Meritage Homes CORP
Form 10-Q/A
February 22, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 2004

or

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

Commission File Number 1-9977

MERITAGE HOMES CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**86-0611231** (I.R.S. Employer Identification No.)
8501 E. Princess Drive, Suite 290 **Scottsdale, Arizona**	**85255**

(Address of Principal Executive Offices) (Zip Code)

(480) 609-3330
(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

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

MERITAGE HOMES CORPORATION

FORM 10-Q/A FOR THE QUARTER ENDED SEPTEMBER 30, 2004

Explanatory Note

This Amendment No. 1 on Form 10-Q/A to Form 10-Q of Meritage Homes Corporation, for the quarter ended September 30, 2004 reflects restatements to certain historical financial data and related descriptions as originally filed. This restatement includes changes to Part I, Items 1, 2 and 4 and relates to our model home lease program. See Note 10 to our Unaudited Condensed Consolidated Financial Statements for further discussion of this matter.

Except for the accounts, data and descriptions relating to our model home lease program, no other information in this report is being changed. This report continues to speak as of the date of the original filing, and we have not updated the disclosures in this report to speak as of a later date. We are not required to and we have not updated any forward-looking statements previously included in the Form 10-Q filed on November 9, 2004.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2004 (As Restated, See Note 10)	December 31, 2003
Assets		
Cash and cash equivalents	$ 19,340	$ 4,799
Real estate	898,376	678,011
Consolidated real estate not owned	21,679	18,572
Deposits on real estate under option or contract	123,222	105,870
Investments in unconsolidated entities	39,348	23,528
Receivables, net	7,776	8,716
Deferred tax asset, net	1,443	1,204
Goodwill	89,650	75,645
Property and equipment, net	28,083	23,669
Prepaid expenses and other assets	15,253	14,525
Total assets	$ 1,244,170	$ 954,539
Liabilities		
Accounts payable	$ 106,793	$ 80,737
Accrued liabilities	89,819	67,411
Home sale deposits	45,366	25,352
Obligations related to consolidated real estate not owned	17,040	17,653
Senior notes	417,268	287,991
Loans payable and other borrowings	99,459	63,500
Total liabilities	775,745	542,644
Minority Interest	104	
Commitments and Contingencies (Notes 3, 4 and 5)		
Stockholders Equity		
Common stock, par value $0.01. 50,000,000 shares authorized; 15,675,839 and 15,479,558 shares issued at September 30, 2004 and December 31, 2003, respectively	157	155
Additional paid-in capital	207,364	202,678
Retained earnings	329,771	242,615
Treasury stock at cost, 2,852,226 and 2,302,226 shares at September 30, 2004 and December 31, 2003, Respectively	(68,971)	(33,553)
Total stockholders equity	468,321	411,895
Total liabilities and stockholders equity	$ 1,244,170	$ 954,539

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 (As Restated, See Note 10)	2003	2004 (As Restated, See Note 10)	2003
Home closing revenue	$ 462,711	$ 380,752	$ 1,317,488	$ 989,895
Land closing revenue	20,037		22,697	8,100
	482,748	380,752	1,340,185	997,995
Cost of home closings	(367,826)	(304,013)	(1,060,733)	(791,438)
Cost of land closings	(12,877)		(14,608)	(6,859)
	(380,703)	(304,013)	(1,075,341)	(798,297)
Home closing gross profit	94,885	76,739	256,755	198,457
Land closing gross profit	7,160		8,089	1,241
	102,045	76,739	264,844	199,698
Commissions and other sales costs	(28,077)	(23,461)	(79,906)	(64,534)
General and administrative costs	(19,822)	(14,403)	(52,672)	(38,691)
Other income, net	3,366	1,839	8,535	3,911
Earnings before provision for income taxes	57,512	40,714	140,801	100,384
Provision for income taxes	(21,912)	(14,959)	(53,645)	(37,544)
Net earnings	$ 35,600	$ 25,755	$ 87,156	$ 62,840
Weighted average number of shares:				
Basic	12,894	13,033	13,091	13,020
Diluted	13,644	13,837	13,870	13,756
Earnings per common share:				
Basic	$ 2.76	$ 1.98	$ 6.66	$ 4.83
Diluted	$ 2.61	$ 1.86	$ 6.28	$ 4.57

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2004 (As Restated, See Note 10)	Nine Months Ended September 30, 2003
Cash flows from operating activities:		
Net earnings	$ 87,156	$ 62,840
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	8,969	5,731
Deferred tax asset, net	(239)	(359)
Tax benefit from stock option exercises	1,701	
Equity in earnings from unconsolidated entities	(2,046)	(1,997)
Net increase in assets not owned	(3,720)	
Changes in assets and liabilities, net of effect of acquisition:		
Increase in real estate	(184,056)	(183,525)
Increase in deposits on real estate under option or contract	(15,482)	(25,998)
(Increase) decrease in receivables and prepaid expenses and other assets	(144)	11
Increase in accounts payable and accrued liabilities	46,759	42,588
Increase in home sale deposits	19,927	12,857
Net cash used in operating activities	(41,175)	(87,852)
Cash flows from investing activities:		
Investments in unconsolidated entities	(21,920)	(12,928)
Distributions from unconsolidated entities	8,145	3,138
Cash paid for acquisition	(24,165)	
Purchases of property and equipment	(11,967)	(15,478)
Increase in goodwill	(2,791)	(1,544)
Net cash used in investing activities	(52,698)	(26,812)
Cash flows from financing activities:		
Proceeds from loans payable and other borrowings	1,368,942	865,335
Repayments of loans payable and other borrowings	(1,357,979)	(879,711)
Proceeds from issuance of senior notes	130,000	133,260
Purchase of treasury stock	(35,418)	(5,180)
Proceeds from stock option exercises	2,869	1,270
Net cash provided by financing activities	108,414	114,974
Net increase in cash and cash equivalents	14,541	310
Cash and cash equivalents at beginning of period	4,799	6,600
Cash and cash equivalents at end of period	$ 19,340	$ 6,910

See Supplemental disclosures of cash flow information at Note 8.

See accompanying notes to condensed consolidated financial statements

MERITAGE HOMES CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 AND 2003

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of Meritage Homes Corporation and those of our consolidated subsidiaries. Intercompany balances and transactions have been eliminated in consolidation and certain prior year items have been reclassified to conform to our current financial statement presentation. In our opinion, these unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of our financial position, results of operations and cash flows for the periods presented. The results of operations for any interim period are not necessarily indicative of results to be expected for a full fiscal year or for any future periods. These financial statements should be read in conjunction with our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2003.

Stock-Based Compensation. At September 30, 2004, we had a stock-based employee compensation plan under which officers, key employees, non-employee directors and consultants may be granted options to purchase shares of our common stock. We apply the intrinsic value-based method of accounting for stock-based compensation prescribed in Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees , as allowed by SFAS No. 123, Accounting for Stock-Based Compensation and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. Under this method, compensation expense is recorded on the date of the grant only if the market price of the underlying stock on the date of the grant was greater than the exercise price. SFAS No. 123 established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. We have adopted the disclosure requirements of SFAS No. 123. We have not issued options with exercise prices below the market value on the date of the grant; therefore, we have not recognized compensation expense for our stock-based plan. Had compensation cost for this plan been determined pursuant to SFAS No. 123, our net earnings and earnings per common share would have been reduced to the following pro forma amounts. For the purpose of this disclosure, the value of the options is estimated by applying a Black-Scholes option-pricing model and amortized to expense over the options vesting periods.

		Three Months Ended September 30,		Nine Months Ended September 30,	
		(in thousands, except per share amounts)			
		2004	2003	2004	2003
Net earnings	As reported	$ 35,600	$ 25,755	$ 87,156	$ 62,840
	Deduct*	(1,531)	(897)	(3,034)	(2,546)
	Pro forma	$ 34,069	$ 24,858	$ 84,122	$ 60,294
Basic earnings per share	As reported	$ 2.76	$ 1.98	$ 6.66	$ 4.83

	Pro forma	$	2.64	$	1.91	$	6.43	$	4.63
Diluted earnings per share	As reported	$	2.61	$	1.86	$	6.28	$	4.57
	Pro forma	$	2.50	$	1.80	$	6.07	$	4.38

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

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

	Nine Months Ended September 30,	
	2004	2003
Expected dividend yield	0%	0%
Risk-free interest rate	4.40%	3.30%
Expected volatility	56%	55%
Expected life (in years)	7	7

The weighted average fair value of options was $38.16 and $18.62 for the nine months ended September 30, 2004 and 2003, respectively

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

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

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

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

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

We and our joint venture partners are also typically obligated to the project lenders to complete land development improvements if the joint venture does not perform the required development. Provided we and the other joint venture partners are in compliance with these completion obligations, the project lenders would be obligated to fund these improvements through any financing commitments available under the applicable joint venture development and construction loans. In addition, we and our joint venture partners have from time to time provided

unsecured environmental indemnities to joint venture project lenders. In some instances, these indemnities are subject to caps. These indemnities obligate us to reimburse the project lenders only for claims related to environmental matters for which such lenders are held responsible. As part of our project

acquisition due diligence process to determine potential environmental risks, we obtain an independent environmental review from outside consultants.

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

We also obtain letters of credit and surety bonds in support of our related obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies depending on the stage and level of our development activities. In the event the letters of credit or bonds are drawn upon, we would be obligated to reimburse the issuer of the letter of credit or bond. At September 30, 2004, we had approximately $7.9 million in outstanding letters of credit and $172.9 million in performance bonds for such purposes. We believe it is unlikely that any of these letters of credit or bonds will be drawn upon.

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

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

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

NOTE 2 REAL ESTATE AND CAPITALIZED INTEREST

Real estate consists of the following (in thousands):

	September 30, 2004	December 31, 2003
Homes under contract under construction	$ 480,288	$ 281,931
Finished home sites	181,742	166,456
Home sites under development	106,632	97,141
Unsold homes completed and under construction	65,532	96,576
Model homes	56,606	22,170
Land held for development	7,576	13,737
	$ 898,376	$ 678,011

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Capitalized interest, beginning of period	$ 16,807	$ 12,040	$ 13,074	$ 8,781
Interest incurred and capitalized	10,275	6,609	27,907	18,728
Amortization to cost of home closings	(7,482)	(5,653)	(21,381)	(14,513)
Capitalized interest, end of period	$ 19,600	$ 12,996	$ 19,600	$ 12,996

NOTE 3 VARIABLE INTEREST ENTITIES AND CONSOLIDATED REAL ESTATE NOT OWNED

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

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

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

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

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

We generally do not have any ownership interest in the VIEs that hold the lots and land under option or contract, and accordingly, we generally do not have legal or other access to the VIE s books or records. Therefore, it is not possible for us to compel the VIEs to provide financial or other data to us in performing our primary beneficiary evaluation. Accordingly, this lack of information from the VIEs may result in our evaluation being conducted primarily based on management judgments and estimates.

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

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

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

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

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

(1) Fair value of specific performance options approximates purchase price due to the short-lived nature of the options.

(2) Deposits are non-refundable except if certain contractual conditions are not performed by the selling party.

(3) Deposits are refundable at our sole discretion.

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

NOTE 4 LOANS PAYABLE AND OTHER BORROWINGS AND SENIOR NOTES

Loans payable and other borrowings consist of the following (in thousands):

	September 30, 2004	December 31, 2003
$400 million unsecured revolving credit facility maturing May 2007 with extension provisions, and interest payable monthly approximating prime (4.75% September 30, 2004) or LIBOR (approximately 2.005% at September 30, 2004) plus 2.0%.	$ 54,800	$ 62,900
Acquisition and development seller carry back financing, interest payable at a fixed rate of 7% per annum, principal and interest payable on January 10, 2005, secured by a first deed of trust on real estate.	600	600
Model home lease program, with interest payable monthly approximating LIBOR (approximately 2.005% at September 30, 2004) plus 4.25%	44,059	
Total loans payable and other borrowings	$ 99,459	$ 63,500

Effective April 1, 2004, costs associated with model homes that we use to market our communities and that are built by us on lots owned by a third party and leased from them during our sales process, are included in the Company s financial statements. We do not legally own the model homes, but we are reimbursed by the owner for our construction costs, and we have the right, but not the obligation, to purchase these homes. Any amounts received from third party owners are recorded as debt and is generally repaid when the homes are sold. Should we elect not to exercise our rights to purchase these model homes, the outstanding balance under the model home lease program will be eliminated upon the termination of the lease, which is generally between one and three years.

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

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

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

Obligations to pay principal and interest on the bank credit facility and senior notes are guaranteed by all of our subsidiaries, each of which is directly or indirectly 100% owned by Meritage Homes Corporation (Guarantor Subsidiaries), other than certain minor subsidiaries (collectively, Non-Guarantor Subsidiaries). Such guarantees are full and unconditional, and joint and several. Separate financial statements of the

Guarantor Subsidiaries are not provided because Meritage Homes Corporation (the parent company) has no independent assets or operations, the guarantees are full and unconditional and joint and several, and the Non-Guarantor Subsidiaries are, individually and in the aggregate, minor. There are no significant restrictions on the ability of the parent company or any guarantor to obtain funds from its subsidiaries by dividend or loan.

NOTE 5 ACQUISITIONS AND GOODWILL

Citation Homes of Southern California Acquisition. Effective January 1, 2004, we purchased the homebuilding and related assets of Citation Homes of Southern California (Citation), which operates primarily in the Inland Empire region of the greater Los Angeles area. The purchase price was approximately $24.2 million in cash, and we agreed to an earn-out of 20% of the pre-tax profits of the Southern California operations after capital charges, as defined, payable in cash over three years. The results of the Southern California operations are included in our consolidated financial statements beginning as of the effective date of the acquisition. See Note 8 for additional information regarding this acquisition.

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

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

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

NOTE 6 EARNINGS PER SHARE

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

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

NOTE 7 INCOME TAXES

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

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

NOTE 8 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

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

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

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

NOTE 9 SEGMENT INFORMATION

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

NOTE 10 RESTATEMENT

In January 2005 we determined that construction costs associated with model homes used to market our communities and that are built by us on lots owned by a third party and leased from them during our sales process, should be included in the Company s financial statements. We do not legally own the model homes, but we are reimbursed by the owner for our construction costs, and we have the right, but not the obligation, to purchase these homes. For accounting purposes, we are deemed to be the owner of the model homes, and due to our continuing involvement with these assets, we are unable to derecognize the model homes upon their completion and commencement of the lease. Amounts received by us from the third party owners for reimbursement of our construction costs are recorded as debt in our financial statements, which is generally deemed repaid when the homes are sold. In addition, we determined that payments related to the lease program should be recognized as interest expense, subject to capitalization, rather commissions and other sales costs, which is included in cost of home closings. As a result, the accompanying unaudited condensed consolidated financial statements as of and for the three and nine months ended September 30, 2004 have been restated from the amounts previously reported to reflect the above described treatment for our model home lease program. The restated amounts reflect an additional $44.1 million of real estate assets and debt and approximately $0.5 and $0.9 million in lease payments under our model home lease program for the three and nine month periods ended September 30, 2004 as interest, which is included in cost of home closings rather than commissions and other sales costs. Financial statements for periods prior to June 30, 2004 were not materially affected and have not been restated. There was no material impact resulting from the change on net earnings and basic and diluted EPS for the three and nine months ended September 30, 2004. .

A summary of the significant effects of the restatement is as follows:

	As of September 30, 2004	
	As Previously Reported	As Restated
	(in thousands)	
Real estate	$ 854,317	$ 898,376
Total assets	1,200,111	1,244,170
Loans payable and other borrowings	55,400	99,459
Total liabilities	731,686	775,745
Total liabilities and stockholders equity	1,200,111	1,244,170

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	As Previously Reported	As Restated	As Previously Reported	As Restated
	(in thousands)		(in thousands)	
Cost of home closings	$ (367,302)	$ (367,826)	$ (1,059,849)	$ (1,060,733)
Commissions and other sales costs	(28,601)	(28,077)	(80,790)	(79,906)

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q/A contains forward-looking statements. The words believe, expect, anticipate, forecast , plan and pro and similar expressions identify forward-looking statements, which speak only as of the date the statement was made. All such statements are within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may include, but are not limited to, projections of revenue, earnings or loss, capital expenditures and backlog; plans for future operations; financing needs or plans and liquidity; the impact of changes in interest rates; plans relating to our products or services, acquisitions, and new or planned development projects; the demand for and pricing of our homes; the expected outcome of legal proceedings against us; the growth potential of the markets we operate in; the sufficiency of our capital resources to support our growth strategy; the sufficiency of our warranty and other reserves; the likelihood that performance bonds and letters of credit we have posted will be drawn against; the number of new communities we plan to open in Nevada during the remainder of 2004 and the corresponding effect on sales and closings; the impact of new accounting principles; and our ability to continue positive operating results in light of current economic and political conditions, as well as assumptions relating to the foregoing.

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

Overview

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

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

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

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

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

Critical Accounting Policies

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

The accounting policies that we deem most critical to us, and involve the most difficult, subjective or complex judgments, include our estimates of costs to complete our individual projects, the ultimate recoverability (or impairment) of these costs, goodwill impairment, the likelihood of closing lots held under option or contract, the ability to determine the fair value of consolidated real estate not owned and liabilities related to such, certain estimates and assumptions related to applying FIN 46R, and the ability to estimate expenses and accruals, including legal and warranty reserves. Should we under or over estimate costs to complete individual projects, gross margins in a particular period could be misstated and the ultimate recoverability of costs related to a project from home sales may be uncertain. Furthermore, non-refundable deposits paid for land options or contracts may have no economic value to us if we do not ultimately purchase the land. Our inability to accurately estimate expenses, accruals, or an impairment of real estate or goodwill could result in charges, or income, in future periods, which relate to activities or transactions in a preceding period. The estimates and assumptions we make relating to our application of FIN 46R, if not accurate, could result in us incorrectly including, or excluding, certain contractual land acquisition arrangements as variable interest entities in, or from, respectively, our consolidated financial statements.

Results Of Operations

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

Home Closing Revenue, Home Orders and Order Backlog

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

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

Nevada										
Dollars	$	34,073	$	32,036	6%	$	90,353	$	123,577	(27)%
Homes ordered		93		116	(20)%		258		500	(48)%
Average sales price	$	366.4	$	276.2	33%	$	350.2	$	247.2	42%

	At September 30, 2004	2003	% Change
Order Backlog			
Total			
Dollars	$ 1,349,321	$ 839,609	61%
Homes in backlog	4,747	3,217	48%
Average sales price	$ 284.2	$ 261.0	9%
Texas			
Dollars	$ 365,439	$ 312,567	17%
Homes in backlog	1,722	1,501	15%
Average sales price	$ 212.2	$ 208.2	2%
Arizona			
Dollars	$ 587,117	$ 313,898	87%
Homes in backlog	2,195	1,133	94%
Average sales price	$ 267.5	$ 277.1	(3)%
California			
Dollars	$ 338,041	$ 160,631	110%
Homes in backlog	655	361	81%
Average sales price	$ 516.1	$ 445.0	16%
Nevada			
Dollars	$ 58,724	$ 52,513	12%
Homes in backlog	175	222	(21)%
Average sales price	$ 335.6	$ 236.5	42%

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

Home Orders. Home orders for any period represent the aggregate sales price of homes ordered by customers, net of cancellations. We do not include sales that are contingent upon the sale of a customer s existing home as an order until the contingency is removed. Historically, we have experienced a cancellation rate approximating 25% or less of gross sales, which we believe is consistent with industry standards. Overall, demand for our homes was robust during the third quarter and first nine months of 2004, as evidenced by increases in the number of orders per community of 31% and 28%, respectively. The number and dollar value of home orders was particularly strong in our Arizona and California markets where housing demand is generally very healthy. In Arizona, orders per community advanced 132% for the third quarter 2004 as compared to the third quarter of last year. In our California division, orders per community rose 58% for the same period. The increase in home orders in our Texas division for both the third quarter

and first nine months was driven by a corresponding increase in the number of active communities. Demand for our homes in Texas is good; however, competition in that market is as strong as the Company has experienced in years. Although home orders decreased considerably in Nevada during both the third quarter and first nine months of 2004, new communities opened there in October and are planned for November of this year. We believe these new

communities should lead to an increase in Nevada home orders during the fourth quarter of 2004 as well as the full year 2005, and result in increased closings during the later half of 2005.

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

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

Other Operating Information (dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Home Closing Gross Profit				
Dollars	$ 94,885	$ 76,739	$ 256,755	$ 198,457
Percent of home closing revenue	20.5%	20.2%	19.5%	20.0%
Commissions and Other Sales Costs				
Dollars	$ 28,077	$ 23,461	$ 79,906	$ 64,534
Percent of home closing revenue	6.1%	6.2%	6.1%	6.5%
General and Administrative Costs				
Dollars	$ 19,822	$ 14,403	$ 52,672	$ 38,691
Percent of total revenue	4.1%	3.8%	3.9%	3.9%
Income Taxes				
Dollars	$ 21,912	$ 14,959	$ 53,645	$ 37,544
Percent of earnings before provision for income taxes	38.1%	36.7%	38.1%	37.4%

Home Closing Gross Profit. Home closing gross profit equals home closing revenue, less the cost of home closings, which includes developed lot costs, home construction costs, an allocation of common community costs (such as the cost of model complex and architectural, legal and zoning costs), amortization of capitalized interest, sales tax, warranty, construction overhead and closing costs. The dollar increases in gross profit for the three and nine months ended September 30, 2004 are attributable to the increase in the number and dollar value of homes closed. During the third quarter, our California division, which produces our highest gross profit percentage of any of our divisions, represented a larger

percentage of our revenue than they had during the first six months of the year, therefore increasing our gross profit percentage for the quarter. Additionally, our Texas division, which generally has a lower gross margin percentage than our overall average, generated a lower percentage of our overall revenue during the third quarter, which increased our gross profit percentage.

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

General and Administrative Costs. General and administrative costs represent corporate and divisional overhead expenses such as salaries and bonuses, occupancy, insurance and travel expenses. General and administrative costs as a percentage of total revenue for the third quarter of 2004 increased to 4.1% from 3.8% in the third quarter of 2003. This increase is primarily due to the additional overhead costs related to growth of our business, along with accounting expenses paid to third-party providers. For the first nine months of 2004, general and administrative costs as a percentage of total revenue were stable as compared to the first nine months of 2003.

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

Liquidity and Capital Resources

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

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

At September 30, 2004, there was a balance of $54.8 million outstanding under our senior unsecured revolving credit facility and approximately $43.8 million was outstanding in letters of credit and guarantees that collateralize our obligations under various land purchase and other contracts. After considering our most restrictive bank covenants, our borrowing availability under the bank credit facility was approximately $186.4 million at September 30, 2004, as determined by borrowing base limitations defined by our agreement with the lending banks.

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

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

Effective April 1, 2004, costs associated with model homes that we use to market our communities and that are built by us on lots owned by a third party and leased from them during our sales process, are included in the Company s financial statements. We do not legally own the model homes, but we are reimbursed by the owner for our construction costs, and we have the right, but not the obligation, to purchase these homes. Any amounts received from third party owners are recorded as debt and is generally repaid when the homes are sold. Should we elect not to exercise our rights to purchase these model homes, the outstanding balance under

the model home lease program will be eliminated upon the termination of the lease, which is generally between one and three years.

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

Off-Balance Sheet Arrangements

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

Seasonality

We historically have closed more homes in the second half of the fiscal year than in the first half, due in part to the slightly seasonal nature of the market for our move-up and semi-custom luxury products. We expect this seasonal trend to continue, although it may vary if our operations continue to expand.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

Item 4. Controls and Procedures

This section has been updated for events and developments occurring subsequent to the filing of the Original 10-Q through February 18, 2005.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time

periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We regularly evaluate our internal control over financial reporting and discuss these matters with our audit committee. As a result of the restatement of our condensed consolidated financial statements for the three and six months ended June 30, 2004 discussed in Note 10 to the financial statements, we concluded in February 2005 that there was a material weakness (as defined under Standard No. 2 of the Public Company Accounting Oversight Board) in our internal control over financial reporting relating to the accounting for our model home lease program. Although the dollar amounts relating to the adjustment were immaterial to our results of operations and liquidity, our management and the audit committee reviewed and analyzed our internal controls, policies and procedures in response to this material weakness. We believe that our model home lease program transactions are highly technical in nature. Meritage management has taken exhaustive efforts to document its assumptions and conclusions related to all complex transactions. Additionally, Meritage management has hired additional financial and accounting staff, enhanced the training of our finance and accounting staff and requires periodic review of a wider variety of current technical accounting literature.

While the restatement did not have any effect on our most restrictive debt covenants, operating or net earnings, it did affect two line items on our consolidated balance sheet: real estate and loans payable and other borrowings, two line items on our consolidated statement of earnings: commissions and other sales costs and cost of home closings and two line items on our consolidated statement of cash flows: increase in real estate and proceeds from loans payable and other borrowings.

As required by Rule 13a-15(b) under the Exchange Act and in light of the restatement of our consolidated balance sheet, statement of earnings and statement of cash flows, we conducted an evaluation, under the supervision and with participation of our management, including our Co-Chief Executive Officers and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report and as of February 9, 2005. Based on the foregoing, our management, including our Co-Chief Executive Officers and our Chief Financial Officer, concluded that the material weakness had been remediated and that our disclosure controls and procedures were effective at the reasonable assurance level as of February 21, 2005.

PART II - OTHER INFORMATION

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

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

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

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

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

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly cause this report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized this 22nd day of February 2005.

MERITAGE HOMES CORPORATION,
a Maryland Corporation

By /s/ LARRY W. SEAY
Larry W. Seay
Chief Financial Officer and Vice President-Finance
(Principal Financial Officer and Duly Authorized Officer)

By /s/ VICKI L. BIGGS
Vicki L. Biggs
Vice President - Corporate Controller
(Principal Accounting Officer)

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