Meritage Homes CORP
Form 424B2
February 28, 2005

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Filed Pursuant to Rule 424(b)(2)
Registration Nos. 333-87398 and 333-58793

PROSPECTUS SUPPLEMENT

(To prospectus dated May 14, 2002
and prospectus dated July 27, 1998)
1,500,000 Shares
Common Stock

We are offering 900,000 shares of our common stock, and the selling securityholders identified in this prospectus supplement are offering 600,000 shares. We will not receive any proceeds from the sale of the shares by the selling securityholders.

Our common stock is traded on the New York Stock Exchange under the symbol MTH. On February 24, 2005 the last reported sale price of our common stock on the New York Stock Exchange was $70.62 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in Risk factors beginning on page S-11 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

		Per share		**Total**
Public offering price	$	70.350	$	105,525,000
Underwriting discounts and commissions	$	2.814	$	4,221,000
Proceeds, before expenses, to Meritage Homes Corporation	$	67.536	$	60,782,400
Proceeds to selling securityholders	$	67.536	$	40,521,600

The underwriters may also purchase up to an additional 135,000 shares of common stock from us at the public offering price, less the underwriting discount and commissions payable by us to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be $4,600,890, and the total proceeds, before expenses to us will be $69,899,760.

Concurrently with this offering we are (1) offering to repurchase up to all of our $9^{3}/4$% senior notes due 2011, which total $280 million, through a tender offer for those notes and (2) offering $350 million aggregate principal amount of new $6^{1}/4$% senior notes due 2015 in a private placement.

Delivery of the shares of common stock will be made on or about March 2, 2005.

Joint Book-Running Managers

UBS Investment Bank **Citigroup**

Deutsche Bank Securities

JMP Securities

A.G. Edwards

The date of this prospectus supplement is February 24, 2005

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement supplements two different prospectuses, which are separately included as part of two different registration statements. The prospectus dated May 14, 2002, which is a part of Registration Statement No. 333-87398 and which we refer to as the company prospectus, relates to the offering by us of the securities described in the company prospectus up to $300 million, of which this offering is a part. The prospectus dated July 27, 1998, which is a part of the Registration Statement No. 333-58793 and which we refer to as the selling securityholder prospectus, relates to the offering of common stock by the selling securityholders. We refer collectively to the company prospectus and the selling securityholder prospectus as the accompanying prospectuses.

This document has three parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectuses and the documents incorporated by reference. The second and third parts are the two accompanying prospectuses, which give more general information, some of which may not apply to this offering. TO THE EXTENT THERE IS A CONFLICT BETWEEN THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT, THE INFORMATION CONTAINED IN THE ACCOMPANYING PROSPECTUSES OR THE INFORMATION CONTAINED IN ANY DOCUMENT INCORPORATED BY REFERENCE HEREIN OR THEREIN, THE INFORMATION CONTAINED IN THE MOST RECENTLY DATED DOCUMENT SHALL CONTROL.

It is important for you to read and consider all information contained in this prospectus supplement and each accompanying prospectus, including the documents incorporated by reference herein and therein, in making your investment decision. This prospectus supplement and the accompanying prospectuses incorporate important business and financial information about us and our subsidiaries that is not included in or delivered with these documents. This information is available without charge to security holders upon written or oral request.

You should rely only on the information contained, incorporated or deemed incorporated by reference in this prospectus supplement and the accompanying prospectuses. We have not authorized anyone to give any information or to make any representation not contained, incorporated or deemed incorporated by reference in this prospectus supplement or the applicable accompanying prospectuses in connection with the offering of shares of common stock in this offering. You should not assume that the information contained in this prospectus supplement and the accompanying prospectuses is correct as of any date after the respective dates of this prospectus supplement and the accompanying prospectuses, even though this prospectus supplement and the accompanying prospectuses are delivered or these shares of common stock are offered or sold on a later date.

This prospectus supplement is not, and neither of the accompanying prospectuses are, an offer to sell any security other than the common stock and they are not soliciting an offer to buy any security other than the common stock. This prospectus supplement is not, and neither of the accompanying prospectuses are, an offer to sell this common stock to any person, and they are not soliciting an offer from any person to buy the common stock, in any jurisdiction where the offer or sale to that person is not permitted.

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Prospectus supplement summary

This summary is not complete and does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus supplement and the accompanying prospectuses carefully, especially the risks discussed under the Risk Factors section beginning on page S-11 of this prospectus supplement, and our consolidated financial statements and the notes to those statements. Unless the context otherwise requires, all references to Meritage, we, us or our include Meritage Homes Corporation and its subsidiaries and predecessors as a combined entity. Unless indicated otherwise, all information in this prospectus supplement assumes that the underwriters do not exercise the over-allotment option described in Underwriting. All per share amounts in this prospectus supplement have been adjusted for a 2-for-1 stock split (in the form of a stock dividend) effected on January 7, 2005.

THE COMPANY

We are a leading designer and builder of single-family homes in the fast-growing Southern and Western United States, based on the number of home closings. We focus on providing a broad range of first-time, move-up and luxury homes to our targeted customer base. We and our predecessors have operated in Arizona since 1985, in Texas since 1987, in Northern California since 1989 and in Nevada since 1993. In 2004, we entered the Inland Empire market of Southern California with our acquisition of Citation Homes of Southern California and began start-up operations in the Denver, Colorado and Orlando, Florida markets. In February 2005, we expanded our Florida operations by acquiring the Fort Myers/Naples-based operations of Colonial Homes.

We believe that the relatively strong population, job and income growth as well as the favorable migration characteristics of our markets will continue to provide significant growth opportunities for us. According to U.S. Housing Markets, a leading real estate and homebuilding publication of the Meyers Group, six of our twelve markets, Los Angeles, California, Phoenix/ Scottsdale, Arizona, Dallas/ Ft. Worth and Houston, Texas, Las Vegas, Nevada and Orlando, Florida, are among or part of the top 10 national housing markets based on annual single-family housing permits issued in 2003, with Dallas/ Ft. Worth, Houston, Phoenix/ Scottsdale and Los Angeles comprising four of the top six single-family housing markets.

At December 31, 2004, we were actively selling homes in 139 communities, with base prices ranging from approximately $96,000 to $927,000. We develop a design and marketing concept tailored to each community, which includes determination of the size, style and price range of homes, street layout, size and layout of individual lots and overall community design. The home designs offered in a particular community also depend upon factors such as the housing generally available in the area, the consumer demands of a particular market and our lot costs for the project.

We seek to minimize land risk by purchasing a significant portion of our property after full entitlements that will allow us to construct homes have been obtained and typically begin development or construction immediately after close. We acquire land primarily through rolling option contracts, allowing us to purchase individual lots as our building needs dictate. These arrangements allow us to control lot inventory typically on a non-recourse basis without incurring the risks of land ownership or financial commitments other than relatively small non-refundable deposits. Recently, we have begun to purchase larger tracts of land through joint ventures. In some cases these joint ventures purchase undeveloped land and develop the land themselves. At December 31, 2004, we owned or had options to acquire approximately 39,000 housing lots, of which approximately 89% were under rolling option and land purchase contracts. We believe that the lots we own or have the right to acquire represent approximately a five and one half year supply.

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RECENT DEVELOPMENTS

We have consistently achieved strong financial results while maintaining conservative fiscal policies. For the year ended December 31, 2004, our revenues were $2.04 billion and our net earnings were $139.0 million, as compared to $1.47 billion and $94.4 million, respectively, for the year ended December 31, 2003, an increase of 38.8% and 47.2%, respectively.

We believe that we are well positioned for future growth. Our backlog increased to 4,408 homes with a value of $1.32 billion at December 31, 2004, up from 2,580 homes with a value of $710.8 million at December 31, 2003, an 85.8% increase in dollars. New home orders increased to 2,055 homes with a value of $669.9 million for the quarter ended December 31, 2004 from 1,147 homes with a value of $343.2 million in the comparable 2003 period, a 95.2% increase in dollars. New home orders increased to 9,007 with a value of $2.60 billion for the year ended December 31, 2004 from 6,152 homes with a value of $1.63 billion in 2003, a 59.5% increase in dollars.

The table below summarizes our unaudited results of operations, balance sheet data and other financial data as of and for the quarter and year ended December 31, 2004.

	Three Months Ended December 31, 2004	Year Ended December 31, 2004
	(unaudited) (in thousands)	
Statement of Earnings and Other Operating Data:		
Total closing revenue	$ 699,819	$ 2,040,004
Total cost of closings	(556,193)	(1,631,534)
Gross profit	143,626	408,470
Net earnings	51,812	138,968
Basic earnings per share	$ 2.01	$ 5.33
Diluted earnings per share	$ 1.88	$ 5.03
Gross profit margin	20.5%	20.0%

	As of December 31, 2004
	(unaudited) (in thousands)
Balance Sheet Data:	
Cash and cash equivalents	$ 47,876
Real estate	867,218
Total assets	1,265,394
Total liabilities and minority interest	742,839
Notes and loans payable and other borrowings	471,415
Stockholders equity	522,555

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The table provided below shows comparative operating and financial data regarding our homebuilding activities. Through December 31, 2004, we have had no sales or closings from our Denver, Colorado or Orlando, Florida start-up operations. We anticipate that we will begin delivering our first homes in Denver and Orlando during the latter part of 2005. In connection with our acquisition of Colonial Homes, we began selling and delivering homes in our Fort Myers/Naples division in February 2005.

	Three Months Ended December 31,				Year Ended December 31,			
	2004		2003		2004		2003	
	Homes	$	Homes	$	Homes	$	Homes	$
	(unaudited) (dollars in thousands)							
Homes Ordered:								
Texas	744	159,041	458	100,931	3,518	752,770	2,862	599,850
Arizona	713	195,030	348	106,087	3,490	884,771	1,881	509,913
California(1)	439	260,065	239	109,687	1,582	821,266	807	375,105
Nevada	159	55,788	102	26,543	417	146,141	602	150,120
Total	2,055	669,884	1,147	343,248	9,007	2,604,948	6,152	1,634,988
Homes Closed:								
Texas	981	211,390	840	172,079	3,152	681,099	2,828	577,330
Arizona	917	244,760	649	181,626	2,331	585,743	1,515	415,709
California	399	206,795	195	92,963	1,367	628,324	735	334,677
Nevada	97	35,309	100	25,418	404	120,576	564	134,265
Total	2,394	698,254	1,784	472,086	7,254	2,015,042	5,642	1,461,981
Order Backlog:								
Texas					1,485	313,090	1,119	241,419
Arizona					1,991	537,387	832	238,359
California					695	391,271	405	177,355
Nevada					237	79,203	224	53,638
Total					4,408	1,320,951	2,580	710,771

(1) *Does not include 75 homes that were acquired in connection with our acquisition of Citation Homes in January 2004 and which were closed by us in 2004.*

Other recent events

Colonial Homes Acquisition. On February 11, 2005, we completed the acquisition of substantially all of the homebuilding assets of Colonial Homes of Fort Myers/Naples, Florida. The purchase price was approximately $64 million in cash plus the assumption of accrued liabilities of approximately $9 million.

In addition, we have the right to acquire approximately 1,800 lots over a four-year period pursuant to an option agreement entered into between Meritage and Colonial. Colonial closed 355 homes in 2004 at an average selling price of approximately $347,000, resulting in home closing revenue of approximately $123 million. We anticipate that the Colonial acquisition will allow us to expand our presence in the Florida market. In addition to single-family homes, Colonial Homes is also involved in the construction and sale of multi-story condominiums. Of the 355 homes closed by Colonial in 2004, 56 units represented condominium sales. We plan to develop condominium units in our Fort Myers/ Naples market.

Concurrent Transactions. Concurrently with this offering we are (1) offering to repurchase up to all of our $9^{3}/4$% senior notes due 2011, which total $280 million, through a tender offer for those notes and (2) offering $350 million aggregate principal amount of new $6^{1}/4$% senior notes due 2015 in a private placement.

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Accounting Treatment of Model Home Leases; Internal Controls. Historically, the construction costs and related debt associated with model homes which are owned and leased to us by others and that we use to market our communities were not included in our balance sheet. In January 2005 we determined that the costs associated with these models are required to be included as assets on our balance sheet and that the lease payments needed to be recharacterized as interest and that such interest should be capitalized and allocated to cost of sales. As a result, we restated our Quarterly Reports on Form 10-Q for the quarters ended June 30, 2004 and September 30, 2004. We have determined that the effect on our quarterly and year-end financial statements for 2003 and the quarter ended March 31, 2004 is immaterial.

In connection with the audit of our 2004 financial statements, our registered public accounting firm informed management that they believed our previous accounting treatment for our model lease program is a material weakness under Section 404 of the Sarbanes-Oxley Act of 2002 and PCAOB Auditing Standard No. 2. We agree with this assessment but believe that this is an isolated reportable condition and have made the appropriate adjustments to our financial statements for the year ended December 31, 2004. If our 2003 financial statements had been restated to conform to the 2004 treatment, the effect would have been an increase in total assets of less than 3% at year-end, an increase in cost of sales of less than 1% for the year (with an offsetting reclassification from commissions and other sales costs) and no change in net earnings for the year.

Our principal executive office in Arizona is located at 8501 East Princess Drive, Suite 290, Scottsdale, Arizona 85255, and our telephone number there is (877) 400-7888. Our principal executive office in Texas is located at 2745 North Dallas Parkway, Suite 600, Plano, Texas 75093, and our telephone number there is (800) 210-6004. Information about our company and communities is provided through our website www.meritagehomes.com. Information on this website is not incorporated by reference in or otherwise part of this prospectus supplement or the accompanying prospectuses.

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The offering

The following summary is not intended to be complete. For a more detailed description of our common stock, see Description of capital stock in the accompanying company prospectus.

Common stock offered by us	900,000 shares (1)
Common stock offered by the selling securityholders	600,000 shares
Common stock to be outstanding after this offering	26,749,798 shares (2)
Use of proceeds	We estimate that the net proceeds to us from the offering after deducting underwriting discounts and commissions but before deducting the estimated offering expenses will be approximately $60.8 million. We intend to use the proceeds received by us in this offering together with the proceeds from our offering of $350 million aggregate principal amount of $6^1/4$% senior notes due 2015, to repurchase up to all of our $9^3/4$% senior notes due 2011 pursuant to a concurrent tender offer, to repay a portion of our senior unsecured credit facility and to pay related fees and expenses. We will not receive any of the proceeds from the sale of common stock by the selling securityholders.
New York Stock Exchange Symbol	MTH

(1) *Does not include the exercise of the underwriters over-allotment option.*

(2) *The number of shares of common stock outstanding after the offering is based upon the number of shares outstanding as of February 18, 2005 and excludes up to 2,814,330 shares of common stock issuable upon the exercise of options outstanding, of which 806,268 shares are immediately exercisable at a weighted average price of $9.94.*

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Summary financial information

The following table presents summary historical consolidated financial and operating data of Meritage Homes Corporation and subsidiaries as of and for each of the three years in the period ended December 31, 2003 and as of September 30, 2004 and for the nine months ended September 30 for each of the last two years. The consolidated statement of earnings data for the years ended December 31, 2003, 2002 and 2001 have been derived from Meritage Homes Corporation s audited consolidated financial statements. The consolidated statements of earnings data for the nine months ended September 30, 2004 and 2003 have been derived from Meritage Homes Corporation s unaudited consolidated financial statements. These financial statements have been prepared on a basis consistent with our audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for fair presentation of the financial position and results of operations for the periods presented. You should read this data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes contained in the annual, quarterly and other reports filed by us with the SEC, which we have incorporated by reference into this prospectus supplement. The data below includes the operations of Hancock Communities, Hammonds Homes, Perma-Bilt Homes and Citation Homes since their dates of acquisition, June 1, 2001, July 1, 2002, October 1, 2002 and January 1, 2004, respectively.

	Years ended December 31,			Nine months ended September 30,	
	2003(1)	**2002(1)**	**2001(1)**	**2004**	**2003(1)**
				(unaudited)	
	(dollars in thousands, except per share data)				
Statement of Earnings Data:					
Total closing revenue	$ 1,471,001	$ 1,119,817	$ 744,174	$ 1,340,185	$ 997,995
Total cost of closings	(1,178,484)	(904,921)	(586,914)	(1,075,341)	(798,297)
Gross profit	292,517	214,896	157,260	264,844	199,698
Commissions and other sales costs	(92,904)	(65,291)	(41,085)	(79,906)	(64,534)
General and administrative expenses(2)	(53,929)	(41,496)	(36,105)	(52,672)	(38,691)
Other income, net	5,776	5,435	2,884	8,535	3,911
Earnings before provision for income taxes	151,460	113,544	82,954	140,801	100,384
Provision for income taxes(2)	(57,054)	(43,607)	(32,295)	(53,645)	(37,544)
Net earnings	$ 94,406	$ 69,937	$ 50,659	$ 87,156	$ 62,840
Basic earnings per share	$ 3.62	$ 2.82	$ 2.39	$ 3.33	$ 2.42
Diluted earning per share	$ 3.42	$ 2.66	$ 2.15	$ 3.14	$ 2.29

Other Data:					
Gross profit margin	19.9%	19.2%	21.1%	19.8%	20.0%
EBITDA(3)	$ 182,283	$ 139,583	$ 101,998	$ 171,151	$ 120,628

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	At December 31,			At September 30,
	2003(1)	2002(1)	2001(1)	2004
				(unaudited)
	(dollars in thousands)			
Balance Sheet Data:				
Cash and cash equivalents	$ 4,799	$ 6,600	$ 3,383	$ 19,340
Real estate	678,001	484,970	330,238	898,376
Total assets	954,539	691,788	436,715	1,244,170
Notes and loans payable and other borrowings	351,491	264,927	177,561	516,727
Stockholders equity	411,895	317,308	176,587	468,321

(1) Historically, the construction costs and related debt associated with model homes which are owned and leased to us by others that we use to market our communities were not included in our balance sheet. See Recent Developments Other recent events Accounting Treatment of Model Home Leases; Internal Controls.

(2) 2001 includes a $383 loss related to the net effect of early extinguishments of long-term debt. Previously this amount, net of the tax effect of $149, was reported as an extraordinary item. We have reclassified this loss as general and administrative expense and income tax benefit, respectively, to conform with the requirements of SFAS 145, which was effective for fiscal years beginning after May 15, 2002.

(3) EBITDA represents net earnings before interest expense, interest amortized to cost of sales, income taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure. A non-GAAP financial measure is a numerical measure of a registrant s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of earnings, balance sheet, or statement of cash flows (or equivalent statements) of the issuer; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. In this regard, GAAP refers to generally accepted accounting principles in the United States. We have provided below a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure.

EBITDA is presented here because it is used by management to analyze and compare Meritage with other homebuilding companies on the basis of operating performance and we believe it is a financial measure widely used by investors and analysts in the homebuilding industry. EBITDA as presented may not be comparable to similarly titled measures reported by other companies because not all companies calculate EBITDA in an identical manner and, therefore, it is not necessarily an accurate means of comparison between companies. EBITDA is not intended to represent cash flows for the period or funds available for management s discretionary use nor has it been presented as an alternative to operating income or earnings or as an indicator of operating performance and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles in the United

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States of America. The reconciliation of EBITDA to net earnings for each of the respective periods shown is as follows:

	Years ended December 31,			Nine months ended September 30,	
	2003	2002	2001	2004	2003
			(unaudited) (dollars in thousands)		
Net earnings	$ 94,406	$ 69,937	$ 50,659	$ 87,156	$ 62,840
Plus:					
Income taxes	57,054	43,607	32,295	53,645	37,544
Interest	22,287	19,259	13,303	21,381	14,513
Depreciation and amortization	8,536	6,780	5,741	8,969	5,731
EBITDA	$ 182,283	$ 139,583	$ 101,998	$ 171,151	$ 120,628

Home closing revenue, home orders and order backlog

The tables provided below show operating and financial data regarding our homebuilding activities. Through December 31, 2004, we have had no sales or closings from our Denver, Colorado or Orlando, Florida start-up operations. We anticipate that we will begin delivering our first homes in Denver and Orlando during the latter part of 2005. In connection with our acquisition of Colonial Homes, we began selling and delivering homes in our Fort Myers/ Naples market in February 2005.

	Years ended December 31,			Nine months ended September 30,	
	2003	2002	2001	2004	2003
			(unaudited) (dollars in thousands)		
Home Closing Revenue					
Total					
Dollars	$ 1,461,981	$ 1,112,439	$ 742,576	$ 1,317,488	$ 989,895
Homes closed	5,642	4,574	3,270	4,860	3,858
Average sales price	$ 259.1	$ 243.2	$ 227.1	$ 271.1	$ 256.6
Texas					
Dollars					