

Meritage Homes CORP  
Form 10-K  
February 12, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-9977

(Exact Name of Registrant as Specified in its Charter)

Maryland 86-0611231  
(State or Other Jurisdiction of (IRS Employer  
Incorporation or Organization) Identification No.)

8800 E. Raintree Drive, Suite 300, 85260  
Scottsdale, Arizona  
(Address of Principal Executive Offices) (Zip Code)  
(480) 515-8100

(Registrant's telephone number, including area code)  
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Name of Each Exchange on which Registered  
Common Stock, \$.01 par value New York Stock Exchange  
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ..

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated Filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
If an emerging growth company, indicate by a check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided to Section 13(a) of the Exchange Act.

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant (38,145,995 shares) as of June 30, 2017, was \$1.6 billion based on the closing sales price per share as reported by the New York Stock Exchange on such date.

The number of shares outstanding of the registrant's common stock on February 9, 2018 was 40,330,741.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions from the registrant's Proxy Statement relating to the 2018 Annual Meeting of Stockholders have been incorporated by reference into Part III, Items 10, 11, 12, 13 and 14.

MERITAGE HOMES CORPORATION  
FORM 10-K  
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## PART I

### Item 1. Business

#### The Company

Meritage Homes is a leading designer and builder of single-family homes. We primarily build in historically high-growth regions of the United States and offer a variety of homes that are designed to appeal to a wide range of homebuyers primarily focused on first-time and first move-up buyers. We have homebuilding operations in three regions: West, Central and East, which are comprised of nine states: Arizona, California, Colorado, Texas, Florida, Georgia, North Carolina, South Carolina and Tennessee. These three regions are our principal homebuilding reporting segments. We also operate a wholly-owned title company, Carefree Title Agency, Inc. ("Carefree Title"). Carefree Title's core business includes title insurance and closing/settlement services we offer to our homebuyers. Refer to Note 14 of the consolidated financial statements for information regarding our operating and reporting segments. Managing our own title operations allows us greater control over the entire escrow and closing cycles in addition to generating additional revenue. Revenue and expense from Carefree Title are included in our Financial Services segment in the accompanying consolidated financial statements.

Our homebuilding and marketing activities are conducted under the name of Meritage Homes in each of our homebuilding markets. On a limited basis, we also offer luxury homes in some markets under the name of Monterey Homes. At December 31, 2017, we were actively selling homes in 244 communities, with base prices ranging from approximately \$170,000 to \$1,390,000. Our average sales price on closings and orders were approximately \$413,000 and \$414,000, respectively, for the year ended December 31, 2017.

#### Available Information; Corporate Governance

Meritage Homes Corporation was incorporated in 1988 as a real estate investment trust in the State of Maryland. On December 31, 1996, through a merger, we acquired the homebuilding operations of our predecessor company. We currently focus on homebuilding and related activities and no longer operate as a real estate investment trust. Meritage Homes Corporation operates as a holding company and has no independent assets or operations. Its homebuilding construction, development and sales activities are conducted through its subsidiaries.

Information about our company and communities is provided on our Internet website at [www.meritagehomes.com](http://www.meritagehomes.com). The information contained on our website is not considered part of this Annual Report on Form 10-K. Our periodic and current reports, including any amendments, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available, free of charge, on our website as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Meritage operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities and setting high standards for ethical conduct. Our Board of Directors has established an audit committee, executive compensation committee, nominating/governance committee and land committee. The charters for each of these committees are available on our website, along with our Code of Ethics, Corporate Governance Principles and Practices, Conflict of Interest Policy and Securities Trading Policy. All of our employees, officers and directors, are required to comply with our Code of Ethics and to immediately report through the appropriate channels, any known instances of non-compliance. Our committee charters, Code of Ethics, Corporate Governance Principles and Practices, Conflict of Interest Policy and Securities Trading Policy are also available in print, free of charge, to any stockholder who requests any of them by calling us or by writing to us at our principal executive offices at the following address: Meritage Homes Corporation, 8800 East Raintree Drive, Suite 300, Scottsdale, Arizona 85260, Attention: General Counsel. Our telephone number is (480) 515-8100.

## Strategy

All facets of our operations are governed by our core values that define Meritage's culture and operational parameters, ensuring that our actions are aligned around our brand promise of delivering to each of our customers a LIFE. BUILT. BETTER.®

Our six core values include:

- Start With Heart
- Integrity Above All Else
- Develop to Empower
- Think Strategically
- Build Value, and
- Play to Win

These values combine our entrepreneurial spirit, cutting-edge innovation and organizational agility to strive for industry-leading results in all of our functional areas, including: management, land acquisition and development, finance, marketing, sales, purchasing, construction and customer care. The main tenets of these core values are to:

- Value, recognize and appreciate our employees, our trade partners and our customers; provide the highest level of customer service by bringing passion and care to every customer interaction and make a difference by giving back to the communities we serve;
- Always act with honesty, character and integrity by demonstrating openness and transparency with our customers;
- Strive to have the best team available through investing in our people and fostering an environment that embraces continual growth and learning;
- Continuously and purposefully renew, rethink and innovate with the customer in mind by supporting and encouraging new ideas and thinking and recognizing efforts that grow shareholder value;
- Be relentless in our pursuit of excellence and never settling by leading with action; and
- Foster an environment of positive energy and alignment by collaborating and leveraging each other's strengths in order to win as a team and celebrate and reward success.

These core values are evident in the operational decisions we make in each of our divisions and communities, all of which contribute to the successes we have achieved with our customers, within the marketplace and within the homebuilding industry.

With our focus on innovation, we employ industry-leading building techniques and technologies throughout Meritage aimed at setting the standard for energy-efficient homebuilding. Accordingly, at a minimum, every new home we construct meets ENERGY STAR® standards, with many of our communities greatly surpassing those levels, offering our customers homes that utilize, on average, half of the energy of similarly sized standard US homes. Our commitment to incorporate these energy standards into all of our homes has resulted in our achievement of design, purchasing and production efficiencies that have allowed us to offer these as standard features to our home buyers for nominal additional cost. In 2017, we expanded our innovation platform to include home automation through our new M.Connected Home Automation Suite®. This technology includes features that allow homeowners to monitor and control key components of their homes, such as Wi-Fi enabled lighting, video doorbells and smart door locks. Year after year, the homes we design and build help deliver short- and long-term savings to our homeowners. As a result, for the fifth consecutive year, we have earned the EPA's highest ENERGY STAR award, "Partner of the Year - Sustained Excellence". Because of our recognized industry leadership, utility companies and the US Department of Energy periodically partner with us to introduce advanced building technologies into the homes we build that further differentiate our product in the marketplace when compared against both new and resale homes.

We believe it is important to be socially and environmentally responsible corporate citizens by promoting sustainability in the homes we build, the communities in which we live and work, and by practicing good corporate governance. We provide information in regard to each of these on our website and within publicly filed reports. In 2014, we proudly issued our first Corporate Sustainability Report ("Sustainability Report"), voluntarily reporting our 2013 sustainability practices in compliance with the standards of the Global Reporting Initiative Guidelines. A copy of

our Sustainability Report is available on our

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website. In order to provide for transparency and easy reference of this information, in 2018 we plan to consolidate it in one place on our website under the heading “Environmental, Social and Governance Reporting”.

#### Markets

We currently build and sell homes in the following markets:

Markets	Year Entered
Phoenix, AZ	1985
Dallas/Ft. Worth, TX	1987
Austin, TX	1994
Tucson, AZ	1995
Houston, TX	1997
East Bay/Central Valley, CA	1998
Sacramento, CA	1998
San Antonio, TX	2003
Inland Empire, CA	2004
Denver, CO	2004
Orlando, FL	2004
Raleigh, NC	2011
Tampa, FL	2011
Charlotte, NC	2012
Nashville, TN	2013
Atlanta, GA	2014
Greenville, SC	2014
South Florida	2016





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We are currently focusing our business primarily on entry-level and first move-up homes, however we still have some active communities selling second move-up, active-adult and luxury homes in certain geographies. A summary of activity by region as of and for the years ended December 31, 2017 and 2016 follows (dollars in thousands):

	Year Ended					
	December 31, 2017		At December 31, 2017			
	# of Homes Closed	Average Price	# Homes in Backlog	\$ Value of Backlog	# Home Sites Controlled (1)	# of Actively Selling Communities
<b>West Region</b>						
Arizona	1,535	\$ 335.8	326	\$ 119,535	7,815	38
California	963	\$ 603.3	318	222,909	2,580	20
Colorado	571	\$ 566.2	199	114,848	2,274	11
West Region Total	3,069	\$ 462.6	843	\$ 457,292	12,669	69
<b>Central Region</b>						
Texas	2,493	\$ 362.7	1,020	\$ 381,517	11,238	92
Central Region Total	2,493	\$ 362.7	1,020	\$ 381,517	11,238	92
<b>East Region</b>						
Florida	814	\$ 434.3	446	\$ 196,265	4,042	28
Georgia	312	\$ 335.5	151	50,386	1,541	19
North Carolina	533	\$ 437.2	243	96,579	2,751	17
South Carolina	307	\$ 341.8	99	35,432	875	13
Tennessee	181	\$ 367.6	73	28,300	1,203	6
East Region Total	2,147	\$ 401.8	1,012	\$ 406,962	10,412	83
Total Company	7,709	\$ 413.4	2,875	\$ 1,245,771	34,319	244
	Year Ended					
	December 31, 2016		At December 31, 2016			
	# of Homes Closed	Average Price	# Homes in Backlog	\$ Value of Backlog	# Home Sites Controlled (1)	# of Actively Selling Communities
<b>West Region</b>						
Arizona	1,122	\$ 342.9	444	\$ 161,343	5,940	42
California	1,020	\$ 578.8	231	153,638	2,850	28
Colorado	634	\$ 489.3	273	154,084	2,008	10
West Region Total	2,776	\$ 463.0	948	\$ 469,065	10,798	80
<b>Central Region</b>						
Texas	2,130	\$ 365.7	931	\$ 354,734	8,460	80
Central Region Total	2,130	\$ 365.7	931	\$ 354,734	8,460	80
<b>East Region</b>						
Florida	895	\$ 411.8	253	\$ 116,454	3,770	27
Georgia	337	\$ 338.7	91	33,363	1,613	17
North Carolina	672	\$ 414.8	193	87,252	2,668	17
South Carolina	328	\$ 316.6	116	40,636	1,204	15
Tennessee	217	\$ 340.4	95	34,254	1,302	7
East Region Total	2,449	\$ 383.5	748	\$ 311,959	10,557	83
Total Company	7,355	\$ 408.4	2,627	\$ 1,135,758	29,815	243

(1) “Home Sites Controlled” is the estimated number of homes that could be built on unstarted lots we control, including lots available for sale and lots on undeveloped land.

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### Recent Industry and Company Developments

In 2017 the housing market experienced a steady level of growth as a result of a strong economy and a favorable demand environment, particularly as first-time buyers have increasingly entered the home buying market. Historically, first-time buyers have made up a significant percentage of homebuyers. That buyer segment had been absent in recent years as young adults accumulated large amounts of student debt in a stagnant economy and were unable to save for down payments. The economy's improvement along with job growth and these young adults reaching a phase of life where many are now part of a dual income household has made homebuying within reach again. Entry-level product is also attracting some move-down buyers with floor plans offering simplified product at affordable prices.

In line with historical trends in the homebuilding industry, the performance of individual housing markets vary. Accordingly, we experienced healthy orders and average sales price growth in some markets and more tempered growth or declines in our year-over-year results in other markets. We remain focused on positioning ourselves in well-located and highly-desired communities in many of the top residential real-estate markets in the United States. We believe we successfully differentiate ourselves from our competition by offering a lineup of extremely livable and efficient plans featuring new designs that highlight the benefits of our industry-leading energy-efficient building features and technology which we believe are particularly appealing to the first-time buyer. Over the last couple of years we've been executing a strategy to address that demand by acquiring communities and designing homes that can be delivered at a lower cost by simplifying our product and construction processes, starting more spec homes to allow buyers to move in quicker, and by enhancing and making the entire home buying experience easier for our customers. Higher closing volume along with higher average sales prices contributed to another year of revenue growth in 2017, generating 6.1% higher home closing revenue for the year ended December 31, 2017 compared to the prior year. Our ending active community count was flat at year end with 244 versus 243 a year ago. Our orders per average active community during 2017 increased by 11.6% to 32.7 as compared to 29.3 in 2016. We are strategically focused on land acquisition to grow our community count and to that end we ended 2017 with 34,319 home sites controlled, a 15.1% increase compared to 2016. We believe our land positioning is poised to help us achieve further growth and profitability over the next several years. We ended the year with 2,875 homes in backlog valued at \$1.2 billion, increases of 9.4% and 9.7%, respectively, compared to December 31, 2016. Our unsold inventory consisted of 2,086 homes as of December 31, 2017, approximately 31.1% of which were completed, as compared to prior year unsold inventory of 1,692 homes. The increase in unsold inventory primarily relates to our strategy to increase the availability of quick move-in home opportunities in our entry-level communities.

We carefully manage our goals of maintaining adequate liquidity and a strong balance sheet. During 2017, we increased the capacity of our unsecured revolving credit facility (the "Credit Facility") to \$625.0 million, extended the maturity date of a substantial portion of the Credit Facility to July 2021, and issued \$300.0 million in 5.125% senior notes due 2027 (the "2027 Notes"). Using the proceeds from the 2027 Notes offering, we retired all \$126.5 million of our convertible senior notes (the "Convertible Notes") in 2017. We ended the year with cash and cash equivalents totaling \$170.7 million as compared to \$131.7 million at December 31, 2016. Our debt-to-capital ratio was 44.9% at December 31, 2017 and our net debt-to-capital ratio remained within our target of the low-to-mid 40% range at 41.4% at December 31, 2017, compared to 41.2% at December 31, 2016.

### Land Acquisition and Development

Our current land pipeline goal is to maintain an approximate four-to-five year supply of lots, which we believe provides an appropriate planning horizon to address regulatory matters and land development and to manage to our business plan for future closings. To grow our business and to better leverage our existing overhead, we are currently focused on adding to our current lot positions and expanding our market share in our key markets and their surrounding submarkets while also exploring opportunities outside of our existing markets, when available. As of December 31, 2017 we have a 4.5-year supply of lots, based on 2017 closings. We continually evaluate our markets, monitoring and adjusting our lot supplies through lot and land acquisitions to ensure we have a sufficient pipeline that is in sync with local market dynamics as well as our goals for growth in those markets.

We are currently purchasing primarily partially-developed or undeveloped lots as the opportunity to purchase substantially finished lots in desired locations is more limited. Finished lots are those on which the development has

already been completed by a third party, and which are ready for immediate home construction. Undeveloped land and partially finished lots require a longer lead time to allow for development activities before our new communities are able to open for sales. Typically, undeveloped and partially finished lots are purchased at a lower cost than finished lots as we are responsible for improvements on the land, rather than paying a mark-up on improvements from a prior developer. When evaluating any land acquisition, our selection is based upon a variety of factors, including:

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- financial feasibility of the proposed project, including projected profit margins, return on capital invested, and the capital payback period;
- management's judgment as to the local real estate market and economic trends, and our experience in particular markets;
- suitability of the land to achieve desired shift in product mix toward entry-level and first move-up product;
- existing concentration of owned and contracted lots in surrounding markets, including nearby Meritage communities;
- timeline for development, generally within a three to five-year time period from the beginning of the development process to the delivery of the last home;
- surrounding demographics based on extensive marketing studies, including surveys of both new and resale homebuyers;
- the ability to secure governmental approvals and entitlements, if required;
- results of environmental and legal due diligence;
- proximity to schools and to local traffic and employment corridors and amenities;
- entitlement and development risks and timelines; and
- availability of seller-provided purchase options or agreements that allow us to defer lot purchases until needed for production.

When purchasing undeveloped or partially developed land, we strive to defer the closing for the land until after most necessary entitlements have been obtained to eliminate or minimize risk and so that development or construction may begin as market conditions dictate. The term "entitlements" refers to appropriate zoning, development agreements and preliminary or tentative maps and recorded plats, depending on the jurisdiction within which the land is located. Entitlements generally give the developer the right to obtain building permits upon compliance with conditions that are ordinarily within the developer's control. Even though entitlements are usually obtained before land is purchased, we are typically still required to secure a variety of other governmental approvals and permits prior to and during development, and the process of obtaining such approvals and permits can be lengthy. We may consider the purchase of unentitled property when we can do so in a manner consistent with our business strategy. Currently, we are purchasing and developing parcels that on average range from 100 to 200 lots.

Once we secure undeveloped land, we generally supervise and control the development of the land through contractual agreements with subcontractors. These activities include site planning and engineering, as well as constructing road, sewer, water, utilities, drainage, landscaping improvements, and recreation amenities and other improvements and refinements. We may build homes in master-planned communities with home sites that are along or near major amenities, such as golf courses or recreation facilities.

The factors used to evaluate finished lot purchases are similar to those for land we intend to develop ourselves, although the development risks associated with the undeveloped land—financial, environmental, legal and governmental—have been borne by others. Therefore, these finished lots may be more attractive to us, despite their higher price, as we can immediately bring the community to market and begin home construction as well as mitigate potential cost and time risks that can occur during the land development cycle.

We develop a design and marketing plan tailored to each community, which includes the determination of type, size, style and price range of homes. We may also determine street layout, individual lot size and layout, and overall community design for each project we develop. The product lines offered depend upon many factors, including the guidelines, if any, of the existing community, housing available in the area, the needs and desired housing product for a particular market, and our lot sizes, though we are increasingly able to use standardized design plans across most of our communities.

As a means of accessing parcels of land with minimal cash outlay, we may use rolling option contracts. Acquiring our land through option contracts, when available, allows us to leverage our balance sheet by controlling the timing and volume of lot and land purchases from third parties. These contracts provide us the right, but generally not the obligation, to buy lots and are usually structured to approximate our projected absorption rate at the time the contract is negotiated. Lot option contracts are generally non-recourse and typically require the payment of non-refundable

deposits of 5% to 20% of the total land purchase price. The use of option contracts limits the market risks associated with land ownership by allowing us to re-negotiate option terms or terminate options in the event of market downturns. In the event we elect to cancel an option contract, our losses are typically limited to the forfeiture of our option deposits and any associated capitalized pre-acquisition costs. The cost of obtaining land through such option contracts is generally higher than if we were to purchase land in bulk, although the financial leverage they can provide can outweigh the financing costs associated with them. However, during a period of gross margin contraction, we diligently analyze each option contract to ensure financial feasibility and will generally only contract for lots in this manner if we are still able to achieve desired margins. During 2017 we were successful in securing approximately 3,800 lots through such options. Land purchases are generally financed through our working capital, including corporate borrowings.

At December 31, 2017, in addition to our 23,387 owned lots, we also had 10,932 lots under purchase or option contracts with a total purchase price of approximately \$613.3 million, and with \$60.9 million in cash deposits. We purchase and develop land primarily to support our homebuilding operations, although we may sell land and lots to other developers and homebuilders from time to time where we have excess land positions. Information related to lots and land under option is presented in Note 3—Variable Interest Entities and Consolidated Real Estate Not Owned in the accompanying consolidated financial statements.

All land and lot acquisitions are reviewed by our corporate land acquisition committee, which is comprised of certain members of our executive management team and key operating executives. All land acquisitions exceeding a specified dollar amount must also be approved by our Board of Directors' Land Committee.

The following table presents information as of December 31, 2017 (dollars in thousands):

	Number of Lots Owned (1)		Number of Lots Under Contract or Option (2)	Total Number of Lots Controlled (1)
	Finished	Land, Land Under Development and Held for Sale		
<b>West Region</b>				
Arizona	1,090	4,891	1,834	7,815
California	677	1,137	766	2,580
Colorado	336	944	994	2,274
West Region Total	2,103	6,972	3,594	12,669
<b>Central Region</b>				
Texas	2,739	4,804	3,695	11,238
Central Region Total	2,739	4,804	3,695	11,238
<b>East Region</b>				
Florida	966	1,599	1,477	4,042
Georgia	725	407	409	1,541
North Carolina	736	1,106	909	2,751
South Carolina	287	—	588	875
Tennessee	220	723	260	1,203
East Region Total	2,934	3,835	3,643	10,412
Total Company	7,776	15,611	10,932	34,319
Total book cost (3)	\$ 757,505	\$ 748,798	\$ 95,889	\$ 1,602,192

(1) Excludes lots with finished homes or homes under construction. The number of lots is an estimate and is subject to change.

There can be no assurance that we will actually acquire any lots controlled under option or purchase contract.

(2) These amounts do not include 6,326 lots under contract with \$2.9 million of refundable earnest money deposits, for which we have not completed due diligence and, accordingly, have no money at risk and are under no obligation to perform under the contracts.

(3) For lots owned, book cost primarily represents the cost of land, diligence costs, development and capitalized interest incurred to date. For lots under contract or option, book cost primarily represents earnest and option deposits in addition to amount recorded in Real estate not owned on the balance sheet.

#### Investments in Unconsolidated Entities — Joint Ventures

We may enter into joint ventures as a means of accessing larger parcels of land, expanding our market opportunities, managing our risk profile and leveraging our capital base. While purchasing land through a joint venture can be beneficial, we currently do not view joint ventures as critical to the success of our homebuilding operations. We



currently have only three such active ventures. In addition to land development joint ventures, we also participate in one mortgage business joint venture. The mortgage joint venture is engaged in mortgage activities, primarily providing services to our customers.

In connection with our land development joint ventures, we may also provide certain types of guarantees to associated lenders and municipalities.

### Construction Operations

We typically act as the general contractor for our projects and hire experienced subcontractors on a geographic basis to complete construction at a fixed price. We usually enter into agreements with subcontractors and materials suppliers on an individual basis after receiving competitive bids. In certain markets at high risk for cost increases, we enter into fixed-fee bids when it makes economic sense to do so. We also enter into longer-term and national or regional contracts with subcontractors and suppliers, where possible, to obtain more favorable terms, minimize construction costs and to control product consistency and availability. Our contracts require that our subcontractors comply with all laws and labor practices pertaining to their work, follow local building codes and permits, and meet performance, warranty and insurance requirements. Our purchasing and construction managers coordinate and monitor the activities of subcontractors and suppliers, and monitor compliance with zoning, building and safety codes. At December 31, 2017, we employed approximately 760 full-time construction and warranty employees.

We specify that quality durable materials be used in the construction of our homes and we do not maintain significant inventories of construction materials, except for work in process materials for homes under construction. When possible, we negotiate price and volume discounts and rebates with manufacturers and suppliers on behalf of our subcontractors so we can take advantage of production volume. Our raw materials consist primarily of lumber, concrete, drywall, roofing materials and similar construction materials and are frequently purchased on a national or regional level. Such materials have historically been available from multiple suppliers and therefore we do not believe there is a supplier risk concentration. However, because such materials are substantially comprised of natural resource commodities, their cost and availability is subject to national and worldwide price fluctuations and inflation, each of which could be impacted by legislation or regulation relating to energy and climate change.

We generally build and sell homes in phases within our larger projects, which we believe creates efficiencies in land development, home construction operations and cash management. We also believe it improves customer satisfaction by reducing the number of vacant lots and construction activity surrounding completed homes. Our homes are typically completed within three to five months from the start of construction, depending upon the geographic location and the size and complexity of the home. Construction schedules may vary depending on the size of the home, availability of labor, materials and supplies, product type, location, municipal requirements and weather. Our homes are usually designed to promote efficient use of space and materials, and to minimize construction costs and time. We typically do not enter into any derivative contracts to hedge against weather or materials fluctuations as we do not believe they are particularly advantageous to our operations, although we do lock in short and mid-term pricing with our vendors for certain key construction commodities.

### Marketing and Sales

We believe that we have an established reputation for building a diversified line of attractive, high quality and efficient homes, which helps generate demand in each project. Our communication and marketing plans are tailored to target and reach our different customer segments. Part of these plans involve reaching new customers through a combination of advertising and other promotional activities, including our website at [www.meritagehomes.com](http://www.meritagehomes.com), social media outlets, magazine and newspaper advertisements, radio, brochures, direct mailings and the placement of strategically located signs in the vicinities near our developments to drive traffic to our communities. Our marketing strategy is aimed at differentiating Meritage from resale homes as well as other new homes offered by homebuilders. We solidify this differentiation across all of our marketing and sales efforts to explain how we have thoughtfully selected and incorporated every home's energy-efficient features and benefits as part of a larger, integrated system that enables us to truly deliver on our LIFE. BUILT. BETTER.<sup>®</sup> brand promise to our customers, which means having a home that is quieter, cleaner, healthier, smarter and safer.

We sell our homes using furnished model homes as a marketing tool to demonstrate to prospective homebuyers the advantages of the designs and features of our homes. At December 31, 2017, we owned 317 completed model homes and 50 models under construction and we leased back an additional 17 model homes. We generally employ or contract with interior and landscape designers who enhance the appeal of our model homes, which highlight the features and options available for the product line within a project. We typically build between one and three model homes for each actively selling community, depending upon the products to be offered and the number of homes to be built in the project. We strive to implement marketing strategies that will educate our buyers on how our unique building

techniques and the energy efficient features in our homes differentiate them from other homes. In our communities, we have built in-home displays in order to inform our buyers about energy-efficient features and help them understand how and to what extent a Meritage home can help them realize more savings through reduced energy bills, and experience and enjoy better health, improved comfort and peace of mind.

Our homes generally are sold by our outside commissioned sales associate employees who work from a sales office typically located in a converted garage of one of the model homes for each project. We also employ a team of online sales associates who offer assistance to potential buyers viewing our communities and products over the Internet. At December 31, 2017, we had approximately 510 full-time sales and marketing personnel. Our goal is to ensure that our sales force has

extensive knowledge of our housing product, our energy efficient and innovative features, our sales strategies, mortgage options, and community dynamics, in order to fully execute our marketing message. To achieve this goal, we train our sales associates and conduct regular meetings to update them on our product, communities, sales techniques, competition in the area, financing availability, construction schedules, marketing and advertising plans, available product lines, pricing, options and warranties offered, as well as the numerous benefits and savings our energy efficient product provides. Our sales associates are licensed real estate agents where required by law. Our sales associates may also assist our customers to make standard design selections and to select from available options and upgrades that may be available on a community by community basis, which we design to appeal to local consumer demands. In some divisions, we contract with third-party design studios that specialize in assisting our homebuyers with those selections to personalize their homes. Utilizing such third-party design studios typically allows us to manage our overhead costs more efficiently. We may offer various sales incentives, including price concessions, assistance with closing costs, and landscaping or interior upgrades, to attract buyers. The use, type and amount of incentives depends largely on economic and local competitive market conditions. Third-party brokers may also sell our homes, and are usually paid a sales commission based on the price of the home. Frequently, third-party brokers bring prospective buyers to our communities. We have a robust loyalty program for these brokers and we aim to regularly educate them on the benefits of owning a Meritage home and our community offerings, which we believe helps enhance the impact of our marketing message.

We differentiate ourselves from our competitors through the superior design and value of our communities and homes, our energy-efficiency and other technologies, and our offerings and enhancements made pursuant to the results of ongoing surveying and product research efforts. We believe our commitment to design and build energy-efficient homes is aligned with buyer sensitivities about how eco-friendly designs, features and materials help impact the environment and the livability of homes, as well as their pocketbooks. We continually evaluate buyer preferences and make adjustments to the homes we offer and the targeted price points in accordance with buyer demand. Most recently we introduced LiVE.NOW.<sup>®</sup>, our newest entry-level collection of product offerings targeted to the growing number of first-time homebuyers.

#### Backlog

Our sales contracts require cash deposits and are subject to certain contingencies such as the buyer's ability to qualify for financing. Additional deposits are usually collected upon the selection of options and upgrades. Homes covered by such sales contracts but which are not yet closed are considered "backlog" and are representative of potential future revenues. Started homes are excluded from backlog until a sales contract is signed and are referred to as unsold or "spec" inventory. A contract contingent upon the sale of a customer's existing home is not considered a sale and not included in backlog until the contingency is removed. Most of our entry-level homes are started as spec homes whereas a signed sales contract is generally required to release a lot to start construction of a move-up home, although on a regular basis we also start a certain number of move-up homes for speculative sales inventory. As a result of our strategic shift to expand our entry-level home product offerings and communities, our spec inventory increased by 23.3% to 2,086 homes as of December 31, 2017 as compared to 1,692 homes in 2016. We may also start construction on spec homes to accelerate or facilitate the close-out of a community. At December 31, 2017, 75.0% of our 2,875 homes in backlog were under construction.

We do not recognize any revenue from a home sale until a finished home is delivered to the homebuyer, payment is collected and other criteria for sale and profit recognition are met. At December 31, 2017, of our total unsold homes in inventory excluding completed model homes, 69.6% were under construction without sales contracts and 30.4% were completed homes without sales contracts. A portion of the unsold homes resulted from homesites that began construction with valid sales contracts that were subsequently canceled. We believe that during 2018 we will deliver to customers substantially all homes in backlog at December 31, 2017 under existing or, in the case of cancellations, replacement sales contracts.

The number of units in backlog increased 9.4% to 2,875 units at December 31, 2017 from 2,627 units at December 31, 2016 with an increase in the value of backlog to \$1.2 billion from \$1.1 billion.

#### Customer Financing

Most of our homebuyers require financing. Accordingly, we refer them to mortgage lenders that offer a variety of financing options. While our homebuyers may obtain financing from any mortgage provider of their choice, we have a joint venture arrangement with an established mortgage broker that allows it to act as a preferred mortgage broker to our buyers in most of our markets to help facilitate the financing process as well as generate additional revenue for us through our interest in the joint venture (See Note 4 for additional information on joint venture financial results). In some markets, we also use unaffiliated preferred mortgage lenders. We may pay a portion of the closing costs to assist homebuyers who obtain financing from our preferred lenders.

### Customer Relations, Quality Control and Warranty Programs

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

In accordance with our company-wide standards, one or more Meritage project manager or superintendent generally monitors compliance with quality control standards for each community through the building phase of our homes.

These employees perform the following tasks:

- oversee home construction;
- monitor subcontractor and supplier performance;
- manage scheduling and construction completion deadlines; and
- conduct formal inspections as specific stages of construction are completed.

At the time a home is completed and delivered to a buyer, the customer relationship is transitioned to a customer relations employee who manages the warranty and customer care efforts.

We generally provide a one-to-two-year limited warranty on workmanship and building materials and a ten-year warranty for the structural integrity of the homes we build. We require our subcontractors to provide evidence of insurance before beginning work and provide a warranty to us and to indemnify us from defects with their work and therefore any claims relating to workmanship and materials are generally the subcontractors' responsibility. In certain markets and for certain attached product, we offer an owner-controlled insurance program to our subcontractors which, if accepted, is the insurance for damage resulting from construction defects in lieu of some of the insurance we require from the subcontractor. Although our subcontractors are generally required to repair and replace any product or labor defects, we are, during applicable warranty periods, ultimately responsible to the homeowner for making such repairs. Accordingly, with the assistance of an actuary, we have estimated and established reserves for future structural warranty costs based on the number of home closings and historical data trends for warranty work within our communities. Warranty reserves generally range between 0.1% to 0.6% of a home's sale price. Those projections are subject to variability due to uncertainties regarding structural defect claims for the materials and labor we use in the construction of our homes, the markets in which we build, claim settlement history, and insurance and legal interpretations, among other factors and we are, therefore, constantly monitoring such reserves. Historically, these reserves have been sufficient to cover net out-of-pocket warranty costs.

### Competition and Market Factors

The construction and sale of homes is a highly-competitive industry. We compete for sales in each of our markets with national, regional and local developers and homebuilders, as well as existing resale homes, and to a lesser extent, condominiums and rental housing. Some of our competitors have significantly greater financial resources and may have lower costs than we do. Competition among residential homebuilders of all sizes is based on a number of interrelated factors, including location, reputation, product type, amenities, design, innovation, quality and price. We believe that we compare favorably to other homebuilders in the markets in which we operate due to our:

- experience within our geographic markets which allows us to develop and offer products that provide superior design and quality in line with the needs and desires of the targeted demographic;
- streamlined construction processes that allow us to save on materials, labor and time and pass those savings to our customers in the form of lower prices;
- ENERGY STAR® standards in all of our communities and incremental energy-efficient features that create a variety of benefits to our customers and differentiate our product from competing new and existing home inventories;
- inclusion of home automation through our new M.Connected Home Automation Suite®;
- ability to recognize and adapt to changing market conditions, from both a capital and human resource perspective;
- ability to capitalize on opportunities to acquire land on favorable terms; and
- reputation for outstanding service and quality products and our exceptional customer and warranty service.

Our product offerings and strategic locations are successfully competing with both existing homes inventory and surrounding new-home communities as evidenced by our relative orders volume and market share in most of our divisions. We expect that the strengths noted above will continue to provide us with long-term competitive advantages.

We have an extensive market research department that assists the operating divisions in each of our markets to better compete with other homebuilders, and the inventory of re-sale homes in surrounding neighborhoods. Our strategic operations team conducts in-depth community-level reviews in each of our markets, including a detailed analysis of existing inventory, pricing, buyer demographics and the identification of each location's key buyer metrics. This analysis and resulting analytical

tools assist in decision-making regarding product designs, positioning, and pricing and underwriting standards for land purchases and land development. Additionally, our market research department is focused on evaluating and identifying new market opportunities.

#### Government Regulation and Environmental Matters

To the extent that we acquire undeveloped land, we prefer to close the acquisition of such land after all or most entitlements have been obtained. Construction may begin almost immediately on such entitled land upon compliance with and receipt of specified permits, approvals and other conditions, which generally are within our control. The time needed to obtain such approvals and permits affects the carrying costs of unimproved property acquired for development and construction. The continued effectiveness of permits already granted is subject to factors such as changes in government policies, rules and regulations, and their interpretation and application. The government approval processes discussed above have caused some timing delays but have not had a material adverse effect on our development activities, although there is no assurance that these and other restrictions will not adversely affect future operations as, among other things, sunset clauses may exist on some of our entitlements and they could lapse. Local and state governments have broad discretion regarding the imposition of development fees for projects under their jurisdictions. These fees are normally established when we receive recorded maps or plats and building permits. Governing agencies may also require concessions or may require the builder to construct certain improvements to public places such as parks and streets. In addition, governing agencies may impose construction moratoriums. Because most of our land is entitled, construction moratoriums typically would not affect us in the near term unless they arise from health, safety or welfare issues, such as insufficient water, electric or sewage facilities. We could become subject to delays or may be precluded entirely from developing communities due to building moratoriums, “no growth” or “slow growth” initiatives or building permit allocation ordinances, which could be implemented in the future. In addition, there is constantly a variety of new legislation being enacted, or considered for enactment at the federal, state and local level relating to energy and climate change. Some of this legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter energy efficiency standards could significantly increase the cost to construct homes, although our energy-efficiency technologies and offerings meet, and in many instances exceed, current and expected energy efficiency thresholds. As climate change concerns continue to grow, legislation and regulations of this nature are expected to continue and may result in increased costs and longer approval and development timelines. Similarly, energy and environment-related initiatives affect a wide variety of companies throughout the United States and the world, and because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel, and concrete, such initiatives could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive carbon dioxide emissions control and other environmental and energy-related regulations.

We are also subject to a variety of local, state, and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. In some markets, we are subject to environmentally sensitive land ordinances that mandate open space areas with public elements in housing developments, and prevent development on hillsides, wetlands and other protected areas. We must also comply with open space restrictions, flood plain restrictions, desert wash area restrictions, native plant regulations, endangered species acts and view restrictions.

These and similar laws and regulations may result in delays, cause substantial compliance and other costs, and prohibit or severely restrict development in certain environmentally sensitive regions or areas. To date, compliance with such laws and regulations has not materially affected our operations, although it may do so in the future.

We condition our obligation to acquire property on, among other things, an environmental review of the land. To date, we have not incurred any material unanticipated liabilities relating to the removal or remediation of unknown toxic wastes or other environmental conditions. However, there is no assurance that we will not incur material liabilities in the future relating to toxic waste removal or other environmental conditions affecting land currently or previously owned.

In order for our homebuyers to finance their home purchases with FHA-insured or VA-guaranteed or USDA-guaranteed mortgages, we are required to build such homes in accordance with the regulatory requirements of those agencies.



Some states have statutory disclosure requirements governing the marketing and sale of new homes. These requirements vary widely from state to state.

Some states require us to be registered as a licensed contractor, a licensed real estate broker and in some markets our sales agents are required to be registered as licensed real estate agents.

#### Employees, Subcontractors and Consultants

At December 31, 2017, we had approximately 1,605 full-time employees, including 300 in management and administration, 35 in our title company, 510 in sales and marketing, and 760 in construction and warranty operations. Our operations are carried out through both local and centralized management. Local operations are made up of our division employees, led by management with significant homebuilding experience and who typically possess a depth of knowledge in their particular markets. Our centralized management sets our strategy and leads decisions related to the Company's land acquisition, risk management, finance, cash management and information systems. Our employees are not unionized, and we believe that we have good employee relationships. We pay for a substantial portion of our employees' insurance costs, with the balance contributed by the employees. We also have a 401(k) savings plan, which is available to all employees who meet the plan's participation requirements.

We act solely as a general contractor, and all construction operations are coordinated by our project managers and field superintendents who schedule and monitor third party independent subcontractors. We use independent consultants and contractors for architectural, engineering, advertising and some legal services, and we strive to maintain good relationships with our subcontractors and independent consultants and contractors.

#### Seasonality

Historically, we have experienced seasonal variations in our quarterly operating results and capital requirements. We typically sell more homes in the first half of the fiscal year than in the second half, which creates additional working capital requirements in the second and third quarters to build our inventories to satisfy the deliveries in the second half of the year. We typically benefit from the cash generated from home closings more in the third and fourth quarters than in the first and second quarters. We expect this seasonal pattern to continue over the long term, although it has been and may continue to be affected by volatility in the homebuilding industry.

#### Executive Officers of the Registrant

The names, ages, positions and business experience of our executive officers are listed below (all ages are as of March 1, 2018). Other than the terms and provisions of various employment and change of control agreements between the Company and the listed officers, there are no understandings between any of our executive officers and any other person pursuant to which any executive officer was selected to his office.

Name	Age	Position
Steven J. Hilton	56	Chairman of the Board and Chief Executive Officer
Hilla Sferruzza	42	Chief Financial Officer, Executive Vice President
C. Timothy White	57	General Counsel, Executive Vice President and Secretary
Phillippe Lord	44	Chief Operating Officer, Executive Vice President
Javier Feliciano	44	Chief Human Resources Officers, Executive Vice President

Steven J. Hilton co-founded Monterey Homes in 1985, which merged with our predecessor in December 1996. Mr. Hilton served as Co-Chairman and Co-Chief Executive Officer from July 1997 to May 2006 and has been the Chairman and Chief Executive Officer since May 2006.

Hilla Sferruzza was appointed Chief Financial Officer and Executive Vice President in April 2016. Prior to her appointment as Chief Financial Officer and Executive Vice President, Ms. Sferruzza was named Chief Accounting Officer and Corporate Controller in 2010 and has worked in other management roles at the company since 2006.

C. Timothy White has been General Counsel, Executive Vice President and Secretary since October 2005 and served on our Board of Directors from December 1996 until October 2005.

Phillippe Lord has been Chief Operating Officer, Executive Vice President since April 2015. Prior to his appointment as Chief Operating Officer, Mr. Lord was Vice President of Strategic Operations from 2008 through 2012 and served as our Western Region President from 2012 through March 2015.

Javier Feliciano joined Meritage in November 2015 as Chief Human Resources Officer, Executive Vice President. From January 2013 through November 2015, Mr. Feliciano was employed by Apollo Education Group as Vice President, Human Resources and as HR Director from June 2010 through January 2013.



## Item 1A. Risk Factors

The risk factors discussed below are factors that we believe could significantly impact our business, if they occur. These factors could cause results to differ materially from our historical results or our future expectations.

### Risk Factors Related to our Business

Our long-term success depends on the availability of lots and land that meet our land investment criteria.

The availability of lots and land that meet our investment and marketing standards depends on a number of factors outside of our control, including land availability in general, competition with other homebuilders and land buyers, credit market conditions, legal and government agency processes and regulations, inflation in land prices, zoning, our ability and the costs to obtain building permits, the amount of impact fees, property tax rates and other regulatory requirements. If suitable lots or land becomes less available, or the cost of attractive land increases, it could reduce the number of homes that we may be able to build and sell and reduce our anticipated margins, each of which could adversely impact our financial results. The availability of suitable land assets could also affect the success of our strategic initiative to increase the number of actively selling communities and to maintain profitability.

Shortages in the availability of subcontract labor may delay construction schedules and increase our costs.

We conduct our construction operations only as a general contractor. Virtually all design, architectural, construction and development work is performed by unaffiliated third-party consultants and subcontractors. As a consequence, we depend on the continued availability of and satisfactory performance by these consultants and subcontractors for the design and construction of our communities and homes and to provide related materials. The cost of labor may also be adversely affected by shortages of qualified trades people, changes in laws and regulations relating to union activity and changes in immigration laws and trends in labor migration. Throughout the homebuilding cycle, we have experienced shortages of skilled labor in certain markets, which led to increased labor costs. We cannot be assured that in the future there will be a sufficient supply or satisfactory performance by these unaffiliated third-party consultants and subcontractors, which could have a material adverse effect on our business.

Decreases in mortgage availability and increases in interest rates may make purchasing a home more difficult and may negatively impact the ability to sell new and existing homes.

In general, housing demand is adversely affected by a lack of availability of mortgage financing and increases in interest rates. Most of our buyers finance their home purchases through our mortgage joint venture or third-party lenders providing mortgage financing. If mortgage interest rates increase and, consequently, the ability of prospective buyers to finance home purchases is adversely affected, our home sales and cash flow may be adversely affected and the impact may be material. These risks can also indirectly impact us to the extent our customers need to sell their existing home to purchase a new home from us if the potential buyers of our customer's homes are unable to obtain mortgage financing. Although long-term interest rates currently remain near historically low levels, it is difficult to predict future increases or decreases in market interest rates.

Mortgage lenders are subject to underwriting standards by the regulatory authorities which oversee them. Regulations, standards, rules and requirements, as and when implemented, could restrict the availability of loans and/or increase the costs to borrowers to obtain such loans. While lending requirements have loosened in the past couple of years, mortgage lending underwriting standards are more restrictive than in the previous homebuilding cycle, potentially limiting the number of buyers able to obtain a mortgage. The FHA insures mortgage loans that generally have lower credit requirements and is an important source for financing some of our home sales. Changes or restrictions in FHA programs may negatively affect the availability or affordability of FHA financing. Financing through programs offered by the VA, USDA and other certain housing finance agencies are subject to changes in regulations, lending standards and government funding levels. There can be no assurance that these programs will continue to be available or that they will be as accommodating as they currently are. Continued legislative and regulatory actions and more stringent underwriting standards could have a material adverse effect on our business if certain buyers are unable to obtain mortgage financing. A prolonged tightening of the financial markets could also negatively impact our business.

Expirations, amendments or changes to tax laws, incentives or credits currently available to us and our homebuyers may negatively impact our business.

Significant changes to existing tax laws that currently benefit our homebuyers may result in an increase in the total cost of home ownership and may make the purchase of a home less attractive to our buyers. Many homeowners receive substantial tax benefits in the form of tax deductions against their personal taxable income for mortgage interest and property tax payments and the loss or reduction of these deductions would affect most homeowners' net cost of owning a home. If federal or state governments further change income tax laws by eliminating, limiting or substantially reducing these or other associated income tax benefits or by altering tax rates, the after-tax cost of owning a home could increase substantially, which could adversely impact demand for and/or selling prices of our homes, and the effect on our consolidated financial statements could be material. Also, federal or state governments have in the past provided for substantial benefits in the form of tax credits for buyers of new or used homes.

Currently, under the Tax Cuts and Jobs Act of 2017, the ("Tax Act") the federal government enacted new limits on, and reductions to, certain itemized tax deductions such as mortgage interest and state and local taxes for individuals that may reduce some of the benefits of home ownership, which could have an indirect impact on our operations. The Tax Act also enacted new limits and reductions to certain corporate tax deductions such as interest expense, which may have an impact on our operations. Also, we recently benefited from the availability of the IRC §45L new energy efficient homes credit through the end of 2016 . Subsequent to December 31, 2017, legislation to retroactively extend this tax credit for the single year of 2017 was signed by the President, however it is uncertain whether an extension or similar tax credit will be adopted for any future years. These energy tax credits provided us a significant benefit and reduced our effective income tax rate in 2015 and 2016.

Our future operations may be adversely impacted by high inflation.

We, like other homebuilders, may be adversely affected during periods of high inflation, mainly from higher land, construction, labor and materials costs. Also, higher mortgage interest rates may significantly affect the affordability of mortgage financing to prospective buyers. Inflation could increase our cost of financing, materials and labor and could cause our financial results or profitability to decline. Traditionally, we have attempted to pass cost increases on to our customers through higher sales prices. Although inflation has not historically had a material adverse effect on our business, sustained increases in material costs have recently had and may continue to have a material adverse effect on our business if we are unable to correspondingly increase home sale prices.

If our current strategic initiatives are not successful, it could have negative consequences on our operations, financial position and cash flows.

We have traditionally focused our marketing, community and home designs, and product offerings on the first- and second-move-up buyer. As a result of changing demographics and trends, we have shifted our strategy and have undertaken actions to align our pricing, product and community offerings to include a focus on entry-level and first move-up homes based on our belief that there will be a resurgence of first-time buyers. We have invested significant efforts to align our community layouts, lot sizes and product designs to include more homes targeted to first time buyers. If there is not a resurgence of first-time and first move-up buyers or our entry-level home offerings are not attractive to our customers, it could have negative consequences on our operations, financial position and cash flows. If home prices decline, potential buyers may not be able to sell their existing homes, which may negatively impact our sales.

As a homebuilder, we are subject to market forces beyond our control. In general, housing demand is impacted by the affordability of housing. Many homebuyers need to sell their existing homes in order to purchase a new home from us, and a weakness in the home resale market could adversely affect that ability. Declines in home prices could have an adverse effect on our homebuilding business margins and cash flows.

High cancellation rates may negatively impact our business; some home cancellations are with homebuyers that have refundable deposits.

Our backlog reflects the number and value of homes for which we have entered into non-contingent sales contracts with customers but have not yet delivered those homes. While we may accept sales contracts on a contingent basis in limited circumstances, they are not included in our backlog until the contingency is removed. In connection with the purchase of a home, our policy is to generally collect a deposit from our customers, although typically, this deposit

reflects a small percentage of the total purchase price, and due to local regulations, the deposit may, in certain circumstances, be fully or partially refundable prior to closing. If the prices for our homes in a given community decline, our neighboring competitors reduce their sales prices (or increase their sales incentives), interest rates increase, the availability of mortgage financing tightens or there is a downturn in local, regional or national economies, homebuyers may elect to cancel their home purchase contracts with us.

Significant cancellations have previously had, and could in the future have, a material adverse effect on our business as a result of lost sales revenue and the accumulation of unsold housing inventory.

A reduction in our sales absorption levels may force us to incur and absorb additional community-level costs.

We incur certain overhead costs associated with our communities, such as marketing expenses, real estate taxes, and costs associated with the upkeep and maintenance of our model and sales complexes. If our sales absorptions pace decreases and the time required to close out our communities is extended, we would likely incur additional overhead costs, which would negatively impact our financial results. Additionally, we typically incur various land development improvement costs for a community prior to the commencement of home construction. Such costs include infrastructure, utilities, taxes and other related expenses. Reduction in home absorption rates increases the associated holding costs and extends our time to recover such costs. Declines in the homebuilding market may also require us to evaluate the recoverability of costs relating to land acquired more recently.

If we are unable to successfully compete in the highly competitive housing industry, our financial results and growth may suffer.

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

The value of our real estate inventory may decline, leading to impairments and reduced profitability.

During the last homebuilding cycle downturn, and in certain isolated circumstances afterward, we had to impair many of our real-estate assets to fair-value, incurring large impairment charges which negatively impacted our financial results. Another decline in the homebuilding market may require us to re-evaluate the value of our land holdings and we could incur additional impairment charges, which would decrease both the book value of our assets and stockholders' equity.

Reduced levels of sales may cause us to re-evaluate the viability of existing option contracts, resulting in a potential termination of these contracts which may lead to impairment charges.

In the prior homebuilding cycle, a significant portion of our lots were controlled under option contracts. Such options generally require a cash deposit that will be forfeited if we do not exercise the option or proceed with the purchase(s). During the prior downturn, we forfeited significant amounts of deposits and wrote off significant amounts of related pre-acquisition costs related to projects we no longer deemed feasible, as they were not projected to generate acceptable returns. Another downturn in the homebuilding market may cause us to re-evaluate the feasibility of our optioned projects (the number of optioned projects and the associated amount of pre-acquisition dollars is significantly reduced from the prior cycle), which may result in us forfeiting deposits, which would reduce our assets and stockholders' equity.

Our business may be negatively impacted by natural disasters or extensive weather.

Our homebuilding operations include operations in Texas, California, North Carolina, South Carolina, Tennessee, Georgia and Florida. These markets occasionally experience extreme weather conditions such as tornadoes and/or hurricanes, earthquakes, wildfires, flooding, landslides, prolonged periods of precipitation, sinkholes and other natural disasters. We do not insure against some of these risks. For example, during 2017, two of our largest volume markets were impacted by hurricanes. These occurrences could damage or destroy some of our homes under construction or our building lots, which may result in uninsured or underinsured losses. We could also suffer significant construction delays or substantial fluctuations in the pricing or availability of building materials due to such disasters. Any of these events could cause a decrease in our revenue, cash flows and earnings.

We are subject to home warranty and construction defect claims arising in the ordinary course of business, which may lead to additional reserves or expenses.

Home warranty and construction defect claims are common in the homebuilding industry and can be costly. We sometimes encounter construction defect issues that may be alleged to be widespread within a single community or geographic area and we are currently managing two such issues, one regarding possible foundation design issues within a single community and the other regarding an alleged widespread stucco application issue in one geographic area. In order to account for future potential warranty and construction defect obligations, we establish a warranty reserve in connection with every home closing. Additionally, we maintain general liability insurance and generally require our subcontractors to provide a warranty and indemnity to us and insurance coverage for liabilities arising from their work; however, we cannot be assured that our warranty reserves and insurance and those subcontractors warranties, insurance and indemnities will be adequate to cover all warranty and construction defect claims for which we may be held responsible. For example, we may be responsible for applicable self-insured retentions, and certain claims may not be covered by insurance or may exceed applicable coverage limits.

A major safety incident relating to our operations could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous and pose certain inherent health and safety risks to construction workers. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is important to the success of our development and construction activities. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly and could expose us to claims resulting from personal injury. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our business, financial condition and operating results. We and our subcontractors carry insurance that covers some of these risks.

Our income tax provision and other tax liabilities may be insufficient if taxing authorities initiate and are successful in asserting tax positions that are contrary to our position.

In the normal course of business, we are audited by various federal, state and local authorities regarding income tax matters. Significant judgment is required to determine our provision for income taxes and our liabilities for federal, state, local and other taxes. We have one state tax audit unresolved at this time. Although we believe our approach to determining the appropriate tax treatment is supportable and in accordance with tax laws and regulations and relevant accounting literature, it is possible that the final tax authority will take a tax position that is materially different than ours. As each audit is conducted, adjustments, if any, are recorded in our consolidated financial statements in the period determined. Such differences could have a material adverse effect on our income tax provision or benefit, or other tax reserves, in the reporting period in which such determination is made and, consequently, on our results of operations, financial position and/or cash flows for such period.

Our ability to acquire and develop raw or partially finished lots may be negatively impacted if we are unable to secure performance bonds.

In connection with land development work on our raw or partially finished land, we are oftentimes required to provide performance bonds or other assurances for the benefit of the respective municipalities or governmental authorities. These performance bonds provide assurance to the beneficiaries that the development will be completed, or that in case we do not perform, that funds from the bonds are available for the municipality or governmental agency to finish such work. In the future, additional performance bonds may be difficult to obtain, or may become difficult to obtain on terms that are acceptable to us. If we are unable to secure such required bonds, progress on affected projects may be delayed or halted or we may be required to expend additional cash or provide other forms of surety or security for such obligations, such as letters of credit, which may adversely affect our financial position and ability to grow our operations.

The loss of key personnel may negatively impact us.

Our success largely depends on the continuing services of certain key employees and our ability to attract and retain qualified personnel. We have employment agreements with certain key employees who we believe possess valuable



industry knowledge, experience and leadership abilities that would be difficult in the short term to replicate. The loss of the services of such key employees could harm our operations and business plans.

Failure to comply with laws and regulations by our employees or representatives may harm us.

We are required to comply with applicable laws and regulations that govern all aspects of our business including land acquisition, development, home construction, labor and employment, mortgage origination, title and escrow operations, sales and warranty. It is possible that individuals acting on our behalf could intentionally or unintentionally violate some of these laws and regulations. Although we endeavor to take immediate action if we become aware of such violations, we may incur fines or penalties as a result of these actions and our reputation with governmental agencies and our customers may be damaged. Further, other acts of bad judgment may also result in negative publicity and/or financial consequences.

Our lack of geographic diversification could adversely affect us if the homebuilding industry in our markets decline. We have operations in Texas, Arizona, California, Colorado, Florida, North Carolina, South Carolina, Georgia and Tennessee. Although we have, in recent years, expanded our operations to new markets, our geographic diversification is still limited and could adversely impact us if the homebuilding business in our current markets should decline, since we may not have a balancing opportunity in other geographic regions.

We experience fluctuations and variability in our operating results on a quarterly basis and, as a result, our historical performance may not be a meaningful indicator of future results.

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

- timing of home deliveries and land sales;
- the changing composition and mix of our asset portfolio;
- delays in construction schedules due to adverse weather, acts of God, reduced subcontractor availability and governmental requirements and restrictions;
- conditions of the real estate market in areas where we operate and of the general economy;
- the cyclical nature of the homebuilding industry; and
- costs and availability of materials and labor.

Our level of indebtedness may adversely affect our financial position and prevent us from fulfilling our debt obligations.

The homebuilding industry is capital intensive and requires significant up-front expenditures to secure land and pursue development and construction on such land. Accordingly, we incur substantial indebtedness to finance our homebuilding activities. At December 31, 2017, we had approximately \$1.3 billion of indebtedness and \$170.7 million of cash and cash equivalents. If we require working capital greater than that provided by operations, our current liquidity position, and our current \$550.3 million available to be drawn under our credit facility, we may be required to seek additional capital in the form of equity or debt financing from a variety of potential sources, including bank financing and securities offerings. There can be no assurance we would be able to obtain such additional capital on terms acceptable to us, if at all. The level of our indebtedness could have important consequences to our stockholders, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes could be impaired;
- we could have to use a substantial portion of our cash flow from operations to pay interest and principal on our indebtedness, which would reduce the funds available to us for other purposes such as land and lot acquisition, development and construction activities;
- we have a moderate level of indebtedness and a lower volume of cash and cash equivalents than some of our competitors, which may put us at a competitive disadvantage and reduce our flexibility in planning for, or responding to, changing conditions in our industry, including increased competition; and
- we may be more vulnerable to economic downturns and adverse developments in our business than some of our competitors.

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

Our ability to obtain third-party financing may be negatively affected by any downgrade of our credit rating from a rating agency

We consider the availability of third-party financing to be a key component of our long-term strategy to grow our business either through acquisitions or through internal expansion. As of December 31, 2017, our credit ratings were BB, Ba2, and BB by Standard and Poor's Financial Services, Moody's Investor Services and Fitch Ratings, respectively, the three primary rating agencies. Any downgrades from these ratings may impact our ability to obtain future additional financing, or to obtain such financing on terms that are favorable to us and therefore, may adversely impact our future operations.

We may not be successful in future expansion and integrating acquisitions.

We may consider growth or expansion of our operations in our current markets or in other areas of the country. We may not be successful in future expansion and integrating future acquisitions. Our expansion into new or existing markets could have a material adverse effect on our cash flows and/or profitability as we may incur costs to integrate new markets into our operations in advance of those operations providing a right-sized impact to our bottom line. The magnitude, timing and nature of any future expansion will depend on a number of factors, including suitable additional markets and/or acquisition candidates, the negotiation of acceptable terms, our financial capabilities, the size of the new business, and general economic and business conditions. New acquisitions may result in the incurrence of additional debt. Acquisitions also involve numerous risks, including difficulties and/or delays in the assimilation and integration of the acquired company's operations, the incurrence of unanticipated liabilities or expenses, the diversion of management's attention from other business concerns, risks of entering markets in which we have limited or no direct experience and the potential loss of key employees of the acquired company. In our recent acquisitions in Nashville, Atlanta and Greenville, the integration of the operations was slower than originally anticipated. It cannot be assured that integration delays for future acquisitions will not occur, and such delays could have an impact on our operations and our financial results.

We are subject to extensive government regulations that could cause us to incur significant liabilities or restrict our business activities.

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

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

Our wholly-owned title company, Carefree Title Agency, provides title insurance and closing settlement services for our homebuyers. The title and settlement services provided by Carefree Title Agency are subject to various regulations, including regulation by state banking and insurance regulations. Potential changes to federal and state laws and regulations could have the effect of limiting our activities or how our joint venture conducts its operations and this could have an adverse effect on our results of operations.

Our mortgage joint venture is engaged in mortgage broker activities and provides services both to our customers and other homebuyers. The mortgage industry remains under intense scrutiny and continues to face increasing regulation at the federal, state and local level. Although we do not originate mortgages, we are directly or indirectly subject to

certain of these regulations. In addition, if we are determined to have violated federal or state regulations, we face the loss of our licenses or other required approvals or we could be subject to fines, penalties, civil actions or we could be required to suspend our activities, each of which could have an adverse effect on our reputation, results and operations.

Legislation relating to energy and climate change could increase our costs to construct homes.

There is a variety of new legislation being enacted, or considered for enactment at the federal, state and local level relating to energy and climate change. This legislation relates to items such as carbon dioxide emissions control and building codes that impose energy efficiency standards. New building code requirements that impose stricter energy efficiency standards

could significantly increase our cost to construct homes. As climate change concerns continue to grow, legislation and regulations of this nature are expected to continue and become more costly to comply with. Similarly, energy-related initiatives affect a wide variety of companies throughout the United States and the world and because our operations are heavily dependent on significant amounts of raw materials, such as lumber, steel, and concrete, they could have an indirect adverse impact on our operations and profitability to the extent the manufacturers and suppliers of our materials are burdened with expensive cap and trade and similar energy-related regulations.

Our ability to build energy-efficient technologies at a profitable price point may be replicated by other builders in the future, which could reduce our competitive advantage.

We believe we currently have a competitive advantage over many of the other production homebuilders by virtue of our energy efficiency technologies. Our communities offer a high level of energy-saving features included in the base price of our homes, and most of our home plans are engineered to facilitate the incorporation of optional solar features to further optimize energy savings. If other builders are able to replicate our energy efficient technologies and offer them at a similar price point, it could diminish our competitive advantage in the marketplace.

Information technology failures and data security breaches could harm our business.

We use information technology and other computer resources to carry out important operational and marketing activities as well as maintain our business records. Many of these resources are provided to us and/or maintained on our behalf by third-party service providers pursuant to agreements that specify certain security and service level standards. Although we and our service providers employ what we believe are adequate security, disaster recovery and other preventative and corrective measures, our ability to conduct our business may be impaired if these resources are compromised, degraded, damaged or fail, whether due to a virus or other harmful circumstance, intentional penetration or disruption of our information technology resources by a third party, natural disaster, hardware or software corruption or failure or error (including a failure of security controls incorporated into or applied to such hardware or software), telecommunications system failure, service provider error or failure, intentional or unintentional personnel actions (including the failure to follow our security protocols), or lost connectivity to our networked resources.

A significant and extended disruption in the functioning of these resources could damage our reputation and cause us to lose customers, sales, result in the unintended public disclosure or the misappropriation of proprietary, personal and confidential information (including information about our homebuyers, employees and business partners), and require us to incur significant expense to address and resolve these kinds of issues. The release of confidential information may also lead to litigation or other proceedings against us by affected individuals and/or business partners and/or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have a material and adverse effect on our consolidated financial statements and reputation. In addition, the costs of maintaining adequate protection against such threats, depending on their evolution, pervasiveness and frequency and/or government-mandated standards or obligations regarding protective efforts, could continue to increase and could be material to our consolidated financial statements.

Negative publicity could adversely affect our reputation and our business, financial results and stock price.

Unfavorable media related to our industry, company, brand, personnel, operations, business performance, or prospects may impact our stock price and the performance of our business, regardless of its accuracy or inaccuracy. The speed at which negative publicity is disseminated has increased dramatically through the use of electronic communication, including social media outlets, websites, "tweets", and blogs. Our success in maintaining and expanding our brand image depends on our ability to adapt to this rapidly changing media environment. Adverse publicity or negative commentary from any media outlets could damage our reputation and reduce the demand for our homes, which would adversely affect our business.

Any of the above risk factors could have a material adverse effect on any investment in our bonds and common stock. As a result, investors could lose some or all of their investment.

### Special Note of Caution Regarding Forward-Looking Statements

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

The words “believe,” “expect,” “anticipate,” “forecast,” “plan,” “intend,” “may,” “will,” “should,” “could,” “estimate,” and “predict” expressions identify forward-looking statements, which speak only as of the date the statement was made. All statements we make other than statements of historical fact are forward-looking statements within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act.

Forward-looking statements in this Annual Report include statements concerning our belief that we have ample liquidity; our goals and strategies and the anticipated benefits relating thereto; our intentions and the expected benefits and advantages of our product and land positioning strategies, including with respect to our focus on the first-time and first move-up buyer; the benefits of and our intentions to use options to acquire land; our exposure to supplier concentration risk; our delivery of substantially all of our backlog existing as of year end; our positions and our expected outcome relating to litigation in general; our intentions to not pay dividends; growth in the first-time buyer segment that are seeking entry-level homes; the timing and extent of new community openings in 2018; that we may repurchase our debt and equity securities; our non-use of derivative financial instruments; expectations regarding our industry and our business into 2018 and beyond, and that we expect our cash expenditures will exceed our cash generated by operations as we continue to expand our business; the demand for and the pricing of our homes; our land and lot acquisition strategy (including that we will redeploy cash to acquire well-positioned finished lots and that we may participate in joint ventures or opportunities outside of our existing markets if opportunities arise and the benefits relating thereto); that we may expand into new markets; the availability of suppliers; that we may seek additional debt or equity capital; our expectation that existing guarantees, letters of credit and performance and surety bonds will not be drawn on; the sufficiency of our insurance coverage and warranty reserves; the sufficiency of our capital resources to support our business strategy; the impact of new accounting standards and changes in accounting estimates; trends and expectations concerning sales prices, sales orders, cancellations, construction costs, gross margins, land costs and profitability and future home inventories; our future cash needs; the impact of seasonality; and our future compliance with debt covenants and actions we may take with respect thereto.

Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements, and that could negatively affect our business are discussed above in this report under the heading “Risk Factors.”

Forward-looking statements express expectations of future events. All forward-looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties that could cause actual events or results to differ materially from those projected. Due to these inherent uncertainties, the investment community is urged not to place undue reliance on forward-looking statements. In addition, we undertake no obligations to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to projections over time, except as required by law.

#### Item 1B. Unresolved Staff Comments

None.

#### Item 2. Properties

Our corporate office is in a leased building located in Scottsdale, Arizona with 66,209 square feet and a September 30, 2023 lease expiration.

We lease an aggregate of approximately 381,000 square feet of office space (of which approximately 17,000 square feet is currently subleased by us to third parties) in our markets for our operating divisions, corporate and executive offices.





Item 3. Legal Proceedings

We are involved in various routine legal and regulatory proceedings, including, without limitation, claims and litigation alleging construction defects for which we have approximately \$600,000 of total reserves. In general, the proceedings are incidental to our business, and most exposure is subject to and should be covered by warranty and indemnity obligations of our consultants and subcontractors. Additionally, some such claims are also covered by insurance. With respect to the majority of pending litigation matters, our ultimate legal and financial responsibility, if any, cannot be estimated with certainty and, in most cases, any potential losses related to these matters are not considered probable. Historically, most disputes regarding warranty claims are resolved prior to litigation. As of December 31, 2017, we were involved in a unique personal injury matter originally filed on July 2, 2013 in the Circuit Court of the Ninth Judicial Circuit in Orange County, Florida that is based on a claim of negligent security in one of our communities (Marcela Borges vs. Meritage Homes of Florida, Inc.). The total damages this plaintiff is seeking are currently unspecified. This matter is scheduled to go to jury trial in the first quarter of 2018 and we do not believe at this time that the outcome of the trial will result in an adverse ruling that would require any incremental charge to our reserves in our financial statements. We believe there are no pending legal or warranty matters that could have a material adverse impact upon our consolidated financial condition, results of operations or cash flows that have not been sufficiently reserved. Information related to pending legal proceedings is presented in Note 15 - Commitments and Contingencies, in the accompanying consolidated financial statements and is incorporated by reference herein. Since 2010, we have been involved in various legal proceedings regarding a Nevada based land acquisition and development joint venture known as South Edge, LLC relating to a Henderson, Nevada project known as Inspirada. In February 2018, we received \$4.8 million to settle and conclude our legal claims against certain members of that venture.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “MTH”. The high and low sales prices per share of our common stock for the periods indicated, as reported by the NYSE, follow.

Quarter Ended	2017		2016	
	High	Low	High	Low
March 31	\$38.75	\$33.75	\$36.46	\$26.86
June 30	\$42.40	\$36.50	\$39.39	\$32.84
September 30	\$44.40	\$39.05	\$40.55	\$32.34
December 31	\$54.95	\$44.80	\$38.95	\$29.95

The following graph compares the five-year total return of our common stock with the S&P 500 Index and the Dow Jones US Home Construction Index. The graph assumes \$100 invested as of December 31, 2012 in Meritage Common Stock the S&P 500 Index and the Dow Jones US Home Construction Index, and the re-investment of all dividends.

The performance of our common stock depicted in the graphs is not indicative of future performance.

	2012	2013	2014	2015	2016	2017
Meritage Homes Corporation	100.00	128.49	96.36	91.00	93.17	137.08
S&P 500 Index	100.00	129.22	143.97	143.22	156.75	186.80
Dow Jones US Home Construction Index	100.00	109.78	117.85	128.91	119.47	209.18

The preceding Performance Graph and related information shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

On February 1, 2018 there were 189 owners of record of our common stock. A substantially greater number of owners of our common stock are beneficial holders, whose shares of record are held by banks, brokers, and other financial institutions.

The transfer agent for our common stock is Computershare, Inc., 250 Royall Street, Canton, MA 02021 ([www.computershare.com](http://www.computershare.com)).

Historically, we have not declared cash dividends, nor do we intend to declare cash dividends in the foreseeable future. We plan to retain our earnings to finance the continuing operation and growth of the business. Future cash dividends, if any, will depend upon our financial condition, results of operations, capital requirements, statutory requirements, as well as other factors considered relevant by our Board of Directors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources”.

Reference is made to Note 10 in the accompanying consolidated financial statements for a description of our stock-based compensation plans.

#### Issuer Purchases of Equity Securities

We did not acquire any shares of our common stock during the twelve months ended December 31, 2017. On February 21, 2006, we announced that our Board of Directors approved a stock repurchase program, authorizing the expenditure of up to \$100.0 million to repurchase shares of our common stock, subject to certain price parameters. In August 2006, the Board of Directors authorized an additional \$100.0 million under this program. There is no stated expiration date for this program. As of December 31, 2017, we had approximately \$130.2 million of the authorized amount available to repurchase shares under this program.

## Item 6. Selected Financial Data

The following table presents selected historical consolidated financial and operating data of Meritage Homes Corporation and subsidiaries as of and for each of the last five years ended December 31, 2017. The financial data has been derived from our audited consolidated financial statements and related notes for the periods presented. This table should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in this Annual Report. These historical results may not be indicative of future results.

Historical Consolidated Financial Data  
Years Ended December 31,  
(\$ in thousands, except per share amounts)

	2017	2016	2015	2014	2013
<b>Statement of Operations Data:</b>					
<b>Homebuilding:</b>					
Total closing revenue	\$3,226,772	\$3,029,227	\$2,568,082	\$2,169,643	\$1,814,659
Total cost of closings (1)	(2,660,273 )	(2,498,015 )	(2,079,373 )	(1,717,026 )	(1,418,241 )
Total closing gross profit	566,499	531,212	488,709	452,617	396,418
Financial services profit	22,055	Loans, net	<b>4,065,310</b>	<b>3,931,939</b>	3,971,016
Accrued interest receivable	<b>18,742</b>	<b>18,742</b>	18,742	18,742	3,654,227
 <b>Financial liabilities:</b>					
Deposits	<b>5,328,528</b>	<b>5,332,528</b>	4,722,102	4,731,827	
Accrued interest payable	<b>4,543</b>	<b>4,543</b>	4,179	4,179	
Customer repurchases	<b>86,835</b>	<b>86,835</b>	223,269	223,269	
Other borrowed funds	<b>72,888</b>	<b>72,888</b>	29,352	29,352	
Junior subordinated debt	<b>36,323</b>	<b>36,323</b>	42,438	42,438	
Subordinated debt			60,000	60,000	
Derivatives	<b>1,860</b>	<b>1,860</b>	1,139	1,139	

**Interest rate risk**

The Company assumes interest rate risk (the risk to the Company’s earnings and capital from changes in interest rate levels) as a result of its normal operations. As a result, the fair values of the Company’s financial instruments, as well as

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its future net interest income, will change when interest rate levels change and that change may be either favorable or unfavorable to the Company.

Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in net portfolio value and net interest income resulting from hypothetical changes in interest rates. If potential changes to net portfolio value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, the Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

Each of the Company's subsidiary banks have an Asset Liability Management Committee (ALCO) charged with managing interest rate risk within Board approved limits. Such limits may vary by bank based on local strategy and other considerations, but in all cases, are structured to prohibit an interest rate risk profile that is significantly asset or liability sensitive.

***Fair value of commitments***

The estimated fair value of the standby letters of credit at September 30, 2010 and December 31, 2009 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at September 30, 2010 and December 31, 2009.

**12. SEGMENTS**

The Company is segmented as Nevada (Bank of Nevada and First Independent Bank of Nevada), Arizona (Alliance Bank of Arizona), California (Torrey Pines Bank and Alta Alliance Bank), Asset Management (Premier Trust, which was divested on September 1, 2010, and Shine), and Other (Western Alliance Bancorporation holding company, Western Alliance Equipment Finance and miscellaneous).

The accounting policies of the reported segments are the same as those of the Company as described in Note 1,

*Summary of Significant Accounting Policies* in the Company's 2009 Annual Report on Form 10-K. Transactions between segments consist primarily of borrowed funds, loan participations and shared services expense. Federal funds purchased and sold and other borrowed funding transactions that resulted in inter-segment profits were eliminated for reporting consolidated results of operations. Loan participations were recorded at par value with no resulting gain or loss. The Company allocated centrally provided services to the operating segments based upon estimated usage of those services.

The following is a summary of selected operating segment information as of and for the periods ended September 30, 2010, and 2009:

**Table of Contents****Western Alliance Bancorporation and Subsidiaries  
Operating Segment Results  
Unaudited**

	<b>Nevada</b>	<b>California</b>	<b>Arizona</b>	<b>Asset Management (in millions)</b>	<b>Other</b>	<b>Inter- segment Elimi- nations</b>	<b>Consoli- dated Company</b>
<b>At September 30, 2010</b>							
Assets	\$ 3,334.2	\$ 1,404.1	\$ 1,403.3	\$ 3.9	\$ 732.0	\$(698.4)	\$ 6,179.1
Gross loans and deferred fees, net	2,315.1	1,009.9	891.2			(42.7)	4,173.5
Less: Allowance for credit losses	(75.9)	(16.6)	(15.7)				(108.2)
Net loans	2,239.2	993.3	875.5			(42.7)	4,065.3
Goodwill	23.2			2.7			25.9
Deposits	2,894.0	1,232.6	1,244.1			(42.2)	5,328.5
Stockholders' equity	365.2	134.6	110.4	3.5	622.1	(616.0)	619.8
No. of branches	19	11	9				39
No. of FTE	506	201	143	7	50		907
(in thousands)							
<b>Three Months Ended September 30, 2010:</b>							
Net interest income	\$ 32,025	\$ 15,830	\$ 12,716	\$ 2	\$(1,105)	\$	\$ 59,468
Provision for credit losses	19,349	2,166	1,450				22,965
Net interest income (loss) after provision for credit losses	12,676	13,664	11,266	2	(1,105)		36,503
Non-interest income	4,355	1,150	2,462	1,001	2,809	390	12,167
Non-interest expense	(26,386)	(7,882)	(8,475)	(807)	(3,655)	1,096	(46,109)
Income (loss) from continuing operations before income taxes	(9,355)	6,932	5,253	196	(1,951)	1,486	2,561
Income tax expense (benefit)	(3,568)	2,906	2,021	91	(1,529)		(79)
Income(loss) from continuing operations	(5,787)	4,026	3,232	105	(422)	1,486	2,640
Loss from discontinued					(631)		(631)

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operations, net

<b>Net income (loss)</b>	\$ (5,787)	\$ 4,026	\$ 3,232	\$ 105	\$ (1,053)	\$ 1,486	\$ 2,009
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(in thousands)

**Nine Months Ended  
September 30, 2010:**

Net interest income	\$ 94,373	\$ 45,401	\$ 33,533	\$ 6	\$ (1,670)	\$	\$ 171,643
Provision for credit losses	62,626	7,718	4,483		0		74,827

Net interest income  
(loss) after provision  
for credit losses

	31,747	37,683	29,050	6	(1,670)		96,816
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Non-interest income	19,078	3,449	6,079	3,399	14,342	1,209	47,556
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Non-interest expense	(79,400)	(28,672)	(23,954)	(2,752)	(9,957)	4,522	(140,213)
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Income (loss) from  
continuing  
operations before  
income taxes

	(28,575)	12,460	11,175	653	2,715	5,731	4,159
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Income tax expense  
(benefit)

	(10,464)	5,377	4,444	300	(1,487)		(1,830)
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Income(loss) from  
continuing operations

	(18,111)	7,083	6,731	353	4,202	5,731	5,989
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Loss from  
discontinued  
operations, net

					(2,368)		(2,368)
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<b>Net income (loss)</b>	\$ (18,111)	\$ 7,083	\$ 6,731	\$ 353	\$ 1,834	\$ 5,731	\$ 3,621
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**Western Alliance Bancorporation and Subsidiaries**  
**Operating Segment Results**  
**Unaudited**

	Nevada	California	Arizona	Asset Management (in millions)	Other	Inter- segment Elimi- nations	Consoli- dated Company
<b>At September 30, 2009</b>							
Assets	\$ 3,457.1	\$ 1,264.9	\$ 1,024.9	\$ 19.4	\$ 118.6	\$ (53.6)	\$ 5,831.3
Gross loans and deferred fees	2,488.8	814.6	707.6			(43.0)	3,968.0
Less: Allowance for credit losses	(74.9)	(12.7)	(16.6)				(104.2)
Net loans	2,413.9	801.9	691.0			(43.0)	3,863.8
Goodwill	23.2			10.7			33.9
Deposits	2,792.9	1,089.5	877.4			(7.6)	4,752.2
Stockholders equity	315.7	120.6	73.6	17.0	81.5	(5.4)	603.0
No. of branches	21	9	10				40
No. of FTE	583	211	145	43	41		1,023
(in thousands)							
<b>Three Months Ended September 30, 2009</b>							
Net interest income	\$ 29,918	\$ 10,895	\$ 8,160	\$ 12	\$ (15)	\$	\$ 48,970
Provision for credit losses	41,931	3,953	4,866				50,750
Net interest income after provision for credit losses	(12,013)	6,942	3,294	12	(15)		(1,780)
Non-interest income	4,201	1,073	1,676	2,452	2,206	939	12,547
Non-interest expense	(29,790)	(9,203)	(6,944)	(2,640)	(3,072)	1,201	(50,448)
Loss from continuing operations before income taxes	(37,602)	(1,188)	(1,974)	(176)	(881)	2,140	(39,681)
Income tax expense (benefit)	(13,784)	(623)	(849)	217	(287)	(1,398)	(16,724)
Income(loss) from continuing operations	(23,818)	(565)	(1,125)	(393)	(594)	3,538	(22,957)
Loss from discontinued					(958)		(958)



operations, net

Net income (loss)	\$ (23,818)	\$ (565)	\$ (1,125)	\$ (393)	\$(1,552)	\$ 3,538	\$ (23,915)
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(in thousands)

**Nine Months Ended  
September 30,2009**

Net interest income	\$ 94,186	\$ 33,240	\$ 24,525	\$ 43	\$(1,493)	\$	\$ 150,501
Provision for credit losses	86,580	8,646	13,081				108,307
Net interest income after provision for credit losses	7,606	24,594	11,444	43	(1,493)		42,194
Non-interest income	3,864	3,468	4,426	7,066	1,923	(20,581)	166
Goodwill impairment charge	(45,000)			(576)			(45,576)
Non-interest expense	(82,560)	(30,414)	(25,114)	(6,377)	(6,918)	5,302	(146,081)
Loss from continuing operations before income taxes	(116,090)	(2,352)	(9,244)	156	(6,488)	(15,279)	(149,297)
Income tax expense (benefit)	(25,165)	(687)	(3,577)	459	(2,426)	3,201	(28,195)
Income(loss) from continuing operations	(90,925)	(1,665)	(5,667)	(303)	(4,062)	(18,480)	(121,102)
Loss from discontinued operations, net					(3,392)		(3,392)
Net income (loss)	\$ (90,925)	\$ (1,665)	\$ (5,667)	\$ (303)	\$(7,454)	\$(18,480)	\$(124,494)

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**Table of Contents****13. STOCKHOLDERS EQUITY**

On August 24, 2010, the Company completed a public offering of 8,050,000 shares of common stock, including 1,050,000 shares pursuant to the underwriter's over-allotment option, at a public offering price of \$6.25 per share, for an aggregate offering price of \$50.3 million. The net proceeds of the offering were approximately \$47.6 million.

*Stock-based Compensation*

For the nine months ended September 30, 2010, 111,000 stock options with a weighted average exercise price of \$5.21 per share were granted to certain key employees and directors. The Company estimates the fair value of each option award on the date of grant using a Black-Scholes valuation model. The weighted average grant date fair value of these options was \$3.12 per share. These stock options generally have a vesting period of 4 years and a contractual life of 7 years.

As of September 30, 2010, there were 2.8 million options outstanding, compared with 2.9 million at September 30, 2009.

For the three and nine months ended September 30, 2010, the Company recognized stock-based compensation expense related to stock option grants of \$0.4 million and \$1.4 million, respectively compared to \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2009, respectively.

For the three and nine months ended September 30, 2010, 62,800 and 622,963 shares of restricted stock were granted, respectively. The Company estimates the compensation cost for restricted stock grants based upon the grant date fair value. Generally, these restricted stock grants have a three year vesting period. The aggregate grant date fair value for the restricted stock issued in the three and nine month periods ended September 30, 2010 was \$0.5 million and \$3.4 million, respectively.

There were approximately 1,099,134 and 754,000 restricted shares outstanding at September 30, 2010 and 2009, respectively. For the three and nine months ended September 30, 2010, the Company recognized stock-based compensation related to restricted stock grants of \$1.0 million and \$3.2 million, respectively, compared to \$1.4 million and \$4.6 million, respectively, for the three and nine months ended September 30, 2009 related to the Company's restricted stock plan.

**14. BORROWED FUNDS**

On August 25, 2010, the Company completed a public offering of \$75 million in principal Senior Notes due in 2015 bearing interest of 10%. The net proceeds of the offering were \$72.8 million. The Company also has lines of credit available from the FHLB and FRB. The borrowing capacity is determined based on collateral pledged, generally consisting of securities and loans, at the time of borrowing. A summary of the Company's borrowings as of September 30, 2010 and December 31, 2009 follows:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(in thousands)	
<b>Short Term</b>		
Other short term debt (weighted average rate in 2010: 0.00% and 2009: 4.60%)		
Due in one year or less	\$	\$ 20,000
<b>Long Term</b>		
Other long term debt (weighted average rate in 2010: 9.89% and 2009: 8.79%)		
Due in over one year	<b>\$ 75,000</b>	\$ 9,352

**15. SUBSEQUENT EVENTS**

On October 20, 2010, the Company published notices of the filing of applications to merge its Alta Alliance Bank subsidiary into its Torrey Pines Bank subsidiary, and its First Independent Bank of Nevada subsidiary into its Alliance Bank of Arizona subsidiary. The Company believes that reducing the number of banking charters will mitigate its risk profile while improving its operating efficiency. Subject to regulatory approval, these mergers are expected to be

completed by year end.

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

This discussion is designed to provide insight into Management's assessment of significant trends related to the Company's consolidated financial condition, results of operations, liquidity, capital resources and interest rate sensitivity. This Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009 and unaudited interim consolidated financial statements and notes hereto and financial information appearing elsewhere in this report. Unless the context requires otherwise, the terms "Company," "us," "we," and "our" refer to Western Alliance Bancorporation and its wholly-owned subsidiaries on a consolidated basis.

**Forward-Looking Information**

This report contains certain forward-looking statements, within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. These statements may include statements that expressly or implicitly predict future results, performance or events. Statements other than statements of historical fact are forward-looking statements. In addition, the words "anticipates," "expects," "believes," "estimates" and "intends" or the negative of these terms or other comparable terminology constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Except as required by law, we disclaim any obligation to update any such forward-looking statements or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments. Forward-looking statements contained in this Quarterly Report on Form 10-Q involve substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company and may cause our actual results to differ significantly from historical results and those expressed in any forward-looking statement. Risks and uncertainties include those set forth in our filings with the Securities and Exchange Commission and the following factors that could cause actual results to differ materially from those presented:

- the decline in economic conditions and disruptions to the financial markets and economic conditions generally;

- recent legislative and regulatory initiatives and the rules and regulations that might be promulgated thereunder;

- the soundness of other financial institutions with which we do business;

- our ability to raise capital, attract deposits and our ability to borrow from the FHLB and the Federal Reserve;

- the effect of fair value accounting on the financial instruments that we hold;

- the possibility of asset, including goodwill, write-downs;

- defaults on our loan portfolio;

- changes in management's estimate of the adequacy of the allowance for credit losses;

- our ability to recruit and retain qualified employees, especially seasoned relationship bankers;

- inflation, interest rate, market and monetary fluctuations;

- changes in gaming or tourism in Las Vegas, Nevada, our primary market area;

- risks associated with the execution of our business strategy and related costs;

increased lending risks associated with our concentration of commercial real estate, construction and land development and commercial and industrial loans;

supervisory actions by regulatory agencies which limit our ability to pursue certain growth opportunities;

competitive pressures among financial institutions and businesses offering similar products and services;

the effects of interest rates and interest rate policy; and

other factors affecting the financial services industry generally or the banking industry in particular.

For additional information regarding risks that may cause our actual results to differ materially from any forward-looking statements, see **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2009 and Item 1A of Part II of this Quarterly Report on Form 10-Q.

**Financial Overview and Highlights**

Western Alliance Bancorporation is a multi-bank holding company headquartered in Phoenix, Arizona that provides full service banking, financial planning and investment advisory services and lending through its subsidiaries.

Net loss for the Company of \$0.5 million or (\$0.01) loss per diluted share for the quarter ended September 30, 2010 compared to a net loss of \$26.4 million or (\$0.37) loss per diluted share for the third quarter of 2009.

The significant factors impacting earnings of the Company during the third quarter of 2010 were:

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Record net interest income of \$59.5 million for the third quarter 2010, up 21.4% from \$49.0 million for the third quarter 2009

Net interest margin increased to 4.32% for the third quarter 2010 compared to 3.69% for third quarter 2009

The provision for credit losses declined to \$23.0 million for the third quarter 2010 compared to \$50.8 million for the third quarter 2009

A \$93.9 million increase in loans to \$4.17 billion from \$4.08 billion at December 31, 2009 and a \$205.5 million increase from \$3.97 billion at September 30, 2009

A continued decrease in nonaccrual loans to \$130.9 million at September 30, 2010 from \$153.7 million at December 31, 2009

Net increase in repossessed assets to \$110.1 million at September 30, 2010 from \$83.3 million at December 31, 2009

Net charge-offs decreased to \$24.8 million for the third quarter 2010 compared to \$30.7 million for the third quarter of 2009

Completion of debt offering contributing \$72.8 million in liquidity to the Company

Completion of equity offering contributing \$47.6 million to capital to the Company

The impact to the Company from these items, and others of both a positive and negative nature, will be discussed in more detail as they pertain to the Company's overall comparative performance for the three and nine months ended September 30, 2010 throughout the analysis sections of this report.

A summary of our results of operations and financial condition and select metrics is included in the following table:

	<b>2010</b>	<b>September 30, 2009</b>	<b>Change %</b>
	(dollars in millions)		
<b>Selected Balance Sheet Data:</b>			
Total assets	\$6,179.1	\$5,831.3	6.0%
Loans, net of deferred fees	4,173.5	3,968.0	5.2
Securities and money market investments	929.7	727.8	27.7
Federal funds sold and other	1.0	5.0	(80.0)
Customer deposits	5,328.5	4,752.2	12.1
Borrowings	72.9	79.4	(8.2)
Junior subordinated and subordinated debt	36.3	101.9	(64.4)
Stockholders' equity	619.8	603.0	2.8

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	At or for the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	Change %	2010	2009	Change %
(in thousands, except per share data)						
<b>Selected Income Statement Data:</b>						
(dollars in thousands)						
Interest income	\$ 70,705	\$ 67,746	4.4%	\$ 209,439	\$ 208,210	0.6%
Interest expense	11,237	18,776	(40.2)	37,796	57,709	(34.5)
Net interest income	59,468	48,970	21.4	171,643	150,501	14.0
Provision for loan losses	22,965	50,750	(54.7)	74,827	108,307	(30.9)
Net interest income after provision for credit losses	36,503	(1,780)	(2,150.7)	96,816	42,194	129.5
Non-interest income	12,167	12,547	(3.0)	47,556	166	28,548.2
Non-interest expense	46,109	50,448	(8.6)	140,213	191,657	(26.8)
Income (loss) from continuing operations before income taxes	2,561	(39,681)	(106.5)	4,159	(149,297)	(102.8)
Income tax benefit	(79)	(16,724)	(99.5)	(1,830)	(28,195)	(93.5)
Income (loss) from continuing operations	2,640	(22,957)	(111.5)	5,989	(121,102)	(104.9)%
Loss on discontinued operations, net	(631)	(958)	(34.1)	(2,368)	(3,392)	
Net income (loss)	\$ 2,009	\$ (23,915)	(108.4)%	\$ 3,621	\$ (124,494)	
Intangible asset amortization, net of tax	\$ 586	\$ 614	(4.7)%	\$ 1,764	\$ 1,843	(4.3)%
Diluted net loss from continuing operations	\$ 0.00	\$ (0.35)		\$ (0.02)	\$ (2.36)	
Diluted net loss from discontinued operations, net	\$ (0.01)	\$ (0.01)		\$ (0.03)	\$ (0.06)	
Diluted net loss per common share	\$ (0.01)	\$ (0.37)	(97.3)%	\$ (0.05)	\$ (2.42)	(97.9)%

**At or For the Three Months  
Ended September 30,**

**For the Nine Months  
Ended September 30,**

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	2010	2009	Change %	2010	2009	Change %
<b>Common Share Data:</b>						
Basic net income (loss) per share	\$ (0.01)	\$ (0.37)	(97.3)%	\$ (0.05)	\$ (2.42)	(97.9)%
Diluted net income (loss) per share	(0.01)	(0.37)	(97.3)	(0.05)	(2.42)	(97.9)
Book value per common share	6.01	6.56	(8.4)			
Average shares outstanding (in thousands):						
Basic	75,554	71,697	5.4	73,240	54,471	34.5
Diluted	75,554	71,697	5.4	73,240	54,471	34.5
Common shares outstanding	81,503	72,489	12.4			
<b>Selected Performance Ratios:</b>						
Return on average assets	0.13%	(1.63)%	(108.0)%	0.08%	(3.03)%	(102.7)%
Return on average stockholders equity	1.31	(14.78)	(108.9)	0.82	(30.16)	(102.7)
Average equity to average assets	10.11	11.00	(8.1)	10.05	10.05	0.0
Net interest margin (1)	4.32	3.69	17.1	4.22	4.07	3.7
Net interest spread	4.03	3.26	23.6	3.90	3.63	7.4
Loan to deposit ratio	78.32	83.50	(6.2)			

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	At or For the Three Months Ended September 30,			For the Nine Months Ended September 30,		Change %
	2010	2009	Change %	2010	2009	
<b>Selected Capital Ratios:</b>						
Tier 1 Leverage ratio	<b>10.0</b>	9.6	3.1			
Tier 1 Risk Based Capital	<b>12.4</b>	12.1	2.5			
Total Risk Based Capital	<b>13.7</b>	14.7	(7.5)			
<b>Selected Asset Quality Ratios:</b>						
Net charge-offs to average loans outstanding (annualized)	<b>2.41%</b>	3.05%	(21.0)%	<b>2.47%</b>	2.60%	(4.8)%
Nonaccrual loans to gross loans	<b>3.14</b>	4.19	(25.1)			
Nonaccrual loans and repossessed assets to total assets	<b>3.90</b>	4.10	(4.9)			
Loans past due 90 days and still accruing to total loans	<b>0.14</b>	0.06	133.3			
Allowance for credit losses to gross loans	<b>2.59</b>	2.63	(1.5)			
Allowance for credit losses to nonaccrual loans	<b>82.63</b>	62.65	31.9			

(1) Net interest margin represents net interest income as a percentage of average interest-earning assets. As a bank holding company, the Company's Management focuses on key ratios in evaluating the Company's financial condition and results of operations. In the current economic environment, key ratios regarding asset quality and efficiency are more informative as to the financial condition of the Company than those utilized in a more normal economic period such as return on equity and return on assets.

*Asset Quality*

For banks and bank holding companies, asset quality plays a significant role in the overall financial condition of the institution and results of operations. The Company measures asset quality in terms of nonaccrual loans as a percentage of gross loans, and net charge-offs as a percentage of average loans. Net charge-offs are calculated as the difference between charged-off loans and recovery payments received on previously charged-off loans. As of September 30, 2010, impaired loans, including nonaccrual loans, were \$245.8 million compared to \$232.0 million at September 30, 2009. Nonaccrual loans as a percentage of gross loans as of September 30, 2010 were 3.14% compared to 4.19% as of September 30, 2009. At September 30, 2010 and 2009, nonperforming assets were \$348.2 million and \$285.8 million, respectively, and were comprised of nonaccrual loans, loans past due 90 days or more and still accruing interest, restructured and impaired loans and foreclosed collateral. For the three and nine months ended September 30, 2010, annualized net charge-offs as a percentage of average loans were 2.41% and 2.47%, respectively, compared to 3.05% and 2.60% for the three and nine months ended September 30, 2009, respectively.

*Asset and Deposit Growth.* The ability to originate loans and attract deposits is fundamental to our asset growth. Our assets and liabilities are comprised primarily of loans and deposits, respectively. Total assets at September 30, 2010 increased \$347.8 million or 6.0%, to \$6.18 billion from \$5.83 billion at September 30, 2009. Gross loans increased by \$205.5 million or 5.2% as of September 30, 2010 from September 30, 2009. Total deposits increased \$576.3 million

or 12.1%, to \$5.33 billion at September 30, 2010 from \$4.75 billion at September 30, 2009.

**Critical Accounting Policies**

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. The critical accounting policies upon which our financial condition and results of operation depend, and which involve the most complex subjective decisions or assessments, are included in the discussion entitled "Critical Accounting Policies" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and all amendments thereto, as filed with the Securities and Exchange Commission. There were no material changes to the critical accounting policies disclosed in the Annual Report on Form 10-K.

**Table of Contents****Results of Operations**

The following table sets forth a summary financial overview for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended		Increase (Decrease)	Nine Months Ended		Increase (Decrease)
	September 30, 2010	2009		September 30, 2010	2009	
(in thousands, except per share amounts)						
<b>Consolidated Statement of Operations Data:</b>						
Interest income	\$ 70,705	\$ 67,746	\$ 2,959	\$ 209,439	\$ 208,210	\$ 1,229
Interest expense	11,237	18,776	(7,539)	37,796	57,709	(19,913)
Net interest income	59,468	48,970	10,498	171,643	150,501	21,142
Provision for credit losses	22,965	50,750	(27,785)	74,827	108,307	(33,480)
Net interest income after provision for credit losses	36,503	(1,780)	38,283	96,816	42,194	54,622
Non-interest income	12,167	12,547	(380)	47,556	166	47,390
Non-interest expense	46,109	50,448	(4,339)	140,213	191,657	(51,444)
Net loss from continuing operations before income taxes	2,561	(39,681)	(42,242)	4,159	(149,297)	153,456
Income tax benefit	(79)	(16,724)	16,645	(1,830)	(28,195)	26,365
Income (loss) from continuing operations	2,640	(22,957)	25,597	5,989	(121,102)	127,091
Loss from discontinued operations	(631)	(958)	327	(2,368)	(3,392)	1,024
Net income (loss)	\$ 2,009	\$ (23,915)	\$ 25,924	\$ 3,621	\$ (124,494)	\$ 128,115
Net loss available to common stockholders	\$ (457)	\$ (26,354)	\$ 25,897	\$ (3,778)	\$ (131,789)	\$ 128,011
Earnings (loss) per share basic	\$ (0.01)	\$ (0.37)	\$ 0.36	\$ (0.05)	\$ (2.42)	\$ 2.37
Earnings (loss) per share diluted	\$ (0.01)	\$ (0.37)	\$ 0.36	\$ (0.05)	\$ (2.42)	\$ 2.37

The Company's primary source of income is net interest income. Net interest income for the three and nine months ended September 30, 2010 increased by 21.4% and 14.0%, respectively, compared to the three and nine months ended September 30, 2009. The increase in net interest income was mostly from declined funding costs primarily decreased interest expense on deposits of \$6.5 million for the comparable third quarters and \$15.5 million for the nine months ended September 30, 2010 compared to 2009.

**Net Interest Margin**

The net interest margin is reported on a fully tax equivalent ( FTE ) basis. A tax equivalent adjustment is added to reflect interest earned on certain municipal securities and loans that are exempt from Federal income tax. The following table sets forth the average balances and interest income on a fully tax equivalent basis and tax expense for the periods indicated:

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	<b>Three Months Ended September 30,</b>					
	<b>2010</b>			<b>2009</b>		
	(in thousands)					
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/Cost (6)</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/Cost (6)</b>
<b>Earning Assets</b>						
<i>Securities:</i>						
Taxable	\$ 870,677	\$ 5,665	2.58%	\$ 570,413	\$ 5,652	3.93%
Tax-exempt (1)	32,626	410	8.72%	30,443	129	3.52%
Total securities	903,303	6,075	2.80%	600,856	5,781	3.91%
Federal funds sold & other	11,164	29	1.03%	35,573	141	1.57%
Loans (1) (2) (3)	4,115,894	64,273	6.20%	4,027,005	61,380	6.05%
Short term investments	421,189	299	0.28%	570,345	334	0.23%
Investment in restricted stock	39,765	29	0.29%	41,034	110	1.06%
Total earnings assets	5,491,315	70,705	5.13%	5,274,813	67,746	5.11%
<b>Non-Earning Assets</b>						
Cash and due from banks	121,308			219,952		
Allowance for loan losses	(111,912)			(89,457)		
Bank owned life insurance	94,284			91,447		
Other assets	402,202			336,857		
<b>Total assets</b>	<b>\$ 5,997,197</b>			<b>\$ 5,833,612</b>		
<b>Interest-Bearing Liabilities</b>						
<i>Sources of Funds</i>						
<i>Interest-bearing deposits:</i>						
Interest checking	659,334	708	0.43%	326,902	928	1.13%
Savings and money market	1,890,032	4,032	0.85%	1,777,410	6,700	1.50%
Time deposits	1,341,579	4,791	1.42%	1,382,890	8,439	2.42%
Total interest-bearing deposits	3,890,945	9,531	0.97%	3,487,202	16,067	1.83%
Short-term borrowings	89,464	155	0.69%	419,044	1,241	1.17%
Long-term debt	29,299	815	11.04%	9,396	211	8.91%
Junior sub. & subordinated debt	36,323	736	8.04%	102,343	1,257	4.87%
Total interest-bearing liabilities	4,046,031	11,237	1.10%	4,017,985	18,776	1.85%
<b>Non interest-Bearing Liabilities</b>						
Noninterest-bearing demand deposits	1,317,216			1,141,275		

Other liabilities	<b>27,571</b>	32,369
Stockholders equity	<b>606,379</b>	641,983
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,997,197</b>	\$ 5,833,612

Net interest income and margin (4)	<b>\$ 59,468</b>	<b>4.32%</b>	\$ 48,970	3.69%
Net interest spread (5)		<b>4.03%</b>		3.26%

- (1) Yields on loans and securities have been adjusted to a tax equivalent basis. Interest income has not been adjusted to a tax equivalent basis. The tax-equivalent adjustments for the three months ended September 30, 2010 and 2009 were \$307 and \$141, respectively.
- (2) Net loan fees of \$0.9 million and \$0.8 million are included in the yield computation for the three months ended September 30, 2010 and 2009, respectively.
- (3) Includes nonaccrual loans.
- (4) Net interest margin is computed by dividing net interest income by total average earning assets.
- (5) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.
- (6) Annualized.

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	<b>Nine Months Ended September 30,</b>					
	<b>2010</b>			<b>2009</b>		
	(in thousands)					
	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/Cost (6)</b>	<b>Average Balance</b>	<b>Interest</b>	<b>Average Yield/Cost (6)</b>
<b>Earning Assets</b>						
<i>Securities:</i>						
Taxable	\$ 812,192	\$ 16,886	2.78%	\$ 537,225	\$ 18,148	4.52%
Tax-exempt (1)	33,042	793	6.04%	49,402	1,146	5.35%
Total securities	845,234	17,679	2.91%	586,627	19,294	4.59%
Federal funds sold & other	22,167	151	0.91%	22,843	370	2.17%
Loans (1) (2) (3)	4,083,368	190,641	6.24%	4,066,109	187,901	6.18%
Short term investments	473,117	862	0.24%	252,167	519	0.28%
Investment in restricted stock	40,714	106	0.35%	41,044	126	0.41%
Total earnings assets	5,464,600	209,439	5.14%	4,968,790	208,210	5.62%
<b>Non-Earning Assets</b>						
Cash and due from banks	109,739			174,997		
Allowance for loan losses	(114,962)			(81,468)		
Bank owned life insurance	93,520			91,067		
Other assets	400,904			339,823		
<b>Total assets</b>	<b>\$ 5,953,801</b>			<b>\$ 5,493,209</b>		
<b>Interest-Bearing Liabilities</b>						
<i>Sources of Funds</i>						
<i>Interest-bearing deposits:</i>						
Interest checking	563,731	2,223	0.53%	288,271	2,463	1.14%
Savings and money market	1,837,727	12,894	0.94%	1,622,265	20,961	1.73%
Time deposits	1,446,976	17,560	1.62%	1,238,372	24,706	2.67%
Total interest-bearing deposits	3,848,434	32,677	1.14%	3,148,908	48,130	2.04%
Short-term borrowings	147,905	1,370	1.24%	600,070	4,461	0.99%
Long-term debt	9,874	815	11.04%	22,092	1,399	8.47%
Junior sub. & subordinated debt	71,085	2,934	5.52%	104,122	3,719	4.78%
Total interest-bearing liabilities	4,077,298	37,796	1.24%	3,875,192	57,709	1.99%
<b>Noninterest-Bearing Liabilities</b>						
	1,249,398			1,037,218		

Noninterest-bearing demand deposits				
Other liabilities	<b>34,441</b>		28,874	
Stockholders equity	<b>592,664</b>		551,925	
<b>Total liabilities and stockholders equity</b>	<b>\$ 5,953,801</b>		\$ 5,493,209	
Net interest income and margin (4)		<b>\$ 171,643</b>	<b>4.22%</b>	\$ 150,501 4.07%
Net interest spread (5)			<b>3.90%</b>	3.63%

(1) Yields on loans and securities have been adjusted to a tax equivalent basis. Interest income has not been adjusted to a tax equivalent basis. The tax-equivalent adjustments for the nine months ended September 30, 2010 and 2009 were \$700 and \$830, respectively.

(2) Net loan fees of \$3.2 million and \$3.3 million are included in the yield computation for the nine months ended September 30, 2010 and 2009, respectively.

(3) Includes nonaccrual loans.

(4) Net interest margin is computed by dividing net interest income by total average earning assets.

(5) Net interest spread represents average yield earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(6) Annualized



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The table below sets forth the relative impact on net interest income of changes in the volume of earning assets and interest-bearing liabilities and changes in rates earned and paid by the Company on such assets and liabilities. For purposes of this table, nonaccrual loans have been included in the average loan balances.

	<b>Three Months Ended September 30, 2010 compared to 2009 Increase (Decrease) Due to Changes in (1)(2)</b>			<b>Nine Months Ended September 30, 2010 compared to 2009 Increase (Decrease) Due to Changes in (1)(2)</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
	<b>(in thousands)</b>					
Interest on securities:						
Taxable	\$ 1,953	\$ (1,940)	\$ 13	\$ 5,717	\$ (6,979)	\$ (1,262)
Tax-exempt	27	254	281	(393)	40	(353)
Federal funds sold	(63)	(49)	(112)	(5)	(214)	(219)
Loans	1,389	1,504	2,893	806	1,934	2,740
Short term investments	(105)	70	(35)	403	(60)	343
Restricted stock	(1)	(80)	(81)	(1)	(19)	(20)
Total interest income	3,200	(241)	2,959	6,527	(5,298)	1,229
Interest expense:						
Interest checking	356	(576)	(220)	1,086	(1,326)	(240)
Savings and money market	239	(2,907)	(2,668)	1,512	(9,579)	(8,067)
Time deposits	(146)	(3,502)	(3,648)	2,532	(9,678)	(7,146)
Short-term borrowings	(567)	(519)	(1,086)	(4,188)	1,097	(3,091)
Long-term debt	548	56	604	(1,008)	424	(584)
Junior subordinated debt	(1,323)	802	(521)	(1,364)	579	(785)
Total interest expense	(893)	(6,646)	(7,539)	(1,430)	(18,483)	(19,913)
Net increase (decrease)	\$ 4,093	\$ 6,405	\$ 10,498	\$ 7,957	\$ 13,185	\$ 21,142

(1) Changes due to both volume and rate have been allocated to volume changes.

(2) Changes due to mark-to-market gains/losses under ASC 825 have been allocated to volume changes.

The increase in net interest income for the three and nine months ended September 30, 2010 compared to 2009, was primarily due to decreased interest expense driven by declines in rates paid on interest bearing deposits. The cost of our average interest-bearing liabilities decreased to 1.10% from 1.85% for the three months ended September 30, 2010 compared to the same period in 2009. For the nine months ended September 30, 2010 compared to 2009, average cost of interest-bearing liabilities decreased to 1.24% compared to 1.99%.

*Provision for Credit Losses*

The provision for credit losses in each period is reflected as a charge against earnings in that period. The provision is equal to the amount required to maintain the allowance for credit losses at a level that is adequate to absorb probable credit losses inherent in the loan portfolio. The provision for credit losses was \$23.0 million and \$74.8 million for the

three and nine months ended September 30, 2010, respectively compared to \$50.8 million and \$108.3 million for the same periods in 2009. Factors that impact the provision for credit losses are net charge-offs or recoveries, changes in the size and mix of the loan portfolio, the recognition of changes in current risk factors and specific reserves on impaired loans.

**Table of Contents***Non-interest Income (Loss)*

The Company earned non-interest income (loss) primarily through fees related to trust and advisory services, services provided to loan and deposit customers, bank owned life insurance, investment securities gains and impairment charges, mark to market gains and other.

The following table presents a summary of non-interest income (loss) for the periods presented:

	Three Months Ended		Increase (Decrease)	Nine Months Ended		Increase (Decrease)
	September 30, 2010	2009		September 30, 2010	2009	
			(in thousands)			
Net gain on sale of investment securities	\$ 5,460	\$ 4,146	\$ 1,314	\$ 19,757	\$ 15,933	\$ 3,824
Securities impairment charges		(1,044)	1,044	(1,174)	(44,083)	42,909
Portion of impairment charges recognized in other comprehensive loss (before taxes)					2,047	(2,047)
Net securities impairment charges recognized in earnings		(1,044)	1,044	(1,174)	(42,036)	40,862
Unrealized gain (loss) on assets and liabilities measured at fair value, net	(210)	1,987	(2,197)	6,341	5,609	732
Gain on extinguishment of debt				3,000		3,000
Service charges	2,276	2,212	64	6,791	5,874	917
Trust and advisory fees	1,001	2,369	(1,368)	3,395	6,967	(3,572)
Operating lease income	998	1,079	(81)	2,928	2,976	(48)
Income from bank owned life insurance	773	574	199	2,271	1,523	748
Derivative gains (losses)	(66)	(70)	4	(202)	(200)	(2)
Other	1,935	1,294	641	4,449	3,520	929
Total non-interest income (loss)	\$ 12,167	\$ 12,547	\$ (380)	\$ 47,556	\$ 166	\$ 47,390

Total non-interest income declined slightly for the three month period ended September 30, 2010 compared to 2009. During the third quarter 2010, the Company sold its Premier Trust subsidiary and recorded a \$0.6 million gain on sale which is included in other non-interest income. Total trust and advisory fees declined \$1.4 million for the comparable quarters mostly due to the Miller/Russell divestiture at year end 2009. The Company recorded no securities impairment charges in the third quarter 2010 compared to \$1.0 million in the third quarter 2009. Mark to market gains declined for the comparable periods by \$2.2 million due to interest rate fluctuations. Net gain on sale of investment securities increased \$1.3 million for the three months ended September 30, 2010 compared to 2009 mostly due to the sales of the remaining impaired ARPS securities for net gains of \$3.6 million.

Total non-interest income for the nine months ended September 30, 2010 compared to 2009 increased by \$47.4 million primarily the result of the \$40.9 million decrease in securities impairment charges. All other non-interest income categories improved with the exception of trust and advisory fees which declined by \$3.6 million for the

comparable periods mostly due to the divestitures of the majority interest in Miller/Russell and Associates, Inc at the end of last year and Premier Trust as of September 1, 2010 which contributed \$5.5 million in trust and advisory fees during this period in 2009.

**Table of Contents***Non-interest Expense*

The following table presents a summary of non-interest expenses for the periods indicated:

	<b>Three Months Ended</b>		<b>Increase (Decrease)</b>	<b>Nine Months Ended</b>		<b>Increase (Decrease)</b>
	<b>September 30, 2010</b>	<b>2009</b>		<b>September 30, 2010</b>	<b>2009</b>	
	(in thousands)					
Salaries and employee benefits	\$ 21,860	\$ 23,694	\$ (1,834)	\$ 65,461	\$ 70,697	\$ (5,236)
Occupancy	4,890	5,346	(456)	14,505	15,762	(1,257)
Losses on sales/valuations of repossessed assets and bank premises, net	4,855	7,283	(2,428)	15,836	16,193	(357)
Insurance	4,115	2,326	1,789	11,366	9,034	2,332
Legal, professional and director fees	1,546	1,810	(264)	5,553	4,995	558
Repossessed assets and loan expenses	1,918	1,430	488	5,847	4,585	1,262
Customer service	987	1,001	(14)	3,205	3,145	60
Marketing	878	543	335	3,079	3,122	(43)
Intangible amortization	901	945	(44)	2,714	2,835	(121)
Data processing	842	951	(109)	2,427	3,303	(876)
Operating lease depreciation	627	722	(95)	1,963	2,479	(516)
Telephone	455	484	(29)	1,356	1,410	(54)
Travel and automobile	459	464	(5)	1,025	1,122	(97)
Audits and exams	309	397	(88)	1,233	1,368	(135)
Correspondent banking and wire transfer costs	279	363	(84)	904	1,065	(161)
Supplies	293	320	(27)	880	1,187	(307)
Goodwill impairment charge		576	(576)		45,576	(45,576)
Other	895	1,793	(898)	2,859	3,779	(920)
<b>Total</b>	<b>\$ 46,109</b>	<b>\$ 50,448</b>	<b>\$ (4,339)</b>	<b>\$ 140,213</b>	<b>\$ 191,657</b>	<b>\$ (51,444)</b>

Non-interest expense decreased \$4.3 million for the three months ended September 30, 2010 compared to the same period in 2009. The decrease is the result of the Company's cost reduction program which has reduced expenses in almost all categories with the exception of FDIC insurance which has increased \$1.2 million which is mostly due to increased deposits. In addition, expenses from repossessed assets and loans increased by \$0.5 million for the comparable quarters due to the increased volume of these assets. Marketing expenses also increased slightly by \$0.3 million for the comparable quarters as the Company continues to pursue new customers and quality lending opportunities.

Total non-interest expense for the year to date 2010 compared to 2009 decreased \$51.4 million mostly due to a non-cash goodwill impairment charges taken in the first and third quarters of 2009 of \$45.6 million. In addition, the Company implemented a cost reduction program which has resulted in an additional \$5.9 million net decline in expenses.

*Income Taxes*

The increase in the tax benefit recognized in the current quarter was primarily due to permanent differences related to bank-owned life insurance, tax-exempt income, dividends received deductions and state tax accruals. For the nine months ended September 30, 2010, the decrease in the effective tax rate was primarily due to the above mentioned items as well as the reversal of a portion of the deferred tax asset valuation allowance on ARPS impaired securities.

*Discontinued Operations*

In the first quarter of 2010, the Company decided to sell its credit card segment, PartnersFirst, and has presented certain activities as discontinued operations. During the first quarter of 2010, the Company transferred certain assets with balances at September 30, 2010 of \$0.1 million to held-for-sale and reported a portion of its operations as discontinued. At September 30, 2010, the Company had \$46.1 million of outstanding credit card loans which will have continuing cash flows related to the collection of these loans. These credit card loans are included in loans held for investment as of September 30, 2010 and December 31, 2009.

The following table summarizes the operating results of the discontinued operations for the periods indicated:

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	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(in thousands)			
Affinity card revenue	\$ 444	\$ 614	\$ 1,394	\$ 1,307
Non-interest expenses	(1,532)	(2,263)	(5,477)	(7,076)
Loss before income taxes	(1,088)	(1,649)	(4,083)	(5,769)
Income tax benefit	(457)	(691)	(1,715)	(2,377)
Net loss	\$ (631)	\$ (958)	\$ (2,368)	\$ (3,392)

**Business Segment Results**

Our Nevada banking segment, which is comprised of Bank of Nevada and First Independent Bank of Nevada, reported that loans declined \$40 million during the third quarter of 2010 and declined \$137.2 million since December 31, 2009 to \$2.32 billion at September 30, 2010. Deposits increased \$234.8 million to \$2.89 billion since December 31, 2009. Net loss for the Nevada banks was \$5.8 million during the third quarter 2010, compared with a net loss of \$23.8 million during the third quarter 2009. For the year to date 2010, the Nevada banks had a net loss of \$18.1 million compared to a net loss of \$90.9 million for the same period in 2009 which included a \$45.0 million goodwill impairment charge.

Our California banking segment, which is comprised of Torrey Pines Bank and Alta Alliance Bank, reported that loans increased \$29 million during the second quarter 2010 and \$135.3 million since December 31, 2009 to \$1.01 billion at September 30, 2010. Deposits increased \$140.2 million to \$1.23 billion for the third quarter of 2010. Net income for the California banks was \$4.0 million during the third quarter 2010 compared with net loss of \$0.6 million for the third quarter 2009. For the nine months ended September 30, 2010, the California banking segment had net income of \$7.1 compared to a net loss of \$1.7 million for the comparable period of 2009.

Our Arizona banking segment includes Alliance Bank of Arizona, which reported loan growth of \$54.1 million during the third quarter 2010 to \$891.2 million. Total deposits increased to \$1.24 billion from \$0.98 billion at December 31, 2009. Net income for the Arizona segment was \$3.2 million during the third quarter 2010 compared with a net loss of \$1.1 million during the third quarter 2009. For the nine months ended September 30, 2010, Arizona had net income of \$6.7 million compared to a net loss of \$5.7 million for the comparable period of 2009.

Our Asset Management business line, which includes Shine Investments Advisory Services and Premier Trust (until divestiture on September 1, 2010), had assets under management of \$341 million at September 30, 2010, compared to \$865 million at December 31, 2009, excluding Miller/Russell and Associates, which was divested on December 31, 2009. Net income for the Asset Management segment for the third quarter and nine months ended September 30, 2010 was \$0.1 million and \$0.3 million, respectively compared with net loss of \$0.4 million and \$0.3 million during the third quarter and year to date 2009, respectively. The income for 2009 included Miller/Russell and Associates which was divested at the end of 2009. The net income from Premier Trust is not significant.

**Balance Sheet Analysis***Total Assets*

Total assets increased to \$6.18 billion or 7.4% at September 30, 2010 from December 31, 2009. The majority of this increase was in cash and liquid assets of \$166.7 million, investment securities of \$117.3 million, net loans of \$94.3 million and other repossessed assets of \$26.7 million. The increased liquidity is mostly due to the completion of a debt offering during the third quarter contributing \$72.8 million.

*Loans*

Total loans increased \$93.8 million to \$4.17 billion at September 30, 2010. The majority of the increase was in the commercial real estate portfolio of \$184.5 million, commercial leases of \$64.3, commercial and industrial of \$10.3 million and other of \$4.3 million which were partially offset by declined loan balances in construction and land

of \$134.9 million and residential real estate of \$34.7 million. The Company is focused on pursuing quality lending opportunities and other loan portfolio strategies.



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The following table shows the amounts of loans outstanding by type of loan at the end of each of the periods indicated.

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(in thousands)	
Construction and land development	<b>\$ 488,343</b>	\$ 623,198
Commercial real estate owner occupied	<b>1,227,704</b>	1,091,363
Commercial real estate non-owner occupied	<b>981,374</b>	933,261
Residential real estate	<b>533,598</b>	568,319
Commercial and industrial	<b>695,375</b>	685,089
Commercial leases	<b>181,437</b>	117,104
Consumer	<b>71,379</b>	80,300
Deferred fees and unearned income net	<b>(5,730)</b>	(18,995)
	<b>4,173,480</b>	4,079,639
Allowance for credit losses	<b>(108,170)</b>	(108,623)
Total loans, net	<b>\$ 4,065,310</b>	\$ 3,971,016

*Concentrations of Lending Activities*

The Company's lending activities are primarily driven by the customers served in the market areas where the Company has branch offices in the States of Nevada, California and Arizona. The Company monitors concentrations within five broad categories: geography, industry, product, call code, and collateral. The Company grants commercial, construction, real estate and consumer loans to customers through branch offices located in the Company's primary markets. The Company's business is concentrated in these areas and the loan portfolio includes significant credit exposure to the commercial real estate market of these areas. As of September 30, 2010 and December 31, 2009, commercial real estate related loans which include construction and land accounted for approximately 64% and 65% of total loans, and approximately 3% and 5% of commercial real estate loans, respectively, are secured by undeveloped land. Substantially all of these loans are secured by first liens with an initial loan to value ratio of generally not more than 75%. Approximately 46% and 54% of total commercial real estate loans were owner occupied at September 30, 2010 and December 31, 2009, respectively. In addition, approximately 3% and 4% of total loans were unsecured as of September 30, 2010 and December 31, 2009, respectively.

*Nonperforming Assets*

Nonperforming assets include loans past due 90 days or more and still accruing interest, nonaccrual loans, restructured loans, and foreclosed collateral. Loans are generally placed on nonaccrual status when it is determined that recognition of interest is doubtful due to the borrower's financial condition and collection efforts. Restructured loans have modified terms to reduce either principal or interest due to deterioration in the borrower's financial condition. Foreclosed collateral or other repossessed assets result from loans where we have received physical possession of the borrower's assets.

The following table summarizes nonperforming assets:

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(in thousands)	
Nonaccrual loans	<b>\$ 130,905</b>	\$ 153,702
Loans past due 90 days or more on accrual status	<b>5,667</b>	5,538

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Troubled debt restructured loans (accruing)	<b>101,540</b>	46,480
Total nonperforming loans	<b>238,112</b>	205,719
Foreclosed collateral	<b>110,096</b>	83,347
Total nonperforming assets	<b>\$ 348,208</b>	\$ 289,066

The following table summarizes the loans for which the accrual of interest has been discontinued, loans past due 90 days or more and still accruing interest, restructured loans, and other impaired loans:

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	<b>September 30, 2010</b>	<b>December 31, 2009</b>
	(dollars in thousands)	
Total nonaccrual loans	<b>\$ 130,905</b>	\$ 153,702
Loans past due 90 days or more and still accruing	<b>5,667</b>	5,538
Total nonperforming loans	<b>136,572</b>	159,240
Restructured loans	<b>101,540</b>	46,480
Other impaired loans	<b>7,642</b>	27,752
Total impaired loans	<b>\$ 245,754</b>	\$ 233,472
Other repossessed assets	<b>\$ 110,096</b>	\$ 83,347
Nonaccrual loans to gross loans	<b>3.14%</b>	3.77%
Loans past due 90 days or more and still accruing to total loans	<b>0.14</b>	0.14

For the three and nine months ended September 30, 2010, interest income recognized on nonaccrual loans totaled \$0.3 million and \$1.7 million. Interest income that would have been recorded under the original terms of the nonaccrual loans during the period was \$2.5 million and \$5.2 million for the three and nine months ended September 30, 2010 and \$0.8 million and \$3.5 million for the three and nine months ended September 30, 2009. The composite of nonaccrual loans were as follows as of the dates indicated:

	<b>At September 30, 2010</b>			<b>At December 31, 2009</b>		
	<b>Nonaccrual Balance</b>	<b>%</b>	<b>Percent of Total Loans</b>	<b>Nonaccrual Balance</b>	<b>%</b>	<b>Percent of Total Loans</b>
	(dollars in thousands)					
Construction and land development	\$ 42,440	32.42%	1.02%	\$ 64,079	41.69%	1.57%
Residential real estate	34,782	26.57%	0.83%	30,000	19.52%	0.73%
Commercial real estate	46,366	35.42%	1.11%	42,253	27.49%	1.04%
Commercial and industrial	6,723	5.14%	0.16%	17,134	11.15%	0.42%
Consumer	594	0.45%	0.02%	236	0.15%	0.01%
Total nonaccrual loans	\$ 130,905	100.00%	3.14%	\$ 153,702	100.00%	3.77%

At September 30, 2010 and December 31, 2009, nonaccrual loans totaled \$130.9 million and \$153.7 million, respectively. Nonaccrual loans at September 30, 2010 consisted of 218 loans with the highest single customer loan balance of \$10.1 million. The decrease in total nonaccrual loans is primarily due to charge-offs.

**Impaired Loans**

A loan is identified as impaired when it is probable that interest and principal will not be collected according to the contractual terms of the loan agreement. Most impaired loans are classified as nonaccrual. However, there are some loans that are termed impaired due to doubt regarding collectability according to contractual terms, but are both fully secured by collateral and are current in their interest and principal payments. These impaired loans are not classified as nonaccrual. A valuation allowance is established for an impaired loan when the fair value of the loan is less than

the recorded investment. Impaired loans are measured in accordance with FASB ASC 310, *Receivables* ( ASC 310 ), utilizing the fair value of the collateral for collateral dependent loans or an analysis of the discounted cash flows. At September 30, 2010 and December 31, 2009 the aggregate total amount of loans classified as impaired was \$245.8 million and \$233.5 million, respectively. The total specific allowance for credit losses related to these loans was \$9.9 million and \$13.4 million as of September 30, 2010 and December 31, 2009, respectively. The increase in impaired loans was mostly attributed to increased impaired commercial real estate loans, residential real estate and consumer/credit card loans which were \$124.4 million, \$44.0 million and \$1.0 million, respectively at September 30, 2010 compared to \$85.4 million, \$39.6 million and \$0.2 million at December 31, 2009, respectively. This increase was partially offset by decreased impaired construction and land and commercial and industrial loans of \$25.4 million and \$6.3 million, respectively to \$63.8 million and \$12.5 million respectively at September 30, 2010 from December 31, 2009.

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At September 30, 2010 and December 31, 2009, loans classified as restructured loans as defined by ASC 310 totaled \$101.5 million and \$46.5 million, respectively. At September 30, 2010, restructured loans consisted of 66.6% commercial real estate, 20.2% construction and land, 7.8% residential real estate, 4.9% commercial and industrial and 0.4% consumer.

The following table includes the breakdown of total impaired loans and the related specific reserves:

	<b>Impaired</b>		<b>At September 30, 2010</b>			
			<b>Percent of Total Loans</b>	<b>Reserve Balance</b>	<b>Percent</b>	<b>Percent of Total Allowance</b>
	<b>Balance</b>	<b>Percent</b>		<b>Balance</b>	<b>Percent</b>	
Construction and land development	\$ 63,839	25.98%	1.53%	\$ 2,765	27.92%	2.56%
Residential real estate	43,987	17.90%	1.05%	2,267	22.89%	2.10%
Commercial real estate	124,404	50.62%	2.98%	3,305	33.37%	3.06%
Commercial and industrial	12,509	5.09%	0.30%	1,440	14.54%	1.33%
Consumer	1,015	0.41%	0.02%	127	1.28%	0.12%
<b>Total impaired loans</b>	<b>\$ 245,754</b>	<b>100.00%</b>	<b>5.88%</b>	<b>\$ 9,904</b>	<b>100.00%</b>	<b>9.17%</b>

*Allowance for credit losses*

Credit risk is inherent in the business of extending loans and leases to borrowers. Like other financial institutions, the Company must maintain an adequate allowance for credit losses. The allowance for credit losses is established through a provision for credit losses charged to expense. Loans are charged against the allowance for credit losses when Management believes that collectability of the contractual principal or interest is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount believed adequate to absorb probable losses on existing loans that may become uncollectable, based on evaluation of the collectability of loans and prior credit loss experience, together with other factors. The Company formally re-evaluates and establishes the appropriate level of the allowance for credit losses on a quarterly basis.

Our allowance for credit loss methodology incorporates several quantitative and qualitative risk factors used to establish the appropriate allowance for credit losses at each reporting date. Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in the level of nonperforming loans and other factors. Qualitative factors include the economic condition of our operating markets and the state of certain industries. Specific changes in the risk factors are based on perceived risk of similar groups of loans classified by collateral type, purpose and terms. An internal one-year and three-year loss history are also incorporated into the allowance calculation model. Due to the credit concentration of our loan portfolio in real estate secured loans, the value of collateral is heavily dependent on real estate values in Nevada, Arizona and California, which have declined significantly in recent periods. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic or other conditions. In addition, the FDIC and state banking regulatory agencies, as an integral part of their examination processes, periodically review our subsidiary banks' allowances for credit losses, and may require us to make additions to our allowance based on their judgment about information available to them at the time of their examinations. Management regularly reviews the assumptions and formulae used in determining the allowance and makes adjustments if required to reflect the current risk profile of the portfolio.

The allowance consists of specific and general components. The specific allowance relates to impaired loans. In general, impaired loans include those where interest recognition has been suspended, loans that are more than 90 days delinquent but because of adequate collateral coverage income continues to be recognized, and other criticized and classified loans not paying substantially according to the original contract terms. For such loans, an allowance is

established when the discounted cash flows, collateral value or observable market price of the impaired loan are lower than the carrying value of that loan, pursuant to FASB ASC 310 *Receivables* ( ASC 310 ). Loans not collateral dependent are evaluated based on the expected future cash flows discounted at the current contractual interest rate. The amount to which the present value falls short of the current loan obligation will be set up as a reserve for that account or charged-off.

The Company uses an appraised value method to determine the need for a reserve on impaired, collateral dependent loans and further discounts the appraisal for disposition costs. Due to the rapidly changing economic and market conditions of the regions within which we operate, the Company obtains independent collateral valuation analysis on a regular basis for each loan, typically every six months.

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The general allowance covers all non-impaired loans and is based on historical loss experience adjusted for the various qualitative and quantitative factors listed above. The change in the allowance from one reporting period to the next may not directly correlate to the rate of change of the nonperforming loans for the following reasons:

1. A loan moving from impaired performing to impaired nonperforming does not mandate an increased reserve. The individual account is evaluated for a specific reserve requirement when the loan moves to impaired status, not when it moves to nonperforming status, and is reevaluated at each subsequent reporting period. Because our nonperforming loans are predominately collateral dependent, reserves are primarily based on collateral value, which is not affected by borrower performance but rather by market conditions.

2. Not all impaired accounts require a specific reserve. The payment performance of the borrower may require an impaired classification, but the collateral evaluation may support adequate collateral coverage. For a number of impaired accounts in which borrower performance has ceased, the collateral coverage is now sufficient because a partial charge off of the account has been taken. In those instances, neither a general reserve nor a specific reserve is assessed.

The following table summarizes the activity in our allowance for credit losses for the periods indicated.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(dollars in thousands)			
Allowance for credit losses:				
Balance at beginning of period	\$ 110,013	\$ 84,143	\$ 108,623	\$ 74,827
Provisions charged to operating expenses	22,965	50,750	74,827	108,307
<i>Recoveries of loans previously charged-off:</i>				
Construction and land development	214	608	2,424	820
Commercial real estate	160	139	990	139
Residential real estate	1,209	11	1,735	205
Commercial and industrial	389	442	2,200	1,313
Consumer	47	6	128	131
Total recoveries	2,019	1,206	7,477	2,608
<i>Loans charged-off:</i>				
Construction and land development	3,843	13,717	20,402	25,948
Commercial real estate	12,813	3,125	26,524	10,552
Residential real estate	3,695	5,619	17,385	18,173
Commercial and industrial	5,036	8,329	14,395	23,649
Consumer	1,440	1,128	4,051	3,239
Total charged-off	26,827	31,918	82,757	81,561
Net charge-offs	24,808	30,712	75,280	78,953
Balance at end of period	\$ 108,170	\$ 104,181	\$ 108,170	\$ 104,181
Net charge-offs to average loans (annualized)	2.41%	3.05%	2.47%	2.60%
Allowance for credit losses to gross loans	2.59%	2.62%		

Net charge-offs totaled \$24.8 million and \$30.7 million for the three months ended September 30, 2010 and 2009, respectively. Year to date 2010 net charges off totaled \$75.3 million compared to \$79.0 million for 2009. The provision for credit losses was \$23.0 million for the third quarter of 2010 compared to \$50.8 million for the same periods in 2009. For the nine month period ended September 30, 2010 and 2009, the provision for credit losses was \$74.8 and \$108.3 million, respectively. The increase in the allowance for credit losses is driven by loan growth,

decreased net loan charge-offs, changes in the mix of loans and the addition of investment grade lease loans which have low historical loss rates due to the high quality of the borrowers and totaled \$52.3 million at September 30, 2010. The increase in commercial real estate charge-offs for the three months ended September 30, 2010 compared to 2009 primarily relates to five large properties in Nevada comprising \$9.4 million of the increase.

The following table summarizes the allocation of the allowance for credit losses by loan type. The allocation is made for analytical purposes and it is not necessarily indicative of the categories in which future credit losses may occur. The total allowance is available to absorb losses from any segment of loans. The allocations in the table below were determined by a combination of the following factors: specific allocations made on loans considered impaired as determined by



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management and the loan review committee, a general allocation on certain other impaired loans, and historical losses in each loan type category combined with a weighting of the current loan composition.

	<b>Allowance for Credit Losses at September 30, 2010</b> (dollars in thousands)		
	<b>Amount</b>	<b>% of Total Allowance For Loan Losses</b>	<b>% of Loans in Each Category to Gross Loans</b>
	Construction and land development	\$ 24,021	22.21%
Commercial real estate	26,864	24.83%	52.85%
Residential real estate	22,128	20.46%	12.77%
Commercial and industrial	30,036	27.77%	20.98%
Consumer	5,121	4.73%	1.71%
<b>Total</b>	<b>\$ 108,170</b>	<b>100.00%</b>	<b>100.00%</b>

*Potential Problem Loans*

The Company classifies loans consistent with federal banking regulations using a nine category grading system. These loan grades are described in further detail in the Company's Annual Report on Form 10-K for 2009, Item 1 Business. The following table presents information regarding potential problem loans, consisting of loans graded watch, substandard and doubtful, but still performing and not impaired as of the dates indicated:

	<b># of Loans</b>	<b>At September 30, 2010</b>		<b>Percent of Total Loans</b>
		<b>Loan</b>	<b>Percent</b>	
		<b>Balance</b>	<b>(dollars in thousands)</b>	
Construction and land development	51	\$ 46,197	17.18%	1.11%
Commercial real estate	133	148,192	55.13%	3.55%
Residential real estate	70	24,640	9.17%	0.59%
Commercial and industrial	253	48,718	18.12%	1.17%
Consumer	24	1,086	0.40%	0.03%
<b>Total potential problem loans</b>	<b>531</b>	<b>\$ 268,833</b>	<b>100.00%</b>	<b>6.44%</b>

Our potential problem loans consisted of 531 loans and totaled approximately \$268.8 million at September 30, 2010. These loans are primarily secured by real estate.

*Investment Securities*

Investment securities are classified as either held-to-maturity, available-for-sale, or measured at fair value based upon various factors, including asset/liability management strategies, liquidity and profitability objectives, and regulatory requirements. Held-to-maturity securities are carried at amortized cost, adjusted for amortization of premiums or accretion of discounts. Available-for-sale securities are securities that may be sold prior to maturity based upon asset/liability management decisions. Investment securities identified as available-for-sale are carried at fair value. Unrealized gains or losses on available-for-sale securities are recorded as accumulated other comprehensive income in stockholders' equity. Amortization of premiums or accretion of discounts on mortgage-backed securities is periodically adjusted for estimated prepayments. Investment securities measured at fair value are reported at fair value, with

unrealized gains and losses included in current period earnings.

The carrying value of investment securities at September 30, 2010 and December 31, 2009 was as follows:

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	At September 30, 2010	At December 31, 2009
	(in thousands)	
Direct obligation and GSE residential mortgage-backed securities	\$ 523,825	\$ 655,073
U.S. Government-sponsored agency debt securities	279,684	2,479
Adjustable rate preferred stock	40,017	18,296
Trust preferred securities	23,013	22,050
Corporate bonds	25,119	71,190
Private label residential mortgage-backed securities	9,356	18,175
Municipal obligations	2,638	5,380
Collateralized debt obligations	288	918
Other	24,127	17,189
<b>Total investment securities</b>	<b>\$ 928,067</b>	<b>\$ 810,750</b>

Gross unrealized losses on investment securities at September 30, 2010 are primarily caused by interest rate fluctuations, credit spread widening and reduced liquidity in applicable markets. The Company has reviewed securities on which there is an unrealized loss in accordance with its accounting policy for other than temporary impairment ( OTTI ) as described in Note 4, *Investment Securities*, and recorded impairment charges totaling \$1.2 million for the nine months ended September 30, 2010. This impairment related to the collateralized debt obligations ( CDO ). There was no additional impairment determined for the third quarter 2010. For the three and nine months ended September 30, 2009, the Company recorded securities impairment of \$1.0 million and \$42.0 million, respectively. For the nine months ended September 30, 2009, the impairment charges included \$36.4 million related to adjustable rate preferred stock ( ARPS ), \$3.0 million related to the Company's collateralized mortgage obligation ( CMO ) portfolio and \$2.6 million additional impairment of CDOs.

The Company does not consider any other securities to be other-than-temporarily impaired as of September 30, 2010 and December 31, 2009. However, without recovery in the near term such that liquidity returns to the applicable markets and spreads return to levels that reflect underlying credit characteristics, additional OTTI may occur in future periods.

**Goodwill**

Goodwill is created when a company acquires a business. When a business is acquired, the purchased assets and liabilities are recorded at fair value and intangible assets are identified. Excess consideration paid to acquire a business over the fair value of the net assets is recorded as goodwill. The Company's annual goodwill impairment testing is October 1.

The Company determined that there was no triggering event or other factor to indicate an interim test of goodwill impairment was necessary for the first, second and third quarters of 2010. During the third quarter 2009, the Company determined that it was necessary to perform an interim test for goodwill impairment on its former subsidiary Miller/Russell and Associates. As a result of the goodwill impairment test, the Company determined that the Miller/Russell reporting unit was impaired by \$0.6 million.

During the first quarter 2009, as a result of the significant decline in the Company's stock price and depressed economic conditions among financial institutions in general, the Company determined that it was necessary to perform an interim test for goodwill impairment. As a result of the March 31, 2009 goodwill impairment test, the Company determined that the Bank of Nevada reporting unit was impaired by \$45.0 million.

The goodwill impairment charges had no effect on the Company's cash balances or liquidity. In addition, because goodwill is not included in the calculation of regulatory capital, the Company's regulatory ratios were not affected by this non-cash expense. No assurance can be given that goodwill will not be further impaired in future periods.

*Deferred Tax Asset*

Western Alliance Bancorporation and its subsidiaries, other than BW Real Estate, Inc., file a consolidated federal tax return. Due to tax regulations, several items of income and expense are recognized in different periods for tax return purposes than for financial reporting purposes. These items represent temporary differences. Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences.

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Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Although realization is not assured, the Company believes that the realization of the recognized net deferred tax asset of \$70.1 million at September 30, 2010 is more likely than not based on expectations as to future taxable income and based on available tax planning strategies as defined in ASC 740 that could be implemented if necessary to prevent a carryforward from expiring.

The most significant source of these timing differences is the credit loss reserve build which accounts for \$39.9 million of the net deferred tax asset. In general, the Company will need to generate approximately \$195 million of taxable income during the respective carryforward periods to fully realize its deferred tax assets.

As a result of the recent losses, the Company is in a three-year cumulative pretax loss position at September 30, 2010. A cumulative loss position is considered significant negative evidence in assessing the realizability of a deferred tax asset. The Company has concluded that there is sufficient positive evidence to overcome this negative evidence. This positive evidence includes Company forecasts, exclusive of tax planning strategies that show realization of deferred tax assets by December 31, 2013 based on current projections, or by December 31, 2014 under stressed conditions. In addition, the Company has evaluated tax planning strategies, including potential sales of businesses and assets in which it could realize the excess of appreciated value over the tax basis of its assets. The amount of deferred tax assets considered realizable, however, could be significantly reduced in the near term if estimates of future taxable income during the carryforward period are significantly lower than forecasted due to deterioration in market conditions. Based on the above discussion, the net operating loss carryforward of 20 years provides sufficient time to utilize deferred federal and state tax assets pertaining to the existing net operating loss carryforwards and any NOL that would be created by the reversal of the future net deductions that have not yet been taken on a tax return.

*Deposits*

Deposits have been the primary source for funding the Company's asset growth. At September 30, 2010, total deposits were \$5.33 billion, compared to \$4.72 billion at December 31, 2009. The deposit growth of \$606.4 million or 12.8% was primarily driven by increased non-interest bearing deposits of \$264.7 million and growth in total interest-bearing deposits of \$341.7 million. The growth in interest bearing deposits is from increased interest bearing demand deposits of \$282.7 million, increased savings and money market deposits of \$139.7 million partially offset by declined certificate of deposits of \$80.7 million.

The Company continues to pursue financially sound borrowers, whose financing sources are unable to service their current needs as a result of liquidity or other concerns, seeking both their lending and deposits business. Although there can be no assurance that the Company's efforts will be successful, we are seeking to take advantage of the current disruption in our markets to continue to grow market share, assets and deposits in a prudent fashion, subject to applicable regulatory limitations.

The following table provides the average balances and weighted average rates paid on deposits for the three and nine months ended September 30, 2010.

	<b>Three Months Ended September 30, 2010</b>		<b>Nine Months Ended September 30, 2010</b>	
	<b>Average Balance/Rate</b>		<b>Average Balance/Rate</b>	
	<i>(dollars in thousands)</i>			
Interest checking (NOW)	\$ 659,334	0.43%	\$ 563,731	0.53%
Savings and money market	1,890,032	0.85	1,837,727	0.94
Time	1,341,579	1.42	1,446,976	1.62
Total interest-bearing deposits	3,890,945	0.97	3,848,434	1.14
Non-interest bearing demand deposits	1,317,216		1,249,398	

<b>Total deposits</b>	<b>\$ 5,208,161</b>	<b>0.73%</b>	<b>\$ 5,097,832</b>	<b>1.29%</b>
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Customer repurchase agreements declined \$136.4 million from December 31, 2009 to September 30, 2010 due primarily to the transfer of customer funds to other products offered by our banks.

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**Table of Contents***Other Assets Acquired Through Foreclosure*

The following table presents the changes in other assets acquired through foreclosure:

	Three Months Ended		Nine Months Ended	
	September 30, 2010	2009	September 30, 2010	2009
	(in thousands)			
Balance, beginning of period	\$ 104,365	\$ 42,147	\$ 83,347	\$ 14,545
Additions	25,499	36,991	73,801	78,236
Dispositions	(15,768)	(1,714)	(29,978)	(6,861)
Valuation adjustments in the period, net	(4,000)	(4,617)	(17,074)	(13,113)
Balance, end of period	\$ 110,096	\$ 72,807	\$ 110,096	\$ 72,807

Other assets acquired through foreclosure consist primarily of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets (primarily repossessed assets formerly leased) are classified as other real estate owned and other repossessed property and are reported at the lower of carrying value or fair value, less estimated costs to sell, such properties are generally re-appraised every six months. There is risk for subsequent volatility. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. For the three and nine months ended September 30, 2010, the Company recorded a net loss on repossessed asset sales and valuation adjustments of \$4.9 million and \$15.8 million, respectively compared to a net loss of \$7.3 million and \$16.2 million for the comparable periods 2009. The net loss for the three months ended September 30 2010, primarily relates to \$3.3 million net loss on sales of other repossessed assets and \$1.6 million net loss from both positive and negative valuation adjustments on OREO and other repossessed assets. The net loss for the nine month period ended September 30, 2010 mostly relates to \$3.1 million of net loss on sales of other repossessed assets and fixed assets, \$0.6 million operating lease valuation adjustment and \$12.1 million net loss from both positive and negative valuation adjustments on OREO and other repossessed assets. When significant adjustments were based on unobservable inputs, such as when a current appraised value is not available or management determines the fair value of the collateral is further impaired below appraised value and there is no observable market price, the resulting fair value measurement has been categorized as a Level 3 measurement. At September 30, 2010, approximately 73%, 16% and 11% of the total amount of OREO properties were located in Nevada, California and Arizona, respectively.

*Junior Subordinated Debt*

The Company measures the balance of the junior subordinated debt at fair value which was \$36.3 million and \$42.4 million at September 30, 2010 and December 31, 2009, respectively. The difference between the aggregate fair value of junior subordinated debt of \$36.3 million and the aggregate unpaid principal balance of \$66.5 million was \$30.2 million at September 30, 2010.

*Other Borrowed Funds*

On August 25, 2010, the Company completed a public offering of \$75 million in principal Senior Notes due in 2015 bearing interest of 10%. The net proceeds of the offering were \$72.8 million. The Company also has lines of credit available from the FHLB and FRB. The borrowing capacity is determined based on collateral pledged, generally consisting of securities and loans, at the time of borrowing. At September 30, 2009, the Company's other borrowed funds consisted of \$29.4 million which was fully repaid in 2010.

*Stockholder's Equity*

On August 24, 2010, the Company completed a public offering of 8,050,000 shares of common stock, including 1,050,000 shares pursuant to the underwriter's over-allotment option, at a public offering price of \$6.25 per share, for an aggregate offering price of \$50.3 million. The net proceeds of the offering were approximately \$47.6 million.

**Liquidity**

The Company's ability to have readily available funds sufficient to repay fully maturing liabilities is of primary importance to depositors, creditors and regulators. Our liquidity, represented by cash and amounts due from banks, federal funds



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sold, and available-for-sale securities, is a result of operating, investing and financing activities and the related cash flows. In order to ensure funds are available when necessary, on at least a quarterly basis, we project the amount of funds that will be required over the subsequent 180 days, and we strive to maintain relationships with a diversified customer base. As of September 30, 2010, the Company's cash and cash equivalents balance was \$616.0 million and unencumbered investment securities balance was \$520.7 million, all representing 18.4% of total assets.

Liquidity requirements can also be met through short-term borrowings. As of September 30, 2010, we had unused borrowing lines at correspondent banks totaling \$59.0 million, \$48.0 million on an unsecured basis and \$11.0 million secured. In addition, loans and available-for-sale securities pledged to the FHLB provided for \$719.1 million in secured borrowing capacity of which only \$50.1 million was being utilized as of September 30, 2010. Loans and securities pledged to the FRB discount window provided for \$500.9 million in borrowing capacity with no outstanding borrowings from the FRB as of September 30, 2010. Overall, as of September 30, 2010, we had total secured remaining borrowing capacity of \$1.18 billion.

Core deposits may increase our need for liquidity as certificates of deposit mature or are withdrawn before maturity and as non-maturity deposits, such as checking and savings account balances, are withdrawn. Additionally, we are exposed to the risk that customers with large deposit balances will withdraw all or a portion of such deposits, due in part to the FDIC limitations on the amount of insurance coverage provided to depositors. To mitigate the uninsured deposit risk, we utilize the Certificate of Deposit Account Registry Service ( CDARS ) program, which allows customers to invest up to \$50 million in certificates of deposit through one participating financial institution, with the entire amount being covered by FDIC insurance. As of September 30, 2010, we had \$308.7 million of CDARS deposits.

As of September 30, 2010, we had \$34.5 million of wholesale brokered deposits outstanding. Brokered deposits are generally considered to be deposits that have been received from a registered broker that is acting on behalf of that broker's customer. We do not anticipate using brokered deposits as a significant liquidity source in the near future.

**Capital Resources**

The Company and the Banks are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements could trigger certain mandatory or discretionary actions that, if undertaken, could have a direct material effect on the Company's business and financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve qualitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of September 30, 2010, that the Company and the Banks meet all capital adequacy requirements to which they are subject.

As of September 30, 2010, the Company and each of its banking subsidiaries exceeded the minimum capital ratios necessary to be considered well-capitalized under applicable federal capital guidelines. To be categorized as well-capitalized, the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table below. In addition to the minimum capital ratios noted below, as described in Part II Other Information, Item 1 Legal Proceedings, certain of the Company's banking subsidiaries are required to maintain higher levels of Tier 1 capital than otherwise would be required to be considered well-capitalized.

The actual capital amounts and ratios for the Company are presented in the following table:

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<b>As of September 30, 2010</b>	<b>Actual</b>		<b>Adequately-Capitalized Requirements</b>		<b>Minimum For Well-Capitalized Requirements</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)	652,197	13.7%	381,846	8.0%	477,308	10.0%
Tier I Capital (to Risk Weighted Assets)	591,932	12.4	190,923	4.0	286,385	6.0
Leverage ratio (to Average Assets)	591,932	10.0	237,298	4.0	296,622	5.0
<b>As of December 31, 2009</b>	<b>Actual</b>		<b>Adequately-Capitalized Requirements</b>		<b>Minimum For Well-Capitalized Requirements</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
			(dollars in thousands)			
Total Capital (to Risk Weighted Assets)	666,287	14.4%	370,159	8.0%	462,699	10.0%
Tier I Capital (to Risk Weighted Assets)	547,746	11.8	185,677	4.0	278,515	6.0
Leverage ratio (to Average Assets)	547,746	9.5	229,944	4.0	287,431	5.0

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Market risk is the risk of loss in a financial instrument arising from adverse changes in market prices and rates, foreign currency exchange rates, commodity prices and equity prices. Our market risk arises primarily from interest rate risk inherent in our lending, investing and deposit taking activities. To that end, management actively monitors and manages our interest rate risk exposure. We generally manage our interest rate sensitivity by matching re-pricing opportunities on our earning assets to those on our funding liabilities.

Management uses various asset/liability strategies to manage the re-pricing characteristics of our assets and liabilities, all of which are designed to ensure that exposure to interest rate fluctuations is limited to within our guidelines of acceptable levels of risk-taking. Hedging strategies, including the terms and pricing of loans and deposits and management of the deployment of our securities, are used to reduce mismatches in interest rate re-pricing opportunities of portfolio assets and their funding sources.

Interest rate risk is addressed by each Bank's respective ALCO (or its equivalent), which includes members of executive management, senior finance and operations. ALCO monitors interest rate risk by analyzing the potential impact on the net economic value of equity and net interest income from potential changes in interest rates, and considers the impact of alternative strategies or changes in balance sheet structure. We manage our balance sheet in part to maintain the potential impact on economic value of equity and net interest income within acceptable ranges despite changes in interest rates.

Our exposure to interest rate risk is reviewed on at least a quarterly basis by the ALCO. Interest rate risk exposure is measured using interest rate sensitivity analysis to determine our change in economic value of equity in the event of hypothetical changes in interest rates. If potential changes to net economic value of equity and net interest income resulting from hypothetical interest rate changes are not within the limits established by each Bank's Board of Directors, the respective Board of Directors may direct management to adjust the asset and liability mix to bring interest rate risk within board-approved limits.

*Economic Value of Equity.* We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as economic value of equity, using a simulation model. This simulation model assesses the changes in the market value of interest rate sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates.

The following table shows our projected change in economic value of equity for this set of rate shocks at September 30, 2010.

***Economic Value of Equity***

	Interest Rate Scenario (change in basis points)					
	Down 200	Down 100	Base	UP 100	UP 200	Up 300
<b>Present Value</b>						
<b>(000 s)</b>						
Assets	\$6,358,976	\$6,280,169	\$6,179,451	\$6,066,233	\$5,952,557	\$5,847,099
Liabilities	\$5,559,863	\$5,525,495	\$5,424,061	\$5,309,867	\$5,203,257	\$5,104,483
<b>Net Present Value</b>	<b>\$ 799,113</b>	<b>\$ 754,674</b>	<b>\$ 755,390</b>	<b>\$ 756,366</b>	<b>\$ 749,300</b>	<b>\$ 742,616</b>
% Change	5.8%	-0.1%		0.1%	-0.8%	-1.7%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, asset prepayments and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions we may undertake in response to changes in interest rates. Actual amounts may differ from the projections set forth above should market conditions vary from the underlying assumptions.

*Net Interest Income Simulation.* In order to measure interest rate risk at September 30, 2010, we used a simulation model to project changes in net interest income that result from forecasted changes in interest rates. This analysis calculates the difference between twelve months of net interest income forecasted using an immediate increase and

decrease in

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interest rates and a twelve month net interest income forecast using a flat market interest rate environment derived from spot yield curves typically used to price our assets and liabilities. The income simulation model includes various assumptions regarding the re-pricing relationships for each of our products. Many of our assets are floating rate loans, which are assumed to re-price immediately, and proportional to the change in market rates, depending on their contracted index. Some loans and investments include the opportunity of prepayment (embedded options), and accordingly the simulation model uses estimated market speeds to derive prepayments and reinvests proceeds at modeled yields. Our non-term deposit products re-price more slowly, usually changing less than the change in market rates and at our discretion.

This analysis indicates the impact of changes in net interest income for the given set of rate changes and assumptions. It assumes the balance sheet remains static and that its structure does not change over the course of the year. It does not account for all factors that could impact our results, including changes by management to mitigate interest rate changes or secondary factors such as changes to our credit risk profile as interest rates change.

Furthermore, loan prepayment rate estimates and spread relationships change regularly. Interest rate changes create changes in actual loan prepayment speeds that will differ from the market estimates incorporated in this analysis. Changes that vary significantly from the modeled assumptions may have significant effects on our actual net interest income.

This simulation model assesses the changes in net interest income that would occur in response to an instantaneous and sustained increase or decrease (shock) in market interest rates of + or - 100, 200, or 300 basis points. At September 30, 2010, our net interest margin exposure related to these hypothetical changes in market interest rates was within the current guidelines established by the Company.

**Sensitivity of Net Interest Income**

	Interest Rate Scenario (change in basis points)					
	<b>Down 200</b>	<b>Down 100</b>	<b>Flat</b>	<b>UP 100</b>	<b>UP 200</b>	<b>Up 300</b>
(in 000 s)						
Interest Income	\$271,608	\$277,211	\$286,169	\$299,505	\$314,888	\$333,287
Interest Expense	\$ 20,268	\$ 26,244	\$ 40,043	\$ 58,638	\$ 78,604	\$ 99,187
<b>Net Interest</b>						
<b>Income</b>	<b>\$251,340</b>	<b>\$250,967</b>	<b>\$246,126</b>	<b>\$240,867</b>	<b>\$236,284</b>	<b>\$234,100</b>
% Change	2.1%	2.0%		-2.1%	-4.0%	-4.9%

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**Table of Contents****ITEM 4. Controls and Procedures***Evaluation of Disclosure Controls*

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ( SEC ) rules and forms. Additionally, our disclosure controls and procedures were also effective in ensuring that information required to be disclosed by us in the reports we file or subject under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

*Changes in Internal Control over Financial Reporting*

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2010, which have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information****Item 1. Legal Proceedings**

There are no material pending legal proceedings, other than ordinary routine litigation incidental to its business, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject. See Item 1. Business Supervision and Regulation in our Annual Report on Form 10-K for the year ended December 31, 2009 for additional information. From time to time, the Company is involved in a variety of litigation matters in the ordinary course of business and anticipates that it will become involved in new litigation matters in the future.

As previously disclosed in our Annual Report on Form 10-K and Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, certain of the Company's banking subsidiaries, including Bank of Nevada, have been placed under informal supervisory oversight by banking regulators in the form of memoranda of understanding. The oversight requires enhanced supervision by the Board of Directors of each affected bank, and the submission of written plans addressing such matters as asset quality, credit underwriting and administration, and loan concentrations, as well as the formulation and adoption of comprehensive strategic plans. In certain cases, including Bank of Nevada the affected bank may be prohibited from paying dividends to the Company without prior regulatory approval and/or required to maintain higher levels of Tier 1 capital than otherwise would be required to be considered well-capitalized under federal capital guidelines. In addition, the affected banks are required to provide regulators with prior notice of certain management and director changes, and, in certain cases, to obtain their non-objection before engaging in a transaction that would materially change its balance sheet composition. In July 2010, Bank of Nevada executed a new memorandum of understanding with the FDIC and the Nevada Financial Institutions Division, pursuant to which, among other things, the bank agreed to: increase its Tier 1 leverage capital ratio above current levels by September 30, 2010; obtain the prior written consent from the FDIC and the Nevada FID before declaring or paying dividends; give prior notice of certain management and director changes; develop plans to maintain its Tier 1 leverage capital ratio; reduce its level of adversely classified assets and loan concentration risks; control overhead and other expenses; and establish and maintain an adequate allowance for loan and lease losses. The Company believes each affected bank is in full compliance with the requirements of the applicable memorandum of understanding.

On October 21, 2010, the Company received notification from the FDIC that the previously disclosed Consent Order with respect to Torrey Pines Bank, dated November 16, 2009, was terminated as of October 20, 2010.

**Item 1A. Risk Factors**

There have not been any material changes to the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2009, other than as set forth below.

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***The Company is subject to a U.S. federal income tax audit in respect of the claim of certain deductions arising from the impairment of our collateralized debt obligations, which resulted in an approximately \$40 million tax refund for the 2006 and 2007 taxable periods.***

The Company is subject to a U.S. federal income tax audit in respect of the claim of certain deductions arising from the impairment of our collateralized debt obligations, or CDOs, which resulted in an approximately \$37 million tax refund for the 2006 and 2007 taxable periods. To date, the Internal Revenue Service has not asserted any proposed adjustments or assessments with respect to the audit. Although we believe that the CDO related deductions will be respected for U.S. federal income tax purposes, there can be no assurance that the Internal Revenue Service would not successfully challenge some or all of such deductions. If the Internal Revenue Service were to successfully challenge some or all of such deductions, the Company may be subject to a tax liability in the amount of the \$37 million refund, or portion thereof (excluding penalties or interest). The Company has not accrued a reserve for this potential exposure. ***We operate in a highly regulated environment and the laws and regulations that govern our operations, corporate governance, executive compensation and accounting principles, or changes in them, or our failure to comply with them, may adversely affect us.***

The Company is subject to extensive regulation, supervision, and legislation that governs almost all aspects of our operations. See Management's Discussion and Analysis Supervision and Regulation included in our Annual Report on Form 10-K for the year ended December 31, 2009. Intended to protect customers, depositors and deposit insurance funds, these laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the business activities in which we can engage, limit the dividends or distributions that our banking institutions can pay to our holding company, restrict the ability of institutions to guarantee our parent company's debt, impose certain specific accounting requirements on us that may be more restrictive and may result in greater or earlier charges to earnings or reductions in our capital than generally accepted accounting principles, among other things. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs. Further, the Company's failure to comply with these laws and regulations, even if the failure follows good faith effort or reflects a difference in interpretation, could subject the Company to additional restrictions on its business activities, fines and other penalties, any of which could adversely affect our results of operations, capital base and the price of our securities.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, into law. The Dodd-Frank Act will have a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and most will be subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business. In particular, the potential impact of the Dodd-Frank Act on our operations and activities, both currently and prospectively, include, among others:

- a reduction in our ability to generate or originate revenue-producing assets as a result of compliance with heightened capital standards;

- increased cost of operations due to greater regulatory oversight, supervision and examination of banks and bank holding companies, and higher deposit insurance premiums;

- the limitation on our ability to raise capital through the use of trust preferred securities as these securities may no longer be included as Tier 1 capital going forward; and

- the limitation on our ability to expand consumer product and service offerings due to anticipated stricter consumer protection laws and regulations.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with the new requirements may negatively impact our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.



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*State and federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we become subject as a result of such examinations may adversely affect us.*

State and federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations. If, as a result of an examination, the FDIC or FRB were to determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of any of the banks' operations had become unsatisfactory, or that any of the banks or their management was in violation of any law or regulation, the FDIC or FRB may take a number of different remedial actions as it deems appropriate. These actions include the power to enjoin unsafe or unsound practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against the bank's officers or directors, to remove officers and directors and, if the FDIC concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate the bank's deposit insurance. Under Nevada, Arizona and California law, the respective state banking supervisory authority has many of the same remedial powers with respect to its state-chartered banks.

Although we believe that we are currently in compliance with the terms of the of the memoranda of understanding described in Item 1 of Part II of this Quarterly Report on Form 10-Q, if we were unable to comply with these terms in the future, or if we were unable to comply with the terms of any future supervisory requirements to which we may become subject, then we could become subject to additional supervisory actions and orders, including cease and desist orders, prompt corrective action and/or other regulatory enforcement actions. If our regulators were to take such additional supervisory actions, then we could, among other things, become subject to greater restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. Failure to implement the measures in the time frames provided, or at all, could result in additional orders or penalties from federal and state regulators, which could result in one or more of the remedial actions described above. The terms of any such supervisory action and the consequences associated with any failure to comply therewith could have a material negative effect on our business and operating flexibility and financial condition.

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

(a) There were no unregistered sales of equity securities during the period covered by this report.

(b) None

(c) None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Removed and Reserved****Item 5. Other Information**

None

**Item 6. Exhibits**

- 3.1 Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to Western Alliance Bancorporation's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on June 7, 2005).
- 3.2 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.1 to Western Alliance Bancorporation's Form 8-K filed with the Securities and Exchange Commission on January 25, 2008).
- 3.3 Certificate of Designations for the Fixed Rate Cumulative Perpetual Preferred Stock, Series A, of Western Alliance Bancorporation (incorporated by reference to Exhibit 3.1 to Western Alliance Bancorporation's Form 8-K filed with the Securities and Exchange Commission on November 25, 2008).

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- 3.4 Certificate of Amendment to Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Western Alliance Bancorporation's Form 8-K filed with the Securities and Exchange Commission on May 3, 2010).
- 3.5 Amendment to Amended and Restated By-Laws (incorporated by reference to exhibit 3.1 to Western Alliance Bancorporation's Form 8-K filed with the Securities and Exchange Commission on September 20, 2010).
- 4.1 Specimen common stock certificate of Western Alliance Bancorporation (incorporated by reference to Exhibit 4.1 of Western Alliance Bancorporation's Registration Statement on Form S-1, File No. 333-124406, filed with the Securities and Exchange Commission on June 27, 2005, as amended).
- 4.2 Form of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, stock certificate (incorporated by reference to Exhibit 4.1 to Western Alliance Bancorporation's Form 8-K filed with the Securities and Exchange Commission on November 25, 2008).
- 4.3 Form of Warrant to purchase shares of Western Alliance Bancorporation common stock, dated December 12, 2003, together with a schedule of warrant holders (incorporated by reference to Exhibit 10.9 to Western Alliance Bancorporation's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on April 28, 2005).
- 4.4 Warrant, dated November 21, 2008, by and between Western Alliance Bancorporation and the United States Department of the Treasury (incorporated by reference to Exhibit 4.2 to Western Alliance's Form 8-K filed with the Securities and Exchange Commission on November 25, 2008).
- 31.1 CEO Certification Pursuant to Rule 13a-14(a)/15d-14(a).
- 31.2 CFO Certification Pursuant to Rule 13a-14(a)/15d-14(a).
- 32 CEO and CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

WESTERN ALLIANCE  
BANCORPORATION

Date: November 5, 2010

By: /s/ Robert Sarver  
Robert Sarver  
President and Chief Executive Officer

Date: November 5, 2010

By: /s/ Dale Gibbons  
Dale Gibbons  
Executive Vice President and  
Chief Financial Officer

Date: November 5, 2010

By: /s/ Susan Thompson  
Susan Thompson  
Senior Vice President and Controller  
Principal Accounting Officer

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