERLING FINANCIAL INVESTMENTS, INC.,

STEVE HAFENER

AND

W. LEON PYLE

DATED JUNE 15, 1998
AGREEMENT OF PURCHASE AND SALE OF ASSETS

AGREEMENT OF PURCHASE AND SALE OF ASSETS

This AGREEMENT OF PURCHASE AND SALE OF ASSETS (the "AGREEMENT") is made as of June 15, 1998, by and among MONTEREY HOMES CORPORATION, a Maryland corporation ("BUYER"); STERLING COMMUNITIES, a California general partnership ("STERLING OR SELLER"); S.H. CAPITAL, INC., a California corporation ("SH"); STERLING FINANCIAL INVESTMENTS, INC., a California corporation ("SFI"); (collectively SH and SFI shall be referred to as "Partners"); STEVE HAFENER, a married man ("HAFENER"); and W. LEON PYLE, a married man ("PYLE").

RECITALS

A. Seller operates a home building business in the State of California.

B. SH and SFI are the general partners in Sterling.

C. Hafener and Pyle are the sole shareholders in SH and SFI, respectively.

D. Upon the terms and subject to the conditions set forth herein, Seller desires to sell to Buyer and Buyer desires to purchase from Seller and to place in NC company (hereinafter defined), selected assets of Seller, including, but not limited to, Seller's general partnership interest in STERLING COMMUNITIES-LIVERMORE VENTURE, a California limited partnership ("LIVERMORE") and STERLING COMMUNITIES-ROHNERT VENTURE, a California limited partnership ("ROHNERT"), which currently own active residential real estate developments known as Sterling Reserve and Sterling Village, respectively.

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

ARTICLE 1
DEFINITIONS

1.1 DEFINITIONS. The following terms shall have the meanings set forth below where used in this Agreement and identified with initial capital letters.

"ABOVEGROUND STORAGE TANK" shall have the meaning ascribed to such term in Sections 6901, et seq., as amended, of RCRA, or any applicable state or local statute, law, ordinance, code, rule, regulation, order ruling, or decree governing Aboveground Storage Tanks.

"ACCOUNTING ARBITRATOR" shall have the meaning set forth in Section 2.4.

"ACQUIRED ASSETS" shall have the meaning set forth in Section 2.1.

"ACQUIRED CONTRACTS" shall mean collectively the Sterling Acquired Contracts and the L&R Acquired Contracts.

"ADJUSTED GAAP" shall mean GAAP with the exception that marketing and advertising expenses, model/sales office maintenance, portions of project overhead, and G&A ("Management Fees") shall be capitalized and amortized as cost of sales.

"ASSET VALUE" shall mean, with respect to any Acquired Asset excluding the Net Book Value-L&R, the Book Value of such asset, all as set forth on the Sterling Closing Balance Sheet.

"ASSUMED LIABILITIES" shall have the meaning set forth in Section 2.3.

"AUTHORIZED EXCEPTIONS" shall have the meaning set forth in Section 6.11.

"BONDS" shall have the meaning set forth in Section 4.26.

"BOOK VALUE" shall mean, with respect to any asset, the book value of such asset determined in accordance with Adjusted GAAP.

"BUYER FINANCIALS" shall have the meaning set forth in Section 3.5.

"BREAK-UP FEE" shall have the meaning set forth in Section 6.2.

"BUSINESS" shall mean Seller's residential homebuilding business related to the Acquired Assets.

"CLOSING" shall have the meaning set forth in Section 8.1.

"CLOSING BALANCE SHEET" shall have the meaning set forth in Section 2.4.

"CLOSING DATE" shall have the meaning set forth in Section 8.1.

"CODE" shall mean the Internal Revenue Code of 1986, as amended.

"COMPLETED PROJECTS" shall have the meaning set forth in Section 2.2(c).

"CONTRACT ASSIGNMENTS" shall have the meaning set forth in Section 8.3.

"CONSULTANT" shall have the meaning set forth in Section 6.10.

"CURRENT FINANCIAL STATEMENTS" shall have the meaning set forth in Section 4.8

"DEVELOPMENT ENTITLEMENTS" shall have the meaning set forth in Section 4.29.

"DISCHARGE" shall mean any manner of spilling, leaking, dumping, discharging, releasing, or emitting, as any of such terms may further be defined in any Environmental Law, into any medium including, without limitation, ground water, surface water, soil, or air.

"EARN-OUT PAYMENT" shall have the meaning set forth in Section 2.4.

"EARN-OUT PERIOD" shall have the meaning set forth in Section 2.4.

"ENVIRONMENTAL ASSESSMENTS" shall have the meaning set forth in Section 6.10.

"ENVIRONMENTAL LAW" shall mean all federal, state, regional, or local statutes, laws, rules, regulations, codes, ordinances, orders, plans, injunctions, decrees, rulings, or judicial or administrative interpretations thereof, or similar laws of foreign jurisdictions where Seller conducts business, whether currently in existence or hereafter enacted or promulgated, any of which govern (or purport to govern) or relate to pollution, protection of the environment, public health and safety, air emissions, water discharges, hazardous or toxic substances, solid or hazardous waste, or occupational health and safety, as any of these terms are or may be defined in such statutes, laws, rules, regulations, codes, ordinances, orders, plans, injunctions, decrees, rulings, or judicial or administrative interpretations thereof, including, without limitation: the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendment and Reauthorization Act of 1986, 42 U.S.C. Section 9601s, et seq. (collectively "CERCLA"); the Solid Waste Disposal Act, as amended by the Resource Conversation and Recovery Act of 1976 and subsequent Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. Sections 6901, et seq. (collectively "RCRA"); the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Sections 1801, et seq.; the Clean Water Act, as amended, 33 U.S.C. Section 1311, et seq.; the Clean Air Act, as amended, 42 U.S.C. Section 7401-7642; the Toxic Substances Control Act, as amended, 15 U.S.C. Sections 2601, et seq.; the Federal Insecticide, Fungicide, and Rodenticide Act as amended, 7 U.S.C. Section 136-136y ("FIFRA"); the Emergency Planning and Community Right-to-Know Act of 1986 as amended, 42 U.S.C. Sections 11001, et seq. (Title III of SARA) ("EPCRA"); and the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C.
Sections 651, et seq. ("OSHA").

"ERISA" shall mean Title IV of the Employee Retirement Income Security Act of 1974, as amended.

"EXCLUDED ASSETS" shall have the meaning set forth in Section 2.2.

"EXCLUDED LIABILITIES" shall have the meaning set forth in Section 2.3(b).

"FINAL BALANCE SHEET" shall have the meaning set forth in Section 2.4.

"FINANCIAL STATEMENTS" shall have the meaning set forth in Section 4.8.

"GAAP" shall mean generally accepted accounting principles, consistently applied.

"HAFENER EMPLOYMENT AGREEMENT" shall have the meaning set forth in Section 6.1.

"HANDLE" shall mean any manner of generating, accumulating, storing, treating, disposing of, transporting, transferring, labeling, handling, manufacturing, or using, as any of such terms may further be defined in any Environmental Law, of any Hazardous Substances or Waste.

"HAZARDOUS SUBSTANCES" shall be construed broadly to include any toxic or hazardous substance, material, or waste, and any other contaminant, pollutant, or constituent thereof, whether liquid, solid, semi-solid, sludge, and/or gaseous, including without limitation, chemicals, compounds, by-products, pesticides, asbestos containing materials, petroleum or petroleum products, and polychlorinated biphenyls, the presence of which requires investigation or remediation under any Environmental Laws or which are or become regulated, listed, or controlled by, under, or pursuant to any Environmental Laws, including, without limitation, RCRA, CERCLA, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the Clean Air Act, the Clean Water Act, FIFRA, EPCRA, and OSHA, or any similar state statute, or any future amendments to, or regulations implementing such statutes, laws, ordinances, codes, rules, regulations, orders, rulings, or decrees, or which has been or shall be determined or interpreted at any time by any Governmental Authority to be a hazardous or toxic substance regulated under any other statute, law, regulation, order, code, rule, order, or decree.

"HSR ACT" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"INDEMNIFICATION AGREEMENT" shall have the meaning set forth in Section 2.4.

"INSIDERS" shall have the meaning set forth in Section 4.27.

"INTELLECTUAL PROPERTY" shall collectively mean the Sterling Intellectual Property and the L&R Intellectual Property.

"KNOWLEDGE" with respect to New Projects and Other Projects shall mean actual knowledge based upon any investigation or inquiry actually conducted, including inquiry of employees and officers who have within their job responsibilities the duty to monitor the matters at issue.

"KNOWLEDGE" with respect to Owned Projects and any other matters herein (except New Projects and Other Projects), shall mean knowledge after reasonable investigation, including inquiry of employees and officers who have within their job responsibilities the duty to monitor the matters at issue.

"LAND USE ENTITLEMENTS" shall have the meaning set forth in Section 4.29.

"L&R" shall collectively mean Livermore and Rohnert.

"L&R ACQUIRED CONTRACTS" shall have the meaning set forth in Section 2.1.

"L&R INTELLECTUAL PROPERTY" shall have the meaning set forth in Section 2.1.

"L&R PARTNERSHIP CONTRACTS" shall have the meaning set forth in Section 2.1.

"L&R REAL PROPERTY" shall have the meaning set forth in Section 2.1.

"LEASE ASSIGNMENTS" shall have the meaning set forth in Section 8.3.

"LIVERMORE CLOSING BALANCE SHEET" shall have the meaning set forth in Section 2.4.

"LIVERMORE PARTNERSHIP AGREEMENT" shall have the meaning set forth in Section 2.1.

"NC COMPANY" shall mean the to be formed northern California, direct or indirect, wholly owned subsidiary of Buyer, which shall conduct all operations of the Business, hold all of the Acquired Assets, and be Buyer's sole real estate operating affiliate in Northern California, including, but not limited to the interest of Sterling as general partner in L&R, the New Projects (when and if acquired) and the Other Projects (when and if acquired), plus the Early Purchase Property. Unless otherwise agreed in writing executed by Buyer and Seller at or prior to Closing, Sterling Communities Corporation, a California corporation (referred to in Section 6.16 below) shall become NC Company from and after the Closing.

"NET BOOK VALUE - L&R" shall mean the Book Value of Sterling's general partnership interest in each of Livermore and Rohnert as set forth on the Livermore Closing Balance Sheet or the Rohnert Closing Balance Sheet, as the case may be.

"NEW PROJECTS" shall mean the real estate development projects related to those certain land purchase contracts entered into by Seller, including the Whitney Oaks Lot Purchase and Sale Agreement, dated October 10, 1997, concerning Units 11 and 14 of the Whitney Oaks Project, between Seller, as buyer, and Cal-Stanford Oaks LLC, as seller, and the Purchase and Sale Agreement and Escrow Instructions, dated February 27, 1998, between Seller, as buyer, and Wildhorse Group LLC, as seller concerning the Wildhorse Project.

"NORTHERN CALIFORNIA" shall have the meaning set forth in Section 6.19.

"NOTICES" shall have the meaning set forth in Section 4.18.

"OFFICE LEASE" shall mean Seller's current office space lease for the property located at 1655 N. Main Street, Walnut Creek, California.

"OTHER PROJECTS" shall mean the Foothills Project, the Lawrence Estate (Tracy) Project, the Boncore (Tracy) Project, the Antioch Project, and the Sonoma Projects.

"OWNED PROJECTS" shall mean (a) the 59-unit Livermore development project known as "Sterling Reserve" and (b) the 68-unit Rohnert development project known as "Sterling Village."

"PARTNERS" shall mean SH and SFI, and each of them, jointly and severally.

"PERMITS" shall have the meaning set forth in Section 4.29.

"PERMITTED LIENS" shall have the meaning set forth in Section 4.12.

"PERMITTED MATERIALS" shall mean (a) reasonable amounts of gasoline, and oil or other vehicle lubricants stored in the vehicles and equipment used on the Real Property, (b) reasonable amounts of fertilizers, herbicides and/or pesticides, and ordinary, everyday painting and cleaning supplies, used only in the ordinary course of completing and maintaining the buildings, landscaping and improvements on the Real Property, and (c) standard building components and materials which are properly and lawfully installed in or incorporated into the improvements and may lawfully remain therein in accordance with applicable laws, taking into account the nature, purpose and intended use and occupancy thereof; provided that in all cases all such components, materials, substances and other items referred to in clauses (d) through (e), above, are stored, transported, used, installed, incorporated and disposed of, in accordance with all applicable laws.

"PERSON" shall mean any natural person, corporation, general or limited partnership, limited liability company, trust, sole proprietorship, or other entity, organization or association of any kind.

"PRELIMINARY REPORTS" shall have the meaning set forth in Section 6.11.

"PRE-TAX INCOME" shall mean the net income of the NC Company (without reducing net income by corporate overhead charges or amortization of goodwill but including the reduction of net income allocable to the limited partners of each of Livermore and Rohnert) before income taxes, determined in accordance with GAAP (which is exclusive of the charges in (a) through (c) below), further reduced by Construction Interest, Acquisition and Development Interest, and Accrued Equity Interest computed in accordance with (a) through (c) below, capitalized and amortized to cost of sales in accordance with GAAP. Construction Interest, Acquisition and Development Interest, and Accrued Equity Interest are computed as follows:

(a) "Accrued Construction Interest" is computed by multiplying the per annum rate of 10% or the Prime Rate plus one percentage point, whichever is greater, by Construction Liabilities during a particular Earn-Out Period; provided, however, that to the extent such Construction Liabilities are financed through non-recourse seller carry debt, the actual accrual rate of such non-recourse Seller carry financing shall govern. "Construction Liabilities" shall mean hard and soft construction costs of assets, including the lot on which any home construction has commenced multiplied by 100%;

(b) "Accrued Acquisition and Development Interest" is computed by multiplying the per annum rate of 12%, or the Prime Rate plus three percentage points, whichever is greater by Acquisition and Development Liabilities during a particular Earn-Out Period; provided, however, that to the extent such Acquisition and Development Liabilities are financed through non-recourse seller carry debt, the actual accrual rate of such non-recourse Seller carry financing shall govern. . "Acquisition and Development Liabilities" shall mean land, hard and soft costs of construction of infrastructure and other subdivision improvements multiplied by 60%; and

(c) "Accrued Equity Interest" is computed by multiplying the per annum rate of 15%, or the Prime Rate plus six percentage points, whichever is greater, by the amount by which all assets exceed the liabilities of the NC Company (including Construction Liabilities and Acquisition and Development Liabilities) during a particular Earn-Out Period.

"PRIME RATE" shall mean the rate as published in the Wall Street Journal. The Prime Rate will change on each day that the announced prime rate changes. The prime rate is not necessarily the best or lowest rate offered by financial institutions.

"PROCEEDING" shall mean claims, suits, actions, judgments, penalties, fines or administrative or judicial investigations or proceedings.

"PROJECT FACT SHEET" shall have the meaning set forth in Section 4.17.

"PROPERTY LEASES" shall have the meaning set forth in Section 4.16.

"PURCHASE PRICE" shall have the meaning set forth in Section 2.4.

"PYLE NON-COMPETE AGREEMENT" shall have the meaning set forth in Section 6.8.

"REMEDIATION STANDARD" shall have the meaning set forth in Section 6.10.

"ROHNERT CLOSING BALANCE SHEET" shall have the meaning set forth in

Section 2.4.

"ROHNERT PARTNERSHIP AGREEMENT" shall have the meaning set forth in Section 2.1.

"SELLER" shall mean Sterling.

"SHAREHOLDERS" shall mean Hafener and Pyle.

"STERLING ACQUIRED CONTRACTS" shall have the meaning set forth in Section 2.1.

"STERLING CLOSING BALANCE SHEET" shall have the meaning set forth in Section 2.4.

"STERLING REAL PROPERTY" shall have the meaning set forth in Section 2.1.

"TAXES" shall mean any and all federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, payroll, employment, recapture, disability, real property, personal property, sales, use, transfer, registration, value-added, alternative or add-on minimum, estimated, many other taxes, assessments, or government charges of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"TAX RETURNS" shall mean any return, declaration, report, claim to refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"TITLE COMPANY" shall have the meaning set forth in Section 6.11.

"TITLE POLICY" shall have the meaning set forth in Section 6.11.

"UNDERGROUND STORAGE TANK" shall have the meaning ascribed to such term in Section 6901 et seq., as amended, of RCRA, or any applicable state or local statute, law, ordinance, code, rule, regulation, order ruling, or decree governing Underground Storage Tanks.

"WASTE" shall be construed broadly to include agricultural wastes, biomedical wastes, biological wastes, bulky wastes, construction and demolition debris, garbage, household wastes, industrial solid wastes, liquid wastes, recyclable materials, sludge, solid wastes, special wastes, used oils, white goods, and yard trash as those terms are defined under any applicable Environmental Laws.

"WRI LIVERMORE" shall mean WRI Livermore Sterling Investors, L.P., a California limited partnership which is the sole limited partner of Livermore.

"WRI ROHNERT" shall mean WRI Sterling Rohnert Park Investors, a California limited partnership which is the sole limited partner of Rohnert.

ARTICLE 2
PURCHASE AND SALE OF ASSETS

2.1 ASSETS TO BE PURCHASED. Upon the terms and subject to the conditions set forth herein, and in reliance on the respective representations and warranties of the parties, at the Closing, Seller agrees to sell to Buyer and Buyer agrees to purchase from Seller all right, title and interest of Seller in and to the following:

All of the assets of Seller as of the Closing Date, as disclosed by the Sterling Closing Balance Sheet and the Final Balance Sheets, other than Excluded Assets (the "ACQUIRED ASSETS").
The Acquired Assets shall include, without limitation, the following:

(a) Any real property owned by Seller, including (i) all land and buildings, fixtures, and improvements located thereon or attached thereto; (ii) all lots under development and finished lots, and all houses under development, completed homes, and model homes as of the Closing Date; and (iii) easements, franchises, licenses, permits, and rights-of-way appurtenant to or otherwise benefiting, and all development rights, mineral rights, water rights, utility capacity reservations, and other rights and appurtenances affecting or pertaining to, the items described in Clauses (i) and (ii) (collectively, the "STERLING REAL PROPERTY"). SCHEDULE 2.1(A) sets forth a listing and description of the Sterling Real Property;

(b) All of Seller's rights and benefits in, to and under (i) all leases, contracts, purchase escrow deposits, and option agreements, including, but not limited to those agreements relating to the New Projects and Other Projects, for the purchase by Seller of lots or land

for development; (ii) all purchase and sale agreements, escrow instructions, escrow deposits, or other contracts with third parties relating to the sales of any portion of the Sterling Real Property; (iii) rights and benefits in all written and oral agreements, arrangements, contracts, commitments and leases, including all contracts with suppliers, materialmen, contractors, subcontractors and others furnishing any work or materials to or

for any of the Sterling Real Property; (iv) all reimbursement and indemnity agreements pertaining to or of any improvement, performance, payment, maintenance, fidelity, lien release, or other bonds, undertakings or similar sureties with respect to any of the Other Projects, New Projects or Owned Projects and any development or construction thereof (and inclusive of any obligations of the Partners and/or Shareholders under or by virtue of any guaranties of such obligations); (v) all contracts with architects, designers, engineers, planners, environmental consultants, surveyors, and other consultants employed in connection with the Other Projects, New Projects or Owned Projects; (vi) all vendor, supplier and equipment lessor agreements concerning any supplies, services, equipment and furniture in premises utilized by Seller for office purposes; (vii) all commission, listing and brokerage agreements pertaining to any of the Sterling Real Property, the Owned Projects, the New Projects, and the Other Projects, and the acquisition of or sale thereof; (viii) the Office Lease; (ix) all software licensing and equipment rental agreements associated with computers or data processing; (x) all management service and construction supervisor contracts or agreements between Seller and any third party concerning that party's project, including, but not limited to the agreement (in draft form) between Seller and Hearthstone Advisors concerning the project known as Sterling Place; (xi) all model home furniture, fixtures and equipment leases and any model home lease or sale agreements pertaining to the Other Projects, New Projects or Owned Projects; and (xii) the partnership agreements of L&R, respectively, (collectively, the "STERLING ACQUIRED CONTRACTS"). SCHEDULE 2.1(B) sets forth a listing of the Sterling Acquired Contracts;

(c) To the extent transferable, all the right, title, and interest of Seller in all approvals, authorizations, certificates, consents, franchises, licenses, permits, rights, variances, dedications, subdivision maps, plans, entitlements, and waivers acquired or used in connection with Seller's Business, and all agreements with, and any waivers, licenses, permits, and approvals from or to any governmental or quasi-governmental agency, department, board, commission, bureau or any other entity or instrumentality, and other authorities in the nature thereof, a list and description of which is set forth on SCHEDULE 2.1(C);

(d) In addition to anything included in subparagraph (b) above, all equipment, furniture, furnishings, inventory, machinery, software, supplies, tools, vehicles, and other personal property owned or leased by Seller, as listed and described on SCHEDULE 2.1(D);

(e) To the extent transferrable, all rights and benefits of Seller in (i) all architectural, building, and engineering designs, drawings, specifications, and plans; (ii) all processes, know-how, technical data, and other trade secrets; all other proprietary information or rights of Seller including any and all plans, names and other project related information of prior and currently active real estate projects of Seller; (iii) all sales forms and promotional and advertising materials; (iv) all copyrights, patents, trademarks, and applications, registrations, and renewals with respect thereto; (v) the names "Sterling Homes" and "Sterling Communities," and all variations of or derivations from such name and any and all logos used in connection therewith (collectively, the "STERLING INTELLECTUAL PROPERTY"); and (vi) all goodwill associated therewith.

(f) All of Sterling's prepaid expenses, a list and description of which is set forth on SCHEDULE 2.1(F);

(g) All rights and benefits of Seller under any manufacturer's, subcontractor's, supplier's, merchant's, repairmen's, or other third-party warranties, guarantees, and service or replacement programs relating to any Acquired Asset or the Business;

(h) All of the books, instruments, papers, and records of whatever nature and wherever located that relate to the Seller's Business of Sterling, whether in written form or another storage medium, including without limitation (i) accounting and financial records; (ii) property records and reports; (iii) customer, subcontractor, and supplier lists; (iv) environmental records and reports; (v) personnel and labor relations records; and (vi) property, sales, or transfer tax records and returns; PROVIDED, HOWEVER, that

such books, instruments, papers, and records shall exclude any documents relating exclusively to the Excluded Assets;

(i) Seller's general partnership interest in (i) Livermore pursuant to the Livermore limited partnership agreement (the "LIVERMORE PARTNERSHIP AGREEMENT") and (ii) Rohnert pursuant to Rohnert's limited partnership agreement (the "ROHNERT PARTNERSHIP AGREEMENT") which includes Seller's interest as a general partner in all of the assets of Livermore and Rohnert as of the Closing Date, as disclosed by the Livermore and Rohnert Closing Balance Sheets and the Final Balance Sheets, respectively, other than Excluded Assets (collectively, the "L&R PARTNERSHIP INTERESTS"). The L&R Partnership Interests include, without limitation, the interest of Seller, if any, as general partner of L&R, in and to the following:

(i) All real property owned or leased by L&R, including (A) all land and buildings, fixtures, and improvements located thereon or attached thereto; (B) all lots under development and finished lots, and all houses under development, completed homes, and model homes as of the Closing Date; and (C) easements, franchises, licenses, permits, and rights-of-way appurtenant to or otherwise benefiting, and all development rights, mineral rights, water rights, utility capacity reservations, and other rights and appurtenances affecting or pertaining to, the items described in Clauses (A) and (B) (collectively, the "L&R REAL PROPERTY"). SCHEDULE 2.1(I)(I) sets forth a listing and description of the L&R Real Property, subject to further closing of home sales in the ordinary course of L&R's business;

(ii) All of L&R's: (A) rights and benefits under all contracts, purchase escrow deposits, and option agreements for the purchase by each of Livermore and Rohnert of lots or land for development, a list and description which is set forth on SCHEDULE 2.1(I)(II)(A); (B) right, title, and interest in all purchase and sale agreements, escrow instructions, escrow deposits, or other contracts with third parties relating to the sale of any portion of the Real Property; and (C) rights and benefits in all other written and oral agreements, arrangements, contracts, commitments and leases listed and described on SCHEDULE 2.1(I)(II)(C) hereto, commitments, contracts, leases that each of Livermore and Rohnert enters, including all contracts with

suppliers, materialmen, contractors, subcontractors and others furnishing any work or materials to or for any of the L&R Real Property; (D) all reimbursement and indemnity agreements pertaining to or of any improvement, performance, payment, maintenance, fidelity, lien release, or other bonds, undertakings or similar sureties with respect to any of the Owned Projects and any developments or construction thereof (and inclusive of any obligations of the Partners and/or Shareholders under or by virtue of any guaranties of such obligations); (E) all contracts with architects, designers, engineers, planners, environmental consultants, surveyors, and other consultants employed in connection with the L&R Real Property, and any development or construction thereof; (F) all vendor, supplier and equipment lessor agreements concerning any supplies, services, equipment and furniture in premises utilized by Seller for office purposes; (G) all commission, listing and brokerage agreements pertaining to any of the L&R Real Property, and the acquisition or sale thereof; (H) all software licensing and equipment rental agreements associated with computers or data processing; (I) all management, service, and construction supervision contracts or agreements between L&R and any third party concerning that party's project; and (J) all model home furniture, fixture and equipment leases and any model home lease or sale agreements pertaining to the L&R Real Property (collectively, the "L&R ACQUIRED CONTRACTS");

(iii) To the extent transferrable, all rights and benefits of each of Livermore and Rohnert in (A) all architectural, building, and engineering designs, drawings, specifications, and plans; (B) all processes, know-how, technical data, and other trade secrets; (C) all sales forms and promotional and advertising materials; and (D) all copyrights, patents, trademarks, and applications, registrations, and renewals with respect thereto; (E) all other proprietary information or rights of each of Livermore and Rohnert (collectively, the "L&R INTELLECTUAL PROPERTY"); and (F) all goodwill associated therewith.

(iv) All equipment, furniture, furnishings, inventory, machinery, software, supplies, tools, vehicles, and other personal property owned or leased by each of Livermore and Rohnert, as listed and described on SCHEDULE 2.1(I)(IV);

(v) To the extent transferable, the rights and benefits of each of Livermore and Rohnert in all approvals, authorizations, certificates, consents, franchises, licenses, permits, rights, variances, dedications, subdivision maps, plans, entitlements, and waivers acquired or used in connection with the business of each of Livermore and Rohnert, and all agreements with, and any waivers, licenses, permits, and approvals from or to any governmental or quasi-governmental agency, department, board, commission, bureau or any other entity or instrumentality and other authorities in the nature thereof, a list and description of which is set forth on SCHEDULE 2.1(I)(V);

(vi) All of the prepaid expenses of each of Livermore and Rohnert, a list and description of which is set forth on SCHEDULE 2.1(I)(VI);

(vii) All rights and benefits of each of Livermore and Rohnert under any manufacturer's, subcontractor's, supplier's, merchant's, repairmen's, or other third-party warranties, guarantees, and service or replacement programs relating to any L&R asset or the business of each of Livermore and Sterling; and

(viii) All of the books, instruments, papers, and records of whatever nature and wherever located that relate to the business of each of Livermore and Rohnert, whether in written form or another storage medium, including without limitation (A) accounting and financial records; (B) property records and reports; (C) customer, subcontractor, and supplier lists; (D) environmental records and reports; (E) personnel and labor relations records; and (F) property, sales, or transfer tax records and returns.

2.2 ASSETS NOT BEING TRANSFERRED. Seller shall retain and Buyer shall not purchase the following ("EXCLUDED ASSETS"):

(a) All of Seller's right, title and interest under or related to this Agreement, including, without limitation, the consideration delivered to Seller pursuant to this Agreement;

(b) The minute books, ownership record books and information, seals, and other documents and things relating to organizational matters and the existence of Sterling as a general partnership, the Partners, respectively, as corporations and the income tax returns of Partners and Seller;

(c) Any assets of Seller relating to Seller's interest or the interest of any of the Partners or Shareholders, directly or indirectly, or of Sterling Homes, a general partnership consisting of Daystar Homes, a California corporation, and Sterling Home Designs, a California corporation, or any other investor in or to the residential real estate developments known as Sterling Creek, Sterling Heights, Sterling Springs, Sterling Creek II, Sterling Ridge Venture, L.P., Somerset, Sterling Brook, Sterling Springs Parkside Development and Sterling Estates, Sterling Oaks ("COMPLETED PROJECTS");

(d) Any cash, cash equivalents, accounts receivable and notes receivable of Seller; and

(e) Any interest in the Hafener Revocable Trust and the Pyle-DeForest Trust or in any assets owned by either the Hafener Revocable Trust or the Pyle-DeForest Trust.

2.3 LIABILITIES.

(a) ASSUMED LIABILITIES. Upon the terms and subject to the terms of this Agreement, at the Closing, Buyer shall assume from and after the Closing Date, and perform and pay when due, the following liabilities of Seller and none others (the "ASSUMED LIABILITIES"), Buyer agreeing that Buyer shall discharge the Assumed Liabilities in accordance with their terms:

(i) The obligations of Seller, Partners and Shareholders under the Acquired Contracts as of the Closing Date;

(ii) All liabilities or obligations of Seller reflected on the Sterling Closing Balance Sheet (but not including (A)

intercompany payables other than payables owing between Sterling and L&R, and (B) loan obligations to the Partners or Shareholders).

(iii) All contingent claims and liabilities of Seller which arise out of or pertain to any residential units of Seller and L&R which close escrow after the Closing Date, whether fixed or contingent, known or unknown, matured or unmatured, executory or non-executory, whether such liability arises out of occurrences prior to or after the Closing, including (A) any and all alleged or proven product liability, construction defect, contract claims or liabilities (but not including environmental liabilities), or liabilities or similar claims asserted by home purchasers or their successors, (B) any and all claims, liens and demands asserted by design professionals, engineers, contractors, subcontractors and materialmen involved in development or construction of the lot or home, (C) any known liabilities disclosed in Seller's Financial Statements prior to the Closing Date, if any, and (D) claims and demands pertaining to or arising out of the Acquired Assets not known to Seller and of which Seller has no notice or reason to know prior to the Closing and which are discovered or asserted after the Closing. Notwithstanding any other provisions of this Agreement to the contrary, Buyer will not assume any environmental liabilities on residential units which close escrow after the Closing which relate to site or land development or remediation obligations, whether known or unknown to Seller, under any Environmental Laws existing as of the Closing Date.

(b) EXCLUDED LIABILITIES. Notwithstanding any other provision of this Agreement, and except for the Assumed Liabilities specified in Section 2.3, Seller shall remain responsible for and Buyer shall not assume any liabilities or obligations, whether fixed or contingent, known or unknown, matured or unmatured, executory or non-executory, whether such liability or obligations arise out of occurrences prior to, at or after the date hereof, including without limitation the following (collectively, the "EXCLUDED LIABILITIES"):

(i) Liabilities (other than those arising under the Acquired Contracts) not reflected on the Financial Statements of Seller at the Closing Date whether fixed or contingent, known or unknown, matured or unmatured, executory or non-executory, whether such liability arises out of occurrences prior to or after the Closing;

(ii) All liabilities and obligations of Seller, Partners, and Shareholders under this Agreement or with respect to or arising out of the consummation of the transactions contemplated by this Agreement;

(iii) All liabilities and obligations of Seller for Seller's, Partners', and Shareholders' fees and expenses and taxes incurred by Seller in connection with, relating to, or arising out of the consummation of the transactions contemplated by this Agreement, except as specifically contemplated herein;

(iv) All liabilities of Seller owed to Partners, Shareholders or any of their affiliates including, but not limited to, all liabilities of Seller to repay loans or advances owed to Partners, Shareholders or any affiliate of either, it being understood that the Asset Value of Seller used in calculating the Purchase Price will, among other things, include the assets represented by prepaid expenses and deposits in respect of the New Projects and Other Projects which have been loaned or advanced by the Shareholders, without deduction for such loans or advances as liabilities of Seller, and that any such loans or advances shall be repaid, if at all, from Seller's proceeds of the Purchase Price after Closing.

(v) (A) Any liabilities, obligations or expenses for Taxes (including property taxes for property of Seller closed prior to the Closing Date, but not including property taxes for property of Seller which has not closed prior to such Date) of the Seller (regardless of when incurred) or of any other person (regardless of when incurred) under Treas. Reg. 1502-6 (or any similar provision of state, local, or foreign law) as a transferee or successor, by contract or otherwise; (B) any liabilities or obligations or expenses of the Seller related to pending or threatened litigation against Seller or otherwise related to the business or Acquired Assets as of the

Closing Date, including any liability on obligations arising out of occurrences prior to the Closing Date; (C) any liabilities, obligations, or expenses arising from or relating to or consisting of any lien, encumbrance or claim affecting the title to the Acquired Assets, other than Permitted Liens; (D) any liabilities, obligations, or expenses under any land contracts arising or relating to the period prior to the Closing Date except for liabilities, obligations or expenses related to the Acquired Contracts; (E) any liabilities, obligations or expenses relating to any environmental matter or condition; and (F) any liability or obligation to or in respect of any employees or former employees of Seller, including without limitation (1) any employment agreement, whether or not written, between Seller and any person, (2) any liability under any employee plan at any time maintained, contributed to or required to be contributed to by or with respect to Seller or under which Seller may incur liability, or any contributions, benefits or liabilities therefor, or any liability with respect to Seller's withdrawal or partial withdrawal from or termination of any employee plan, or (3) any claim of an unfair labor practice, or any claim under any state unemployment compensation or worker's compensation law or regulation or under any federal or state employment discrimination law or regulation, which shall have been asserted on or prior to the Closing Date or is based on acts or omissions which occurred on or prior to the Closing Date.

Anything contained in this Agreement to the contrary notwithstanding, Seller shall remain responsible for and Buyer shall not assume the Excluded Liabilities which Excluded Liabilities shall at and after the Closing remain the exclusive responsibility of

Seller, Partners, and Shareholders. Seller, Partners, and Shareholders shall discharge all Excluded Liabilities and, without limitation of the foregoing, if Seller or Partners shall liquidate, dissolve, or wind-up after the Closing, Seller or Partners shall pay, post security for, or otherwise make provision for all such liabilities to the reasonable satisfaction of Buyer.

2.4 PURCHASE PRICE.

(a) AMOUNT OF PURCHASE PRICE. In addition to assuming the Assumed Liabilities, Buyer agrees to pay to Seller, subject to the terms and conditions of this Agreement, a purchase price (the "PURCHASE PRICE") equal to the sum of:

(i) An amount equal to the lesser of (A) $2,500,000 less a dollar for dollar adjustment for any general partner distributions made by Livermore and/or Rohnert from January 1, 1998 through the Closing Date or (B) the sum of the Net Book Value- L&R as of the Closing Date; plus

(ii) The Asset Value of each of the Acquired Assets less any liabilities assumed in accordance with Adjusted GAAP by Buyer as set forth in the Closing Balance Sheet; plus

(iii) $3,450,000; and

(iv) To the extent earned following the Closing Date, the Earn-Out Payments.

With respect to payments pursuant to (i) and (ii) above, Buyer shall pay Seller ninety percent (90%) of such portion of the Purchase Price at Closing. With respect to payments pursuant to (iii) above Buyer shall pay one hundred percent (100%) of such portion of the Purchase Price at Closing. The remaining Purchase Price, but not including (iv) above, shall be due upon resolution of the Final Balance Sheets as set forth in Section 2.4(c)(ii).

(b) ADJUSTMENTS. Seller and Buyer acknowledge that the Purchase Price will be computed based on the Closing Balance Sheets which, pursuant to Section 2.4(c), will be as of a date prior to Closing. Accordingly, items (i) and (ii) in (a) above shall be subject to adjustment based on the Final Balance Sheets as provided in Sections 2.4(c)(ii).

(c) DETERMINATION OF NET ASSET VALUES-L&R AND NET BOOK VALUE-STERLING.

(i) A preliminary balance sheet for each of Sterling, Livermore and Rohnert is attached hereto as SCHEDULE 2.4(C)(I) (the "PRELIMINARY BALANCE SHEET"). The Preliminary Balance Sheet of each Sterling, Livermore and Rohnert, each dated as of April 30, 1998, set forth the form of the Closing Balance

Sheet. Buyer has no obligation to review and comment on the substance of the Preliminary Balance Sheet.

The parties agree that the receipt by Buyer of the Preliminary Balance Sheet shall not effect Buyer's rights regarding review and approval of the Final Balance Sheet.

(ii) For the purpose of making an initial determination of Asset Value and Net Book Value-L&R, Seller shall deliver to Buyer an estimated closing balance sheet for each of Sterling, Livermore, and Rohnert, five (5) business days prior to the Closing for each of Sterling, Livermore and Rohnert. The balance sheets shall be prepared in accordance with Adjusted GAAP and shall be subject to review and approval by Buyer. The estimated closing balance sheet for each of Sterling, Livermore and Rohnert, as approved by Buyer, are referred to in this Agreement as the "STERLING CLOSING BALANCE SHEET", the "LIVERMORE CLOSING BALANCE SHEET", and the "ROHNERT CLOSING BALANCE SHEET" (collectively, the "CLOSING BALANCE SHEETS").

(iii) As soon as practicable but not later than 15 days after Closing, Seller, at its expense, shall prepare a final balance sheet as of the Closing Date for each of Sterling, Livermore, and Rohnert (collectively, the "FINAL BALANCE SHEETS"). The Final Balance Sheets shall be prepared in accordance with Adjusted GAAP and shall be subject to review and approval by Buyer and its independent accountants. The Final Balance Sheets shall be provided to all parties and all parties shall have the right to inspect the work papers generated by Seller in preparation of the Final Balance Sheets. Once Buyer and Seller have approved the Final Balance Sheets, and in any event, not later than ten (10) business days after delivery of the Final Balance Sheet to Buyer, the Purchase Price shall be recomputed using the Final Balance Sheets, and the balance, if any, due to Seller shall be promptly paid and any difference in favor of Buyer in the recomputed Purchase Price and the amounts previously paid shall be reimbursed by Seller to Buyer within ten (10) days of final determination of the Purchase Price.

(iv) If Buyer and Seller cannot agree on the Closing Balance Sheets or the Final Balance Sheets, Buyer shall pay any undisputed balance, if any, within ten (10) days of receipt of notice from Seller that a dispute exists and such matter shall be resolved in the manner set forth in EXHIBIT A, provided, however, the arbitrator shall be Deloitte & Touche LLP (provided it is not then serving as auditor for Buyer or for either Seller, Partners, Shareholders or Hafener) or such other accounting firm of national repute (other than the firm currently serving as auditor for Buyer or the firm serving as auditor for either Seller, Partners, Shareholders, or Hafener) as may be mutually agreed upon by Buyer and Hafener (the "ACCOUNTING ARBITRATOR").

(v) To the extent the Closing and Final Balance Sheets are not prepared in accordance with Adjusted GAAP the Purchase Price shall not be adjusted for any resulting difference of less than $50,000. If the resulting difference exceeds $50,000, the Purchase Price shall be adjusted for any amount exceeding $50,000.

(d) EARN-OUT PAYMENTS.

(i) The Purchase Price includes four (4) deferred contingent payments (each an "EARN-OUT PAYMENT") for each of the four (4) consecutive Earn-Out Periods following the Closing. Each Earn-Out Payment shall be equal to 20% of the Pre-Tax Income for each Earn-Out Period. The parties understand and agree that the Earn-Out Payments shall not be calculated based on any performance projections which may have been provided by Seller to Buyer prior to Closing but shall be based on actual Pre-Tax Income of the NC Company. The first "EARN-OUT PERIOD" shall be the twelve month period beginning on the first day of the first month that commences following the Closing Date and ending on the anniversary thereof, with each subsequent Earn-Out Period being the next succeeding twelve month period that commences immediately following the prior Earn-Out Period.

(ii) As of the Closing, Seller hereby assigns all rights to each Earn-Out Payment to SH, and directs Buyer to

make each Earn-Out Payment directly to SH, or its assigns. Notwithstanding the foregoing, Seller and SH agree that each EarnOut Payment shall be subject to Buyer's rights of set-off under the Indemnification Agreement attached hereto as EXHIBIT B (the "INDEMNIFICATION AGREEMENT"), to be executed by the parties at Closing, that any adjusting payments that may be required between Seller and SH as a result of any such set-off shall be the sole responsibility of Seller and SH and that Buyer shall have no liability or obligation whatsoever with respect thereto. The set-off rights granted in this subsection (ii) are in addition to any other right or remedy available to Buyer at law or equity as set forth in the Indemnification Agreement. Seller, Shareholders and Partners shall release and indemnify Buyer in respect of the foregoing assignment and any other allocation of the Purchase Price among the parties.

(iii) Within 60 days after the end of each Earn-Out Period, Buyer shall deliver to SH, a reasonably detailed calculation notice of the Pre-Tax Income for such Period and the Earn-Out Payment due to SH. SH, shall notify Buyer within 15 days after the delivery of the calculation notice referenced above of any dispute relating to calculation of the Earn-Out Payment. Buyer shall, upon SH's request made within the same 15-day period, make available to SH, the books and records of NC Company, and any related work papers, related to computation of the Earn-Out Payment. If SH establishes a mistake in the calculation which Buyer does not dispute, the Earn-Out Payment shall be adjusted accordingly and the party in whose favor the mistake was made shall promptly pay the other party the amount due. If Buyer and SH, are unable to resolve any dispute regarding the calculation of an EarnOut Payment within 30 calendar days of SH's notice under this Section 2.4, then the parties shall arbitrate the dispute in the manner provided in EXHIBIT A, except that the arbitrator shall be the Accounting Arbitrator. The arbitration award shall be final and binding on all parties, and judgment on the arbitration award may be enforced in any court having jurisdiction over the subject matter of the controversy. If the Accounting Arbitrator determines that Buyer underpaid an Earn-Out Payment by more than $50,000, Buyer shall pay the fees and expenses of the Accounting

Arbitrator and shall reimburse SH, for the cost of its accounting professionals in reviewing Buyer's calculation of the Earn-Out Payment and in participating in the arbitration procedure. If the Accounting Arbitrator determines that Buyer underpaid an Earn-Out Payment by less than $50,000 or overpaid an Earn-Out Payment by less than $50,000, Buyer and SH, shall each pay their cost of its own accounting professionals and shall bear equally the fees and expenses of the Accounting Arbitrator. If Buyer overpaid an Earn-Out Payment by more than $50,000, SH, shall pay the fees and expenses of the Accounting Arbitrator and shall reimburse Buyer for the cost of its accounting professionals in reviewing Buyer's calculation of the Earn-Out Payment and in participating in the arbitration procedure. Any reimbursement amount due under this Section shall be added to the arbitration award.

(iv) If Hafener is terminated for "Cause" as defined in Section 1(b)(i) and (ii) of the Hafener Employment Agreement in the form of EXHIBIT C attached hereto, Buyer's obligations for any and all remaining Earn-Out Payments, regardless of whom such Earn-Out Payments are being made to, shall thereupon terminate.

(v) If Hafener terminates his employment due to a material breach by Buyer or NC Company of the Purchase Documents, Buyer shall remain obligated for any and all remaining Earn-Out Payments,.

(vi) If Hafener terminates his employment under the Hafener Employment Agreement and there is no material breach of the Purchase Documents by Buyer or NC Company, then Buyer shall remain obligated for the Earn-Out Payments but adjusted as follows, regardless of whom such Earn-Out Payments are being made to: (a) If Hafener terminates his employment within twelve months of the Closing, Buyer's obligations for any and all Earn-Out Payment shall terminate; (b) If Hafener terminates his employment between thirteen and eighteen months following the Closing, Buyer's obligations for the remaining Earn-Out Payments (Payments two, three and four), shall terminate; (c) if Hafener terminates his employment between nineteen and twenty-four months following the Closing, Buyer shall remain obligated to pay Earn-Out Payments equal to 15%

of the Pre-Tax Income for the second Earn-Out Period, 10% for the third Earn-Out Period, and 5% for the fourth Earn-Out Period; (d) if Hafener terminates his employment between twenty-five and thirty-six months following the Closing, Buyer shall remain obligated to pay Earn-Out Payments equal to 15% of the Pre-Tax Income for the third Earn-Out Period and 10% for the fourth Earn-Out Period; (e) if Hafener terminates his employment between thirty-seven and forty-eight months following the Closing, Buyer shall remain obligated to pay the fourth Earn-Out Payment equal to 15% of the Pre-Tax Income.

2.5 METHOD OF PAYMENT. The Purchase Price shall be payable as follows:

(a) At Closing, Buyer shall pay to Seller the amounts described in Sections 2.4(a)(i) - (iii), by wire transfer of immediately available funds to Seller.

(b) Buyer shall make the payment of retention amounts described in Sections 2.4(a)(i) and (ii) as provided in Section 2.4(b).

(c) Buyer shall make the Earn-Out Payments to SH, as provided in Section 2.4(d).

2.6 ALLOCATION OF PURCHASE PRICE. The Purchase Price and the Assumed Liabilities shall be allocated among the Acquired Assets in accordance with Section 197 and 1060 of the Code and the regulations thereunder. Such allocation, which shall allocate a portion of the $3,450,000 sum to the purchase of the goodwill of Seller, shall be reported by Buyer and Seller on Internal Revenue Service Form 8594, Asset Acquisition Statement, which will be filed with Buyer's and Seller' Federal income tax returns for the tax year that includes the Closing Date. Seller's goodwill allocation is set forth on SCHEDULE 2.6.

2.7 RISK OF LOSS. All risk of loss with respect to the Acquired Assets and the business of Seller on or before the Closing Date shall remain the sole risk of Seller.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES OF BUYER

As of the date hereof and as of the Closing Date, Buyer hereby represents and warrants to Seller, Partners and Shareholders, the following:

3.1 ORGANIZATION AND QUALIFICATION. Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Maryland and has the requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted in every jurisdiction where the failure to do so would have a material adverse effect on its business, properties, or ability to conduct the business currently conducted by it. As of the Closing Date, NC Company will be a corporation duly organized, validly existing, and in good standing under the laws of the State of California and will have the requisite corporate power and authority to own and operate its properties and to carry out business in every jurisdiction where the failure to do so would have a material adverse effect on the business, properties, or ability to conduct its business.

3.2 AUTHORITY RELATIVE TO THIS AGREEMENT. Buyer has the requisite corporate power and authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement by Buyer and the consummation by Buyer of the transactions contemplated hereby have been duly authorized by Buyer, and no other corporate proceedings on the part of Buyer are necessary to authorize this Agreement and such transactions. This Agreement has been duly executed and delivered by Buyer and constitutes a valid and binding obligation of Buyer, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

3.3 LEGAL CAPACITY AND AUTHORITY. Buyer and NC Company possess the legal capacity to execute and deliver each document to which it is a party, to perform its obligations thereunder, and to consummate the transactions contemplated thereby. Except as provided in Schedule 3.3, (a) neither Buyer nor NC Company is subject to or obligated under, any provision or any agreement,

arrangement or understanding or any law, regulation, order, judgment or decree, which would be breached or violated or in respect of which a right to termination or acceleration would arise, or pursuant to which any encumbrance on any of their assets would be created by the execution, delivery, and performance of this Agreement and the consummation by Buyer and NC Company of the transactions contemplated hereby; and (b) no authorization, consent, or approval to, or filing with, any public body, court, or authority is necessary on the part of either Buyer or NC Company for the consummation by Buyer or NC Company of the transactions contemplated by this Agreement. With respect to each document to which Buyer and NC Company are a party, at the Closing, Buyer and NC Company will duly execute and deliver such documents which will be a valid,

legal and binding obligation of Buyer and NC Company enforceable against Buyer and NC Company in accordance with its terms, as the case may be.

3.4 NO CONFLICTS. Buyer is not subject to, or obligated under, any provision of (a) its certificate of incorporation or bylaws, (b) any material agreement, arrangement, or understanding (other than its lending arrangements), (c) any material license, franchise, or permit, or (d) any law, regulation, order, judgment, or decree, which would be breached or violated, or in respect of which a right of termination or acceleration would arise, or pursuant to which any encumbrance on any of its or any of its subsidiaries' material assets would be created, by its execution, delivery, and performance of this Agreement and the consummation by it of the transactions contemplated hereby.

3.5 NO CONSENTS. Except for such filings to be made pursuant to federal or state securities or other laws and regulations and except for consents to be obtained of Buyer's lenders and any permits as may be required to operate the Acquired Assets after the Closing, no authorization, consent, or approval of, or filing with, any public body, court, or authority is necessary on the part of Buyer for the consummation by Buyer of the transactions contemplated by this Agreement.

3.6 SEC DOCUMENTS. Buyer has delivered to Seller true and correct copies of its Annual Report on Form 10-K for the fiscal year ended December 31, 1997, its Form 10-Q for the period ended March 31, 1998, and its Proxy Statement relating to its Annual Meeting of Shareholders scheduled for June 11, 1998, all as filed with the United States Securities and Exchange Commission ("SEC") (collectively, "SEC Documents"). The SEC Documents contain an audited balance sheet of Buyer as of December 31, 1997 and the related audited statements of income and cash flow for the year then ended and the audited balance sheet of the Buyer as of March 31, 1998 and the related audited statements of income and cash flow for the period then ended (the "BUYER FINANCIALS"). The Buyer Financials are correct in all material respects and have been prepared in accordance with GAAP applied on a basis consistent throughout the periods indicated and consistent with each other. The Buyer Financials present fairly the financial condition and operating results and cash flows of the Buyer as of the dates and during the periods indicated therein.

3.7 NO MATERIAL ADVERSE CHANGES. Except as set forth in SCHEDULE 3.7 hereto, since the date of the Buyer Financials, there has not been any material adverse change in the assets, financial condition, or operating results, customer, employee, or supplier relations, business condition or prospects, or financing arrangements of Buyer.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF SELLER, PARTNERS, AND SHAREHOLDERS

As of the date hereof and as of the Closing Date, Seller and Partners hereby jointly and severally represent, warrant, and agree and Pyle and Hafener each severally represent, warrant, and agree as follows, to and for the benefit of Buyer:

4.1 ORGANIZATION AND QUALIFICATION.

(a) Sterling is a general partnership duly organized, validly existing, and in good standing under the laws of the State of California and has the requisite partnership power and authority to own and operate its properties and to carry on its business as now conducted. Livermore and Rohnert are each limited partnerships duly organized, validly existing, and in good standing under the laws of the State of California, and each has the requisite partnership power and authority to own and operate their properties and to carry on their business as now conducted. Sterling, Livermore, and Rohnert have each delivered to Buyer complete and correct copies of their partnership certificate and partnership agreement, each as amended to the date hereof, and all recorded actions of such partnerships.

(b) Partners are corporations duly organized, validly existing, and in good standing under the laws of the State of California and have the requisite corporate power and authority to own and operate their properties and to carry on their business as now conducted. Partners have delivered to Buyer complete and correct copies of their articles of incorporation and bylaws, each as amended to the date hereof, and all recorded actions and minutes of the Shareholders and the board of directors of the Partners.

4.2 AUTHORITY RELATIVE TO THIS AGREEMENT. Seller and Partners have the requisite partnership and corporate power and authority, respectively, to enter into this Agreement and to carry out their obligations hereunder. The execution and delivery of this Agreement by Seller and Partners and the consummation by Seller of the transactions contemplated hereby have been duly authorized by the Partners and the Shareholders, and no other partnership or corporate proceedings on the part of Seller or Partners is necessary to authorize this Agreement and such transactions. This Agreement has been duly executed and delivered by Seller, Partners, and Shareholders and constitutes a valid and binding

obligation of Seller, Partners, and Shareholders, respectively, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, or other similar laws relating to the enforcement of creditors' rights generally and by general principles of equity.

4.3 LEGAL CAPACITY AND AUTHORITY OF SELLER, PARTNERS, AND SHAREHOLDERS. Seller, Partners, and Shareholders possess the legal capacity to execute and deliver each document to which it is a party, to perform its obligations thereunder, and to consummate the transactions contemplated thereby. With respect to each document to which Seller, Partners, or Shareholders are a party, at the Closing, Seller, Partners, or Shareholders will duly execute and deliver such documents which will be a valid, legal and binding obligation of Seller, Partners, and Shareholders enforceable against Seller, Partners, and Shareholders in accordance with its terms, as the case may be.

4.4 NO CONFLICTS. Except as set forth in SCHEDULE 4.4, neither Seller, Partners nor Shareholders are subject to, or obligated under, any provision of (a) either their certificate of partnership or partnership agreement, in the case of Seller, or articles of incorporation or bylaws, in the case of Partners, (b) any agreement, arrangement, or understanding, (c) any license, franchise, or permit, or (d) any law, regulation, order, judgment, or decree, which would be breached or violated, or in respect of which a right of termination or acceleration would arise, or pursuant to which any encumbrance on any of its assets would be created, by its execution, delivery, and performance of this Agreement and the consummation by it of the transactions contemplated hereby.

4.5 NO CONSENTS. Except as set forth in SCHEDULE 4.5, no authorization, consent, or approval of, or filing with, any public body, court, or authority or pursuant to any Acquired Contract is necessary on the part of Seller, Partners, and Shareholders for the consummation by Seller, Partners, and Shareholders of the transactions contemplated by this Agreement.

4.6 CAPITALIZATION.

(a) All of the outstanding partnership interests of Sterling are owned free and clear by the Partners and there are no other interests in Sterling outstanding. There are no outstanding subscriptions, options, rights or other agreements or commitments, obligating Sterling or the Partners to issue or transfer any partnership interest in Sterling.

(b) All of the outstanding general partnership interests of Livermore and Rohnert are owned free and clear by Sterling and there are no other interests in either Livermore or Rohnert outstanding, except for the limited partnership interests held by WRI Livermore and WRI Rohnert, respectively. Except as set forth in the Livermore Partnership Agreement or in the Rohnert Partnership Agreement, there are no outstanding subscriptions, options, rights or other agreements or commitments, obligating Livermore and Rohnert or Sterling to issue or transfer any partnership interest in either Livermore or Rohnert.

(c) All of the issued and outstanding shares of capital stock of Partners are owned free and clear by the Shareholders and there are no other shares of capital stock of Partners outstanding. There are no outstanding subscriptions, options, rights, warrants, convertible securities, or other agreements or commitments obligating Partners to issue or to transfer from treasury any additional shares of its capital stock.

4.7 OWNERSHIP INTERESTS. Except as disclosed in SCHEDULE 4.7, Seller, Partners and Shareholders do not own, any stock, partnership interest, joint venture interest, or any other security issued by or equity interest in any other corporation, organization, association, or entity whose business is residential real estate related.

4.8 FINANCIAL STATEMENTS. Seller has provided the unaudited financial statements of Seller and Partners for and as of the fiscal years ended December 31, 1995, 1996, and 1997, and of L&R for and as of the fiscal years ended December 31, 1996 and 1997 (the "FINANCIAL STATEMENTS") and Seller's, Partners' and L&R's unaudited balance sheets as of March 31, 1998 and the related unaudited statements of income and cash flow for the three month period then ended (collectively,

the "CURRENT FINANCIAL STATEMENTS") have been prepared in accordance with Adjusted GAAP (except as set forth on Schedule 4.8) throughout the periods involved and fairly present the financial position of Seller and Partners, respectively, as of the dates thereof and the results of its operations and cash flows for the periods then ended. The Financial Statements and the Current Financial Statements have been delivered to Buyer and are attached hereto as SCHEDULE 4.8.

4.9 ABSENCE OF UNDISCLOSED LIABILITIES. Seller has no Knowledge of any obligations or liabilities (whether accrued, absolute, contingent, liquidated, unliquidated, or otherwise, whether due or to become due and regardless of when

asserted), except (a) liabilities reflected in the Financial Statements, (b) liabilities which have arisen in the ordinary course of business after the date of the Financial Statements, and (c) liabilities specifically disclosed in SCHEDULE 4.9, and in any other Schedules to this Agreement.

4.10 NO MATERIAL ADVERSE CHANGES. Except as set forth in SCHEDULE 4.10, since the date of the Financial Statements, there has not been any material adverse change in the assets, financial condition, or operating results, customer, employee, or supplier relations, business condition or prospects, or financing arrangements of Seller or Partners.

4.11 ABSENCE OF CERTAIN DEVELOPMENTS. Except as set forth in SCHEDULE 4.11 or except as contemplated in and consistent with the terms of this Agreement, since the date of the Financial Statements, neither Seller, L&R, nor Partners have:

(a) Changed their accounting methods or practices (including any change in depreciation or amortization policies or rates) or revalued any of their assets;

(b) Declared or paid any distributions with respect to any general partnership interest;

(c) Borrowed any amount under existing lines of credit, or otherwise incurred or become subject to any indebtedness, except as is reasonably necessary for the ordinary operation of its business and in a manner and in amounts that are in keeping with its historical practice, or except as is consistent with the transactions contemplated hereby;

(d) Discharged or satisfied any lien (other than property taxes and assessments, business and personal property taxes, mechanic's liens and similar items discharged in the ordinary course of business consistent with past practices) or encumbrance or paid any liability, (other than current liabilities, current installments due on intermediate or long-term liabilities, and payments on account of indebtedness of release prices of lots or homes sold and closed) paid in the ordinary course of business and consistent with past practices;

(e) Except as is reasonably necessary for the ordinary operation of its business and in a manner and in amounts that are in keeping with its historical practice, mortgaged, pledged, or subjected to any lien, charge, or other encumbrance, any of its assets with a fair market value in excess of $5,000, except liens for current property taxes not yet due and payable;

(f) Sold, assigned, or transferred (including, without limitation, transfers to any employees, shareholders, or affiliates) any assets or canceled any debts or claims, except in the ordinary course of business;

(g) Sold, assigned, or transferred (including, without limitation, transfers to any employees, shareholders, or affiliates) any patents, trademarks, trade names, copyrights, trade secrets, or other intangible assets, except in the ordinary course of business, or disclosed any proprietary or confidential information to any person other than Buyer;

(h) Suffered any extraordinary loss or waived any right or claim, whether or not in the ordinary course of business or consistent with past practice, including any write-off or compromise of any contract or other account receivable not in the ordinary course of business;

(i) Taken any other action or entered into any other transaction other than in the ordinary course of business and in accordance with past custom and practice, or entered into any transaction with any related party of Seller or Partners;

(j) Suffered any theft, damage, destruction, or loss of or to any property or properties owned or used by it, whether or not covered by insurance;

(k) Increased the annualized level of compensation of or granted any extraordinary bonuses, benefits, or other forms of direct or indirect compensation to any employee, officer, director, or consultant, or increased, terminated, or amended or otherwise modified any plans for the benefit of employees, except in the ordinary course of business and consistent with historical adjustments to such compensation and benefits;

(l) Except as is reasonably necessary for the ordinary operation of its business and in a manner and in amounts that are in keeping with its historical practice, and except with respect to

contracts related to Other Projects, made any capital expenditures or commitments for property, plant and equipment that aggregate in excess of $25,000;

(m) Engaged or agreed to engage in any extraordinary transactions or distributions, or except as is reasonably necessary for the ordinary operation of its business and in keeping with its historical practice, entered into any contract, written or oral, that involves consideration or performance by it of a value exceeding $25,000 or a term exceeding one year;

(n) Other than as provided in Section 2.3(b)(iv), made any loans or advances to, or guarantees for the benefit of, any persons; or

(o) Made charitable contributions or pledges which in the aggregate exceed $1,000.

4.12 PERMITTED LIENS; GOOD TITLE TO AND CONDITION OF ACQUIRED ASSETS. Seller's title to the Acquired Assets and, to the Knowledge of Seller, L&R's title to the L&R Real Property, is free and

clear of all liens other than (a) those liens and encumbrances described in the Preliminary Reports, (b) inchoate mechanic liens which have not been filed and served upon in Seller or L&R, and (c) the liens listed on SCHEDULE 4.12 (collectively, the "PERMITTED LIENS"). All of the Acquired Assets and L&R tangible personal property are in good condition and repair, ordinary wear and tear excepted, and are usable in the ordinary course of business. The Acquired Assets to be acquired by Buyer represent all of the assets of Seller necessary or required by Buyer to continue to operate the Business of Sterling and L&R as presently conducted. Seller owns, or leases under valid leases, all property, machinery, equipment, and other tangible and intangible assets necessary for the conduct of its business. Shareholders and Partners do not directly or indirectly own any assets, licenses, permits or other authorizations relating to the Business, other than assets or authorizations held by Seller to be transferred hereunder.

4.13 LEGAL DESCRIPTIONS OF REAL PROPERTY. SCHEDULE 2.1(A) and SCHEDULE 2.1(I)(I) set forth the description of each parcel of Real Property as of the date thereof, excepting any sales of homes or lots which close on or after the date thereof in the ordinary course of Seller's or L&R's business.
hereof.

4.14 COMPLETED PROJECTS. Seller has no continuing business operations in connection with the Completed Projects except for continuing warranty claims and litigation defense.

4.15 OWNED PROJECTS.

(a) Livermore and Rohnert have title insurance policies reflecting their ownership of good and marketable title in fee simple to the L&R Real Property set forth opposite their name on SCHEDULE 2.1(I)(I), as the case may be, subject only to the Permitted Liens and Authorized Exceptions.

(b) Except as set forth on SCHEDULE 4.15, with respect to any agreements, arrangements, contracts, covenants, conditions, deeds, deeds of trust, rights-of-way, easements, mortgages, restrictions, surveys, title insurance policies, and other documents granting to Livermore and Rohnert title to or an interest in or otherwise affecting the Owned Projects, to the Knowledge of Seller no breach or event of default exists, and no condition or event has occurred that with the giving of notice, the lapse of time, or both would constitute a breach or event of default, by Seller, Livermore or Rohnert or, to the Knowledge of Seller, Partners, and the Shareholders, any other person.

(c) The Owned Projects, each have all necessary access to and from public highways, streets, and roads and no pending or, to the Knowledge of Seller, Partners, and Shareholders, threatened Proceeding or other fact or condition exists that could limit or result in the termination of such access.

(d) The Owned Projects and each completed home therein, are connected to and serviced by electric, gas (if applicable), sewage, telephone, and water facilities, which facilities are in compliance, in all material respects, with all applicable laws and all installation and connection charges with respect thereto have been paid in full, except insofar

as such charges are in the ordinary course of business paid upon issuance of building permits or occupancy approvals which have not yet been procured.

(e) Except as provided for in any Land Use Entitlements with

respect to the Owned Projects, no condemnation, eminent domain, or similar proceeding exists, is pending or, to Seller's, Partners' and Shareholders' Knowledge, is threatened with respect to, or that could affect, any of the Owned Projects.

(f) The buildings and improvements on the Owned Projects and the subdivision and improvements of the undeveloped real property of such Owned Projects to the extent installed or constructed by Seller (and to Seller's Knowledge, if not installed or constructed by Seller), do not violate, in any material respect, (i) any applicable law, including any building, set-back, or zoning law, ordinance, regulation, or statute, or other governmental restriction in the nature thereof, or (ii) any restrictive covenant affecting any such property.

(g) There are no parties in possession of any portion of the Owned Projects as lessees, tenants at sufferance, or to the Knowledge of Seller, Partners, or Shareholders, trespassers.

(h) Except as set forth on SCHEDULE 4.15, there are no unpaid charges, debts, liabilities, claims, or obligations arising from the construction, occupancy, ownership, use, or operation of the Owned Projects (other than those being assumed by Buyer pursuant to Section 2.3). Except as set forth on SCHEDULE 4.15, no such Owned Project is subject to any condition or obligation to any governmental entity or other person requiring the owner or any transferee thereof to donate land, money or other property or to make off-site public improvements other than as may be contemplated by the conditions of approval contained in the Land Use Entitlements for such Projects.

(i) Except as set forth on SCHEDULE 4.15, no developer-related charges or assessments for public improvements or otherwise made against the Owned Projects or any lots included therein are unpaid, including without limitation those for construction of sewer lines, water lines, storm drainage systems, electric lines, natural gas lines, streets (including perimeter streets), roads and curbs other than as may be required in the ordinary course of completing such Project from its current (incomplete) status or as may be contemplated in the conditions of approval and contained in the Land Use Entitlements for such Projects.

(j) There is no moratorium applicable to any of the Owned Projects on (i) the issuance of building permits for the construction of houses, or certificates of occupancy therefor, or (ii) the purchase of sewer or water taps.

(k) To the Knowledge of Seller, each of the lots included in the Owned Projects is stable and otherwise suitable for the construction of a residential structure suitable to the soil conditions thereon, as set forth in the soil report related to each Owned Project, without extraordinary site preparation measures.

(l) The Owned Projects do not contain wetlands, or to the Knowledge of Seller, Partners, and Shareholders a level of radon above action levels of the U.S. Environmental Protection Agency and are not located within a "critical", "preservation", "conservation" or similar type of area. No portion of the Owned Projects is situated within a "noise cone" such that the Federal Housing Administration will not approve mortgages due to the noise level classification of such real property.

(m) To the Knowledge of Seller, the Owned Projects have not been used as a gravesite and/or landfill area.

(n) Except as set forth on SCHEDULE 4.24, no legal Proceeding is pending or, to Seller's, Partners', or Shareholders' Knowledge, threatened which involves any of the Owned Projects, or against Seller with respect to any of the Owned Projects; all of the developed Owned Projects and the lots included therein are in material compliance, with all applicable zoning and subdivision ordinances and the Owned Projects are zoned to permit single family home construction; to the Knowledge of Seller, Partners, and Shareholders none of the development-site preparation and construction work performed on the Owned Projects has concentrated or diverted surface water or percolating water improperly onto or from the Owned Projects.

(o) Seller has not granted to any person any contract or other right to the use of any portion of the Owned Projects or to the furnishing or use of any facility or amenity on or relating to the Owned Projects.

(p) Neither Seller, Partners, nor Shareholders are a "foreign person" within the meaning of Sections 1445 and 7701 of the Code.

(q) To the extent installed or constructed by Seller or L&R or

their agents, all of the improvements and buildings on the Owned Projects were constructed in a good and workmanlike manner, are structurally sound, are in good and proper working condition and repair, normal wear and tear, normal maintenance and normal warranty and customer services matters excepted, and are useful for their intended purposes.

(r) To the Seller's Knowledge, (i) the legal description of the Owned Projects included in the Schedules to this Agreement conform with the description in Seller's title policies for, and accurately and completely describes the real property which Seller, Livermore and Rohnert own and which Buyer is purchasing or acquiring an interest in under this Agreement; (ii) any improvements and buildings included within the Owned Projects are located within the boundary lines of the Owned Projects and do not encroach upon the land of any adjacent owner; (iii) no improvements of any third person encroach upon the Owned Projects; and (iv) no person has any unrecorded right, title or interest in the real property constituting the Owned Projects, whether by right of adverse possession, prescriptive easement or otherwise.

(s) The recorded easements, rights-of-way, covenants, and other title exceptions and survey matters do not adversely affect the current beneficial use of the Owned Projects.

The Owned Projects are being developed and used in compliance with all covenants, easements, and restrictions affecting the Owned Projects, and all obligations of the Seller, Livermore or Rohnert on the Owned Projects with regard to such covenants, easements, and restrictions have been and are being performed in a proper and timely manner.

(t) Except as set forth on SCHEDULE 4.20, to the Knowledge of Seller, Partners and Shareholders:

(i) All property adjacent to the Owned Projects is free from Hazardous Substances (other than Permitted Materials), and is not in violation of any Environmental Law.

(ii) No environmental lien in favor of any governmental entity has attached to any of the Owned Projects.

(u) To the Knowledge of Seller , there are no historical or archeological materials or artifacts of any kind or any Indian ruins of any kind located on the Sterling Real Property.

(v) No part of the Owned Projects is "critical habitat" as defined in the Federal Endangered Species Act, 16 U.S.C. ss.ss.1531 et seq., as amended, or in regulations promulgated thereunder, nor are any "endangered species" or "threatened species" located on the Owned Projects, as defined therein.

(w) The Owned Projects are not within a flood plain, flood way or flood control district as reflected in the currently adopted 100 year flood plain of the Federal Emergency Management Agency.

(x) Neither Seller nor L&R have any liability for any Taxes, or any interest or penalty in respect thereof, of any nature that may be assessed against Buyer or that are or may become a lien against the Owned Projects, other than the lien for current real property taxes, special taxes and assessments paid with taxes not yet delinquent or as set forth on SCHEDULE 4.15.

(y) No work has been performed on or about the Owned Projects or to any improvements located thereon within six (6) months prior to the date of this Agreement that has not been paid for or otherwise included in the cost to complete or in the liabilities being assumed pursuant to Section 2.3.

4.16 NEW PROJECTS

(a) Except as set forth on SCHEDULE 4.16, with respect to any agreements, arrangements, contracts, covenants, conditions, deeds, deeds of trust, rights-of-way, easements, mortgages, restrictions, surveys, title insurance policies, and other documents granting to Seller an interest in or otherwise affecting the New Projects, to the Knowledge of Seller, no breach or event of default exists, and no condition or event has occurred that with the giving of notice, the lapse of time, or both would constitute a breach or event of

default, by Seller or, to the Knowledge of Seller, Partners, and the Shareholders, any other person.

(b) Except as set forth on SCHEDULE 4.16, to the Knowledge of Seller, the New Projects each have or are expected to have all

necessary access to and from public highways, streets, and roads and to the Knowledge of Seller, Partners, and Shareholders, no pending or threatened Proceeding or other fact or condition exists that could limit or result in the termination of such access.

(c) To the Knowledge of Seller, the New Projects will, in the ordinary course of business, be connected to and serviced by electric, gas (if applicable), sewage, telephone, and water facilities, which facilities are in compliance, in all material respects, with all applicable laws and all installation and connection charges with respect thereto have been paid in full.

(d) To the Knowledge of Seller, no condemnation, eminent domain, or similar proceeding exists or, to Seller's, Partners' and Shareholders' Knowledge, is pending or threatened with respect to, or that could affect, any of the New Projects other than as may be contemplated in the Land Use Entitlements.

(e) To the Knowledge of Seller, the subdivision and improvements of the undeveloped real property of the New Projects will not violate, in any material respect, (i) any applicable law, including any building, set-back, or zoning law, ordinance, regulation, or statute, or other governmental restriction in the nature thereof, or (ii) any restrictive covenant affecting any such property.

(f) To the Knowledge of Seller, there is no moratorium applicable to any of the New Projects on (i) the issuance of building permits for the construction of houses, or certificates of occupancy therefor, or (ii) the purchase of sewer or water taps.

(g) To the Knowledge of Seller, each of the lots included in the New Projects, is stable and otherwise suitable for the construction of a residential structure as set forth in the soil report related to each New Project.

(h) To the Knowledge of Seller the New Projects do not contain wetlands or a level of radon above action levels of the U.S. Environmental Protection Agency and are not located within a "critical", "preservation", "conservation" or similar type of area. To the Knowledge of Seller no portion of the New Projects is situated within a "noise cone" such that the Federal Housing Administration will not approve mortgages due to the noise level classification of such real property.

(i) To the Knowledge of Seller the New Projects have not been used as a gravesite and/or landfill area.

(j) Except as set forth on SCHEDULE 4.24, to the Knowledge of Seller, no legal Proceeding is pending or threatened which involves any of the New Projects, or against Seller with respect to any of the New Projects; to the Knowledge of Seller all of the

developed New Projects, and the lots included therein are in compliance, with all applicable zoning and subdivision ordinances and the New Projects are, zoned to permit single family home construction; to the Knowledge of Seller none of the development-site preparation and construction work performed on the New Projects, has concentrated or diverted surface water or percolating water improperly onto or from the New Projects.

(k) Other than as provided in the respective land acquisition contract for the respective New Project, Seller has not granted to any person any contract or other right to the use of any portion of the New Projects or to the furnishing or use of any facility or amenity on or relating to the New Projects.

(l) To the Knowledge of Seller, the legal description of the New Projects, included in the Schedules to this Agreement accurately and completely describes the real property subject to any New Project contract and which Buyer is purchasing or acquiring an interest in under this Agreement. To the Knowledge of Seller, any improvements and buildings included within the New Projects are located within the boundary lines of the New Projects and do not encroach upon the land of any adjacent owner. To the Knowledge of Seller no improvements of any third person encroach upon the New Projects. To the Knowledge of Seller, other than as provided in the land acquisition contract for the respective New Project, no person has any unrecorded right, title or interest in the real property constituting the New Projects, whether by right of adverse possession, prescriptive easement or otherwise.

(m) To the Knowledge of Seller, the recorded easements, rights-of-way, covenants, and other title exceptions and survey matters do not adversely affect the planned beneficial use of the New Projects.

(n) Except as set forth on Schedule 4.20, to the Knowledge of Seller:

(i) All property adjacent to the New Projects is free from Hazardous Substances (other than Permitted Materials), and is not in violation of any Environmental Law.

(ii) No environmental lien in favor of any governmental entity has attached to any of the New Projects.

(o) To the Knowledge of Seller, there are no historical or archeological materials or artifacts of any kind or any Indian ruins of any kind located on the New Projects.

(p) To the Knowledge of Seller no part of the New Projects is "critical habitat" as defined in the Federal Endangered Species Act, 16 U.S.C. ss.ss.1531 et seq., as amended, or in regulations promulgated thereunder, nor are any "endangered species" or "threatened species" located on the New Projects, as defined therein.

(q) To the Knowledge of Seller, the New Projects are not located within a flood plain, flood way or flood control district as reflected in the currently adopted 100 year flood plain of the Federal Emergency Management Agency.

(r) To the Knowledge of Seller, other than as contemplated in the respective land acquisition agreements, no work has been performed on or about the New Projects or to any improvements located thereon within six (6) months prior to the date of this Agreement that has not been paid for or otherwise included in the liabilities assumed pursuant to Section 2.3.

4.17 OTHER PROJECTS.

(a) Attached to this Agreement as SCHEDULE 4.17 is a fact sheet (the " Project Fact Sheet") for each of the Other Projects which are specifically identified in the list of Other Projects set forth in the definitions provided in Article 1.

(b) Included in the respective Fact Sheet of Schedule 4.17 is a list of due diligence materials for each of such Other Projects (the "Due Diligence"), including but not limited to the following: (i) the applicable Other Project contracts, with any and all amendments, modifications and supplements thereto through the date hereof, true copies of which have been furnished to Buyer, (ii) the Preliminary Report for such Other Project, which includes the legal description thereof (to the extent, known to Seller) and a list of all exceptions to title included by the Title Company issuing the same, true copies of each of which has been furnished to Buyer, (iii) a schedule of all written due diligence reports and investigations received to date by Seller with respect to such Other Project, including (A) any Land Use Entitlements which currently exist therefor, (B) a Level One environmental study, if applicable, and any related testing reports or follow-up analysis, (C) any site plans, development plans, engineered drawings, or similar materials pertaining to improvements installed or to be installed in, upon, or for such Other Project, (D) a soils report, if available, (E) preliminary engineer's estimate with respect to improvement costs for such Other Project (if available), which is the most recent updated engineer's estimate if Seller has received more than one, for such Other Project, and (F) Seller's current pro forma project budget for the Other Project, if available, (iv) a list of consultants (inclusive of civil and soils engineers, environmental consultants, architects and other design professionals) which have been engaged by Seller or others to evaluate, plan, design or implement such Other Project or the due diligence investigation thereof, with addresses, telephone numbers, and principal contacts, (v) an appraisal of the Other Project, if available, (vi) Seller's proposed house plans for the Other Project, if available, and (vii) any other material reports, studies or data in written form received or prepared by Seller in connection with such Other Project.

(c) Seller does not absolutely warrant any aspect of the Other Project or the related Due Diligence, which shall be reviewed and evaluated by Buyer for its own account, but Seller does make the following representations with respect to each Other Project:

(i) Seller has not breached, defaulted in, canceled or terminated the Other Project contract or allowed it to lapse as of the date hereof;

(ii) Neither Seller nor, to the Knowledge of Seller, any other party, currently is in breach or default of any material contract, easement, title insurance policy,

covenants, conditions and restrictions, or other instrument or agreement affecting the Other Projects, inclusive of the Other Projects contract (except for any third party breaches identified in Schedule 4.17);

(iii) To Knowledge of Seller except as otherwise noted in materials referred to in Schedule 4.17, adequate arrangements exist for the provision of public streets and utility rights of way to serve the Other Projects, which are to be installed as provided in the Due Diligence, the Land Use Entitlements, and the Other Project contracts for such Other Project; provided, however, that any projection of timing or cost of installation of actual improvements is not warranted by Seller and shall be verified to Buyer's satisfaction through Buyer's review of Due Diligence and such other inquiries as Buyer may choose to make;

(iv) Seller has no current Knowledge or belief that the Other Projects cannot, in the ordinary course of development, be connected to and serviced by electric, gas (if applicable), sewage, telephone and water facilities in compliance in all material respects with all applicable laws, subject to payment of in-lieu fees, impact fees, mitigation fees, and installation charges and connection fees as required by applicable governmental authorities and public utilities or as specified in the applicable Land Use Entitlements, if any;

(v) To the Knowledge of Seller, no moratorium applicable to such Other Project will affect (A) the issuance of building permits for the construction of houses or certificates of occupancy therefor, or (B) the purchase of sewer or water for such Project;

(vi) Seller has no Knowledge that the lots (if constructed and complete) in such Other Projects are not, or (if not yet constructed and completed) cannot be made stable or otherwise suitable for construction of a residential structure by customary means and site preparation measures common in the area or as may be otherwise contemplated in the Due Diligence;

(vii) Except as otherwise noted in the Project Fact Sheet or in the relevant Other Project contract, the Other Projects, to the Knowledge of Seller, Partners and Shareholders, do not contain (A) wetlands, (B) a level of radon above action levels of the U.S. Environmental Protection Agency, (C) a "critical", "preservation", "conservation" or similar type of area as designated by any state or federal law, (D) areas located within "noise cone" such that the Federal Housing Administration will not approve mortgages due to the noise level classification thereof, (E) a gravesite, (F) landfill, (G) "critical habitat", as defined in the Federal Endangered species Act, 86 U.S.C. ss.ss. 1531, et seq., as amended, or in regulations promulgated thereunder, (H) Hazardous Substances (other than Permitted Materials) or the site of any past or present violation of Environmental Law, (I) Indian burials, (J) protected

archaeological or historic resources, or (K) a 100-year flood plain as designated on maps published by the Federal Emergency Management Agency;

(viii) Seller has no Knowledge that the Other Projects are subject to (A) any environmental lien in favor of any governmental entity not reflected in the relevant Preliminary Report, (B) any recorded easements, rights of way, covenants and other title matters which would materially adversely affect the anticipated development and sales thereof for residential purposes, (C) any zoning or land use restriction which would materially adversely affect the anticipated development thereof for residential purposes (but subject to Section 4.29, below, concerning availability or existence of Land Use Entitlements not yet available or issued), (D) any encroachments by improvements on adjoining property, any encroachment onto adjoining property by improvements on the Other Project, or any rights of possession or parties in possession (whether as lessees, tenants at sufferance or otherwise) who are not by the terms of the relevant Other Project contract required to be removed at the sole cost and expense of the land seller under the Other Project contract, or (E) any pending or threatened condemnation, action for eminent domain, or similar proceeding or threatened proceeding, other than as may be contemplated in the Land Use Entitlements or otherwise disclosed in the Other

Project contract or other Due Diligence for such Other Project.

(d) Prior to the Closing, Seller shall provide an updated and amended Other Project Fact Sheet for any Other Projects for which the current Other Project Fact sheet becomes inaccurate in any material respect to Seller Knowledge, whereupon the foregoing representations shall likewise.

4.18 ACQUIRED CONTRACTS.

(a) SCHEDULE 2.1(B)(I), SCHEDULE 2.1(B)(III), SCHEDULE 2.1(I)(I), and SCHEDULE 2.1(I)(II)(C) list as of the date hereof all of the Acquired Contracts. The provisions of this Section 4.18 shall apply to all Acquired Contracts entered into following the date of this Agreement.

(b) Each of the Acquired Contracts is valid, binding, and in full force and effect on Seller or L&R and to the Knowledge of Seller is valid, binding, and in full force and effect on third parties to the Acquired Contract. Except as set forth on the relevant Schedules to this Agreement, if applicable, no Acquired Contract has been amended or supplemented in any way and neither Seller nor L&R has and to the Knowledge of Seller no party no third party thereto has, assigned any of its rights or delegated any of its duties thereunder. True and complete copies of the Acquired Contracts have been delivered to Buyer.

(c) Except as set forth on SCHEDULE 4.18, no breach or default exists under any Acquired Contract and no event has occurred with respect thereto that with the lapse of time or action or inaction by Seller or, to the Knowledge of Seller, Partners, or Shareholders, any other party thereto, would result in a breach thereof or a default thereunder.

(d) Except as specifically disclosed in SCHEDULE 4.18: (i) since the date of the Financial Statements, no supplier or materialman has indicated that it will stop or decrease the rate of business done with Seller or L&R, except for changes in the ordinary course of the business of Seller or L&R; (ii) Seller and L&R have performed in all material respects the obligations required to be performed by them in connection with the Acquired Contracts and neither Seller nor L&R have been advised of or received any claim of default under any Acquired Contract; (iii) Seller has no present expectation or intention of not fully performing any obligation pursuant to any Acquired Contract; and (iv) there has been no material breach and, to the Knowledge of Seller, there is no anticipated material breach by any other party to any Acquired Contract.

(e) Upon the assignment of each Acquired Contract to Buyer pursuant hereto, and subject to any consent requirements contained therein, all rights of Seller, Livermore or Rohnert with respect to each Acquired Contract will inure to Buyer and each Acquired Contract will be enforceable by Buyer in the same manner as such Acquired Contract is enforceable by Seller.

(f) The assignment to Buyer of all of Seller's right, title, and interest in, to and under each Acquired Contract pursuant hereto will be free and clear of any lien except for Permitted Liens.

(g) Except as set forth in the Acquired Contracts, as of the Closing Date, neither Seller, nor L&R will owe any amount (whether absolute, contingent, or otherwise) with respect to any Acquired Contract, other than amounts incurred in the ordinary course of business consistent with past practices and this Agreement, which amounts will be properly recorded in the accounts payable ledger of Seller, Livermore or Rohnert and disclosed in the Closing Balance Sheets.

(h) Except as disclosed therein, no Acquired Contract (i) except with respect to Acquired Contracts relating to New Projects and Other Projects requires Seller or L&R to make purchases or pay for services in excess of the requirements of its business, or (ii) guarantees any obligation of another person or provides any type of indemnification whatsoever.

(i) Seller and L&R have paid all rental and other payments due under each personal property lease and real property lease (collectively, the "PROPERTY LEASES") under which Seller or L&R are the lessee in accordance with its terms. With respect to each such Property Lease, Seller and L&R have been in peaceable possession of the buildings, equipment, machinery, real property, vehicles, or other tangible property covered thereby since the commencement of the original term of such Property Lease. No indulgence, postponement, or waiver of Seller's or L&R's obligations under any such Property Lease has been granted by the lessor. Subject to the terms of the Property

Leases, Seller and L&R possess full right and power to occupy or possess, as the case may be, all of the buildings, equipment, machinery, real property, vehicles, and other tangible property covered by such Property Leases.

(j) With respect to any written or oral agreement, arrangement, commitment, contract, or lease that Seller or L&R enter into, or entered into on behalf thereof, after the date hereof, such agreement, arrangement, commitment, contract, or lease will satisfy all the representations and warranties set forth in this Section 4.18.

4.19 WARRANTIES. Except as set forth on SCHEDULE 4.19 and except for the standard warranties contained in Seller's marketing and sale materials for completed homes sold in the ordinary course of business, neither Seller, Livermore nor Rohnert have given or made any other express warranties to third parties with respect to any property or products sold or services performed by Seller and there are no facts or the occurrence of any event forming the basis of any present claim against Seller, Livermore or Rohnert for liabilities due to any express or implied warranty. SCHEDULE 4.19 also lists Seller's residential sales or contracts containing applicable guaranty, warranty, and indemnity provisions, copies of which have been provided to Buyer.

4.20 ENVIRONMENTAL MATTERS.

(a) To their Knowledge, Seller, Partners, Shareholders and L&R have at all times been in compliance with all Environmental Laws governing their business, operations, properties, and assets, including, without limitation: (i) all requirements relating to the Discharge and Handling of Hazardous Substances; (ii) all requirements relating to notice, record keeping, and reporting; (iii) all requirements relating to obtaining and maintaining Permits for the ownership of its properties and assets and the operation of their business, including Permits relating to the Handling and Discharge of Hazardous Substances; or (iv) all applicable writs, orders, judgments, injunctions, governmental communications, decrees, informational requests, or demands issued pursuant to, or arising under, any Environmental Laws.

(b) Except as set forth on SCHEDULE 4.20 there are no (and to the Knowledge of the Shareholders, Partners, or Seller, there is no basis for any) orders, warning letters, notices of violation (collectively "NOTICES") or Proceedings pending or, to Seller's, Partners', and Shareholders' Knowledge, threatened against or involving Seller, Seller's Business, L&R or the Acquired Assets issued by any Governmental Authority or third party with respect to any Environmental Laws or Permits issued to Seller or L&R thereunder in connection with, related to, or arising out of the ownership by Seller or L&R of their properties or assets or the operation of their business which have not been resolved to the satisfaction of the issuing Governmental Authority or third party in a manner that would not impose any obligation, burden, or continuing liability on Buyer in the event that the transactions contemplated by this Agreement are consummated, or which could have a material adverse effect on Seller's business, financial condition, or results of operations including, without limitation: (i) Notices or Proceedings related to Seller or L&R being a potentially responsible party for a federal or state environmental cleanup site or for corrective action under any applicable Environmental Laws; (ii) Notices or Proceedings in connection with any federal or state environmental cleanup site, or in connection with any of the real property or premises where Seller or L&R has transported, transferred, or disposed of Hazardous Substances; (iii) Notices or Proceedings relating to Seller or L&R being responsible to undertake any response or remedial actions or clean-up actions of any kind; or (iv) Notices or Proceedings related

to Seller being liable under any Environmental Laws for personal injury, property damage, natural resource damage, or clean up obligations.

(c) Except for the Permitted Materials and except as set forth on SCHEDULE 4.20, Seller has not Handled or Discharged, nor to the Knowledge of Shareholders, Partners, or Seller, allowed or arranged for any third party to Handle or Discharge, Hazardous Substances to, at, or upon: (i) any location other than a site lawfully permitted to receive such Hazardous Substances; (ii) any of the Real Property; or (iii) any site (x) which, pursuant to CERCLA or any similar state law has been placed on the National Priorities List or its state equivalent; or (y) with respect to which the Environmental Protection Agency or the relevant state agency or other governmental authority has notified Seller that such governmental authority has proposed or is proposing to place on the National Priorities List or its state equivalent. There has not occurred, nor is there presently occurring, a Discharge, or threatened Discharge, of any Hazardous Substance on, into, or beneath the surface of, or to the Knowledge of Shareholders, Partners, or Seller, adjacent to, any of the Real Property in an amount or otherwise

requiring a Notice or report to be made to a Governmental Authority or in violation of any applicable Environmental Laws.

(d) SCHEDULE 4.20 identifies the operations and activities, and locations thereof, if any, which have been conducted and are being conducted by Seller and L&R on any of the Real Property which have involved the Handling or Discharge of Hazardous Substances, other than Permitted Materials.

(e) Except as set forth on SCHEDULE 4.20, Seller or L&R do not use, and have never used, any Aboveground Storage Tanks or Underground Storage Tanks, and there are not now nor, to the Knowledge of Seller, have there ever been any Underground Storage Tanks beneath any of the Real Property that are required to be registered and/or upgraded under applicable Environmental Laws.

(f) SCHEDULE 4.20 identifies (i) all environmental audits, assessments, or occupational health studies undertaken since January 1, 1994 by Seller and L&R or their agents, or to their Knowledge, undertaken by any governmental authority or any third party, relating to or affecting Seller or any of the Owned Projects; (ii) the results of any ground, water, soil, air, or asbestos monitoring undertaken by Seller and L&R or their agents or, to the Knowledge of Seller and to the extent available or made known to Seller, undertaken by any governmental authority or any third party, relating to or affecting Seller, L&R or any of the Owned Projects which indicate the presence of Hazardous Substances at levels requiring a notice or report to be made to a governmental authority or in violation of any applicable Environmental Laws; (iii) all material written communications between Seller, Partners, or Shareholders and any governmental authority arising under or related to Environmental Laws; and (iv) all outstanding citations issued under OSHA, or similar state or local statutes, laws, ordinances, codes, rules, regulations, orders, rulings, or decrees, relating to or affecting either Seller or L&R or any of the Owned Projects.

4.21 TAX MATTERS.

(a) Except for current filings which are the subject of extensions under applicable procedures and which are identified in Schedule 4.21, Seller has filed all Tax Returns that Seller was required to file prior to the date hereof. All such Tax Returns were correct and complete in all material respects. Except as set forth in Schedule 4.21, all Taxes owed by Seller (whether or not shown on any Tax Return) with respect to Tax Returns the due date of which preceded the date hereof have been paid. Except as set forth in Schedule 4.21, all other Taxes due and payable by Seller with respect to periods ending on or as of the date of the Closing (whether or not a Tax Return is due on such date) have been paid or are accrued on the applicable Financial Statements or will be accrued on the books and records of Seller as of the Closing and made available to Buyer.

(b) Except as set forth on SCHEDULE 4.21, with respect to each taxable period for Seller ending prior to the date hereof or prior to the date of the Closing, (i) except for taxable periods which are open either such taxable period has been audited by the relevant taxing authority or the time for assessing or collecting Taxes with respect to each such taxable period has closed and each taxable period is not subject to review by an relevant taxing authority; (ii) no deficiency or proposed adjustment which has not been settled or otherwise resolved for any amount of Taxes has been asserted or assessed by any taxing authority against Seller; (iii) Seller has not consented to extend the time in which any Taxes may be assessed or collected by any taxing authority; (iv) Seller has not requested or been granted an extension of the time for filing any Tax Return to a date later than the Closing; (v) there is no action, suit, taxing authority proceeding, or audit or claim for refund now in progress, pending or threatened against or with respect to Seller regarding Taxes; (vi) Seller has not made an election or filed a consent under Section 341(f) of the Code (or any corresponding provision of state, local or foreign law); (vii) there are no liens on the assets of Seller relating or attributable to Taxes (other than liens for sales and payroll Taxes not yet due and payable and liens for non-delinquent current real property taxes, special taxes, and assessments paid with real property taxes), and Seller, Partners, and the Shareholders have no knowledge of any reasonable basis for the assertion of any claim relating or attributable to Taxes which, if adversely determined, would result in any such lien (other than those noted in the preceding parenthetical) on the assets of Seller; (viii) to Seller's Knowledge, Seller will not be required (A) as a result of a change in method of accounting for a taxable period ending on or prior to the date of the Closing, to include any adjustment under Section 481 of the Code (or any corresponding provision of state, local or foreign law) in taxable income for any taxable period (or portion thereof) beginning after the date of the Closing or (B) as a result of any "closing agreement," as described in

Section 7121 of the Code (or any corresponding provision of state, local or foreign law), to include any item of income or exclude any item of deduction from any taxable period (or portion thereof) beginning after the date of the Closing; (ix) Seller has not been a member of an affiliated group (as defined in Section 1504 of the Code) or filed or been included in a combined, consolidated or unitary income Tax Return; (x) Seller are not a party to or bound by any tax allocation or tax sharing agreement and has no current or potential contractual or other obligation to indemnify any other person with respect to Taxes; (xi) to Seller's Knowledge, no taxing authority will claim or assess any additional Taxes against Seller for any period for which Tax Returns have been

filed; (xii) no claim has ever been made by a taxing authority in a jurisdiction where Seller does not file Tax Returns that Seller is or may be subject to Taxes assessed by such jurisdiction; (xiii) Seller does not have a permanent establishment in any foreign country, as defined in the relevant tax treaty between the United States of America and such foreign country; (xiv) true, correct and complete copies of all income and sales Tax Returns filed by or with respect to Seller for the past three years have been furnished or made available to Buyer; (xv) Seller has disclosed on each Tax Return filed by Seller all positions taken thereon that could give rise to a substantial understatement of penalty of federal income Taxes within the meaning of Code Section 6662; and (xvi) except as set forth on Schedule 4.21, no sales or use tax will be payable by Seller as a result of this transaction, and there will be no non-recurring intangible tax, documentary stamp tax, or other excise tax (or comparable tax imposed by an governmental entity) as a result of this transaction.

(c) Seller and L&R have each been treated as a partnership for federal, state and local tax purposes since its organization, and each will be a partnership for federal, state and local income tax purposes up to and including the Closing Date.

(d) Any reference to the term "Seller" in this Section 4.21 shall refer to Seller and any subsidiary of Seller (whether or not such subsidiary qualifies as a "qualified subchapter S subsidiary" within the meaning of Code Section 1361(b)(3)(B)) and shall include Livermore and Rohnert.

4.22 RESTRICTIONS ON BUSINESS ACTIVITIES. With the exception of express provisions concerning such matters as house plan approvals, design, construction and marketing contained in the partnership agreements of L&R and with respect to the Owned Projects, New Projects, and Other Projects, there are no agreements (non-compete or otherwise), commitment, judgment, injunction, order, or decree to which Seller, Partners, or Shareholders are parties or otherwise binding on Seller which has or reasonably could be expected to have the effect of prohibiting or impairing any business practice of Seller, any acquisition of property (tangible or intangible) by Seller, or the conduct of the business of Seller.

4.23 INTELLECTUAL PROPERTY. SCHEDULE 4.23 sets forth a description of the Intellectual Property for which Seller and L&R have rights to use in the conduct of their business. To the Knowledge of Seller, the conduct of Seller's and L&R's business as presently conducted and the conduct and the use and exploitation of the Intellectual Property do not infringe or misappropriate any rights held or asserted by any person, and to the Knowledge of the Shareholders, Partners, and Seller, no person is infringing on the Intellectual Property. Except as set forth in the Acquired Contracts, no payments are required for the continued use of the Intellectual Property. None of the Intellectual Property has ever been declared invalid or unenforceable, or is the subject of any pending or to the Knowledge of Seller, threatened action for opposition, cancellation, declaration, infringement, invalidity, unenforceability, or misappropriation or like claim, action, or proceeding.

4.24 LITIGATION. Except as set forth on SCHEDULE 4.24, there are no suits, claims, actions, arbitrations, investigations, or proceedings entered against, now pending, or to Seller's, Partners', or Shareholders' Knowledge, threatened against Seller, Partners, Shareholders, and L&R before any court, arbitration, administrative or regulatory body, or any governmental agency which

may result in any judgment, order, award, decree, liability, or other determination which will or could reasonably be expected to have any material effect upon Seller and L&R, the Acquired Assets, or their businesses. Except as set forth on SCHEDULE 4.24, neither Seller nor L&R is subject to any continuing court or administrative order, writ, injunction, or decree applicable to them or their business, or to their property or employees, and neither Seller nor L&R is in default with respect to any order, writ, injunction, or decree of any court or federal, state, municipal, or other governmental department, commission, board, agency, or instrumentality.

4.25 EMPLOYEES. Attached as SCHEDULE 4.25 is a list of names, current

annual rates of salary, bonus, employee benefits, accrued vacation and sick time, sick pay, and other compensation and benefits and perquisites, including the provision of company owned automobiles, of all the employees and agents of Seller and L&R whose work relates, directly or indirectly, to the operation of the business of Seller and L&R. To the Knowledge of Seller, Partners, and Shareholders, no key employee of Seller and L&R, and no group of Seller's and L&R's employees, has any plans to terminate his, her, or its employment, Seller and L&R have no material labor relations problems pending, and Seller's and L&R's labor relations are satisfactory in all material respects. Seller and L&R have complied in all material respects with all laws relating to the employment of labor, including provisions thereof relating to wages, hours, equal opportunity, collective bargaining, and the payment of social security and other taxes. Except as set forth in SCHEDULE 4.25, Seller and L&R may terminate any employee, with or without cause, without liability or obligation other than for salary and bonuses accrued through the date of any such termination and for the obligations of Seller and L&R referred to in Section 4.26 below.

4.26 EMPLOYEE BENEFIT PLANS.

(a) With respect to all employees and former employees of Seller and L&R, except as set forth in SCHEDULE 4.26, Seller and L&R do not presently maintain, contribute to, or have any liability (including current or potential multi-employer plan withdrawal liability under ERISA) under any: (i) non-qualified deferred compensation or retirement plan or arrangement which is an "employee pension benefit plan" as such term is defined in Section 3(2) of ERISA; (ii) defined contribution retirement plan or arrangement designed to satisfy the requirements of section 401(a) of the Code, which is an employee pension benefit plan, (iii) defined benefit pension plan or arrangement designed to satisfy the requirements of Section 401(a) of the Code, which is an employee pension benefit plan; (iv) "multi-employer plan" as such term is defined in Section 3(37) of ERISA; (v) unfunded or funded medical, health, or life insurance plan or arrangement for present or future retirees or present or future terminated employees which is an "employee welfare benefit plan" as such term is defined in Section 3(1) of ERISA, except as required by Section 4980B of the Code or Sections 601 through 609 of ERISA; or (vi) any other employee welfare benefit plan.

(b) With respect to each of the employee benefit plans listed in SCHEDULE 4.26, Seller has furnished to Buyer true and complete copies of: (i) the plan documents (including any related trust agreements); (ii) the most recent determination letter received from the Internal Revenue Service; (iii) the latest actuarial valuation; (iv) the latest financial statement; (v) the last Form 5500 Annual Report; and (vi) all related trust agreements,

insurance contracts, or other funding agreements which implement such employee benefit plan. Neither Seller nor L&R, nor any of their respective officers, partners, employees or any other "fiduciary", as such term is defined in Section 3(21) of ERISA, has any liability for failure to comply with ERISA or the Code for any action or failure to act in connection with the administration or investment of such plans.

(c) With respect to each plan listed in SCHEDULE 4.26: (i) Seller and L&R have performed all obligations required to be performed by them under each such plan and each such plan has been established and maintained in accordance with its terms and in compliance with all applicable laws, statutes, rules, and regulations, including but not limited to the Code and ERISA; (ii) there are no actions, suits, or claims pending or threatened or anticipated (other than routine claims for benefits) against any such plan; (iii) each such plan can be amended or terminated after the Closing in accordance with its terms, without liability to Seller, L&R or Buyer; and (iv) there are no inquiries or proceedings pending or threatened by the Internal Revenue Service or the Department of Labor with respect to any such plan.

(d) With respect to the insurance contracts or funding agreements which implement any of the employee benefit plans listed in SCHEDULE 4.26, such insurance contracts or funding agreements are fully insured or the reserves under such contracts are sufficient to pay claims incurred.

(e) Each plan listed in SCHEDULE 4.26 that is intended to be qualified under Section 401(a) of the Code has been determined by the Internal Revenue Service to so qualify and each trust created thereunder has been determined by the Internal Revenue Service to be exempt from tax under Section 501(a) of the Code and nothing has occurred since the date of the most recent determination that would be reasonably likely to cause any such plan or trust to fail to qualify under Section 401(a) of the Code.

4.27 LABOR MATTERS. Seller and L&R are not parties to any collective bargaining agreement with any labor union or association. There are no

discussions, negotiations, demands, or proposals that are pending or that have been conducted or made with or by any labor union or association, and there are no pending or, to the Knowledge of Seller and L&R, threatened labor disputes, strikes, or work stoppages that may have a material and adverse effect upon Seller and L&R, the Acquired Assets, or the business of Seller and L&R. Seller and L&R are in material compliance with all federal and state laws respecting employment and employment practices, terms and conditions of employment, and wages and hours, and are not engaged in any unfair labor practices.

4.28 INSURANCE. SCHEDULE 4.28 lists and briefly describes each insurance policy and fidelity bond, including performance improvement bonds, maintenance bonds, labor and material bonds and other bonds related to the Owned Projects and New Projects (collectively, the "BONDS"), maintained by Seller and L&R with respect to their respective properties, assets, employees, officers, and partners and sets forth the date of expiration of each such insurance policy. All of such insurance policies and Bonds are in full force and effect and Seller and L&R are not in default with respect to their obligations under any of such insurance policies or Bonds. Except as set forth on SCHEDULE 4.28, there is no claim of Seller and L&R pending under any of such policies or Bonds as to which

coverage has been questioned, denied, or disputed by the underwriters of such policies or Bonds and there has been no threatened termination of, or material premium increase with respect to, any of such policies. To the Knowledge of the Shareholders, Partners, and Seller, the insurance coverage of Seller and L&R is customary for entities of similar size engaged in similar lines of business.

4.29 AFFILIATE TRANSACTIONS. Except as set forth on SCHEDULE 4.29, and except for each Partner's interest in Seller, no officer or partner of Seller or any member of the immediate family of any such officer or partner, or any entity in which any of such persons owns any beneficial interest (other than a publicly held corporation whose stock is traded on a national securities exchange or in the over-the-counter market and less than 1% of the stock of which is beneficially owned by any of such persons) (collectively "INSIDERS") has any agreement with Seller or any interest in any property (real, personal, or mixed, tangible or intangible) used in or pertaining to the business of Seller. For purposes of the preceding sentence, the members of the immediate family of an officer or partner shall consist of the spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law of such officer, director, or shareholder.

4.30 COMPLIANCE WITH LAWS. Seller and L&R and their officers, partners, agents, and employees have complied in all material respects with all material applicable laws and regulations of foreign, federal, state, and local governments and all agencies thereof which affect their business or the Acquired Assets and to which Seller and L&R may be subject. No claims have been filed against Seller and L&R alleging a violation of any such law or regulation, except as set forth in SCHEDULE 4.30. Without limiting the generality of the foregoing, Seller and L&R have not violated, or received a notice or charge asserting any violation of, OSHA, or any other state or federal acts (including rules and regulations thereunder) regulating or otherwise affecting employee health and safety. Seller and L&R have not given or agreed to give any money, gift, or similar benefit (other than incidental gifts of articles of nominal value) to any actual or potential customer, supplier, governmental employee, or any other person in a position to assist or hinder Seller and L&R in connection with any actual or proposed transaction.

4.31 PERMITS.

(a) Seller and L&R possess all approvals, authorizations, certificates, consents, franchise, licenses, Department of Real Estate ("DRE") reports, and permits necessary for the lawful conduct of their business, the absence of which would materially and adversely affect the business of Seller and L&R (collectively, the "Permits"); SCHEDULE 4.31 sets forth a list (including the expiration dates available to Buyer each of the Permits for Buyer's review. Such permits are in full force and effect, no violations have occurred with respect thereto, and to the best knowledge of Seller, no basis exists for any limitation, revocation or withdrawal thereof.

(b) Seller and L&R also possess (or there have been granted by the applicable governmental authorities with respect to each of the Owned Projects and, to the Knowledge of Seller, the New Projects (collectively, the "Projects")) the subdivision, development, construction and sale permits, DRE reports and other authorizations, approvals, and entitlements set forth in the schedules referred to herein (collectively "LAND USE ENTITLEMENTS"). Seller specifically discloses that with respect to each of the New Projects,

additional such approvals and entitlements are required, except that with respect to the Owned Projects no further discretionary approvals are required from any governmental agency to complete the development and construction of homes and the sale thereof in the respective Owned Project, there are in full force and effect validly issued building

permits for each home under construction or completed in each Owned Project through and including the date hereof, and Seller has is no notice of any pending or to the Knowledge of Seller threatened moratorium or other restriction that would preclude the obtaining of building permits for any homes in such Owned Project not yet under construction or for which building permits have not been obtained. With respect to New Projects or Other Projects Seller does not warrant or guaranty that all necessary Land Use Entitlements will be obtained, since these are discretionary entitlements subject to approval by planning commissions and other legislative bodies whose decisions-making can be neither controlled nor predicted by Seller, except that, to Seller's Knowledge, no decision-making body has denied or withheld any material Land Use Entitlements, nor has Seller been advised by any such governmental agency or authority that the necessary Development Entitlements for such New Projects or Other Projects cannot or will not be issued.

4.32 PARTNERSHIP RECORDS; MINUTE BOOKS. The partnership records of Seller and L&R made available to counsel for Buyer are the only partnership records of Seller and L&R and contain an accurate summary of all partnership meetings to the extent recorded. The minute books of Partners made available to counsel for Buyer are the only minute books of Partners and contain an accurate summary of all meetings of directors (or committees thereof) and shareholders or actions by written consent since the time of incorporation of SH and SFI to the extent available.

4.33 DISCLOSURE. Neither this Agreement nor any of the Schedules or Exhibits hereto contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading, and there is no fact which has not been disclosed to Buyer which materially adversely affects or could reasonably be anticipated to materially adversely affect the assets, including the Acquired Assets, financial condition or results of operations, customer, employee or supplier relations, business condition, prospects, or financing arrangements of Seller and L&R.

ARTICLE 5
CONDUCT OF SELLERS, PARTNERS, AND SHAREHOLDERS PENDING THE CLOSING

Seller, Partners, and Shareholders hereby covenant and agree that from the date hereof to the Closing Date:

5.1 CONDUCT OF BUSINESS PENDING THE CLOSING. Except as specifically contemplated in this Agreement, the business of Seller and L&R shall be conducted only in, and Seller shall take no action except in, the ordinary course, on an arm's length basis, and in accordance with all applicable laws, rules, and regulations and past custom and practice, including, without limitation, making any loans or any cash payments, or transferring any other assets or properties of Seller (for itself and as general partner of L&R) to any employee, officer, shareholder, or director of Seller; and Seller (for

itself and as general partner of L&R) shall maintain their facilities in good operating condition, ordinary wear and tear excepted; and Seller and L&R will not, directly or indirectly, do or permit to occur any of the following without the prior written consent of Buyer, which shall not be unreasonably withheld or delayed:

(a) Cancel or terminate or permit to be canceled or terminated their current insurance (or reinsurance) policies or permit any of the coverage thereunder to lapse, unless simultaneous with such termination, cancellation, or lapse, replacement policies providing coverage equal to or greater than the coverage under the canceled, terminated, or lapsed policies for substantially similar premiums are in full force and effect;

(b) Sell, lease, encumber, or otherwise dispose of any of the Acquired Assets, other than, in the case of lots and homes held for sale in the ordinary course, the sale of such lots or homes in the ordinary course of Seller's and L&R's business as previously conducted;

(c) Default under any material contract, agreement, commitment, or undertaking;

(d) Knowingly violate or fail to comply with any laws applicable to it or their business;

(e) Commit any act or permit the occurrence of any event or the existence of any condition of the type described in Section 4.11;

(f) Fail to maintain and repair their assets and properties in accordance with good standards of maintenance and as required in any leases or other agreements pertaining thereto;

(g) Except in the ordinary course of business consistent with historical practices enter into or modify any employment, severance, or similar agreements or arrangements with, or grant any bonuses, salary increases, or severance or termination pay to, any officers, directors, employees, or consultants, or adopt or amend any bonus, profit sharing, compensation, stock option, pension, retirement, deferred compensation, employment, or other benefit plan, trust, fund, or group arrangement for the benefit or welfare of any officers, directors, or employees;

(h) Except in the ordinary course of business consistent with historical practices modify or terminate any of the Acquired Contracts or enter into any new Acquired Contract;

(i) Acquire (by merger, exchange, consolidation, acquisition of stock or assets, or otherwise) any corporation, partnership, joint venture, or other business organization or division or material assets thereof;

(j) Amend Sterling's, Livermore's, or Rohnert's Partnership Agreement other than as contemplated by this Agreement;

(k) Issue or create any additional partnership interests in Seller;

(l) Issue or create any warrants, obligations, subscriptions, options, or other commitments under which any additional partnership interests might be directly or indirectly authorized, issued, or transferred, or incur any indebtedness for borrowed money or issue any debt securities except the borrowing of working capital in the ordinary course of business and consistent with past practice;

(m) Except in the ordinary course of business consistent with historical practices (or as provided in existing loan or partnership documentation of L&R to be paid at the time of closing of sales of residential units) pay any obligation or liability, fixed or contingent, other than current liabilities;

(n) Waive or compromise any right or claim (other than as required to resolve any pending or threatened litigation disclosed in the Schedules attached hereto) or warranty claims within the limits of the Warranty Reserve; or

(o) Agree to do any of the actions described in the preceding clauses (a) through (n).

5.2 BUSINESS RELATIONSHIPS. Seller (for itself and as general partner of L&R), Partners, and Shareholders will exercise their best efforts to (a) preserve intact their business organization and goodwill, (b) keep available the services of their officers and employees as a group (except as otherwise provided in Section 6.1), and (c) maintain satisfactory relationships with suppliers, distributors, customers, and others having business relationships with it.

5.3 TAX ON PRIOR SALES. To the extent such certificates are prepared by the applicable state taxing authority, if applicable, Seller (for itself and as general partner of L&R) agrees to furnish to Buyer certificates from the state taxing authorities and any related certificates that Buyer may reasonably request as evidence that all sales and use tax liabilities of Seller accruing before the Closing Date have been fully satisfied or provided for.

5.4 NOTIFICATION OF CERTAIN MATTERS. Seller (for itself and as general partner of L&R) shall (a) confer on a regular basis with representatives of Buyer and report operational matters and the general status of ongoing operations; (b) notify Buyer of any material adverse change in the normal course of their business or in the operation of their properties and of any governmental or third party complaints, investigations, or hearings (or communications indicating that the same may be contemplated); (c) not take any action which would render, or which reasonably may be expected to render, any representation or warranty made by it in this Agreement untrue at, or at any time prior to, the Closing; and (d) promptly notify Buyer if Seller shall discover that any representation or warranty made by it in this Agreement was when made, or has subsequently become, untrue.

5.5 TRANSFER OF PERMITS. Seller, Partners, and Shareholders will use their best efforts to assist Buyer to effect the assignment or other transfer of Permits, to the extent such Permits are transferable, from Seller to Buyer as of or as soon as practicable after the Closing Date.

ARTICLE 6
ADDITIONAL AGREEMENTS

6.1 EMPLOYMENT. All employees of Seller (and such employees of L&R who are on Seller's payroll and can be terminated consistent with the terms of the partnership agreements of L&R) will be terminated by Seller and L&R on and as of

the Closing Date. Seller and L&R shall be responsible for any severance and/or other payments, including, but not limited to, other compensation, benefits, and perquisites, incurred in connection therewith and during the period prior to the Closing Date. After the Closing Date, Buyer will agree to hire such employees of Seller and L&R on an "at will" basis as Buyer determines in its sole discretion, and Seller and L&R will cooperate with Buyer to that end; PROVIDED, HOWEVER, that Buyer hereby agrees to engage Hafener as an employee of Buyer and as President or General Manager of NC Company pursuant to the terms of that certain employment agreement, to be entered into, by and between Buyer and Hafener, in the form attached hereto as EXHIBIT C (the "HAFENER EMPLOYMENT AGREEMENT").

6.2 BREAK-UP FEE. If the transactions contemplated by this Agreement are not consummated due to (a) termination by Seller pursuant to Section 10.1(b)(iii) or (b) Seller's refusal to close the transaction contemplated hereby in the absence of a breach by either party and within twelve months of May 1, 1998, Seller and/or L&R signs a letter of intent or other agreement relating to the acquisition of a material portion of its assets or business, in whole or in part, including the assets of L&R whether through direct purchase, merger, consolidation, or other business combination (other than sales of inventory or immaterial portions of its assets in the ordinary course) and such transaction is ultimately consummated, then immediately upon such closing, Seller shall pay to Buyer the sum of $250,000 plus an amount necessary to reimburse Buyer for all reasonable fees and expenses (not to exceed $100,000) incurred in connection with the transaction contemplated by this Agreement (the "BREAK-UP FEE"). Seller shall use its best efforts to obtain all consents required to transfer the Acquired Assets by June 22, 1998. If Seller is unable to obtain such consents, and exercises its option to terminate this Agreement pursuant to Section 10.1, Seller shall be relieved of any Break-Up Fee.

6.3 NO NEGOTIATIONS. Seller, Partners, or Shareholders shall not, directly or indirectly, through any officer, director, agent, or otherwise, solicit, initiate, or encourage submission of any proposal or offer from any person or entity (including any of their officers, directors, partners, employees, or agents) relating to any liquidation, dissolution, recapitalization, merger, consolidation, or acquisition or purchase of all or a material portion of the assets of, or any equity interest in, Seller or other similar transaction or business combination involving Seller or L&R, or participate in any negotiations regarding, or furnish to any other person any information with respect to, or otherwise cooperate in any way with, or assist, participate in, facilitate, or encourage, any effort or attempt by any other person or entity to do or seek any of the foregoing. Seller shall promptly notify Buyer if any such proposal or offer, or any inquiry from or contact with any person with respect thereto, is made and shall promptly provide Buyer with such information regarding such proposal, offer, inquiry, or contact as Buyer may request.

6.4 PUBLIC ANNOUNCEMENTS. The parties hereto shall not issue any press release or public announcement, including announcements by any party for general reception by or dissemination to employees, agents, or customers, with respect to this Agreement and the other transactions

contemplated by this Agreement without the prior written consent of the other parties hereto (which consent shall not be withheld unreasonably); PROVIDED, HOWEVER, that Buyer may make any disclosure or announcement that, in the opinion of its counsel, it is obligated to make pursuant to applicable law or regulation of the New York Stock Exchange or any national securities exchange, as applicable, in which case Buyer shall reasonably consult with Seller prior to making such disclosure or announcement; PROVIDED FURTHER, that, upon execution of this Agreement, Buyer may make a public announcement of such occurrence in a press release reviewed by Seller prior to publication.

6.5 CONFIDENTIALITY. Each party hereto, and its officers, directors, partners, agents, and affiliates, will hold in strict confidence, and will not divulge, communicate, use to the detriment of any other party hereto or for the benefit of any other person or persons, or misuse in any way, any financial information or other data obtained in connection with this Agreement, including, without limitation, any confidential information or trade secrets of such other party, personnel information, secret processes, know how, customer lists, formulas, or other technical data; and if the transactions contemplated by this Agreement are not consummated, each party hereto, and its officers, directors, agents, and affiliates, will return to each other party all such data and information as such other party may reasonably request, including, without limitation, work sheets, test reports, manuals, lists, memoranda, and other documents prepared by or made available in connection with this transaction. The parties hereto may disclose such information to their respective attorneys, accountants and other agents so long as they agree to keep such information confidential.

6.6 BOOKS AND RECORDS. Seller and Buyer will each make available to the other party, at the other party's request and expense, from time to time, for copying by the other party at any reasonable time for a six-year period after the Closing Date, any and all books and records of Seller and L&R relating, directly or indirectly, to the business of Seller or L&R or the Acquired Assets which are reasonably necessary with respect to Buyer's ongoing operations for

inspection or for the prosecution or defense of any litigation, arbitration, proceeding or audit of Seller, L&R and Partners or Shareholders or in which they are or may become a party.

6.7 ADDITIONAL AGREEMENTS. Subject to the terms and conditions herein provided, each of the parties hereto agrees to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper, or advisable to consummate and make effective as promptly as practicable the transactions contemplated by this Agreement, including obtaining all necessary waivers, consents, and approvals and effecting all necessary registrations and filings and submissions of information requested by governmental authorities. Seller, at any time before or after the Closing, will execute, acknowledge, and deliver any further deeds, assignments, conveyances, and other assurances, documents, and instruments of transfer reasonably requested by Buyer, and will take any other action consistent with the terms of this Agreement that may reasonably be requested by Buyer, for the purpose of assigning, transferring, granting, conveying, and confirming to Buyer, or reducing to possession, any or all property to be conveyed and transferred by this Agreement. If requested by Buyer, Seller further agrees to prosecute or otherwise enforce in its own name for the benefit of Buyer, any claims, rights, or benefits that are transferred to Buyer by this Agreement and that require prosecution or enforcement in Seller' names. Any prosecution or enforcement of claims, rights, or benefits under this Section shall be solely at Buyer's expense, unless the prosecution or enforcement is made necessary by a breach of this Agreement by Seller.

6.8 NON-COMPETE. Pyle shall enter into a four (4) year Non-Compete Agreement with Buyer pursuant to which Pyle shall agree not to compete with Buyer; such Non-Compete Agreement to be in the form of EXHIBIT D attached hereto (the "PYLE NON-COMPETE AGREEMENT"). For a period of four (4) years following the Closing, Seller and SH Capital likewise shall not engage in any business (other than the winding up, settling and closing of its affairs, the payment and discharge of Excluded Liabilities, the disposition of Excluded Assets, the defense and settlement of litigation, and the performance of its obligations under this Agreement), including, but not limited to, the home-building or residential lot development business, after the Closing.

6.9 RIGHT TO ENTER AND INSPECT. From time to time prior to the Closing, Buyer may enter the Real Property and other property of Seller with Buyer's representatives, contractors, and agents to examine the Real Property and the Acquired Assets, conduct soil tests, environmental studies, engineering feasibility studies, and other tests and studies, and otherwise to evaluate, inspect and examine the Acquired Assets and the business operations and affairs of Seller. Buyer hereby agrees to indemnify, defend and hold Seller and L&R harmless from and against any and all loss, expense, claim, damage and injury to person or property resulting from the negligent acts of Buyer, its employees, consultants, engineers, agents and contractors in connection with the performance of any investigations, tests and studies as contemplated herein, provided, however, that nothing herein shall be construed as imposing upon Buyer any obligation or liability for the fact of its discovery or disclosure of any defect or problem with any of the Acquired Assets or Real Property. Buyer further shall pay all of its consultants, agents and contractors and shall indemnify, defend and hold harmless Seller and L&R from any and all liens and liabilities to any of Buyer's vendors, employees, officers and directors by reason of every such entry, testing, studies or inspections.

6.10 ENVIRONMENTAL REVIEW.

(a) ENVIRONMENTAL ASSESSMENTS. Buyer may select a consultant (the "CONSULTANT") to perform Phase I environment site assessments with respect to the Real Property. Upon its availability, Buyer will deliver the final report of such assessments to Seller. If any such assessment recommends the performance of additional investigation (including, without limitation, Phase II environmental site assessments), such additional investigation shall, if requested by Buyer, be undertaken promptly and delivered to each of Seller and Buyer. The environmental assessments and investigations undertaken pursuant to this SECTION 6.10 are collectively referred to herein as the "ENVIRONMENTAL ASSESSMENTS". The costs of the Environmental Assessments shall be paid by Buyer.

(b) REMEDIATION REPORTS. If any of the Environmental Assessments reveals any remediation work or other actions which must be completed in order to bring the Real Property into compliance with applicable Environmental Laws or to eliminate any potential environmental liability, the Consultant shall be directed to prepare and to deliver to each Seller and Buyer a written proposal setting forth in reasonable detail the scope of required remediation and an estimate of the cost of completing such remediation. For the purposes of SECTION 6.10, "required remediation" shall mean any action necessary to (i) comply with any governmental order, (ii) comply with any Environmental Law effective at the Closing or (iii) eliminate a potential environmental liability (collectively the "REMEDIATION STANDARD"), as applicable to the Real Property or the operation thereof by Seller as of the

Closing Date. For the purposes of SECTION 6.10 and with respect to any Underground Storage Tanks at the Real Property, "required remediation" also shall include obtaining a closure letter from the governing state agency confirming that the state agency has approved closure of the Underground Storage Tanks and will not take any further action related to any liability associated with any Underground Storage Tank on the Real Property.

(c) REMEDIATION WORK. Promptly upon completion of the Consultant's proposal referred to in SECTION 6.10(B), Seller, in its sole and absolute discretion, may, by written notice, notify Buyer either (i) that it will not undertake such remediation work, or (ii) that it will do so. If Seller notifies Buyer that it will not undertake the remediation work, Buyer may then either (i) notify Seller that it will not purchase such Real Property or (ii) elect to close and assume the responsibility for such work at Buyer's sole expense following the Closing. If Seller instead notifies Buyer that it will undertake the remediation work, Seller shall engage a reliable environmental engineering firm reasonably acceptable to Buyer and authorized by any applicable federal, state, or local law, policy, or regulation to perform any required remediation. Seller shall use its best efforts to cause such required remediation to be completed on or before the Closing Date, and Seller shall bear all costs of such required remediation; provided that the completion of all such required remediation shall be a condition to Buyer's obligations to consummate the transactions contemplated by this Agreement. Buyer may, in its sole discretion, authorize Seller to defer any portion of the required remediation which Seller and its contractors are unable to complete prior to Closing, in which case Seller shall cause the portion of the required remediation so deferred to be completed as promptly as practicable, but in no event later than 60 days following Closing, at Seller's sole expense. Buyer may monitor the performance of the required remediation and application of the Remediation Standard, and at its election may cause the Consultant to review the performance of the required remediation. If Buyer directs the Consultant to undertake such review, the required remediation shall be deemed completed only upon certification of its completion by the Consultant. If, however, there is a dispute as to the performance of the required remediation or the application of the Remediation Standard, any such dispute shall be settled by a mutually agreed-upon environmental expert not otherwise involved in the required remediation, whose determination shall be final and binding on the parties.

6.11 TITLE MATTERS.

(a) At Closing, Seller shall cause to be delivered to Buyer a California Land Title Association owner's policy of title insurance (a "Title Policy") naming Buyer as insured, in a policy amount as follows: (i) for each New Project an optionee or contract buyer's policy in the policy amount set forth in Schedule 6.11(b) hereof, provided that NC Company has not already obtained title policy with respect to Early Purchase Property; and (ii) for the Owned Projects held by L&R, if available an endorsement to the existing respective owner's title policies of L&R reflecting the acquisition by Buyer of the general partner's interest in L&R, respectively, and confirming continued effect of such title policy or, in the alternative, a new policy naming Livermore and Rohnert, respectively, as insured, showing the substitution of Buyer as general partner of the respective partnership (Livermore or Rohnert), and otherwise conforming to the requirements hereof.

(b) With respect to each Title Policy, the condition of title insured shall be subject to the Approved Conditions of Title, as herein provided. For purposes of this Agreement, the term "Approved Conditions of Title" shall mean the following:

(i) All ad valorem and other real property taxes and assessments paid with taxes for the current tax year that have not yet become delinquent.

(ii) Any exceptions for mechanic's and other liens occurring by reason of work of improvement under construction or in progress on the respective property (provided nothing herein shall relieve Seller of Seller's obligations under other provisions of this Agreement with regard to pre-Closing payables.

(iii) The liens for future assessments and taxes, including, but not limited to, taxes resulting form changes of ownership and assessments related from the court to the recording of special tax lien notices and other matters of record shown in the Preliminary Report, and

(iv) Any and all other exceptions and exclusions of record as reflected in the respective Preliminary Report other

than solely (A) any deed of trust or security instrument securing a loan to Seller or to L&R which is to be paid off and retired at closing under other provisions of this Agreement, or (B) matters (such as identification affidavits, corporate resolutions, and other evidences of authority or capacity on the part of Seller and/or L&R) which are required by the Title Company to be satisfied prior to Closing.

It is specifically understood and agreed that Seller shall have no obligation, either with respect to the Owned Projects or with respect to the New Projects, to remove or cause to be removed any exceptions, liens or exclusions from title other than as stated in clause (iv) of the preceding sentence, or to procure any amendment thereto, and that Buyer's sole remedy with regard to any condition of title not acceptable to Buyer, shall be to cancel and terminate this Agreement under the terms of Section 10.1(c) or 10.4, below. It is further understood and agreed that with regard to any of the New Projects, various liens and encumbrances on the interest of the respective land seller thereunder may exist and not be removed or reconveyed of record notwithstanding the terms of the respective New Project Contract (which may require such land seller to do so at or prior to the Closing of the respective land acquisition thereunder), and nothing herein shall require Seller to procure from any such land seller any change or alteration in the condition of title of such land seller except as, when and to the extent Seller has a current, present right to obtain such removal or change under the terms of the respective contract as of the date such removal is so required.

6.12 TAX ELECTIONS. At Buyer's option, and to the extent permitted under the respective partnership agreements of Livermore and Rohnert, (a) Buyer may make an election under Section 754 of the Code and Treasury Regulations ss.1.754-1 to adjust the basis of the property of Livermore

and Rohnert under Section 743(b) of the Code with respect to Buyer's purchase of Seller's general partnership interest in L&R.

6.13 L&R ALLOCATION. The parties agree that any gains and losses related to the general partner of each of Livermore and Rohnert shall be allocated prior to Closing to Seller and after Closing to Buyer.

6.14 WARRANTY SERVICE. Buyer shall perform continuing warranty service as directed and approved by Seller for home closings of Seller which occurred prior to Closing. Such warranty service shall continue for the shorter of (i) ten years or (ii) the applicable statute of limitations with respect to warranty claims. Seller shall pay directly for all out-of-pocket costs to repair the home, including the cost of materials and laborers, and shall reimburse Buyer for Buyer's actual cost in performing supervision of such warranty service, including but not limited to all employee overhead costs. The projects of Seller for which such warranty service shall apply are the Completed Projects identified in Section 2.2(c) and residential units located in the Owned Projects which close prior to Closing.

6.15 FORMATION OF STERLING COMMUNITIES CORPORATION. Promptly following the execution of this Agreement Buyer shall duly form and organize "Sterling Communities Corporation" under California law; Sterling shall assign the right to such name to Buyer. If after the formation of Sterling Communities Corporation, Seller provides a Purchase Notice to Buyer as defined below, Seller shall transfer and assign the New Projects to Sterling Communities Corporation and Buyer through Sterling Communities Corporation shall comply with the provisions of Section 6.16(a) below.

6.16 NEW PROJECTS.

(a) NOTICE OF ACCELERATED PURCHASE OF LAND UNDER THE NEW PROJECTS . Buyer acknowledges that, prior to the Closing Date, Seller may be required under the terms of the New Projects to purchase some or all of the real property subject to the New Projects (such property being referred to in this Agreement as the "EARLY PURCHASE PROPERTY"). A detailed list of lots and their respective price with respect to the Early Purchase Property is set forth on Schedule 6.16(a). If Seller is required to purchase any Early Purchase Property, Seller shall give notice (a "PURCHASE NOTICE") of such fact to Buyer at least five (5) business days prior to the date that Buyer would be required to make such purchase, specifying in detail the Early Purchase Property to be purchased and the terms of such purchase, including the date such purchase is to be closed (an "EARLY CLOSING DATE"). If, under a New Project, Seller is entitled to extend the date for purchase of any Early Purchase Property subject thereto until after the Closing, without default, penalty, or increase in the purchase price for the Early Purchase Property, Seller shall timely exercise its rights to so extend.

(b) BUYER'S OBLIGATION TO PURCHASE EARLY. If Seller gives a Purchase Notice to Buyer as permitted by this Section 6.16, Buyer (either through NC Company which shall be Sterling Communities Corporation or through a land banking entity) agrees to purchase the Early Purchase Property designated in the Purchase Notice on the Early Closing Date,

directly from the seller of such Early Purchase Property, on and subject to the following terms and conditions:

(i) Prior to the Early Closing Date, Buyer shall have completed its due diligence with respect to the Early Purchase Property and the related New Projects, and Buyer shall be satisfied with the results of such due diligence, in Buyer's sole discretion;

(ii) All of the conditions precedent to the purchase of the Early Purchase Property at the Closing, as if such Early Purchase Property were Real Property, shall have been satisfied in Buyer's sole discretion or otherwise waived by Buyer as of the Early Closing Date;

(iii) All of the representations, warranties and covenants of Seller with respect to Early Purchase Property, as if such Early Purchase Property were Real Property, shall be true and correct as of the Early Closing Date;

(iv) The seller under the applicable New Projects shall have consented in writing to:

(1) The assignment of the rights of Seller, as buyer, under the applicable New Projects to Buyer or Sterling Communities Corporation and the assumption by Buyer or Sterling Communities Corporation of the obligations of Seller under the New Projects, as they relate to the Early Purchase Property; and

(2) The terms of the Stock Purchase Agreement described in SECTION 6.16(B)(VIII),

and, in addition, the seller shall have agreed that, upon the closing of the Stock Purchase Agreement by Seller, Buyer is fully released from all further obligation or liability under the New Projects or otherwise with respect to the Early Purchase Property, such consents and agreements to be in form and substance satisfactory to Buyer in Buyer's sole discretion;

(v) The purchase of the Early Purchase Property shall be on the terms and conditions set forth in the applicable New Projects, and, to the extent not inconsistent with the terms of this SECTION 6.16, the terms of this Agreement as they relate to Real Property, as if the Early Purchase Property were Real Property;

(vi) The entire amount shall be paid by Buyer to purchase the Early Purchase Property and any deposits shall be retained by Buyer;

(vii) At the closing of the purchase of the Early Purchase Property, Seller shall assign to Buyer, and Buyer shall assume, all of the rights and obligations of

Seller, as buyer, under the applicable New Projects as they relate to the Early Purchase Property; and

(viii) Upon the execution of this Agreement, Seller and Buyer will enter into a stock purchase agreement with Buyer obligating Seller to purchase all the capital stock of Sterling Communities Corporation on the terms and conditions set forth in the form of stock purchase agreement attached hereto as EXHIBIT F (the "STOCK PURCHASE AGREEMENT"). The effective date of the Stock Purchase Agreement shall be the date in which the Buyer exercises its rights to not close this transaction under Section 7.2 of this Agreement.

(c) FAILURE TO ACQUIRE EARLY PURCHASE PROPERTY. If Buyer for any reason fails to acquire an Early Purchase Property under the terms of this Section 6.16, regardless of cause, on or before the date designated by Seller for such acquisition, then (i) Seller shall have the option either to close and acquire such New Project utilizing the proceeds of a Wells Fargo Participation Loan referred to in Section

6.17, below, or (ii) not to close such Early Purchase Project, thereby waiving and forfeiting to the Seller thereunder any forfeitable option consideration or deposits thereunder. No such action or election by Seller, regardless of cause shall give rise to any liability or obligation the part of Seller to Buyer. In the event that Seller so utilizes a Wells Fargo Participating Loan to acquire such property, the parties acknowledge that Wells Fargo will have a continuing participant interest in such New Project following the Closing hereunder, and Seller shall not be in breach of any representation or warranty by reason of the existence of such Wells Fargo loan nor of the participation interest of Wells Fargo therein. In the event that Seller acquires such property using the Wells Fargo Participation Loan, such loan shall be treated as an Acquired Contract, provided Seller obtains consent to transfer such contract.

6.17 WELLS FARGO PARTICIPATING LOANS. Wells Fargo, N.A. has committed to finance Whitney Oaks and Wildhorse with certain participating loans, which require a $159,720 and $158,884, respectively, commitment fee for availability of each loan. Prior to Closing, Buyer or Sterling Communities Corporation shall make such payment for either Whitney Oaks or Wildhorse, but not both. The payment of the first commitment fee by Buyer shall not be deducted from the Purchase Price. At Closing, Wells Fargo shall have either (i) waived the other payment, (ii) converted the remaining participating loan into a pure acquisition and development loan without participating rights, or (iii) if (i) or (ii) have not been completed, then Buyer shall make such additional payment; provided, however, that the Purchase Price as set forth in Section 2.4 shall be reduced by the payment Buyer makes.

6.18 PARTNERSHIP AGREEMENTS. From and after the Closing, Buyer shall succeed to and shall be responsible for the performance and discharge of all of the obligations of the general partner under the respective partnership agreement of Rohnert and Livermore, shall cause to be filed in the Office of the Secretary of State of the State of California, an LP-2 Certificate of Amendment for each of Livermore and Rohnert, which shall be countersigned by both Seller and Buyer providing for the substitution of NC Company for Seller as the general partner of such partnership. Excepting solely claims for pre-Closing breaches or default by Seller under the terms of the respective partnership agreement of Livermore and Rohnert, Seller shall have no obligations or liabilities as general partner

of the respective partnership and from and after the Closing, NC Company shall be solely responsible for the performance and conduct of all of the obligations and undertaking of the general partner under the respective partnership agreement.

6.19 NC COMPANY. From and after the Closing, Buyer shall not, nor shall any entity or entities owned or controlled by Buyer or in which Buyer has more than a ten percent (10%) interest (a "Buyer Affiliate") conduct any residential real estate development or construction business in Northern California (defined as any location north of the east-west line passing through the southernmost point of the city limits of the City of Fresno) other than through NC Company. All of the Acquired Assets and any and all new residential real estate development projects acquired by Buyer in Northern California from any source shall be held and operated in NC Company. If Buyer or any Buyer Affiliate violates the terms of this Section 6.19, the Earn-Out Payment shall be increased to incorporate the results of operations and assets in Northern California not so held and operated in NC Company, unless Seller otherwise elects in writing. If Buyer should discontinue it Northern California operations and Hafener's employment is terminated, Hafener shall be relieved of the non-compete provisions of the Hafener Employment Agreement.

ARTICLE 7
CONDITIONS

7.1 CONDITIONS TO OBLIGATION OF SELLER, PARTNERS AND SHAREHOLDERS. The obligations of Seller, Partners, and Shareholders to close this transaction are subject to the satisfaction, in their sole and absolute discretion (or waiver by them in writing), of the following conditions on and as of the Closing:

(a) ABSENCE OF CERTAIN ACTIONS AND EVENTS.

(i) There shall not be threatened, instituted, or pending any action or proceeding, before any court or governmental authority or agency, domestic or foreign: (A) challenging or seeking to make illegal, or to delay or otherwise directly or indirectly to restrain or prohibit, the consummation of the transactions contemplated hereby, or seeking to obtain damages in connection therewith; or (B) invalidating or rendering unenforceable any material provision of this Agreement (including without limitation any of the Exhibits or Schedules hereto); and there shall not be any action taken, or any statute, rule, regulation, judgment, order, or injunction proposed, enacted, entered, enforced, promulgated, issued, or deemed applicable to the transactions contemplated hereby by any federal, state, or foreign court,

government, or governmental authority or agency, which may, directly or indirectly, result in any of the consequences referred to in clauses (A) and (B) or otherwise prohibit consummation of the transactions contemplated hereby; and

(ii) There shall not have occurred any of the following events having a material adverse effect on Buyer: (A) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by United States authorities on the extension of credit by lending institutions; (B) a commencement of war, armed hostilities, or other international or national calamity

directly or indirectly involving the United States; or (C) in the case of any of the foregoing existing at the date hereof, a material acceleration or worsening thereof.

(b) TRUTHFULNESS OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Buyer set forth in Article 3 shall be true and correct as of the Closing Date as if made at and as of the Closing Date.

(c) COMPLIANCE. Buyer shall in all material respects have performed each obligation and agreement and complied with each covenant to be performed and complied with by it hereunder at or prior to the Closing.

(d) RELEASE OF GUARANTIES. Buyer and Seller shall work together to obtain the release of Seller, Partners and Shareholders of and from any and all liabilities under (i) loan documents, guarantees and surety bonds with respect to all existing construction financing by Bank of the West for Livermore and Rohnert, (ii) the partnership agreements of Livermore and Rohnert, and (iii) the loan documents, guarantees, and surety bonds, if any, for the Wells Fargo participation loans referred to in Section 6.17; and (iv) any other guarantees and surety bonds related to the Acquired Assets; provided, however of the parties are unable to obtain such releases, Buyer shall indemnify and hold harmless the Seller, Partners and Shareholders from any liabilities or losses.

(e) BOARD APPROVAL. Buyer on or before June 12, 1998, shall have received the consent of its Board of Directors to consummate the transactions pursuant to this Agreement and shall have provided evidence of the same to Seller no later than June 15, 1998.

(f) CONSENT AND ESTOPPEL OF LENDERS. With respect to the two construction deeds of trust on the property of Livermore and Rohnert, which is to be an Assumed Liability and shall remain in place following the Closing and not to be paid off in full at Closing, the lender under such financing shall have expressly consented and agreed to waive acceleration under the due-on transfer provision concerning entity interests in such loan documents without charge or fee. In the alternative, at Buyer's election, Buyer may utilize cash to pay off such loans in full (without deduction or offset against the Purchase Price).

(g) CONSENT AND ESTOPPEL OF WEYERHAEUSER. The respective limited partners of Livermore and Rohnert shall have executed a consent to the substitution of NC Company for Seller under the terms of the partnership agreement, which consent shall further (i) authorize the amendment of the partnership agreement to reflect such substitution as of the Closing, (ii) authorized the filing of an LP-2 Certificate of Amendment to reflect the change in the general partner as of Closing, (iii) release Seller from any further obligations under such partnership agreement as of the Closing, and (iv) provide for the execution by NC Company of the partnership agreement of Rohnert and Livermore, respectively, and the assumption of liabilities and obligations of the general partner under such partnership agreement from and after the Closing.

(h) INSURANCE. Seller shall have been able to obtain discontinued business operation insurance to cover losses in the aggregate of $10,000,000. The cost, not exceeding

$200,000, in obtaining such insurance shall be borne by Seller. In the event such cost is more than $200,000, Seller may, in its sole discretion, pay such excess or terminate this Agreement. If this Agreement is terminated by Seller pursuant to this Section 7.1(h), neither party shall be liable for a Termination Fee nor shall Seller be liable for a Breakup Fee.

(i) FORMATION OF NC COMPANY. Buyer shall have caused the formation of NC Company and shall have delivered to Seller true,

correct and complete copies of (i) the articles of incorporation, (ii) the bylaws, (iii) evidence of payment of the shares of NC Company issued to Buyer, and (iv) organizational minutes of NC Company authorizing the transactions and undertakings of NC Company contemplated under the terms of this Agreement.

(j) CONSENTS AND APPROVALS. Buyer and Seller shall have obtained all necessary consents to the transactions contemplated hereby.

(k) ABSENCE OF CERTAIN EVENTS. None of the events referred to in Paragraph 7.2(i), below, shall have occurred.

If any of the foregoing conditions is not fulfilled to the satisfaction of Seller, Partners, and Shareholders, in their sole and absolute discretion (or otherwise waived by them in writing), on or before the date by which such contingency is to have been satisfied, they may, in addition to any right or remedy otherwise available to them, by written notice to Buyer, cancel this Agreement.

7.2 CONDITIONS TO OBLIGATION OF BUYER. Buyer's obligations to close this transaction are subject to the satisfaction, in Buyer's sole and absolute discretion (or waiver by Buyer in writing), of the following conditions on and as of the Closing:

(a) DUE DILIGENCE REVIEW. Buyer shall have conducted its due diligence investigation, including but not limited to Seller, L&R, Partners, and Shareholders, and shall have determined, in its sole and absolute discretion, that all aspects of such businesses are satisfactory.

(b) CONSENTS AND APPROVALS. Seller shall have obtained all consents and approvals set forth in SCHEDULE 4.5 hereto.

(c) ABSENCE OF ADVERSE DEVELOPMENTS. Buyer shall not have discovered any fact or circumstance existing as of the date of this Agreement which has not been disclosed by Seller or L&R or as of the date of this Agreement regarding the business, assets, including the Acquired Assets, properties, condition (financial or otherwise), results of operations, or prospects of Seller and L&R which is or could be, individually or in the aggregate with other such facts and circumstances, materially adverse to Seller or L&R, their business or the Acquired Assets.

(d) NO DAMAGE OR DESTRUCTION. There shall have been no damage, destruction, or loss of or to any property or properties owned or used by Seller, whether or not covered

by insurance, which in the aggregate may have a material adverse effect on the business, financial condition, or results of operations of Seller.

(e) ENVIRONMENTAL MATTERS. Buyer shall be satisfied with the results of all Environmental Assessments and all required remediation under Section 6.10(c) shall have been completed or waived under the terms of Section 6.10(c).

(f) PRELIMINARY REPORTS AND TITLE INSURANCE. Buyer shall have completed its review of the Preliminary Reports, including the Authorized Exceptions, and not have terminated this Agreement prior to June 22, 1998, and the Title Company shall be prepared to issue each Title Policy (or an endorsement thereto) in the form required by Section 6.11.

(g) CLOSING BALANCE SHEETS. Buyer, at least two (2) business days prior to the Closing Date, shall have approved the Closing Balance Sheets.

(h) BOARD APPROVAL. The board of directors of Buyer, on or before June 12, 1998, shall have approved the transactions contemplated by this Agreement.

(i) ABSENCE OF CERTAIN ACTIONS AND EVENTS.

(i) There shall not be threatened, instituted, or pending any action or proceeding, before any court or governmental authority or agency, domestic or foreign: (A) challenging or seeking to make illegal, or to delay or otherwise directly or indirectly to restrain or prohibit, the consummation of the transactions contemplated hereby, or seeking to obtain damages in connection therewith; (B) seeking to prohibit direct or indirect ownership or operation by Buyer or any of its subsidiaries of all or a material portion of the business or the Acquired Assets of Seller, or to compel Buyer

or any of its subsidiaries to divest of or to hold separately all or a material portion of the business or the Acquired Assets of Seller as a result of the transactions contemplated hereby; (C) seeking to impose or confirm limitations on the ability of Buyer effectively to exercise directly or indirectly full rights of ownership of any of the Acquired Assets; (D) seeking or causing any material diminution in the direct or indirect benefits expected to be derived by Buyer as a result of the transactions contemplated by this Agreement; (E) invalidating or rendering unenforceable any material provision of this Agreement (including without limitation any of the Exhibits or Schedules hereto); or (F) which otherwise might materially adversely affect Buyer or any of its subsidiaries as determined by Buyer;

(ii) There shall not be any action taken, or any statute, rule, regulation, judgment, order, or injunction proposed, enacted, entered, enforced, promulgated, issued, or deemed applicable to the transactions contemplated hereby by any federal, state, or foreign court, government, or governmental authority or agency, which may, directly or indirectly, result in any of the consequences referred to in Section 7.2(i)(i) or otherwise prohibit consummation of the transactions contemplated hereby; and

(iii) There shall not have occurred any of the following events having a material adverse effect on Buyer: (A) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by United States authorities on the extension of credit by lending institutions; (B) a commencement of war, armed hostilities, or other international or national calamity directly or indirectly involving the United States; (C) any suspension of trading of Buyer's common stock or any material adverse change in the United States' stock markets generally; or (D) in the case of any of the foregoing existing at the date hereof, a material acceleration or worsening thereof.

(j) TRUTHFULNESS OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of Seller, Partners and Shareholders in this Agreement and in any certificate or other instrument delivered pursuant to the provisions hereof or in connection with the transactions contemplated hereby shall be true and correct as of the Closing Date as if made at and as of the Closing Date.

(k) COMPLIANCE. Seller, Partners, and Shareholders shall in all material respects have performed each obligation and agreement and complied with each covenant to be performed and complied with by them hereunder at or prior to the Closing.

(l) INSURANCE. Seller shall obtain discontinued business operation insurance to cover losses in the aggregate of $10,000,000. The cost, but not exceeding $200,000, in obtaining such insurance shall be borne by Seller. In the event such cost is more than $200,000, Buyer may in its sole discretion pay such excess or terminate this Agreement.

(m) SCHEDULES. Seller shall be obligated to update the information set forth on the Schedules included herein and shall deliver such updated Schedules to Buyer immediately prior to Closing.

If any of the foregoing conditions is not fulfilled to the satisfaction of Buyer, in its sole and absolute discretion (or otherwise waived by Buyer in writing), on or before the date by which such contingency is to have been satisfied, they may, in addition to any right or remedy otherwise available to Buyer, by written notice to Seller, Partners, and Shareholders, cancel this Agreement.

ARTICLE 8
THE CLOSING

8.1 CLOSING. The closing (the "CLOSING") of the transactions contemplated herein shall be held on or before July 1, 1998 (the "CLOSING DATE"), or on such other date at a time and place as the parties shall mutually agree by written instrument executed by their authorized officers.

8.2 RISK OF LOSS. All risk of loss with respect to the Acquired Assets and the business of Seller and L&R on or before the Closing Date shall remain the sole risk of Seller.

8.3 SELLER' OBLIGATIONS. In addition to any other documents required to be delivered by Seller, Partners, and Shareholders at Closing, Seller, Partners and Shareholders shall deliver to Buyer

at Closing the following documents, all in form and substance reasonably

satisfactory in all respects to Buyer and its counsel:

(a) PRELIMINARY CHANGE OF OWNERSHIP FORM; OTHER GOVERNMENTAL FILINGS. A preliminary change of ownership form, if applicable, under California law and a Nonresident Withholding Exemption Certificate for Real Estate Sales, Form 590-RE.

(b) BILL OF SALE. An executed Bill of Sale and Assumption Agreement dated as of the Closing Date, conveying to Buyer all of Seller's right, title, and interest in and to the Acquired Assets, including its general partnership interest in each of Livermore and Rohnert in the form attached hereto as Exhibit F.

(c) ACQUIRED CONTRACTS. Executed assignments of all Acquired Contracts (with consents if required) (the "CONTRACT ASSIGNMENTS").

(d) LEASE ASSIGNMENTS. Lease assignments (the "LEASE ASSIGNMENTS") with respect to each parcel of real estate or any item of personal property which is leased by Seller and which is to be assumed by Buyer hereunder, including the Office Lease, properly executed and acknowledged by Seller, and accompanied by all consents and estoppels of lessors required by this Agreement and the Property Leases and other leases being assigned.

(e) HAFENER EMPLOYMENT AGREEMENT. The Hafener Employment Agreement executed by Hafener and SH Capital.

(f) PYLE NON-COMPETE AGREEMENT. The Pyle Non-Compete Agreement executed by Pyle and SFI.

(g) INDEMNIFICATION AGREEMENT. The Indemnification Agreement, executed by each of the parties other than Buyer.

(h) PERMITS. Executed assignments of all assignable Permits issued to Seller by any governmental entity or vendor, to the extent assignable.

(i) BOOKS AND RECORDS. All books, records, and other data relating to the Business (other than organization records).

(j) RESOLUTIONS. Copies of the texts of the resolutions by which the partnership action on the part of Seller and the corporate action on the part of Partners and its Shareholders necessary to approve this Agreement and the transactions contemplated hereby were taken and certificates executed on behalf of Seller by its partners and Partners by their corporate secretaries or of their assistant corporate secretaries certifying to Buyer that such copies are true, correct and complete copies of such partnership action or resolutions and that such partnership action and resolutions were duly adopted and have not been amended or rescinded.

(k) GENERAL PARTNER CERTIFICATE. A certificate from the general partners of Seller and from the general partner of Livermore and Rohnert (which is Seller), dated the Closing Date, that on the basis of a review (not an audit) of the latest available accounting records of Seller, consultations with other responsible officers of Seller, and other pertinent inquiries that he or she may deem necessary, he or she has no reason to believe that during the period from the date of the Financial Statements to the Closing Date, except as may otherwise be set forth on any Schedule hereto, there has been any change in the financial condition or results of operations of the Business, except changes incurred in the ordinary and usual course of business during that period that in the aggregate are not materially adverse, and other changes or transactions, if any, contemplated by this Agreement.

(l) LEGAL OPINION. Buyer shall have received an opinion from Miller, Starr & Regalia, counsel to Seller, addressed to Buyer in a form reasonably acceptable to Buyer and its counsel.

(m) CONSENTS. The consents contemplated by Section 7.2(b).

(n) TITLE POLICIES. The Title Policies contemplated by Section 6.11.

(o) SUBSTITUTION AGREEMENT. Copies of the instruments whereby WRI Livermore and WRI Rohnert shall have each consented to the substitution of Buyer as the general partner in each of Livermore and Rohnert, together with countersigned LP-2 Certificates of Amendment as provided in Section 7.1(g), above, executed by WRI Livermore, WRI Rohnert, and Seller, as applicable.

(p) OTHER DOCUMENTS. Such other documents as Buyer or its counsel or any lender of Buyer may reasonably request in order to effectuate the transactions contemplated under this Agreement.

8.4 BUYER'S OBLIGATIONS. Buyer shall deliver to Seller at Closing the following, all in form and substance reasonably satisfactory in all respects to Seller and their counsel:

(a) PURCHASE PRICE. The Purchase Price contemplated by Section 2.4, to the extent payable on the Closing.

(b) PRELIMINARY CHANGE OF OWNERSHIP FORM; OTHER GOVERNMENTAL FILINGS. A preliminary change of ownership form, if applicable, under California law and a Nonresident Withholding Exemption Certificate for Real Estate Sales, Form 590-RE, if applicable.

(c) INDEMNIFICATION AGREEMENT. Counterpart originals of the Indemnification Agreement, duly executed by Buyer.

(d) CONTRACT ASSIGNMENTS AND LEASE ASSIGNMENTS. Executed counterparts of the Contract Assignments and the Lease Assignments, assuming the obligations of Seller under the Acquired Contracts and Property Leases thereby assigned.

(e) ASSUMPTION AGREEMENT. An agreement pursuant to which Buyer assumes the obligations for the Assumed Liabilities in the form of Exhibit E attached hereto.

(f) PYLE NON-COMPETE AGREEMENT. The Pyle Non-Compete Agreement duly executed by Buyer.

(g) SUBSTITUTION AGREEMENT. Copies of the instruments whereby WRI Livermore and WRI Rohnert shall have each consented to the substitution of Buyer as the general partner in each of Livermore and Rohnert, together with countersigned LP-2 Certificates of Amendment as provided in Section 7.1(g) above, executed by Buyer or NC Company, as applicable.

(h) HAFENER EMPLOYMENT AGREEMENT. The Hafener Employment Agreement duly executed by Buyer.

(i) OTHER AGREEMENTS. Counterparts of such of the closing documents of Seller as shall require acceptance by Buyer including, without limitation, the Hafener Employment Agreement and the Pyle Non-Compete Agreement.

(j) RESOLUTIONS. Copies of the text of the resolutions by which the corporate action on the part of Buyer necessary to approve this Agreement and the transaction contemplated herein were taken and a certificate executed on behalf of Buyer by its corporate secretary or one of its assistant corporate secretaries certifying to Seller that such copy is a true, correct, and complete copy of such resolutions and that such resolutions were duly adopted and have not been amended or rescinded.

(k) OTHER DOCUMENTS. Such other documents as Seller or their counsel may reasonably request in order to effectuate the transactions contemplated under this Agreement.

8.5 TRANSFER FEES, TITLE COSTS, AND CLOSING COSTS AND OTHER FEES; PRORATIONS.

(a) TITLE POLICY FEES. Seller will pay the entire premium for each Title Policy.

(b) DOCUMENTARY TAXES AND TRANSFER TAXES. Seller will pay any documentary transfer tax, stamp tax, real estate conveyance tax or similar tax or fee due and payable in connection with this transaction.

(c) RECORDING AND OTHER FEES. Recording fees for the grant deed, if any, will be paid by Seller. Seller shall also pay all fees and expenses, including assumption and transfer fees actually incurred by Seller in obtaining any consents and approvals required to be obtained by Seller under this Agreement or otherwise in consummating the transactions contemplated by this Agreement; (provided nothing herein shall require Seller to pay any cost or incur any expense with respect to (i) HSR Act notification or consent requirements, (ii) Buyer's organizational approvals or consents, or (iii) the assumption of any loan or waiver of any due-on sale clause by any lender, and provided, further, that wherever this Agreement may require exercise of "best efforts" to obtain a consent it shall not be deemed

to impose upon Seller a duty to pay any consideration, fee or other sum of an inducement nature to such party).

(d) PRORATIONS.

(i) TAXES AND ASSESSMENTS. Real estate ad valorem taxes and assessments, utilities, rents, and payments on Acquired Contracts will be prorated as of the Closing Date, based upon the most current information then available. If, at the Closing, actual tax or assessment information is not available, then, following the Closing and within twenty (20) days of receipt by either Buyer or Seller of the actual tax or assessment information, Buyer and Seller will re-prorate real estate taxes and assessments among themselves and make any necessary adjusting payments.

(ii) BASIS OF PRORATIONS. All prorations and/or adjustments called for in this Agreement will be made on the basis of a 30-day month unless otherwise specifically instructed in writing by Seller and Buyer.

(e) TAXES. Seller shall pay any sales or similar taxes or assessments relating to the sale of the Acquired Assets by Seller to Buyer.

(f) OTHER FEES. Subject to Section 6.2 and except as otherwise specifically provided in this Agreement, each party shall bear its own legal and accounting fees and other expenses relating to the transactions contemplated by this Agreement.

ARTICLE 9
INDEMNITIES

9.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Regardless of any investigation at any time made by or on behalf of any party hereto, or of any information any party may have in respect thereof, all representations, and warranties made hereunder or pursuant hereto or in connection with the transactions contemplated hereby shall survive the Closing.

9.2 NATURE OF STATEMENTS. All statements contained herein, in any Schedule or Exhibit hereto, or in any certificate or other written instrument delivered by or on behalf of Seller, Shareholders, Partners or Buyer pursuant to this Agreement, or in connection with the transactions contemplated hereby, shall be deemed representations and warranties by Seller, Shareholders, Partners, or Buyer, as the case may be.

9.3 INDEMNIFICATION OF PARTIES. After the Closing, the parties agree that the Indemnification Agreement shall contain the sole and exclusive remedies of the parties hereunder for any breach of any representation or warranty (and certain covenants as referenced in the Indemnification Agreement) made by the parties under this Agreement.

9.4 ARBITRATION. Except for the provisions of the Indemnification Agreement which shall govern certain rights and remedies of the Parties after Closing, any other dispute, controversy or claim, whether contractual or non-contractual, between Buyer and Seller or Shareholders 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 or otherwise relating to this Agreement (including the Earn-Out provisions) unless mutually settled by Buyer and Seller or Shareholders, shall be resolved in accordance with the Dispute Resolution Procedures attached as EXHIBIT B, except for the Accounting Arbitration procedures which shall apply where applicable.

ARTICLE 10
TERMINATION/REMEDIES

10.1 TERMINATION. This Agreement may be terminated at any time prior to the Closing:

(a) By mutual written consent of duly authorized officers of Buyer and Seller;

(b) By either Buyer or Seller if the other party breaches any of its material representations, warranties, or covenants contained herein and, if such breach is curable, such breach is not cured within ten (10) business days after notice thereof and the notifying party is not then in a similar breach situation; , subject, however, to the following: (i) Buyer shall not terminate this Agreement or be entitled to any other remedy (other than a Closing Balance Sheet adjustment to the Asset Value) by reason of any breach of representation or warranty by Seller, Partners or Shareholders which is discovered prior to the Closing, unless the loss attributable to such breach exceeds $250,000, in the aggregate; (ii) if the amount at issue in such breach or breaches exceeds $250,000 but is less than $500,000, then Buyer, as Buyer's sole and exclusive remedy, may either cancel this Agreement or require that Seller absorb the first $250,000 of such amount plus

one-half of such amount over $250,000 (not to exceed $125,000) as an adjustment to the Purchase Price but only to the extent such adjustments would otherwise not be accounted for by the adjustments of the Asset Value; and (iii) if the amount at issue in such breach or breaches is more than $500,000, then Buyer, as Buyer's sole and exclusive remedy, or Seller as its sole and exclusive remedy, may terminate this Agreement. Upon termination of this Agreement by Buyer or Seller pursuant to Section 10.1(b)(iii), Seller shall pay a termination fee of $250,000 to Buyer.

(c) By Buyer, no later than June 22, 1998, if in its sole and absolute discretion it is not satisfied with its due diligence investigation; or

(d) By Seller, by June 22, 1998, if it is not satisfied in its sole and absolute discretion that it will receive all consents and approvals set forth in SCHEDULE 4.5 prior to Closing.

10.2 EFFECT OF TERMINATION. In the event of termination of this Agreement as provided in SECTION 10.1(A), (B), (C) OR (D), this Agreement shall become void and there shall be no liability or further obligation hereunder on the part of Buyer or Seller or their respective shareholders, partners, officers, or directors, except (i) Buyer shall continue to be obligated under its indemnity obligations in Section 6.9 above, (ii) each party shall remain obligated for its obligations under Section 6.5, and

(iii) the parties shall have the obligations set forth in the Stock Purchase Agreement. Without limiting the generality of the foregoing, Seller shall have no liability for the $250,000 termination fee, except such termination fee obligations shall continue if the cancellation is by reason of Seller's election to cancel under Section 10.1(b)(iii) only. If Seller elects to cancel this Agreement pursuant to Section 10.1(b)(iii) and within twelve months of May 1, 1998, Seller or L&R signs a letter of intent or other agreement relating to the acquisition of a material portion of its assets or business, in whole or in part, including the assets of L&R whether through direct purchase, merger, consolidation, or other business combination and such transaction is ultimately consummated, then immediately upon such closing, Seller shall pay Buyer the Break-Up Fee.

10.3 SELLER' REMEDIES.

(a) If Buyer fails to close the transactions contemplated hereby after confirmation of its due diligence review, Seller's, Shareholders', and Partners' sole and exclusive remedy will be to cancel this Agreement, such cancellation to be effective immediately upon such parties giving written notice of cancellation to Buyer.

(b) Upon cancellation of this Agreement pursuant to Section 10.3(a), then any obligation of Seller for the Breakup Fee shall be deemed extinguished and canceled and there shall be no further liability on the part of Buyer or Seller or their respective shareholders, partners, officers or directors except (i) Buyer shall continue to be obligated under its indemnity obligations under Section 6.9 above, (ii) each party shall be obligated for it obligations under Section 6.5, (iii) the parties shall have the obligations provided in the Stock Purchase Agreement, and (iv) Buyer shall pay to Seller a $250,000 termination fee, as Sellers's sole and exclusive remedies.

10.4 BUYER'S REMEDIES.

(a) Other than as provided in Section 10.1 hereto, if after June 22, 1998, but prior to the Closing Seller, Shareholders, or Partners fail to perform when due any act required by this Agreement to be performed or otherwise breaches this Agreement in any material respect, then Buyer's sole and exclusive remedy will be to cancel this Agreement, such cancellation to be effective immediately upon Buyer giving written notice of cancellation to Seller.

(b) Upon a cancellation of this Agreement pursuant to Section 10.4(a), Seller agrees to pay to Buyer a termination fee of $250,000. In addition, if within twelve months of May 1, 1998, Seller or L&R signs a letter of intent or other agreement relating to the acquisition of a material portion of its assets or business, in whole or in part, including the assets of L&R whether through direct purchase, merger, consolidation, or other business combination and such transaction is ultimately consummated, then immediately upon such closing, Seller shall pay Buyer the Break-Up Fee.

ARTICLE 11
GENERAL PROVISIONS

11.1 NOTICES. All notices, consents, and other communications hereunder shall be in writing and deemed to have been duly given when (a) delivered by

hand, (b) sent by telecopier (with receipt confirmed), provided that a copy is mailed by registered mail, postage pre-paid return receipt requested, or (c) when received by the addressee, if sent by Express Mail, Federal Express, or other express delivery service (postage pre-paid return receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate as to itself by notice to the other):

If to Buyer:	Monterey Homes Corporation 6613 North Scottsdale Road, Suite 200 Scottsdale, Arizona 85250 Phone: (602) 998-8700 FAX: (602) 998-9162 Attn: Chief Financial Officer
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 Seller, Hafener, or SH Capital	Sterling Communities 1655 N. Main Street, Suite 240 Walnut Creek, California 94596 Phone: (925) 935-0823 FAX: (925) 935-0823 Attn: Mr. Steve Hafener
If to Pyle or SFI	W. Leon Pyle 3559 South Silver Springs Road Lafayette, California 94549 Phone (925) 283-7271 Fax: (925) 283-9026
With a copy to:	Miller Starr & Regalia 1331 N. California Blvd., Suite 500 Walnut Creek, California 94596 FAX: (925) 933-4126 Phone: (925) 935-9400 Attn: Karl Geier, Esq.

11.2 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.

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

11.4 ASSIGNMENT. This Agreement shall not be assigned by operation of law or otherwise, except that Buyer may assign all or any portion of its rights under this Agreement to any wholly owned subsidiary, but no such assignment shall relieve Buyer or its Corporate Successor (as herein defined) of its primary liability for all obligations of Buyer hereunder, and except that this Agreement may be assigned by operation of law to any corporation or entity (a "Corporate Successor") with or into which Buyer may be merged or consolidated or to which Buyer transfers all or substantially all of its assets, and such corporation or entity assumes this Agreement and all obligations and undertakings of Buyer hereunder. Any assignment in violation of the provisions of this Agreement shall be null and void.

11.5 GENDER AND NUMBER. 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.

11.6 SCHEDULES AND EXHIBITS. The Schedules and Exhibits referred to in this Agreement and attached to this Agreement are incorporated in this Agreement by such reference as if fully set forth in the text of this Agreement. At Closing, Seller shall update all Schedules, specifically identifying any variance from the original Schedules delivered hereunder.

11.7 WAIVER OF PROVISIONS. 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.

11.8 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.

11.9 AMENDMENT. This Agreement may not be amended except by an instrument in writing approved by the parties to this Agreement and signed on behalf of each of the parties hereto.

11.10 SEVERABILITY. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired, or invalidated and the court shall modify this Agreement or, in the absence thereof, the parties shall negotiate in good faith to modify this Agreement to preserve each party's anticipated benefits under this Agreement.

11.11 EXTENT OF OBLIGATIONS. All covenants, representations, warranties, indemnities, and agreements made by Seller, Shareholders, and Partners shall be deemed joint and several as to each of them, except as otherwise provided herein.

11.12 BINDING EFFECT. Subject to the provisions and restrictions of Section 11.4, the provisions of this Agreement are binding upon and will inure to the benefit of the parties and their respective heirs, personal representatives, successors and assigns.

11.13 CONSTRUCTION. References in this Agreement to "Sections", "Articles", "Exhibits", and "Schedules" are to the Sections and Articles in, and the Exhibits and Schedules to, this Agreement, unless otherwise noted.

11.14 TIME PERIODS. Except as expressly provided for in this Agreement, the time for performance of any obligation or taking any action under this Agreement will be deemed to expire at 5:00 o'clock p.m. (Phoenix, Arizona time) on the last day of the applicable time period provided for in this Agreement. If the time for the performance of any obligation or taking any action under this Agreement expires on a Saturday, Sunday or legal holiday, the time for performance or taking such action will be extended to the next succeeding day which is not a Saturday, Sunday or legal holiday.

11.15 HEADINGS. The headings of this Agreement are for purposes of reference only and will not limit or define the meaning of any provision of this Agreement.

11.16 ENTIRE AGREEMENT. This Agreement, which includes the following Exhibits and Schedules:

Exhibit A	Dispute Resolution Procedures
Exhibit B	Indemnification Agreement
Exhibit C	Hafener Employment Agreement
Exhibit D	Pyle Non-Compete Agreement
Exhibit E	Bill of Sale and Assumption
Exhibit F	Stock Purchase Agreement
Schedule 2.1(a)	Sterling Real Property
Schedule 2.1(b)	Sterling Acquired Contracts
Schedule 2.1(c)	List of Sterling Approvals, Permits, Etc.
Schedule 2.1(d)	List of Sterling Equipment, Fixtures, Furnishings, and other Personal Property

Schedule 2.1(f)	Sterling Prepaid Expenses
Schedule 2.1(i)(i)	L&R Real Property
Schedule 2.1(i)(ii)(A) and (C)	L&R Acquired Contracts
Schedule 2.1(i)(iv)	List of L&R Equipment, Fixtures, Furnishings, and other Personal Property
Schedule 2.1(i)(v)	List of L&R Approvals, Permits, Etc.
Schedule 2.1(i)(vi)	L&R Prepaid Expenses
Schedule 2.4(c)(i)	Preliminary Balance Sheet
Schedule 2.6	Allocation to Goodwill
Schedule 3.7	Buyer's Material Adverse Changes
Schedule 4.4	Conflicts
Schedule 4.5	Consents and Approvals
Schedule 4.7	Ownership Interests
Schedule 4.8	Financial Statements
Schedule 4.9	Liabilities
Schedule 4.10	Seller's Material Adverse Changes
Schedule 4.11	Certain Developments

Schedule 4.12	Permitted Liens
Schedule 4.15	Owned Project Matters
Schedule 4.16	New Project Matters
Schedule 4.17	Other Project Matters
Schedule 4.18	Acquired Contract Matters
Schedule 4.19	Warranty Matters
Schedule 4.20	Environmental Matters
Schedule 4.21	Tax Matters
Schedule 4.23	Intellectual Property
Schedule 4.24	Litigation
Schedule 4.25	Employees
Schedule 4.26	ERISA Matters
Schedule 4.28	Insurance Policies
Schedule 4.29	Affiliate Matters
Schedule 4.30	Violations
Schedule 4.31	Permits

constitutes the entire agreement between the parties pertaining to the subject matter contained in this Agreement. All prior and contemporaneous agreements, representations and understandings of the parties, oral or written, are superseded by and merged in this Agreement. No supplement, modification or amendment of this Agreement will be binding unless in writing and executed by the parties to this Agreement.

IN WITNESS WHEREOF, Buyer, Seller, Partners, and Shareholders have caused this Agreement to be executed on the date first written above by their respective officers thereunder duly authorized.

MONTEREY HOMES CORPORATION,
a Maryland corporation

By: /s/ Larry W. Seay

Name: Larry W. Seay

Title: Vice President

STERLING COMMUNITIES,
a California general partnership

By: S.H. CAPITAL, INC., a California corporation

By: /s/ Steve Hafener

Steve Hafener, President

By: STERLING FINANCIAL INVESTMENTS, INC., a California corporation

By: /s/ W. Leon Pyle

W. Leon Pyle, President

STERLING FINANCIAL
INVESTMENTS, INC.,
a California corporation

By: /s/ W. Leon Pyle

Name: W. Leon Pyle

Title: President

S.H. CAPITAL, INC.,
a California corporation

By: /s/ Steve Hafener

Name: Steve Hafener

Title: President

/s/ Steve Hafener

STEVE HAFENER

/s/ W. Leon Pyle

EXHIBIT A
DISPUTE RESOLUTION PROCEDURES

All claims, disputes and other matters in controversy (herein called "dispute") arising directly or indirectly out of or related to this Agreement, or the breach thereof, whether contractual or noncontractual, and whether during the term or after the termination of this Agreement, shall be resolved exclusively according to the procedures set forth in this EXHIBIT A.

A. NEGOTIATION. The parties shall attempt to settle disputes arising out of or relating to this Agreement or the breach thereof by a meeting of two designated representatives of each party within five (5) days after a request by either of the parties to the other party asking for the same.

B. MEDIATION. If such dispute cannot be settled at such meeting either party within five (5) days of such meeting may give a written notice (a "DISPUTE NOTICE") to the other party setting forth the nature of the dispute. The parties shall attempt in good faith to resolve the dispute by mediation in San Francisco, California under the Commercial Mediation Rules of the American Arbitration Association ("AAA") in effect on the date of the Dispute Notice. The parties shall select a person who will act as the mediator under this Paragraph B within 60 days of the date of the Agreement. If the dispute has not been resolved by mediation as provided above within thirty (30) days after delivery of the Dispute Notice, then the dispute shall be determined by arbitration in accordance with the provisions of Paragraph C hereof.

C. ARBITRATION. Any dispute that is not settled through mediation as provided in Paragraph B above shall be resolved by arbitration in Phoenix, Arizona, governed by the Federal Arbitration Act, 9 U.S.C. ss. 1 et seq, and administered by the AAA under its Commercial Arbitration Rules in effect on the date of the Dispute Notice, as modified by the provisions of this Section C, by a single arbitrator. The arbitrator selected, in order to be eligible to serve, shall be a lawyer with at least 15 years experience specializing in either general commercial litigation or general corporate and commercial matters. In the event the parties cannot agree on a mutually acceptable single arbitrator from the list submitted by the AAA, the AAA shall appoint the arbitrator who shall meet the foregoing criteria. The arbitrator shall base the award on applicable law and judicial precedent and, unless both parties agree otherwise, shall include in such award the findings of fact and conclusions of law upon which the award is based. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

Notwithstanding the foregoing:

(a) Upon the application by either party to a court for an order confirming, modifying or vacating the award, the court shall have the power to review whether, as a matter of law based on the findings of fact determined by the arbitrator, the award should be confirmed, modified or vacated in order to correct any errors of law made by the arbitrator. In order to effectuate such judicial review limited to issues of law, the parties agree (and shall stipulate to the court) that the findings of fact made by the arbitrator shall be final and binding on the parties and shall serve as the facts to be submitted to and relied on by the court in determining the extent to which the award should be confirmed, modified or vacated.

(b) Either party shall have the right to apply to any court for an order to enforce any of the ownership and confidentiality provisions contained in the Agreement.

D. COSTS AND ATTORNEYS' FEES. If either party fails to proceed with mediation or arbitration as provided herein or unsuccessfully seeks to stay such mediation or arbitration, or fails to comply with any arbitration award, or is unsuccessful in vacating or modifying the award pursuant to a petition or application for judicial review, the other party shall be entitled to be awarded costs, including reasonable attorneys' fees, paid or incurred by such other party in successfully compelling such arbitration or defending against the attempt to stay, vacate or modify such arbitration award and/or successfully defending or enforcing the award.

E. TOLLING OF STATUTE OF LIMITATIONS. All applicable statutes of limitations and defenses based upon the passage of time shall be tolled while the procedures specified in this EXHIBIT A are pending. The parties will take such action, if any, required to effectuate such tolling.

May 19. 1998

Guaranty Federal Bank, F.S.B.
8333 Douglas Avenue
Dallas, Texas 75225

Re: Modification and $10,000,000.00 increase of an existing $40,000,000.00 guidance line from Guaranty Federal Bank, F.S.B. (Lender") to Legacy/Monterey Homes L.P., an Arizona corporation ("Borrower'); such loan and other indebtedness being guaranteed by Monterey Homes Corporation, a Maryland corporation, MTH-Texas UP, Inc., an Arizona corporation and MTH-Texas LP, Inc., an Arizona corporation (collectively referred to as "GUARANTOR")

Gentlemen:

Reference is made to that certain Master Loan Agreement dated as of January 31, 1993 (and all amendments thereto, if any) (the "LOAN AGREEMENT") between Lender and Borrower governing a $40,000,000.00 loan (as increased) (the "Loan") for the acquisition and/or refinancing of residential lots located in certain counties in the State of Texas as described therein, and the construction of single-family residences thereon. Unless otherwise expressly defined herein, each term used herein with its initial letter capitalized shall have the meaning given to such term in the Loan Agreement. As used in this letter agreement, the term "LOAN INSTRUMENTS" shall mean and include (i) the `Loan Instruments" as defined in the Loan Agreement, (ii) the Second Modification Agreement dated as of the date hereof, executed by and between the parties hereto, and (iii) this letter agreement and all other documents executed in conjunction herewith (and all amendments thereto, if any).

Borrower and Lender desire to increase the Loan Amount to the stated principal amount of $50,000,000.00 and to amend and modify certain terms and provisions of the Loan and the Loan Instruments as follows:

1. The Loan Amount is hereby increased from $40,000,000.00 to $50,000,000.00. All references in the Loan Instruments to the amount of $40,000,000.00 are hereby increased to $50,000,000.00.

2. The stated maturity date of the Note is hereby extended to and including July 31, 1999, when the entire unpaid principal balance of the Note, together with all accrued and unpaid interest shall be due and payable; provided, however, such date may be extended as set forth in PARAGRAPH 9 of the Loan Agreement (as amended hereby).

3. EXHIBIT A to the Loan Agreement is hereby modified by deleting such exhibit in its entirety and replacing it with EXHIBIT A attached hereto.

4. All Loan Instruments hereby are amended and modified in a manner consistent with the modifications, terms and/or provisions contained herein. Except as modified hereby, all the terms, provisions and conditions of the Loan Instruments shall remain in full force and effect.

5. The terms and provisions of this letter agreement may not be modified, amended. altered or otherwise affected except by instrument in writing executed by Lender and Borrower.

6. Each Guarantor by its execution hereof agree to the amendments and modifications to the Loan Instruments set forth herein and in the prior amendments and modifications to the Loan Instruments and agree that all of such modifications do not and will not waive, release or in any manner modify either Guarantor's obligations and liabilities under and pursuant to the Guaranty.

(The balance of this page is intentionally left blank.)

If this letter agreement correctly sets forth our understanding of the subject matter contained herein. please indicate this by executing this letter agreement in the space furnished below and then return a fully-executed copy to the undersigned.

Very truly yours,

BORROWER:

LEGACY/MONTEREY HOMES L.P.,
an Arizona limited partnership

BY: MTH-TEXAS GP, INC.,
an Arizona corporation,
General Partner

By: /s/ Rick Morgan
Name: Rick Morgan
Title: Vice President

GUARANTOR:

MONTEREY HOMES CORPORATION,
a Maryland corporation

By: /s/ John R. Landon
Name: John R. Landon
Title: Co-Chief Executive Officer

MTH-TEXAS GP, INC.,
an Arizona corporation,

By: /s/ Rick Morgan
Name: Rick Morgan
Title: Vice President

MTH-TEXAS LP, INC.,
an Arizona corporation,

By: /s/ Rick Morgan
Name: Rick Morgan
Title: Vice President

ACCEPTED AND AGREED TO:

LENDER:

GUARANTY FEDERAL BANK, F.S.B.,
a federal savings bank

By: /s/ Sam A. Meade
Name: Sam A. Meade
Title: Vice President

EXHIBIT A

TO LOAN AGREEMENT

1. Introductory Paragraph. RESIDENCE AND INVENTORY LOT LIMITATIONS. At any given time. Residences and Inventory Lots financed under the Loan shall be limited to the following numbers, unless modified by Lender in writing:

Total Residences:	Six Hundred Twenty-five (625).
Specs:	Eighty (80).
Models:	Forty-five (45).
Inventory Lots:	Two Hundred Fifty (250).

Borrower may increase the number of Specs allowed above by the same number

by which Borrower is short of Models allowed above. Borrower covenants and agrees not to allow, and is prohibited from allowing, any more than ten (IC) Specs or three (3) Models to exist in any Approved Subdivision (as hereinafter defined).

The outstanding aggregate amount of the Loan Allocations for all Specs and Models at any time shall never exceed $12,000,000.00.

The outstanding aggregate amount of the Loan Allocations for all Inventory Lots at any time shall never exceed $4,000,000.00.

The term "SPECS" means a Residence which is not a Model and is not Under Contract. The term "MODEL" means a Residence specifically utilized for the purposes of marketing other residential products. The term "UNDER CONTRACT" shall mean Residences under written contract to sell to bona fide third parties unrelated to Borrower, having no contingency or any other conditions not reasonably susceptible to being satisfied, providing for earnest money deposits of at least $2,000.00, and for which Lender has received preliminary loan approval from a bona fide residential permanent lender.

The term "INVENTORY RESIDENCE" means any Residence which is not a Model.

2. Introductory Paragraph. APPROVED SUBDIVISIONS. The following subdivisions and any additional subdivisions approved in writing by Lender (the "APPROVED SUBDIVISIONS") are approved by Lender for the Residences and Inventory Lots:

SUBDIVISION	COUNTY
Stone Canyon (Fern Bluff)	Williamson
Oakmont Forest	Williamson
Settlers Ridge/Creekside	Travis
Round Rock Ranch	Williamson
The Meadows (Thunderbird Est.)	Collin
Brighton Estates - Arlington	Tarrant
Bristol Park (Fountain Creek)	Collin
Chase-Oaks	Collin
Cottonwood Bend	Collin
Country Club Park	Dallas
Creekwood Estates	Denton
Crestwood	Collin
Cross Creek West	Collin
Eden Road Estates	Tarrant
El Dorado Heights	Collin
Heritage Park - Allen	Collin
Highland Parkway	Collin
Hillcrest Estates	Collin
Hunters Glen	Collin

Independence Hill	Collin
Meadow Glen PH 11B	Denton
Oakwood Glen	Collin
Orchard Valley Estates	Denton
Parkdale - PIano	Collin
Shadow Lakes	Collin
Shadow Lakes North	Collin
Lakes of Valley Ranch	Dallas
Vista Ridge Estates	Denton
Windhaven Farms (Carelle Custom)	Collin
Ravenglass Estates	Collin
Frankford Meadows	Dallas
Hunter Trail	Tarrant
Fossil Beach	Tarrant

3. Introductory Paragraph. APPROVED PRICE RANGE. The Residences shall be in the $70,000.00 to $350,000.00 price range.

4. Paragraph 1(c). GUARANTOR. Guarantor of the Loan shall be: Monterey Homes Corporation, a Maryland corporation; MTH-Texas G.P., Inc., an Arizona corporation; and MTH-Texas L.P., Inc., an Arizona corporation.

5. Paragraph 2(h). LOAN FINANCE CHARGE. None.

6. Paragraph 2(k) and 6(g). INSPECTION FEE. An inspection fee of $30.00 per Residence shall be paid to Lender on the day the Mortgage pertaining to such Residence is recorded in the Real Property Records.

7. Paragraph 4(c). LOAN RATIOS. The Loan Allocation shall not exceed the lesser of (1) one hundred percent (100%) of the direct costs of a Property, as determined by Lender or, (2) seventy percent(70%) of the lowest of the values as provided in PARAGRAPH 4(C) (I), (II' AND (iii) of this Loan

Agreement.

8. Paragraph 6(q). OTHER ENTITIES. The Mortgages shall additionally secure all other indebtedness now or hereafter owed by the following entities to Lender: None.

9. Paragraph 6(s). REQUIRED RELEASES. Borrower shall cause: (a) Inventory Residences to be released from a Mortgage nine (9) months from the day such Mortgage is recorded in the Real Property Records, (b) Models to be released from a Mortgage twenty-four (24) months from the day such Mortgage is recorded in the Real Property Records, and (c) Inventory Lots to be released from a Mortgage twelve (12) months from the day such Mortgage is recorded in the Real Property Records; provided, however, if no default then exists under any Loan Instruments, Lender may, at its option, extend the Required Release Date for periods of three (3) months (the `EXTENDED RELEASE DATE") provided, such Extended Release Date shall in no event go beyond the Stated Maturity Date (as hereinafter defined) or the Extended Maturity Date (as hereinafter defined), if applicable.

10. Paragraph 7. REQUIRED PRINCIPAL REDUCTIONS. Prior to the date that Lender gives Borrower the notice described in PARAGRAPH 4(FL above, the following shall apply: in the event a Property has been granted an Extended Release Date (as provided in PARAGRAPH 9 of this EXHIBIT A) and a Mortgage remains covering such Property beyond the following periods from the date such Mortgage is recorded, then Borrower shall make a principal payment of the Note in an amount equal to ten percent (10%) of the Loan Allocation with respect to such Property (and the Loan Allocation for such Property shall be reduced by the same amount). as determined by Lender:

Inventory Residences:	Fifteen (15) months.
Models:	Twenty-four (24) months.
Inventory Lots:	Twelve (12) months.

From and after the date that Lender gives Borrower the notice described in PARAGRAPH 4 (F) of the Loan Agreement, the following shall apply: in the event a Property has been granted an Extended Release Date, as provided in PARAGRAPH 9 of this EXHIBIT A. Borrower shall make a principal payment on the Note of ten percent (10%) of that portion of the Loan advanced by Lender for such Propert5. within the Following periods From the date a Mortgage covering such Property is recorded in the Real Property Records:

Inventory Residences:	Fifteen (IS) months.
Models:	Twenty-four (24) months.
Inventory Lots:	Twelve (12) months.

11. Paragraph 9. MATURITY AND EXTENSION. The maturity date of the Note shall be the later of the maturity date as provided in the Note (July 31, 1999) (the "STATED MATURITY Date"), or nine (9) months after the recording in the Real Property Records of the last Mortgage (the "EXTENDED MATURITY DATE") approved by Lender and recorded prior to the expiration of the Stated Maturity Date. After the Stated Maturity Date, no additional Mortgage shall be recorded.

12. Paragraph 10. ADDITIONAL DEFAULTS. In addition to the events of default stipulated in the Loan Instruments, it shall be a default under this Loan Agreement if Borrower fails to comply with any of the following: None.

13. Paragraph 11 ADDITIONAL LOAN COVENANTS. Borrower shall fully perform and satisfy the following "ADDITIONAL LOAN COVENANTS":

(a) The aggregate net worth of Borrower (determined in accordance with generally accepted accounting principles, consistently applied) shall not fall below $7,500,000.00.

(b) The ratio of total liabilities to equity (as determined by Lender) shall not exceed 4.0 to 1.0.

(c) John Landon shall at all times retain management control of Borrower.

(d) In no event shall Monterey Homes Corporation, a Maryland corporation, be in default under any secured indebtedness.

If Borrower or Guarantor (if applicable to Guarantor) breaches any of the Additional Loan Covenants then, at Lender's election, no additional Mortgages shall be recorded in the Real Property Records; provided, however, that a breach of any Additional Loan Covenants shall not be considered a default under the Loan Instruments.

14. Paragraph 16(d). RELEASE PRICE. The partial release price shall be a cash amount equal to the Loan Allocation for the Property multiplied by the Stage (expressed as a percentage) of the Property, all as determined by Lender; provided, however, if Lender shall have given Borrower the notice described in PARAGRAPH 4(F) of the Loan Agreement, then the partial release

price shall be an amount in cash equal to one hundred and one hundred percent (100%) of the outstanding balance of the Loan advanced by Lender for the Property.

15. Paragraph 16(e). EXTENSION FEE. If Lender extends the Required Release Date. as provided in Paragraph 9 of this Exhibit A Borrower shall pay to Lender an extension fee of one percent (1%) of that portion of the Loan advanced by Lender for each such Property times a fraction, the numerator of which is the number of days the Required Release Dare is extended and the denominator of which is 365.

EXHIBIT A, - Page 3

SECOND MODIFICATION AGREEMENT

This SECOND MODIFICATION AGREEMENT (this `Agreement') is made and entered into as of May 19, 1998, by and between LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership ("Borrower"), and GUARANTY FEDERAL BANK, F.S.B., a federal savings bank organized and existing under the laws of the United States ("Lender").

W I T N E S S E T H:

WHEREAS, pursuant to a certain Master Loan Agreement (the "Loan Agreement") dated as of January 31, 1993, between Lender and Borrower, Lender made a loan (the "Loan") to Borrower, evidenced by a certain Revolving Promissory Note (the "Note") dated as of January 31, 1993, payable to Lender in the stated principal amount of FORTY MILLION AND NO/100 DOLLARS ($40,000,000.00)(as increased), with interest and principal payable as set forth therein; and

WHEREAS, to secure the Note and Loan, Master Form Deed(s) of Trust (With Security Agreement and Assignment of Rents and Leases) (hereinafter collectively referred to as the "Master Deeds of Trust," whether one or more), which Master Deeds of Trust have been recorded in certain counties in the State of Texas as more particularly described on Exhibit A attached hereto; and which Master Deeds of Trust are incorporated by reference pursuant to the terms and provisions of certain Deeds of Trust Incorporating by Reference a Master Form Deed of Trust (With Security Agreement and Assignment of Rents and Leases) (hereafter collectively referred to as the `Supplemental Deeds of Trust," whether one or more) recorded in such counties and encumbering certain real and other property (the "Property") described in such Supplemental Deeds of Trust (such Master Deeds of Trust and Supplemental Deeds of Trust hereafter collectively referred to as the "Deeds of Trust whether one or more); and

WHEREAS, the Deeds of Trust were modified pursuant to a Modification Agreement (the "First Modification") dated _____, 1997, and recorded in various counties in Texas, which First Modification modified certain terms and provisions of the Loan as set forth therein; and

WHEREAS, the Note and the Loan are guaranteed pursuant to that certain Guaranty Agreement dated as of June 30, 1997 (the `Guaranty'), executed by MTH-Texas GP, Inc., an Arizona corporation, MTH-Texas LP, Inc., an Arizona corporation, and Monterey Homes Corporation, a Maryland corporation ("Guarantor," whether one or more); and

WHEREAS, the Loan Agreement, the Note, the First Modification, the Deeds of Trust and all other documents evidencing and/or securing the Loan are hereinafter collectively called the "Loan Instruments"; and

WHEREAS, Lender, the owner and holder of the Note and the Deeds of Trust and all rights and titles evidenced thereby, and Borrower, the record owner of the Property and being liable for the payment of the Note and Loan, desire to modify the Loan Instruments as herein provided

NOW, THEREFORE, in consideration of Ten and No/100 Dollars ($10.00) and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. The stated maturity date of the Note is hereby extended to and including July 31, 1999, when the entire unpaid principal balance of the Note, together with all accrued and

SECOND MODIFICATION AGREEMENT - Page 1

unpaid interest shall be due and payable: provided, however, such date may be extended as set forth in the Loan Agreement.

2. The Loan is hereby increased from $40,000,000 to 50,000,000.00 All references in the Loan Instruments to the amount of 40,000,000.00 are hereby increased to 50,000,000.00

3. Borrower shall execute and deliver to Lender a letter agreement (in form and substance satisfactory to Lender in its sole discretion) (the "Letter

Agreement") dated as of the date hereof amending certain other terms and provisions of the Loan Instruments. (Hereafter. this Agreement and the Letter Agreement shall be included in the defined term "Loan Instruments.")

4. Borrower acknowledges and agrees, that as an accommodation to Borrower. Exhibit A hereto (which exhibit describes the recording information of the Master Deeds of Trust) shall be attached to this Agreement (and to any and all other documents which may require the attachment of a description of the recording information of the Master Deeds of Trust) after Borrower's execution of same. Accordingly, Borrower hereby authorizes and directs Lender to attach such Exhibit A to this Agreement.

5. Notwithstanding anything to the contrary contained in the Deeds of Trust or other Loan Instruments, with respect to any amendment to the Master Deeds of Trust, the following terms and provisions shall apply:

With respect to any amendment or modification of the Master Deeds of Trust now or hereafter executed by Borrower (or any future owner of the Property if different from Borrower) and duly recorded in the appropriate official public records, Borrower acknowledges and agrees that such amendment or modification of the Master Deeds of Trust shall constitute an amendment or modification to the terms and provisions of any such Supplemental Deeds of Trust (and shall be incorporated into any such Supplemental Deeds of Trust and made a part thereof for all purposes, as though such amendment or modification of the Master Deeds of Trust specifically referred to such Supplemental Deeds of Trust) without the necessity of any specific reference in such amendment or modification to any such Supplemental Deeds of Trust; and no such amendment or modification of the Master Deeds of Trust shall impair the obligations of Borrower under any such Supplemental Deeds of Trust or any other of the Loan Instruments.

6. Borrower hereby expressly promises to pay to the order of Lender, the principal amount of the Note (as modified and increased) and all accrued and unpaid interest now or hereafter to become due and payable under the Note, and Borrower hereby expressly promises to perform all of the obligations of Borrower under the Loan Instruments (as modified and increased).

7. The liens of the Deeds of Trust are hereby acknowledged by Borrower to be good, valid and subsisting liens, and such liens are hereby renewed and extended so as to secure the payment of the Note and Loan (as modified and increased).

8. Borrower hereby represents and warrants to Lender that (a) Borrower is the sole legal and beneficial owner of the Property; (b) Borrower has the full power and authority to make the agreements contained in this Agreement without joinder or consent of any other party; (c) the execution, delivery and performance of this Agreement will not contravene or constitute an event which itself or which with the passing of time or giving of notice or both would constitute a default under any deed of trust, loan agreement, indenture or other agreement to which Borrower or Guarantor is a party or by which Borrower or any of its property is bound; and 4) there exists no default under the Loan Instruments (as modified). BORROWER HEREBY AGREES TO INDEMNIFY AND HOLD LENDER HARMLESS AGAINST ANY LOSS, CLAIM, DAMAGE, LIABILITY OR EXPENSE (INCLUDING WITHOUT LIMITATION, ATTORNEYS' FEES) INCURRED AS A RESULT OF ANY REPRESENTATION OR WARRANTY MADE BY BORROWER HEREIN PROVING TO BE UNTRUE IN ANY MATERIAL RESPECT.

9. The terms and conditions hereof may not be modified, amended, altered or otherwise affected except by instrument in writing executed by Lender and Borrower.

10. All Loan Instruments are hereby amended and modified in a manner consistent with the modifications, terms and/or provisions contained herein. Except as expressly modified hereby. the terms and conditions of the Loan Instruments are and shall remain in full force and effect.

11. Borrower agrees to pay to Lender, contemporaneously with the execution and delivery hereof, all costs and expenses incurred in connection with this transaction, title insurance endorsement premiums, reasonable fees of Lender's counsel and recording fees.

12. Borrower hereby agrees to execute and deliver to Lender such further documents and instruments evidencing or pertaining to the Loan, as modified and increased hereby, as may be reasonably requested by Lender from time to time so as to evidence the terms and conditions hereof.

[The balance of this page is intentionally left blank.]

EXECUTED on the date(s) set forth in the acknowledgment(s) below to be EFFECTIVE as of the date first above written.

BORROWER

LEGACY/MONTEREY HOMES L.P.,
an Arizona limited partnership

BY: MTH-TEXAS GP, INC.,
an Arizona corporation,
General Partner

By: /s/ Rick Morgan
Name: Rick Morgan
Title: Vice President

LENDER:

GUARANTY FEDERAL BANK, F.S.B.,
a federal savings bank

By: /s/ Sam A. Meade
Name: Sam A. Meade
Title: Vice President

STATE Texas }
}
COUNTY OF COLLIN }

This instrument was ACKNOWLEDGED before me on May 19, 1998, by Rick Morgan, Vice President of MTH-TEXAS GP, INC., an Arizona corporation, as General Partner of LEGACY/MONTEREY HOMES L.P., an Arizona limited partnership, on behalf of said limited partnership.

[S E A L]

Ana Patterson
Notary Public

My Commission Expires:

Printed Name of Notary Public

ANA PATTERSON
NOTARY PUBLIC
STATE OF TEXAS
My Commission Expires 8-28-99

STATE Texas }
}
COUNTY OF DALLAS }

This instrument was ACKNOWLEDGED before me on the 20th day of May, 1998, by Sam A. Meade, Vice President of GUARANTY FEDERAL BANK, F.S.B., a federal savings bank, on behalf of said federal savings bank.

LESLIE RUTH REYNOLDS
Notary Public
STATE OF TEXAS
My Comm. Exp. 02-04-2001

Leslie Ruth Reynolds

Notary Public in and for the
above county and state

My Commission Expires:

02/04/2001

Leslie Ruth Reynolds

Printed Name of Notary

SECOND MODIFICATION AGREEMENT - Page 5

CONSENT OF GUARANTOR

Each of the undersigned, as a guarantor ("Guarantor," whether one or more) of the loan (the "Loan"), evidenced by the Note and secured by the Deeds of Trust described in the foregoing Second Modification Agreement (the "Agreement") to which this Consent is attached, hereby acknowledge and consent (jointly and severally) to the terms of the Agreement and agree (jointly and severally) that the execution and delivery of the Agreement will in no way change or modify Guarantor's respective obligations under their respective Guaranty (as defined in the Agreement): and each Guarantor acknowledges and agrees (jointly and severally) that the Indebtedness (as defined in the respective instruments comprising the Guaranty) includes the Loan (as increased and set forth in the Agreement), together with any and all other Indebtedness now or at any time hereafter owing by Guarantor to Lender; and each Guarantor (jointly and severally) hereby unconditionally and absolutely guarantees to Lender the payment when due of such Indebtedness, and hereby acknowledge and agree that their respective Guaranty is in full force and effect, and that there are no claims, counterclaims, offsets or defenses to their respective Guaranty; and each Guarantor acknowledges and consents (jointly and severally) to the terms of any and all prior modifications to the terms of the Loan (including, without limitation, any and all extensions of the term thereof and increases in the principal thereof prior to the date hereof, if any).

EXECUTED on the date(s) set forth in the acknowledgment(s) below to be EFFECTIVE as of the ____ day of _____,1998.

GUARANTOR:

MONTEREY HOMES CORPORATION,
a Maryland corporation

By: /s/ John R. Landon

Name: John R. Landon

Title: Co-Chief Executive Officer

MTH-TEXAS GP, INC.,
an Arizona corporation,

By: /s/ Rick Morgan

Name: Rick Morgan

Title: Vice President

MTH-TEXAS LP, INC.,
an Arizona corporation,

By: /s/ Rick Morgan

Name: Rick Morgan

Title: Vice President

SECOND MODIFICATION AGREEMENT - Page 6

STATE Texas }
}
COUNTY OF COLLIN }

This instrument was ACKNOWLEDGED before me on May 19, 1998, by John R. Landon, Co Chief Executive Officer of MONTEREY HOMES CORPORATION, a Texas corporation, on behalf of said corporation.

Ana Patterson
[S E A L] ----------
Notary Public

My Commission Expires:

- ----------

Printed Name of Notary Public

ANA PATTERSON
NOTARY PUBLIC
STATE OF TEXAS
My Commission Expires 8-28-99

STATE Texas }
}
COUNTY OF COLLIN }

This instrument was ACKNOWLEDGED before me on May 19, 1998, by Rick Morgan, Vice President of MTH-TEXAS GP, INC., an Arizona corporation, on behalf of said corporation.

Ana Patterson
[S E A L] ----------
Notary Public

My Commission Expires:

- ----------

Printed Name of Notary Public

ANA PATTERSON
NOTARY PUBLIC
STATE OF TEXAS
My Commission Expires 8-28-99

STATE Texas }
}
COUNTY OF COLLIN }

This instrument was ACKNOWLEDGED before me on May 19, 1998, by Rick Morgan, Vice President of MTH-TEXAS LP, INC., an Arizona corporation, on behalf of said corporation.

Ana Patterson
[S E A L] ----------
Notary Public

My Commission Expires:

- ----------

Printed Name of Notary Public

ANA PATTERSON
NOTARY PUBLIC
STATE OF TEXAS
My Commission Expires 8-28-99

- ----------

EXHIBIT A

Description of the Deed(s) of Trust

LEGACY/MONTEREY, L.P.
- ----------

Collin County Recorded September 4, 1996, Clerk File 96--0075977
- ----------

Dallas	Recorded September 5, 1996, Volume 96175 Page 00192
Denton	Recorded September 5, 1996, Clerk File 96--R0061921.
Harris	Recorded August 6, 1997, Clerk File No. 5579911
Rockwall	Recorded August 19, 1997, Clerk File No. 176219
Tarrant	Recorded September 5, 1996, Clerk File D19E175179
Travis	Recorded September 6, 1996,Volume 12766, Page 1157
Williamson	Recorded September 9, 1996, Clerk File 9648096

LOAN NO. _____

REVOLVING PROMISSORY NOTE
(Second Amended and Restated)

$50,000,000.00 As of May 31,1993

FOR VALUE RECEIVED, the undersigned (sometimes referred to herein as "Maker"). jointly and severally if more than one, promise to pay to the order of GUARANTY FEDERAL BANK, F.S.B., a federal savings bank organized and existing under the laws of the United States (sometimes referred to herein as `Payee'), at its principal offices at 5333 Douglas Avenue, Dallas, Texas 75225, or at such other place as the holder hereof may from time to time designate, the principal sum of FIFTY MILLION AND NO/100 DOLLARS ($50,000,000.00), or so much thereof as may be advanced, with interest on the principal balance from time to time remaining unpaid prior to default or maturity at the rate hereinafter provided, interest only being payable on the first day of each month commencing June, 1993, and continuing until and including July31, I 999, when, unless extended pursuant to the terms of Loan Agreement (hereafter defined), the unpaid principal balance of this Note, together with all accrued and unpaid interest, shall be due and payable. The principal of this Note shall otherwise be payable in accordance with the Loan Agreement. All payments due under this Note shall be delivered to the holder hereof not later than twelve o'clock, noon, Dallas, Texas time, on the date such payment becomes due and payable (or the date any voluntary prepayment of this Note is made), in immediately available funds. Any payment received by the holder hereof after such time will be deemed to have been made on the next following business day.

As herein provided, the unpaid Principal Amount (hereafter defined) of this Note (or portions thereof) from time to time outstanding shall bear interest prior to maturity at a varying rate per annum equal to, at Maker's option, (i) the Commercial Base Rate (hereafter defined), or (ii) the applicable LIBOR Base Rate (hereafter defined) (as elected in the manner specified in this Note), provided that in no event shall the Applicable Rate (hereafter defined) exceed the Maximum Rate (hereafter defined). Notwithstanding the foregoing, if at any time the Applicable Rate exceeds the Maximum Rate, the rate of interest payable under this Note shall be limited to the Maximum Rate, but any subsequent reductions in the Commercial Base Rate or the LIBOR Base Rate, as the case may be, shall not reduce the Applicable Rate below the Maximum Rate until the total amount of interest accrued on this Note equals the total amount of interest which would have accrued at the Applicable Rate if the Applicable Rate had at all times been in effect. Interest on this Note shall be calculated at a daily rate equal to 1/360 of the annual percentage rate stated above, subject to the provisions hereof specifying the maximum amount of interest which may be charged or collected hereunder.

As used in this Note, the following terms shall have the meanings indicated opposite them:

"Additional Costs" -- Any costs, losses or expenses incurred by Payee which it determines are attributable to its making or maintaining the Loan (hereafter defined), or it5 obligation to make any Loan advances, or any reduction in any amount receivable by Payee under the Loan or this Note.

"Applicable Rate" -- The Commercial Base Rate (as to that portion of Principal Amount bearing interest at the Commercial Base Rate); provided, however from and after May 15, 1998, the Applicable Rate shall be either the Commercial Base Rate (as to that portion of the Principal Amount bearing

interest at the Commercial Base Rate) or the LIBOR Base Rate (as to each Euro-Dollar Amount) as elected in the manner specified in this Note.

"Assessments" -- Any impositions and assessments imposed on Payee with respect to any Euro-Dollar Amount for insurance or other fees, assessments and surcharges.

"Commercial Base Rate" --One percent (1%) per annum in excess of the base rate announced or published from time to time by Guaranty Federal Bank, F.S.B., which rate may not be the lowest
rate charged by Guaranty Federal Bank. F.S.B.: it being understood arid agreed that the Commercial Base Rate shall increase or decrease. as the case may be, from time to time as of the effective date of each change in such rate; provided, however, from and after August 1. I 995 die Commercial Base Rate" shall be the base rate announced or published from time to time by Guaranty Federal Bank. F.S.B.

Euro-Dollar Amount' -- Each portion of the Principal Amount bearing interest at the applicable LIBOR Base Rate pursuant to a Euro-Dollar Rate Request. There shall be no more than five (5) portions of the Principal Amount bearing interest at an applicable LIBOR Base Rate outstanding at any time, each such portion shall be in amounts of not less than $1,000,000.00 each and in no event shall the total portions of the Principal Amount bearing interest at the LIBOR Base Rate exceed seventy percent (70%) of the Principal Amount of the time of any Euro-Dollar Rate Request.

"Euro-Dollar Business Day" --Any day on which commercial banks are open for domestic and international business (including dealings in U.S. Dollar deposits) in New York City and Dallas, Texas.

"Euro-Dollar Rate Request" -- Maker's telephonic notice (to be promptly confirmed in a written notice which must be received by Payee before such Euro-Dollar Rate Request will be put into effect by Payee), to be received by Payee by twelve o'clock noon (Dallas, Texas time) three (3) Euro-Dollar Business Days prior to the Euro-Dollar Business Day specified in the Euro-Dollar Rate Request for the commencement of the Interest Period, of (a) its intention to have (1) all or any portion of the Principal Amount which is not then the subject of an Interest Period (other than an Interest Period which is terminating on such Euro-Dollar Business Day), and/or (2) all or any portion of any advance of Loan proceeds which is to be made on such Euro-Dollar Business Day, bear interest at the LIBOR Base Rate, and (b) the Interest Period desired by Maker in respect of the amount specified. There shall be no more than three (3) such requests for an election outstanding at any time.

Euro-Dollar Rate Request Amount" -- The amount, to be specified by Maker in each Euro-Dollar Rate Request and stated in increments ofSl,000,000.00, which Maker desires to bear interest at the LIBOR Base Rate; provided, however, in no event shall any such amount be less than $ 1,000,000.00 in each instance.

"Euro-Dollar Reference Source" -- The display for Euro-Dollar rates provided on The Bloomberg (a data service), viewed by accessing Page One (I) of the global deposits segment of money-market rates (or such other page as may replace Page One [11 for the purposes of displaying Euro-Dollar rates); or, at the option of Payee the display for Euro-Dollar rates on such other service selected from time to time by Payee and determined by Payee to be comparable to The Bloomberg, which other service may include Reuters Monitor Money Rates Service.

"Interest Period" -- The period during which interest at the LIBOR Base Rate, determined as provided in this Note, shall be applicable to the applicable Euro-Dollar Rate Request Amount; provided, however, that each such period shall be either thirty (30), ninety (90), or one hundred eighty (180) days, which shall be measured from the date specified by Maker in each Euro-Dollar Rate Request for the commencement of the computation of interest at the LABOR Base Rate, to the numerically corresponding day in the calendar month in which such period terminates (or, if there be no numerical correspondent in such month, or if the date selected by Maker for such commencement is the last Euro-Dollar Business Day of a calendar month, then the last Euro-Dollar Business Day of the calendar month in which such period terminates, or, if the numerically corresponding day is not a Euro-Dollar Business Day, then the next succeeding Euro-Dollar Business Day, unless such next succeeding Euro-Dollar Business Day enters a new calendar month, in which case such period shall end on the next preceding Euro-Dollar Business Day); and in no event shall any such period be elected which extends beyond the Maturity Date.

"LABOR Base Rate" -- With respect to any Euro-Dollar Amount, the rate per annum (expressed as a percentage) determined by Payee to be equal to the sum of (a) the quotient of the

LIBOR Rate for the applicable Euro-Dollar Amount and the applicable Interest Period, divided by (1 minus the applicable Reserve Requirement). rounded up to the nearest 1/100 of 1%. plus (b) the applicable Assessments, plus (c) two and one-half percent (2.5%).

"LIBOR Rate" --The rate determined by Payee (rounded upward. if

necessary. to the nearest 1/16 of 1%) equal to the offered rate (and not the bid rate) for deposits in U.S. Dollars of amounts comparable to the Euro-Dollar Rare Request Amount for the same period of time as the Interest Period selected by Maker in the Euro-Dollar Rate Request, as set forth on the Euro-Dollar Reference Source at approximately I 0:00 am. (Dallas, Texas time) on the first day of the applicable interest Period.

"Loan" -- The $50,000,000.00 loan evidenced hereby.

"Maturity Date" -- July 31, 1999, being the date this Note becomes due and pay able in its entirety, unless extended pursuant to the terms of the Loan Agreement.

"Maximum Rate" -- The maximum interest rate permitted under applicable law,

"Principal Amount" -- That portion of the Loan evidenced hereby as is from time to time outstanding.

REGULATION D --Regulation D of the Board of Governors of the Federal Reserve System, as from time to time amended or supplemented.

"Regulation" -- With respect to the charging and collecting of interest at the LIBOR Base Rate, any United States federal, state or foreign laws, treaties, rules or regulations whether now in effect or hereinafter enacted or promulgated (including Regulation D) or any interpretations, directives or requests applying to a class of depository institutions including Payee under any United States federal, state or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof, excluding any change the effect of which is determined by Payee to be reflected in a change in the LIBOR Base Rate.

"Reserve Requirement" -- The average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding one billion U.S. Dollars against "Eurocurrency Liabilities," as such quoted term is used in Regulation D. Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any regulatory change against (a) any category of liabilities which includes deposits by reference to which the LIBOR Rate is to be determined as provided in this Note, or (b) any category of extensions of credit or other assets which includes loans the interest rate on which is determined on the basis of rates referred to in the definition of "LIBOR Rate" set forth above,

If Maker desires the application of the LIBOR Base Rate, it shall submit a Euro-Dollar Rate Request to Payee. Such Euro-Dollar Rate Request shall specify the Interest Period and the Euro-Dollar Amount and shall be irrevocable, subject to Payee's right to convert the rate of interest payable hereunder with respect to any Euro-Dollar Amount from the LIBOR Base Rate to the Commercial Base Rate as hereinafter provided, In the event that Maker fails to submit a Euro-Dollar Rate Request with respect to an existing Euro-Dollar Amount not later than twelve o'clock noon (New York time) three (3) Euro-Dollar Business Days prior to the last day of the relevant Interest Period, then the applicable Euro-Dollar Amount shall bear interest, commencing at the end of such Interest Period, at the Commercial Base Rate.

In no event shall Maker have more than five (5) Interest Periods involving Euro-Dollar Amounts in effect at any one time, whether or not any portion of the Principal Amount is then bearing interest at the Commercial Base Rate.

Any portion of the Principal Amount to which the LIBOR Base Rate is not (or pursuant to the terms hereof cannot be) applicable shall bear interest at the Commercial Base Rate.

Maker shall pay to Payee. promptly upon demand, such amounts as are necessary to compensate Payee for Additional Costs resulting from any Regulation which (i) subjects Payee to any tax, duty or other charge with respect to the Loan or this Note, or changes the basis of taxation of any amounts payable to Payee under the Loan or this Note (other than taxes imposed on the overall net income of Payee or of its applicable lending office by the jurisdiction in which Payee's principal office or such applicable lending office is located), (ii) imposes, modifies or deems applicable any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, Payee, or (iii) imposes on Payee or on the interbank Euro-Dollar market any other condition affecting the Loan or this Note. or any of such extensions of credit or liabilities. Payee will notify Maker of any event which would entitle Payee to compensation pursuant to this paragraph as promptly as practicable after Payee obtains knowledge thereof and determines to request such compensation.

Without limiting the effect of the immediately preceding paragraph, in the event that, by reason of any Regulation, (i) Payee incurs Additional Costs

based on or measured by the amount of (1) a category of deposits or other liabilities of Payee which includes deposits by reference to which the LIBOR Rate is determined as provided in this Note and/or (2) a category of extensions of credit or other assets of Payee which includes loans the interest on which is determined on the basis of rates referred to in the definition of "LIBOR Rate" set forth above, (ii) Payee becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold, or (iii) it shall be unlawful or impractical for Payee to make or maintain the Loan (or any portion thereof) at the LIBOR Base Rate, then Payee's obligation to make or maintain the Loan (or portions thereof) at the LIBOR Base Rate (and Maker's right to request the same) shall be suspended and Payee shall give notice thereof to Maker and, upon the giving of such notice, interest payable hereunder at the LIBOR Base Rate shall be converted to the Commercial Base Rate, unless Payee may lawfully continue to maintain the Loan (or any portion thereof) then bearing interest at the LIBOR Base Rate to the end of the current Interest Period(s), at which time the interest rate shall convert to the Commercial Base Rate. if subsequently Payee determines that such Regulation has ceased to be in effect. Payee will so advise Maker and Maker may convert the rate of interest payable hereunder with respect to those portions of the Principal Amount bearing interest at the Commercial Base Rate to the LII3OR Base Rate by submitting a Euro-Dollar Rate Request in respect thereof and otherwise complying with the provisions of this Note with respect thereto.

Determinations by Payee of the existence or effect of any Regulation on its costs of making or maintaining the Loan, or portions thereof, at the LIBOR Base Rate, or on amounts receivable by it in respect thereof, and of the additional amounts required to compensate Payee with respect to Additional Costs and/or Assessments, shall be conclusive; provided, however, that such determinations are made without manifest error.

Anything herein to the contrary notwithstanding, if, at the time of or prior to the determination of the LIBOR Base Rate in respect of any Euro-Dollar Rate Request Amount as herein provided, Payee determines (which determination shall be conclusive [provided that such determination is made on a reasonable basis] absent manifest error) that (i) by reason of circumstances affecting the interbank Euro-Dollar market generally, adequate and fair means do not or will not exist for determining the LIBOR Base Rate applicable to an Interest Period, or (ii) the LIBOR Rate, as determined by Payee, will not accurately reflect the cost to Payee of making or maintaining the Loan (or any portion thereof) at the LIBOR Base Rate, then Payee shall give Maker prompt notice thereof, and the applicable Euro-Dollar Rate Request Amount shall bear interest. or continue to bear interest, as the case may be, at the Commercial Base Rate. If at any time subsequent to the giving of such notice, Payee determines that because of a change in circumstances the LIBOR Base Rate is again available to Maker hereunder, Payee shall so advise Maker and Maker may convert the rate of interest payable hereunder from the Commercial Base Rate to the LIBOR Base Rate by submitting a Euro-Dollar Rate Request to Payee and otherwise complying with the provisions of this Note with respect thereto.

Maker shall pay to Payee, immediately upon request and notwithstanding contrary provisions contained in the Deeds of Trust (as hereafter defined) or other Loan instruments (as hereafter defined), such amounts as shall, in the conclusive judgment of Payee reasonably exercised. compensate Payee for any loss, cost or expense incurred by it as a result of (i) any payment or prepayment, under any circumstances whatsoever, of any portion of the principal Amount bearing interest at the LIBOR Base Rate on a date other than the last day of an applicable Interest Period. (ii) the conversion, for any reason whatsoever, of the rate of interest payable hereunder from the LIBOR Base Rate to the Commercial Base Rate with respect to any portion of the Principal Amount then bearing interest at the LIBOR Base Rate on a date other than the last day of an applicable Interest Period, (iii) the failure of all or a portion of an advance, which was to have borne interest at the LABOR Base Rate pursuant to a Euro-Dollar Rate Request, to be made under the loan Agreement, or (iv) the failure of Maker to borrow in accordance with a Euro-Dollar Rate Request submitted by it to Payee, which amounts shall include, without limitation, lost profits.

Maker shall have the right to prepay, in whole or in part, the Principal Amount of this Note accruing interest at the Commercial Base Rate, without premium or penalty upon the payment of all accrued interest on the amount prepaid (and any interest which has accrued at the Default Rate (hereafter defined) and other sums that may be payable hereunder); provided, however, that any Euro-Dollar Amount may be prepaid only on the last day of the applicable Interest Period.

All payments of principal shall be credited first against principal amounts bearing interest at the Commercial Base Rate and then toward the payment of Euro-Dollar Amounts, Payments of Euro-Dollar Amounts shall be applied in such manner as Maker shall select; provided, however, that Maker shall select Euro-Dollar Amounts to be repaid in a manner designed to minimize any losses incurred by virtue of such payment. If Maker shall fail to select the Euro-Dollar Amounts to which such payments are to be applied, or if an event of default has occurred and is continuing at the time of payment, then Payee shall be entitled to apply the payment to such Euro-Dollar Amounts in the manner it deems appropriate. Maker shall compensate Payee for any losses incurred by

virtue of any payment of those portions of the Loan accruing interest at the LIBOR Base Rate prior to the last day of the relevant Interest Period, which compensation shall be determined in accordance with the provisions set forth in this Note, and any payment received pursuant to this paragraph shall be applied first to losses incurred by Payee by reason of such payment.

If a default shall occur under the Deeds of Trust, interest on the Principal Amount shall, at the option of Payee, immediately and without notice to Maker, be converted to the Commercial Base Rate. The foregoing provisions shall not be construed as a waiver by Payee of its right to pursue any other remedies available to it under the Deeds of Trust or any other instrument evidencing or securing the Loan, nor shall it be construed to limit in any way the application of the Default Rate.

Maker hereby agrees that it shall be bound by any agreement extending the time or modifying the above terms of payment, made by Payee and the owner or owners of the Property, whether with or without notice to Maker, and Maker shall continue liable to pay the amount due hereunder, but with interest at a rate no greater than the LIBOR Base Rate or the Commercial Base Rate, as the case may be, according to the terms of any such agreement of extension or modification.

All or any portion of the principal of this Note may be borrowed, paid, prepaid, repaid and reborrowed, from time to time prior to maturity, in accordance with the provisions of this Note and the other Loan Instruments (as hereafter defined). The excess of borrowing (advances and readvances) over repayments shall evidence the principal balance due hereon from time to time and at any time. The aggregate of all advances made under this Note may exceed the face amount of this Note, but the outstanding principal balance of this Note at any time shall never exceed the face amount of this Note.

At the option of the holder hereof, the entire principal balance and accrued interest owing hereon shall, subject to applicable laws, at once become due and payable without notice or demand upon the occurrence at any time of any of the following events ("events of default"):

1. Default in the payment of any installment of principal, interest or any. other sum due hereunder or under any document evidencing governing. securing or guaranteeing the Loan (individually and collectively, the "Loan Instruments") and the continuation of such default or a period of fifteen (15) days following the due date thereof or defaults in the performance of any of the covenants or provisions of any of the Loan Instruments other than those covenants or provisions involving the payment of the sums described in the preceding clause in this paragraph 1.

2. The liquidation, termination, dissolution or (if any of the undersigned is a natural person) the death of any of the undersigned or any guarantor hereof

3. The bankruptcy or insolvency of, the assignment for the benefit of creditors by. or the appointment of a receiver for any of the property of any party liable for the payment of this Note, whether as maker, endorser, guarantor, surety or otherwise.

4. Default in the payment of any other indebtedness due the holder hereof, or default in the performance of any other obligation to the holder hereof by the undersigned or any other party liable for the payment hereof, whether as endorser, guarantor, surety or otherwise, it being reasonably contemplated by the undersigned that it may incur additional indebtedness owing to the holder hereof, from time to time, subsequent to the date hereof

5. Notice of default given by any other lender or third party (the "Other Lenders") to the undersigned or the acceleration of any indebtedness owed by the undersigned to the Other Lenders under any instruments evidencing, governing, guaranteeing or securing any other indebtedness or obligation, now or hereafter owed by the undersigned to the Other Lenders.

The failure to exercise the option to accelerate the maturity of this Note upon the happening of any one or more of the events of default hereunder shall not constitute a waiver of the right of the holder hereof to exercise the same or any other option at that time or at any subsequent time with respect to such uncured default or any other event of uncured default hereunder or under any other of the Loan Instruments. The remedies of the holder hereof, as provided in this Note and in any other of the Loan Instruments, shall be cumulative and concurrent and may be pursued separately, successively or together, as often as occasion therefor shall arise, at the sole discretion of the holder hereof The acceptance by the holder hereof of any payment under this Note which is less than payment in full of all amounts due and payable at the time of such payment shall not constitute a waiver of or impair, reduce, release or extinguish any of the rights or remedies of the holder hereof to exercise the

foregoing option or any other option granted to the holder hereof or in any other of the Loan Instruments, at that time or at any subsequent time, or nullify any prior exercise of any such option.

The unpaid principal of and, to the extent permitted by applicable law, unpaid interest on this Note from time to time outstanding shall bear interest from and after maturity at the rate (hereafter called the "Default Rate") of five percent (5%) per annum above the Commercial Base Rate (as such rate may change from time to time as provided above), provided that in no event shall such interest rate be more than the Maximum Rate. Notwithstanding anything to the contrary contained in this Note, at the option of the holder hereof and upon notice to the undersigned at any time after the occurrence of a default, as defined in the Deeds of Trust, from and after such notice and during the continuance of such default, the unpaid principal of this Note from time to time outstanding and all past due installments of interest shall, to the extent permitted by applicable law, bear interest at the Default Rate (as such rate may change from time to time with each change in the Commercial Base Rate), provided that in no event shall such interest rate be more than the Maximum Rate.

The undersigned and all other parties now or hereafter liable for the payment hereof whether as endorser, guarantor, surety or otherwise, severally waive demand, presentment. notice of dishonor, notice of intention to accelerate the indebtedness evidenced hereby, notice of the acceleration of the maturity hereof, diligence in collecting, grace. notice and protest, and consent to all extensions which

from time to time may be granted by the holder hereof and to all partial payments hereon, whether before or after maturity.

If this Note is not paid when due. whether at maturity or by acceleration, or if it is collected through a bankruptcy, probate or other court, whether before or after maturity the undersigned agrees to pay all costs of collection, including but not limited to reasonable attorneys' fees and expenses, incurred by the holder hereof.

This Note is executed pursuant to a Master Loan Agreement, dated as of January 31. 1993. between the undersigned and the payee named herein (the "Loan Agreement"). which Loan Agreement contains provisions for acceleration of the maturity hereof upon the happening of certain events, and all advances made hereunder shall be made pursuant to the Loan Agreement. This Note is secured by one or more Deeds of Trust (With Security Agreement and Assignment of Rents and Leases) (collectively, the `Deeds of Trust") covering certain property situated in various Counties in Texas. The proceeds of this Note are to be used for business, commercial, investment or other similar purposes and no portion thereof will be used for personal, family or household use.

This Note is given in renewal, replacement and rearrangement, and not in extinguishment of, the indebtedness evidenced by that certain (i) Revolving Promissory Note in the amount of $17,000,000.00, dated May 31,1993, as executed by Maker and payable to Payee, and (ii) Revolving Promissory Note (Amended and Restated) in the amount of $40,000,000.00 (as increased), dated as of May 31, 1993, as executed by Maker and payable to Payee.

All agreements between the undersigned and the holder hereof whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of acceleration of the maturity hereof or otherwise, shall the interest contracted for, charged, received, paid or agreed to be paid to the holder hereof exceed the Maximum Rate. If from any circumstance the holder hereof shall ever receive anything of value deemed interest by applicable law in excess of the Maximum Rate, an amount equal to any excessive interest shall be applied to the reduction of the principal hereof and not to the payment of interest, or if such excessive interest exceeds the unpaid balance of principal hereof, such excess shall be refunded to the undersigned. All interest paid or agreed to be paid to the holder hereof shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full period until payment in full of the principal so that the interest hereon for such full period shall not exceed the Maximum Rate. This paragraph shall control all agreements between the undersigned and the holder hereof

The undersigned acknowledges and agrees that the holder hereof may, from time to time, sell or offer to sell interests in the Loan to one or more participants. The undersigned authorizes the holder hereof to disseminate any information it has pertaining to the Loan, including, without limitation, complete and current credit information on the undersigned, any of its principals and any guarantor of this Note, to any such participant or prospective participant.

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EXCEPT WHERE FEDERAL LAW IS APPLICABLE (INCLUDING, WITHOUT LIMITATION, ANY FEDERAL USURY CEILING OR OTHER FEDERAL LAW WHICH, FROM TIME TO TIME, IS APPLICABLE TO THE INDEBTEDNESS EVIDENCED HEREIN AND WHICH PREEMPTS STATE USURY LAWS), THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, AND THE LAWS OF THE UNITED STATES APPLICABLE TO TRANSACTIONS IN SUCH STATE. THE UNDERSIGNED ACKNOWLEDGES THAT THE LIEN OF THE DEEDS OF TRUST CONSTITUTES A FIRST LIEN ON RESIDENTIAL REAL PROPERTY WITHIN THE MEANING OF PART A, TITLE V, OF THE DEPOSITORY INSTITUTIONS DEREGULATION AND MONETARY CONTROL ACT OF 1980, AND THE REGULATIONS PROMULGATED THEREUNDER.

MAKER:

LEGACY/MONTEREY HOMES L.P.
an Arizona limited partnership

BY: MTH-TEXAS UP, INC.,
an Arizona corporation,
General Partner

By: /s/ Rick Morgan

Name: Rick Morgan

Title: Vice President

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "AGREEMENT") is made as of this 1st day of January, 1998, by and between MONTEREY HOMES CORPORATION, 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 Monterey Homes 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 and 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 conditions 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 shares 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 compiled by Company and its subsidiaries, including pricing, sale and contract terms and conditions, contract expirations, and other compiled customer and vendor information; (2) 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 change 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 January 1, 1998 and shall terminate two (2) years from such date, unless earlier terminated in accordance with, and subject to, the other provisions 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 $120,750.00 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 be calculated based on the formula set forth in EXHIBIT A attached hereto. 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, from 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 not to exceed $350.00 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 of 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 an 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 of Company or its subsidiaries) any person, firm, corporation, or other entity who was a customer or 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 and 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 that, 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 Director 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 MATERIALS 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 50% of Executive's base salary and 50% 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 amounts 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 had 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 reasonably 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 attorneys' 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 remainder 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 communications 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 :
Monterey Homes Corporation
6613 N. Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Phone: (602) 998-8700
Fax: (602) 998-9162
Attn: President

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 West 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 carry out 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 PROVISIONS. 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 expressly 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 that 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.

MONTEREY HOMES CORPORATION, a
Maryland corporation

By: /s/ Steven J. Hilton and William W. Cleverly

Name: Steven J. Hilton and William W. Cleverly

Its: Managing Directors

/s/ Larry W. Seay

LARRY W. SEAY

EXHIBIT "A"

1998 - 2000 BONUS PLAN
LARRY SEAY

ANNUAL SALARY: $120,750

BONUS PLAN

* Potential Bonus to 50% to 70% of Base Salary at Discretion of Supervisors, and Ability to Accomplish Objectives

Objectives to Qualify for Bonus Plan

1. Equity Coverage/Investor Relations:

   * Initiate and Maintain Coverage from at least Three Housing Analysts.
   * Expand Investor Relations Program.
   * Significant Introduction to Buy Side Investors.
   * Identify and Update Investor Reporting Services.

2. Expand Roles of Accounting Staff:

   * Initiate Quarterly Financial Reports to Public.
   * Model Financial Ratio's of Company Against Competitors.

3. Capital Structure:

   * Senior Note Placement - First Quarter 1998.
   * Administer and Negotiate Corporate Banking Facilities.
   * Explore Expansion of Capital Structure - Joint Ventures, Secondary Offerings.

4. Coordinate Acquisition Analysis and Due Diligence:

   * Create Model and Financial Structure for Potential Acquisitions.
   * Assist in Identifying Acquisition Targets.
   * Acquisition Analysis and Due Diligence.

5. Audit Controls - Policies & Procedures:

   * Complete Accounting Policies Manual - 1st Quarter, 1998.
   * Institute Periodic Audit Procedures.

Compensation Subject to Continuing Employment and Standard Employment Policies as Outlined in the Company Personnel Manual.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "AGREEMENT") is made as of this 1st day of January, 1998, by and between MONTEREY HOMES CORPORATION, a Maryland corporation (the "Company") and Clyde Dinnell, 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 Monterey Homes Corporation and the subsidiary or subsidiaries which employs Executive.

RECITALS

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

B. EXECUTIVE EXPERIENCE. Executive has served as Vice President of the Company.

C. AGREEMENT PURPOSE. The Company desires to employ Executive, and Executive desires to be employed by Company, on the terms and conditions 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 shares 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 compiled by Company and its subsidiaries, including pricing, sale and contract terms and conditions, contract expirations, and other compiled customer and vendor information; (2) 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 change 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.

(d) "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 January 1, 1998 and shall terminate two (2) years from such date, unless earlier terminated in accordance with, and subject to, the other provisions 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 Division President - Phoenix, 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. 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 $125,000 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 be calculated based on the formula set forth in EXHIBIT A attached hereto. 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, from 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 not to exceed $6,000.00 per year.

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 of 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 expired 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 an 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 of Company or its subsidiaries) any person, firm, corporation, or other entity who was a customer or 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 and 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 that, 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 Director 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 MATERIALS 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 50% of Executive's base salary and 50% 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 amounts 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 had 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 reasonably 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 attorneys' 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 remainder 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 communications 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 :
Monterey Homes Corporation
6613 N. Scottsdale Road
Suite 200
Scottsdale, Arizona 85250
Phone: (602) 998-8700
Fax: (602) 998-9162
Attn: President

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:
Clyde Dinnell
6022 E. Mescal Street
Scottsdale, Arizona 85254

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 carry out 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 PROVISIONS. 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 expressly 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 that 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.

MONTEREY HOMES CORPORATION, a Maryland corporation

By: /s/ Steven J. Hilton and William W. Cleverly

Name: Steven J. Hilton and William Cleverly

Its: Managing Directors

/s/ Clyde Dinnell

CLYDE DINNELL

EXHIBIT "A"

1998 - 2000 BONUS PLAN
CLYDE DINNELL

ANNUAL SALARY: $125,000
Additional Stock Options: 5,000

BONUS PLAN

* Potential Bonus Equal to 100% of base Salary

* 35% of Bonus Potential Earned if 70% of Budgeted Pre-tax Net Income Earned

* 65% of Bonus Potential Earned if 81% of Budgeted Pre-tax net Income Earned

* 80% of Bonus Potential Earned if 91% of Budgeted Pre-tax Net Income Earned

* 81%+ Bonus Potential of Management's Discretion

Objectives to Qualify for Bonus Plan

1. Meet Annual Division Sales & Closing Forecast.

2. Do Not Exceed Annual Phoenix Division Budgeted Expenses without Corresponding Increase in Sales and Net Income.

3. Open New Communities per Budgeted Schedules (1999).

4. Attain 80% Minimum (definitely recommend) Customer Satisfaction Level Captured through Written and Telephone Surveys.

5. Maintain Satisfactory Customer Care Service Record.

Compensation Subject to Continuing Employment and Standard Employment Policies as Outlined in the Company Personnel Manual.

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EXHIBIT 99

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. Monterey Homes Corporation (the "Company" or "Monterey") intends to qualify both its written and oral forward-looking statements for protection under the PSLRA.

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

Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the following: (i) changes in national and local economic and other conditions, such as employment levels, availability of mortgage financing, interest rates, consumer confidence, and housing demand; (ii) risks inherent in homebuilding activities, including delays in construction schedules, cost overruns, changes in government regulation, increases in real estate taxes and other local government 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) the Company'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 the Company's operation, especially when (A) real estate analysts are predicting that new home sales in the Phoenix, Arizona metropolitan area may slow during 1998 and 1999 and (B) new home sales in the Tucson, Arizona metropolitan area are expected to remain relatively flat during 1998; (viii) the inability of the Company to obtain sufficient capital on terms acceptable to the Company to fund its planned capital and other expenditures; (ix) changes in local, state and federal rules and regulations governing real estate developing and homebuilding activities and environmental matters, including "no growth" or "slow growth" initiatives, building permit allocation ordinances and building moratoriums; (x) expansion by the Company into new markets in which the Company has no operating experience, such as Northern California; (xi) the inability of the Company to identify acquisition candidates that will result in successful combinations; (xii) the failure of the Company to make acquisitions on terms acceptable to the Company; (xiii) the loss of key employees of the Company, including William W. Cleverly, Steven J. Hilton and John R. Landon; and (xiv) factors that may affect the Company's mortgage assets, including general conditions in the financial markets, changes in prepayment rates and changes in interest rates.

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, Monterey undertakes no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of anticipated events or changes to projections over time.

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