

Meritage Homes CORP
Form DEF 14A
March 31, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Meritage Homes Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

(4) Date Filed:

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Dear Stockholders:

You are cordially invited to join us for our 2010 annual meeting of stockholders, which will be held on Wednesday, May 19, 2010, at 10:00 a.m. local time at the Scottsdale Marriott at McDowell Mountains, 16770 North Perimeter Drive, Scottsdale, Arizona 85260. Holders of record of our common stock as of March 30, 2010, are entitled to notice of and to vote at the 2010 annual meeting.

The Notice of Annual Meeting of Stockholders and the proxy statement that follow describe the business to be conducted at the meeting. We may also report on matters of current interest to our stockholders.

We are pleased to be furnishing these materials to our stockholders via the Internet again this year. We believe this approach will allow us to continue to provide you with the information that you need while expediting your receipt of these materials, lowering our costs of delivery, and reducing the environmental impact of our annual meeting. If you would like us to send you printed copies of our proxy statement and accompanying materials, we will be happy to do so at no charge upon your request. For more information, please refer to the Notice of Internet Availability of Proxy Materials that we previously mailed to you on or about April 9, 2010.

You are welcome to attend the meeting. However, even if you plan to attend, please vote your shares promptly to ensure they are represented at the meeting. You may submit your proxy by Internet or telephone, as described in the following materials, or if you request printed copies of these materials, by completing and signing the proxy card enclosed therein and returning it in the envelope provided. If you decide to attend the meeting and wish to change your proxy, you may do so automatically by voting in person at the meeting.

If your shares are held in the name of a broker, bank, trust or other nominee, you may be asked for proof of ownership to be admitted to the meeting.

We look forward to seeing you at the annual meeting.

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Sincerely,

Steven J. Hilton
Chairman and Chief Executive Officer

17851 North 85th Street • Suite 300 • Scottsdale, Arizona • 85255 • Phone 480-515-8100

Listed on the New York Stock Exchange MTH

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date: Wednesday, May 19, 2010

Time: 10:00 a.m. local time

Scottsdale Marriott at McDowell Mountains

16770 North Perimeter Drive

Scottsdale, Arizona 85260

To Our Stockholders:

You are invited to attend the Meritage Homes Corporation 2010 annual meeting of stockholders for the following purposes:

1. To elect four Class I Directors, each to hold office until our 2012 annual meeting,

2. To ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2010 fiscal year,

3. To approve an amendment to our 2006 Stock Incentive Plan to increase the number of shares available for issuance,

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4. To approve an amendment to our 2006 Stock Incentive Plan reapproving, expanding and clarifying our stock award performance criteria,
5. To approve an amendment to our 2006 Annual Incentive Plan reapproving, expanding and clarifying our cash award performance criteria and extending the plan's termination date, and
6. To conduct any other business that may properly come before the meeting or any adjournment or postponement thereof.

These items are more fully described in the accompanying proxy. Only stockholders of record at the close of business on March 30, 2010 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING, PLEASE SUBMIT YOUR PROXY BY FOLLOWING THE INSTRUCTIONS SET FORTH IN THE FOLLOWING MATERIALS. YOU MAY VOTE YOUR SHARES AND SUBMIT A PROXY BY USING THE INTERNET OR TELEPHONE AS DESCRIBED HEREIN OR ON YOUR PROXY CARD.

By Order of the Board of Directors,

C. Timothy White, Secretary

Scottsdale, Arizona

April 1, 2010

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 19, 2010:

THIS PROXY STATEMENT AND MERITAGE'S 2009 ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT WWW.INVESTORS.MERITAGEHOMES.COM. ADDITIONALLY, AND IN ACCORDANCE WITH SEC RULES, YOU MAY ACCESS THESE MATERIALS ON THE COOKIES-FREE WEBSITES INDICATED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS THAT YOU MAY RECEIVE FROM BROADRIDGE FINANCIAL SOLUTIONS, INC.

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MERITAGE HOMES CORPORATION

17851 NORTH 85TH STREET

SUITE 300

SCOTTSDALE, ARIZONA 85255

(480) 515-8100

www.meritagehomes.com

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Meritage Homes Corporation to be used in voting at our annual meeting of stockholders on Wednesday, May 19, 2010. The meeting will be held at 10:00 a.m. local time at the Scottsdale Marriott at McDowell Mountains, 16770 North Perimeter Drive, Scottsdale, Arizona 85260.

On or about April 9, 2010, a Notice of Internet Availability of Proxy Materials (the "Notice") was mailed to stockholders of record at the close of business on March 30, 2010 (the "record date") and this proxy and the related materials were made available on our website. We are furnishing our proxy materials to our stockholders on the Internet in lieu of mailing a printed copy of our proxy materials to each stockholder of record. You will not receive a printed copy of our proxy materials unless you request one. The Notice instructs you as to how you may access and review on the Internet all of the important information contained in the proxy materials or request a printed copy of those materials. The Notice also instructs you as to how you may vote your proxy.

If you submit a proxy, you are entitled to revoke your proxy at any time before it is exercised by attending the annual meeting and voting in person, duly executing and delivering a proxy bearing a later date, or sending written notice of revocation to our Corporate Secretary at the Company's address located at the top of this page. Whether or not you plan to be present at the annual meeting, we encourage you to vote your proxy by telephone or via the Internet by following the instructions provided in this proxy statement or on the proxy card. If you request a printed copy of these materials, you may also provide your proxy by signing the proxy card enclosed therein and returning it in the envelope that will be provided with the printed materials.

The Meritage Board of Directors is soliciting proxies. We will bear the entire cost of proxy solicitation, including charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of our outstanding common stock.

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The following information should be reviewed along with the audited consolidated financial statements, notes to consolidated financial statements, report of independent registered public accounting firm and other information included in our 2009 Annual Report to Stockholders that is available on our website at www.meritagehomes.com.

Information about our company is provided on our Internet website at www.meritagehomes.com. 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 as amended (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). The information contained on our website is not considered part of our Annual Report on Form 10-K or this proxy statement.

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 and nominating/governance committee. The charter of each of these committees is available on our website, along with our Code of Ethics and our Corporate Governance Principles and Practices. Our committee charters, Code of Ethics and Corporate Governance Principles and Practices are also available in print, free of charge, to any stockholder who requests them by calling us or by writing to us at our principal executive offices at the address listed above, Attention: Corporate Secretary.

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VOTING SECURITIES OUTSTANDING

On the record date, there were 32,065,620 shares of Meritage common stock outstanding. The common stock is our only outstanding class of voting securities. Each share is entitled to one vote on each proposal to be voted on at the annual meeting. Only holders of record of common stock at the close of business on the record date will be permitted to vote at the meeting, either in person or by valid proxy.

VOTING PROXIES

Shares of common stock represented by properly executed proxy cards received by the Company in time for the meeting will be voted in accordance with the instructions specified in the proxies. If you submit a signed proxy but do not indicate any voting instructions, your shares will be voted **FOR** the election as directors of the nominees named in this proxy statement **FOR** the ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm, **FOR** the amendments to the 2006 Stock Incentive Plan and **FOR** the amendment to the 2006 Annual Incentive Plan.

If your shares are held in a brokerage account or by another nominee, you are considered the beneficial owner of shares held in street name, and the Notice is being forwarded to you by your broker or nominee (the record holder) along with a voting instruction card. As the beneficial owner, you have the right to direct your record holder regarding how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. Rules of the New York Stock Exchange (the NYSE) determine whether proposals presented at stockholder meetings are routine or non-routine. If a proposal is routine, a broker or other entity holding shares for a beneficial owner in street name may vote on the proposal without voting instructions from the owner. If a proposal is non-routine, the broker or other entity may vote on the proposal only if the beneficial owner has provided voting instructions. A broker non-vote occurs when the broker or other entity is unable to vote on a proposal because the proposal is non-routine and the beneficial owner does not provide instructions.

If you do not give instructions to your record holder prior to the meeting, the record holder will be entitled to vote your shares in its discretion only on Proposal 2 (Ratification of Independent Registered Public Accounting Firm) and will not be able to vote your shares on Proposal 1 (Election of Directors), Proposals 3 and 4 (Approval of Amendments to 2006 Stock Incentive Plan) or Proposal 5 (Approval of Amendment to 2006 Annual Incentive Plan) and your shares will be counted as a broker non-vote on those proposals.

As the record or beneficial owner of shares, you are invited to attend the annual meeting. Please note, however, that if you are a beneficial owner, you may not vote your shares in person at the meeting unless you obtain a legal proxy from the record holder that holds your shares.

The management and Board of Directors of the Company know of no other matters to be brought before the meeting. If other matters are properly presented to the stockholders for action at the meeting or any adjournments or postponements thereof, it is the intention of the proxy holders named in this proxy to vote in their discretion on all matters on which the shares of common stock represented by such proxy are entitled to vote.

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SUMMARY

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To understand the proposals fully, you should carefully read this entire proxy statement and the other proxy materials identified in the Notice.

General Information

Date, Time and Place of Meeting The annual meeting will be held on Wednesday, May 19, 2010, at 10:00 a.m. local time at the Scottsdale Marriott at McDowell Mountains, 16770 North Perimeter Drive, Scottsdale, Arizona 85260.

Record Date The record date for the annual meeting is March 30, 2010. Stockholders who hold shares of our stock at the close of business on the record date will be entitled to vote on the matters proposed in this proxy statement.

Voting Information You can vote in person at the annual meeting or submit a proxy to have your shares represented without attending the annual meeting. The shares represented by a properly executed proxy will be voted as you direct. To submit a proxy, you must follow the instructions provided in this proxy statement and in the Notice. You may submit your proxy via the Internet or by calling the telephone number provided in the Notice, and you will be asked to enter your 11- or 12-digit control number. If you request a printed copy of these materials, you may also fill out and sign the proxy card enclosed therein and return it by mail in the envelope provided.

You can revoke your proxy any time before it is voted by written notice delivered to the Company's Secretary, by timely delivery of a later signed proxy (including via the Internet or telephone), or by voting in person at the annual meeting. Attendance at the meeting alone is not sufficient to revoke your proxy. You must also vote your shares to revoke your proxy.

Quorum The presence in person or by proxy of stockholders representing a majority of the votes entitled to be cast at the meeting is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes are counted as present for purposes of determining whether a quorum exists.

The Proposals

Election of Directors (page 4) Steven J. Hilton, Raymond Oppel, Richard T. Burke Sr., and Dana Bradford, are each presently serving as Class I Directors. Messrs. Hilton, Oppel and Burke are nominated for re-election, and Mr. Bradford is nominated for election as he was previously appointed by the Board.

The Board of Directors recommends a vote for each of these directors.

If a quorum is present, the four nominees who receive the most votes will be elected. Broker non-votes and votes that are withheld will not count as votes cast either for or against the nominee. Please vote on this matter.

Ratification of Auditor (page 5) Ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2010 fiscal year.

The Board of Directors recommends a vote for this proposal.

If a quorum is present, an affirmative vote of the majority of the votes cast at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Abstentions will not be counted either for or against this proposal. If the appointment is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment in 2010 will stand, unless the Audit Committee determines there is a reason for making a change.

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Approval of an Amendment to the 2006 Stock Incentive Plan to Increase the Number of Shares Available for Issuance (page 9)

Under the 2006 Stock Incentive Plan, the Company's executives, officers, employees, non-employee directors, consultants and advisors are eligible to receive awards of stock options, stock appreciation rights, restricted stock awards, performance share awards and performance based awards. We are asking for your approval of an amendment to the 2006 Stock Incentive Plan. The amendment will increase the number of shares available under the Plan by 250,000 shares from 1,600,000 (excluding shares remaining available for grant that were rolled into the 2006 Stock Incentive Plan from our former stock plan) to 1,850,000. We are asking for you to approve this amendment because the Board has determined that increasing the number of shares available for grant generally under the plan is necessary to be able to grant additional equity awards in order to continue to retain and motivate key employees in the current difficult homebuilding environment.

The Board of Directors has approved this amendment to the plan and recommends a vote for this proposal.

The affirmative vote of a majority of the votes cast on the proposal is required for approval of this amendment to the 2006 Stock Incentive Plan, provided that the total votes cast on the proposal represent over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, broker non-votes and abstentions will have the same effect as votes against the proposal, unless holders of more than 50% in interest of all securities entitled to vote on the proposal cast votes, in which event broker non-votes will not have any effect on the result of the vote.

Amendment to the 2006 Stock Incentive Plan Performance Criteria (page 10)

We are also asking for your approval to amend the Company's 2006 Stock Incentive Plan to reapprove, expand and clarify the performance criteria that may be used by the Executive Compensation Committee, as they relate to the stock-based awards for certain of our executives to provide for awards to the Company's key executives that are deductible by the Company under Section 162(m) of the Internal Revenue Code.

The Board of Directors has approved this amendment and recommends a vote for this proposal.

The affirmative vote of a majority of the votes cast on the proposal is required for approval of the amendment of the 2006 Stock Incentive Plan, provided that the total votes cast on the proposal represent over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, broker non-votes and abstentions will have the same effect as votes against the proposal, unless holders of more than 50% in interest of all securities entitled to vote on the proposal cast votes, in which event broker non-votes will not have any effect on the result of the vote.

Amendment to 2006 Annual Incentive Plan Performance Criteria (page 11)

We are asking you to approve an amendment to the Company's 2006 Annual Incentive Plan to reapprove, expand and clarify the performance criteria that may be used by the Executive Compensation Committee, as they relate to the annual cash awards for certain of our executives to provide for annual incentive awards to the Company's key executives that are deductible by the Company under Section 162(m) of the Internal Revenue Code. We are also asking you to approve, as part of the amendment, extending the termination date of the 2006 Annual Incentive Plan from February 14, 2011 to February 14, 2015.

The Board of Directors has approved this amendment and recommends a vote for this proposal.

If a quorum is present, an affirmative vote of a majority of the votes cast at the annual meeting is required to approve the amendment to the 2006 Annual Incentive Plan. Broker non-votes and abstentions have no effect on the result of the vote.

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ELECTION OF DIRECTORS

(PROPOSAL NO. 1)

Our Board of Directors currently has seven members. The directors are divided into two classes serving staggered two-year terms. This year our Class I Directors are up for election. The Board, upon the recommendation of its Nominating/Governance Committee, has nominated Steven J. Hilton, Raymond Oppel and Richard T. Burke Sr., who are presently serving as Class I Directors, for re-election. Dana Bradford was appointed by the Board in 2009 and is therefore standing for election for the first time. Mr. Bradford was approached by the Nominating/Governance Committee based on our knowledge of his significant business experience that became known during prior interactions between the Company and Mr. Bradford in connection with his indirect equity holdings in Meritage Homes.

Biographical information for each of our director nominees is set forth on page 17.

All nominees have consented to serve as directors. The Board of Directors has no reason to believe that any of the nominees will be unable to act as a director. However, should a nominee become unable to serve or should a vacancy on the Board occur before the annual meeting, the Board may either reduce its size or designate a substitute nominee. If a substitute nominee is named, your shares will be voted for the election of the substitute nominee designated by the Board. In the vote on the election of the director nominees, stockholders may:

- vote **FOR** all nominees;

- **WITHHOLD** votes for all nominees; or

- **WITHHOLD** votes as to specific nominees.

Unless you tell us by your proxy to vote differently, your shares will be voted **FOR** the Board's nominees. If a quorum is present, the four nominees who receive the most votes will be elected. Broker non-votes and votes that are withheld will not count as either votes for or against the nominee.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE
ELECTION OF THE ABOVE-NAMED NOMINEES AS DIRECTORS.**

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**RATIFICATION OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM
(PROPOSAL NO. 2)**

The Board of Directors seeks an indication from stockholders of their approval or disapproval of the Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2010.

Deloitte & Touche LLP was appointed our auditor in 2005 and no relationship exists other than the usual relationship between auditors and clients.

If a quorum is present, an affirmative vote of the majority of the votes cast at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Abstentions will not be counted either for or against this proposal. If the appointment of Deloitte & Touche LLP as auditors for 2010 is not approved by stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors so long after the beginning of the current year, the appointment in 2010 will stand, unless the Audit Committee determines there is a reason for making a change.

**THE BOARD OF DIRECTORS HAS APPROVED THIS PROPOSAL NO. 2 AND
THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR
PROPOSAL NO. 2.**

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**AMENDMENTS TO THE 2006 STOCK INCENTIVE PLAN
(INFORMATION RELATING TO PROPOSALS NO. 3 AND 4)**

On February 18, 2010, our Board of Directors adopted, subject to stockholder approval, amendments to the Meritage Homes Corporation 2006 Stock Incentive Plan (the "2006 Stock Incentive Plan") that would increase the number of shares of common stock reserved for issuance under the plan by 250,000 shares from 1,600,000 (excluding shares remaining available for grant that were rolled into the 2006 Stock Incentive Plan from our former stock option plan) to 1,850,000. Additionally, the amendments would reapprove and expand the performance criteria associated with performance awards that may be granted from time to time. Each amendment, which will be voted on separately, is set forth below in the proposals for approval by stockholders. Neither amendment is conditioned on the approval of the other.

Certain material features of the plan are discussed below, however, the description is subject to, and qualified by the full text of the plan, attached as *Appendix A*, which includes the proposed amendments highlighted in bold. The closing price for our common stock on March 30, 2010, as reported on the NYSE, was \$21.60 per share.

The Board believes the 2006 Stock Incentive Plan promotes success and enhances our value, because it ties the personal interests of the participants to those of stockholders and provides the participants with an incentive for outstanding performance. The Executive Compensation Committee of the Board of Directors (the "Compensation Committee") administers the plan, and has exclusive authority over it, including the power to determine a participant's eligibility, the types of awards to be granted, the timing of the awards and the exercise price of awards.

Eligibility

Awards may be made to any officer, employee or executive of the Company, as well as to non-employee directors and consultants or advisors to the Company. As of December 31, 2009, there were six non-employee directors and approximately 110 officers and employees of the Company and its subsidiaries eligible to participate in the 2006 Stock Incentive Plan.

Types of Awards

The 2006 Stock Incentive Plan provides for grants of stock options, stock appreciation rights, restricted stock, performance shares and performance-based awards (each, an "Award"), whether granted alone or in combination, pursuant to which shares of common stock, cash or a combination thereof may be delivered to the Award recipient; provided that stock appreciation rights will be paid only in shares. Under the 2006 Stock Incentive Plan, the total number of shares of common stock available for future Awards is reduced by one share for each share issued in connection with an option or a stock appreciation right and by 1.38 shares for each share issued in connection with any other type of Award.

Options. An option is the right to purchase shares of common stock at a future date at a specified exercise price. The Executive Compensation Committee may grant both nonqualified stock options and incentive stock options under the 2006 Stock Incentive Plan. The per share exercise price will be determined by the Compensation Committee, but must be at least equal to the fair market value of the underlying shares of

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common stock on the date of grant. The Compensation Committee determines the date after which options may be exercised in whole or in part and the expiration date of each option, which cannot be more than ten years from the date of grant. However, in the case of an incentive stock option granted to a participant who holds more than 10% of the voting power of the Company, the exercise price must be at least 110% of the fair market value of the underlying shares of common stock on the date of grant and the expiration date cannot be more than five years from the date of grant. The exercise price of an option may be paid in shares of common stock, cash or a combination thereof, as determined by the Compensation Committee, including an irrevocable commitment by a broker to pay the exercise price from the proceeds of a sale of shares issuable under the option, the delivery of previously owned shares or withholding of shares deliverable upon exercise. Options cannot be repriced (or cancelled and regranted at a lower exercise price) without shareholder approval, other than in connection with a change in the Company's capitalization.

Stock Appreciation Rights. A stock appreciation right is a right granted to the participant to receive, in shares of common stock, an amount equal to the appreciation of one share of common stock from the date of grant.

Restricted Stock Awards. Awards of shares of stock may be granted under the 2006 Stock Incentive Plan, although the shares are generally subject to a risk of forfeiture or to other conditions or restrictions for specified periods of time. The Compensation Committee does not typically issue a stock certificate representing a restricted stock award until the restrictions applicable to all or part of the award have lapsed, and the Compensation Committee has discretion to waive in whole or in part restrictions or forfeiture conditions relating to the restricted stock award.

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Performance Share Awards. Performance share awards are rights to receive, in cash, shares of common stock or a combination thereof, an amount equal to the value of common stock if certain performance goals are attained.

Performance-Based Awards. The purpose of performance-based awards is to qualify restricted stock or performance share awards as performance-based compensation pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). Section 162(m) of the Code limits the Company's federal income tax deduction for compensation paid to any of the executive officers named in the summary compensation table of its annual proxy statement. The limit is \$1 million per officer per year, with certain exceptions. However, the deductibility limit does not apply to performance-based compensation if the qualifying performance criteria and maximum amounts payable upon the satisfaction of performance goals are approved in advance by the Company's stockholders. Stockholders previously approved the qualifying performance criteria and maximum amounts payable for purposes of Section 162(m) of the Code at the annual meeting of stockholders in 2006 and this approval is valid until 2011. As discussed in Proposal No. 4, we are asking stockholders to approve an amendment to the 2006 Stock Incentive Plan to reapprove and expand the performance criteria, which approval would be valid until 2015.

Notwithstanding the satisfaction of the performance criteria, the number of shares issued or the amount paid under an Award may be reduced by the Compensation Committee on the basis of such further considerations as the Compensation Committee in its sole discretion may determine.

Change in Control

The 2006 Stock Incentive Plan provides that if a change of control occurs and Awards are converted, assumed, or replaced by a successor, the Compensation Committee has the discretion to cause all outstanding Awards to become fully exercisable and all restrictions on outstanding Awards to lapse. If a change of control occurs and the Awards are not converted, assumed, or replaced by a successor, all outstanding Awards shall automatically become fully exercisable and all restrictions on outstanding Awards shall lapse.

Amendment to or Termination of the 2006 Stock Incentive Plan

The Compensation Committee, with the Board's approval, may amend, alter or discontinue the 2006 Stock Incentive Plan. However, other than in connection with a change in the Company's capitalization, no amendment may be made without stockholder approval if such amendment would:

- increase the maximum number of shares of common stock for which Awards may be granted under the 2006 Stock Incentive Plan;
- permit the Compensation Committee to grant options with an exercise price that is below the fair market value of a share of common stock on the date of grant;

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- permit the Compensation Committee to extend the exercise period for an option beyond ten years from the date of grant;
- permit the Compensation Committee to reprice previously-granted options; or
- require stockholder approval under any laws, regulation or stock exchange rule.

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The following table sets forth grants of options and restricted shares through March 1, 2010 made under the 2006 Stock Incentive Plan since its inception to (i) each of our named executive officers, (ii) all current executive officers, as a group; (iii) all current directors and director nominees who are not executive officers, as a group; and (iv) all employees, including all current officers who are not executive officers, as a group. Grants under the plan are made at the discretion of the Board of Directors.

Individual Or Group Name	Number Of Shares Subject To Options and Non- Vested Shares Granted (1)	Weighted Average Exercise Price Per Share (2)
Executive Officers		
Steven J. Hilton	507,500	\$ 25.00
Larry W. Seay	231,667	\$ 24.66
C. Timothy White	150,000	\$ 23.39
Steven M. Davis	138,667	\$ 24.55
Executive Officer Group (four persons)	1,027,834	\$ 24.71
Director Group		
Robert G. Sarver	39,500	\$ 28.10
Raymond Oppel	44,500	\$ 25.82
Peter L. Ax	39,500	\$ 28.10
Richard T. Burke, Sr.	39,500	\$ 29.15
Gerald W. Haddock	29,500	\$ 25.32
Dana Bradford	15,000	
Director Group (six persons)	207,500	\$ 27.42
Non-Executive Officer Employee Group (about 105 persons)	1,032,167	\$ 21.63

(1) Balance includes performance awards granted to our NEOs including those where the performance criteria has not yet been achieved.

(2) Weighted average exercise price per share excludes any restricted shares.

In addition to the awards listed above, Steven J. Hilton, Larry W. Seay, C. Timothy White and Steven Davis are each party to an employment agreement effective January 1, 2010. Each of the covered employee's employment agreement contemplates that for years after 2011, the executive will receive an option to purchase shares of Company stock as follows:

- Steven J. Hilton, a minimum of 90,000 shares*
- Larry W. Seay, a minimum of 36,667 shares*
- C. Timothy White, a minimum of 15,000 shares*

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- Steven Davis, a minimum of 15,000 shares*

* Or such other equivalent number of shares subject to full value awards as the Compensation Committee determines it its discretion.

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PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AUTHORIZED

FOR ISSUANCE THEREUNDER

(PROPOSAL NO. 3)

The Board of Directors has reviewed the shares currently available under the 2006 Stock Incentive Plan and has determined that it is appropriate to increase the maximum number of shares authorized for issuance under the 2006 Stock Incentive Plan. As of March 30, 2010, (i) 4,368,977 shares have been issued upon exercise of options or vesting of non-vested shares under the 2006 Stock Incentive Plan, (ii) option grants representing 1,501,267 shares were outstanding under the 2006 Stock Incentive Plan and (iii) 714,667 shares of restricted stock had been awarded under the 2006 Stock Incentive Plan and not otherwise forfeited, cancelled or vested. The total number of shares of common stock available for awards under the 2006 Stock Incentive Plan currently is 540,954, which the Board believes is inadequate for the purpose of providing future equity incentives. The Board has determined that increasing the amount of shares of common stock issuable under the 2006 Stock Incentive Plan is necessary in order to be able to grant additional equity awards to continue to retain and motivate key employees in the continuing difficult homebuilding environment. As a result, the Board is asking the stockholders to approve an amendment to the 2006 Stock Incentive Plan that would increase the number of shares authorized for issuance by 250,000 shares from 1,600,000 (excluding shares that were rolled into the 2006 Stock Incentive Plan from our former incentive plan) to 1,850,000.

The affirmative vote of a majority of the votes cast on the proposal is required for approval of this amendment to the 2006 Stock Incentive Plan, provided that the total votes cast on the proposal represent over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, broker non-votes and abstentions will have the same effect as votes against the proposal, unless holders of more than 50% in interest of all securities entitled to vote on the proposal cast votes, in which event broker non-votes will not have any effect on the result of the vote.

THE BOARD RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES OF COMMON STOCK AUTHORIZED FOR ISSUANCE THEREUNDER.

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PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO REAPPROVE, EXPAND AND CLARIFY THE PERFORMANCE CRITERIA RELATED TO PERFORMANCE AWARDS (PROPOSAL NO. 4)

The Board has reviewed the performance criteria under the current 2006 Stock Incentive Plan and believes that the criteria should be reapproved and expanded. Currently, the 2006 Stock Incentive Plan allows for the Compensation Committee to select the following criteria for the purposes of establishing the performance goal(s) for a participant for a performance period, any of which may be measured in absolute terms or as compared to any incremental increase or as compared to results of a peer group:

- pre- or after-tax net earnings,
- earnings before interest expense (including interest amortized to cost of sales) and income taxes (EBIT),
- earnings before interest expense (including interest amortized to cost of sales), income taxes, depreciation and amortization (EBITDA),
- revenue growth,
- operating income,
- operating cash flow,
- return on net assets,
- return on shareholders equity,
- return on assets,
- return on net assets,
- return on capital,
- share price growth,
- shareholder returns,
- gross or net profit margin,
- earnings per share,
- price per share, and
- market share

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The Committee may provide that the Performance Criteria may include or exclude extraordinary charges, non-recurring or unusual items, accounting charges or similar items. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such performance period for the participants.

All of the above criteria are generally based on the Company's financial performance and metrics and, though appropriate criteria for many of the types of performance awards that the Compensation Committee considers making, they do not capture other key operational performance criteria and metrics. For example, the Board has determined that it is important to the Company's strategy and long-term success that Meritage have a reputation for building quality homes and delivering excellent customer satisfaction. As such, the Board believes performance criteria based on customer service ratings is important.

The Board is proposing to reapprove, expand and clarify the performance criteria listed above to, among other things, add the following criteria, any of which may be measured in absolute terms or as compared to any incremental increase or as compared to results of a budget or peer group:

- operating expenses, including, without limitation, general and administrative expenses,
- operational metrics, including but not limited to, number of sales, closings or backlog for a community, division or company-wide, community growth, specs per community or time to construct a home, and
- objective customer service or satisfaction ratings, whether measured internally or by an accepted third party.

The amendment will also clarify that EBIT and EBITDA, as defined Performance Goals, include or exclude, at the discretion of the Committee, non-cash charges, impairments and similar one-time, non-recurring or extraordinary charges, which is consistent with terms of the incentive compensation arrangements provided in the employment agreements we have with our NEOs.

The affirmative vote of a majority of the votes cast on the proposal is required for approval of this amendment of the 2006 Stock Incentive Plan, provided that the total votes cast on the proposal represent over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, broker non-votes and abstentions will have the same effect as votes against the proposal, unless holders of more than 50% in interest of all securities entitled to vote on the proposal cast votes, in which event broker non-votes will not have any effect on the result of the vote

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THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO REAPPROVE, EXPAND AND CLARIFY THE PERFORMANCE CRITERIA RELATED TO PERFORMANCE AWARDS.

PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 ANNUAL INCENTIVE PLAN TO REAPPROVE, EXPAND AND CLARIFY THE PERFORMANCE CRITERIA RELATED TO CASH AWARDS (PROPOSAL NO. 5)

In 2006, our shareholders approved the Meritage Homes Corporation 2006 Annual Incentive Plan (the Incentive Plan).

The Incentive Plan provides for annual incentive awards to certain of the Company's key executives and was created in part to assure that awards under the Plan will be tax deductible for the Company. Section 162(m) of the Code places a \$1 million annual limit on the amount of compensation paid to the executive officers named in the Company's annual proxy statement that may be deducted by the Company for federal income tax purposes, unless such compensation is based on the achievement of pre-established performance goal(s) set by the Executive Compensation Committee pursuant to an incentive plan that has been approved by the Company's stockholders. Stockholder approval of the amendment is necessary for maintaining the tax-deductible status of incentive payments made to the participants after 2011. If approved, the expanded and clarified performance criteria would be valid for performance-based compensation awards under Section 162(m) of the Code through 2015.

We have summarized below the key provisions of the Incentive Plan. Because it is a summary, it may not contain all of the information that is important to you. The summary is qualified in its entirety by reference to the full text of the 2006 Annual Incentive Plan, attached as *Appendix B*, which includes the proposed amendments highlighted in bold.

Purpose of the Plan

Awards may be made under the Incentive Plan to any employee of the Company who is a covered employee within the meaning of Section 162(m) of the Code. A covered employee includes Meritage's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel. Non-employee directors are not eligible to receive an award under the Incentive Plan.

Administration

The Incentive Plan is administered by the Compensation Committee or any other committee appointed by the Board of Directors (the Committee), which consists of not less than two non-employee directors who are outside directors within the meaning of Section 162(m) of the Code. The Committee has full authority to interpret the Plan and to establish rules for its administration. The Committee has the authority to determine eligibility for participation in the Incentive Plan, to decide all questions concerning eligibility for and the amount of awards, and to establish and administer the performance goals (defined below) and certify whether, and to what extent, they are attained.

Duration of the Plan

The Incentive Plan by its terms expires on February 14, 2011, five years after its initial adoption, to comply with Section 162(m) of the Internal Revenue Code. The Board is proposing to extend the Incentive Plan's termination date to February 14, 2015.

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Determination of Awards

In determining awards to be made under the Incentive Plan, the Compensation Committee may approve a formula that is based on one or more objective criteria to measure corporate performance as set forth in the Plan (Performance Criteria). The Compensation Committee may establish Performance Criteria and as selected by the Committee, the Committee may set annual performance objectives (Performance Goals) with respect to such Performance Criteria for the Company. The current performance criteria include the following, any of which may be measured either in absolute terms, or as compared to any incremental increase, or as compared to results of a peer group:

- pre- or after-tax net earnings,
- earnings before interest expense (including interest amortized to cost of sales) and income taxes (EBIT),
- earnings before interest expense (including interest amortized to cost of sales), income taxes, depreciation and amortization (EBITDA),
- revenue growth,
- operating income,
- operating cash flow,
- return on net assets,
- return on shareholders' equity,
- return on assets,
- return on capital,
- share price growth,
- shareholder returns,
- gross or net profit margin,
- earnings per share,
- price per share, and
- market share

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The Committee may provide that the Performance Criteria may include or exclude extraordinary charges, non-recurring or unusual items, accounting charges or similar items. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such performance period for the participants.

All of the above criteria are generally based on the Company's financial performance and metrics and, though appropriate criteria for many of the types of performance awards that the Compensation Committee considers making, they do not capture other key operational performance criteria and metrics. For example, the Board has determined that it is important to the Company's strategy and long-term success that Meritage have a reputation for building quality homes and delivering excellent customer satisfaction. As such, the Board believes performance criteria based on customer service ratings is important.

The Board is proposing to reapprove, expand and clarify the performance criteria listed above to, among other things, add the following criteria, any of which may be measured either in absolute terms, or as compared to any incremental increase, or as compared to results of a budget or peer group:

- operating expenses, including, without limitation, general and administrative expenses,
- operational metrics, including but not limited to, number of sales, closings and backlog for a community, division or company-wide, community growth, specs per community or time to construct a home, and
- objective customer service or satisfaction ratings, whether measured internally or by an accepted third party.

The amendment will also clarify that EBIT and EBITDA, as defined Performance Goals, include or exclude, at the discretion of the Committee, non-cash charges, impairments and similar one-time, non-recurring or extraordinary charges, which is consistent with terms of the incentive compensation arrangements provided in the employment agreements we have with our NEOs.

Payment of Awards

Payment of awards will be made in cash. The Committee will make all determinations regarding the achievement of Performance Goals and the determination of actual awards. The Committee may in its discretion decrease, but not increase, the amount of any award that otherwise would be payable under the Incentive Plan.

Table of Contents**Amount Available and Maximum Individual Awards**

The Committee shall determine the amount available for awards in any year. The maximum award payable to any employee for a performance period is 1.85% of EBITDA, as clarified by the amendment discussed above (Adjusted EBITDA), before consideration of bonuses paid to covered employees.

Amendment and Termination

The Committee may suspend or terminate the Incentive Plan at any time with or without prior notice. In addition, the Committee may from time to time and with or without prior notice, amend or modify the Incentive Plan in any manner, but may not without stockholder approval adopt any amendment that would require the vote of stockholders of the Company pursuant to Section 162(m) of the Code.

New Plan Benefits

As of the date of this proxy statement, the following performance-based bonus award criteria have been incorporated into the employment agreements of our NEOs. These awards and the related performance goals were approved by the Executive Compensation Committee with respect to the Company's 2010 fiscal year.

Measurement Criteria	Executive			
	Steven J. Hilton	Larry W. Seay	C. Timothy White	Steven Davis
Company's Return on Assets*	Bonus as a Percentage of Adjusted EBITDA**			
Top half	0.82500%	0.20000%	0.15000%	0.32500%
33%-49% percentile	0.53630%	0.13000%	0.09750%	0.21000%
Below 33%	None	None	None	None
Company's Return on Equity*				
Top half	0.82500%	0.20000%	0.15000%	0.32500%
33%-49% percentile	0.53630%	0.13000%	0.09750%	0.21000%
Below 33%	None	None	None	None

* Compared to public homebuilders having revenues of \$500 million or more.

** As defined in each NEO's employment agreement.

Each of the above listed covered employees is also eligible for identical annual awards pursuant to the terms of their existing employment agreements, which were effective January 1, 2010 and expire on December 31, 2012, subject to automatic renewal provisions.

If a quorum is present, an affirmative vote of a majority of the votes cast at the annual meeting is required to approve this amendment to the 2006 Annual Incentive Plan. Broker non-votes and abstentions have no effect on the result of the vote.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 ANNUAL INCENTIVE PLAN TO REAPPROVE, EXPAND AND CLARIFY THE PERFORMANCE CRITERIA FOR CASH AWARDS.

Table of Contents**SECURITY OWNERSHIP BY MANAGEMENT AND PRINCIPAL STOCKHOLDERS**

Management. The following table summarizes, as of March 15, 2010, the number and percentage of outstanding shares of our common stock beneficially owned by the following:

- each Meritage director and nominee for director;
- each executive officer named in the summary compensation table; and
- all Meritage directors and executive officers as a group.

Name Of Beneficial Owner(1)	Position With The Company	Number Of Shares Owned	Right To Acquire By May 15, 2010	Total Shares Beneficially Owned(2)	Percent Of Outstanding Shares (3)
Steven J. Hilton	Director, Chairman and CEO	1,823,704(4)	193,064	2,016,768	6.25%
Robert G. Sarver	Director	209,000(5)	21,500	230,500	*
Raymond Oppel	Director	53,000(6)	21,500	74,500	*
Peter L. Ax	Director	42,000	21,500	63,500	*
Richard T. Burke, Sr.	Director	32,000	21,500	53,500	*
Gerald W. Haddock	Director	40,000(7)	11,500	51,500	*
Dana Bradford	Director	15,000(8)		15,000	*
Larry W. Seay	Executive Vice President and Chief Financial Officer	90,965	88,001	178,966	*
C. Timothy White	Executive Vice President, General Counsel and Secretary	56,264	39,000	95,264	*
Steven M. Davis	Executive Vice President Chief Operating Officer	58,024	17,000	75,024	*
All current directors and executive officers as a group (10 persons)		2,419,957	434,565	2,854,522	8.78%

* Less than 1%.

(1) The address for our directors and executive officers is c/o Meritage Homes Corporation, 17851 North 85th Street, Suite 300, Scottsdale, Arizona 85255.

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- (2) The amounts shown include the shares of common stock actually owned as of March 15, 2010, and the shares that the person or group had the right to acquire within 60 days of that date. The number of shares includes shares of common stock owned of record by such person's spouse and minor children and by other related individuals and entities over whose shares of common stock such person has custody, voting control or the power of disposition. In calculating the percentage of ownership, all shares of common stock which the identified person had the right to acquire within 60 days of March 15, 2010 upon exercise of options are considered as outstanding for computing the percentage of the shares owned by that person or group, but are not considered as outstanding for computing the percentage of the shares of stock owned by any other person. The shares also include any service-based unvested restricted stock but exclude 45,000, 30,000, 30,000 and 30,000 shares of restricted stock with performance criteria for Messrs. Hilton, Seay, White and Davis, respectively.
- (3) Based on 32,058,953 shares outstanding as of March 15, 2010.
- (4) Shares are held by family trusts. 800,000 of these shares were pledged to a third-party lending institution.
- (5) Mr. Sarver is deemed to indirectly own an additional 8,000 shares through his family members, and 1,000,000 shares are owned by Southwest Value Partners Fund XIV, LP (SVP), an entity in which Mr. Sarver indirectly shares control over voting, purchase and disposition of these shares. Additionally, an entity affiliated with the McCarthy Group, LLC (McCarthy) owns 1,185,920 shares of our common stock. Mr. Sarver is a member of McCarthy. Mr. Sarver has expressly disclaimed any beneficial ownership of the SVP and McCarthy shares.
- (6) 6,000 shares are owned indirectly by family trusts.
- (7) 18,000 shares are pledged to a third-party lending institution to secure a loan.

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(8) Mr. Bradford is deemed to indirectly own an additional 1,000,000 shares that are owned by SVP, an entity in which Mr. Bradford indirectly shares control over voting, purchase and disposition of these shares. Additionally, McCarthy, an entity of which Mr. Bradford is a member owns 1,185,920 shares of our common stock. Mr. Bradford has expressly disclaimed any beneficial ownership of these shares.

Certain Other Beneficial Owners. Based on filings made under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of March 15, 2010, the only other known beneficial owners of more than 5% of Meritage common stock are shown in the following table:

Name of Other Beneficial Owners	Address Of Beneficial Owner	Shares Beneficially Owned	
		Number	Percent
Fidelity Management and Research, LLC (1)	82 Devonshire Street Boston, MA 02109	3,355,518	10.56%
Blackrock, Inc. (2)	40 East 52nd Street New York, NY 10022	2,907,306	9.15%
T. Rowe Price Associates, Inc. (3)	100 E. Pratt Street Baltimore, MD 21202	2,883,600	9.0%
Earnest Partners, LLC (4)	1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	1,538,027	5.0%

(1) Based solely on a Schedule 13G/A, filed with the Securities and Exchange Commission (SEC) on February 16, 2010 Fidelity Management and Research, LLC has sole voting power with respect to 287,127 shares and sole dispositive power with respect to 3,355,518 shares.

(2) Based solely on a Schedule 13G, filed with the SEC on January 29, 2010, Blackrock, Inc. and certain affiliated entities have sole voting power with respect to 2,907,306 shares and sole dispositive power with respect to 2,907,306 shares.

(3) Based solely on a Schedule 13G/A, filed with the SEC on February 12, 2010, T. Rowe Price Associates, Inc. has sole voting power with respect to 795,900 shares and sole dispositive power with respect to 2,883,600 shares.

(4) Based solely on a Schedule 13G/A, filed with the SEC on May 11, 2009, Earnest Partners, LLC has sole voting power with respect to 546,781 shares, shared voting power with respect to 329,846 shares and sole dispositive power with respect to 1,538,027 shares.

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CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Board of Directors is elected by the stockholders to oversee the stockholders' interests in the operation and overall success of our business. The Board serves as our ultimate decision-making body, except for those matters reserved to or that require a vote of our stockholders. The Board selects and oversees the members of senior management who are charged by the Board with conducting our business. We have established and operate in accordance with a comprehensive plan of corporate governance that defines and sets ethical standards for the conduct of our directors, officers and employees. This plan provides an important framework within which the Board of Directors can pursue our strategic objectives and ensure long-term stockholder value.

Corporate Governance Principles and Practices

We have adopted Corporate Governance Principles and Practices that define the key elements of our corporate governance framework and philosophy, including:

- director qualifications,
- independence criteria,
- director responsibilities,
- our committee structure,
- officer and director stock ownership requirements,
- director resignation policy,
- director access to officers and employees,

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- our philosophy with respect to director compensation,
- director orientation and continuing education, and
- our plans with respect to management succession.

Our Corporate Governance Principles and Practices are available on our website at www.investors.meritagehomes.com and we will provide a printed copy to any stockholder upon request. These principles are reviewed regularly by the Nominating/Governance Committee and changes are made as the Committee deems appropriate.

Director Qualification and Independence

Our Board of Directors is comprised of a group of individuals whose previous experience, financial and business acumen, personal ethics and dedication and commitment to our company allow the Board to complete its key task as the over-seer and governing body of Meritage Homes Corporation. Although the Board does not have a specific policy regarding diversity, the Board believes it should be comprised of a diverse group of persons with the following skills, backgrounds and experiences:

- management or board experience in large complex institutions, as well as small entrepreneurial companies,
- finance, banking and capital markets,
- accounting,
- legal and regulatory,
- real estate, including homebuilding, commercial and land development,
- sales and marketing, and
- operations

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Additionally, the board believes that diversity is an important consideration in the composition of the board of directors and includes such factors as its directors' skills, areas of expertise, gender, race and culture. Our Board is comprised of the following members:

Class I Directors

Steven J. Hilton, 48, was co-chairman and co-chief executive officer of Meritage Homes Corporation from 1997 to May 2006. In May 2006, Mr. Hilton was named the Company's chairman and chief executive officer. Mr. Hilton co-founded Arizona-based Monterey Homes in 1985. Under Mr. Hilton's leadership, Monterey became publicly traded in 1996. Mr. Hilton received his Bachelor of Science degree in accounting from the University of Arizona and is a director of Western Alliance Bancorporation, a \$5.8 billion community bank based in Las Vegas, Nevada. Mr. Hilton has 25 years of real estate experience and is considered an expert and innovator in the homebuilding industry. He is a frequent participant in panels and interviews regarding the industry.

Raymond Oppel, 53, has been a director since December 1997. He was the co-founder, chairman and chief executive officer of The Oppel Jenkins Group, a regional homebuilder in Texas and New Mexico, which was sold in 1995 to the public homebuilder KB Home. Mr. Oppel is a licensed real estate broker and currently is active as a private investor in real estate development and land banking. Mr. Oppel has almost 20 years of experience in the homebuilding business. Mr. Oppel possesses extensive knowledge about the real estate industry in general and the homebuilding industry in particular.

Richard T. Burke, Sr., 66, has been a director since September 2004. Mr. Burke is the Chairman of the Board of Directors of UnitedHealth Group, which he founded, took public in 1984 and served as chairman and chief executive officer until 1988. From 1995 until 2001, Mr. Burke was the owner and chief executive officer of the Phoenix Coyotes, a National Hockey League team. In the last five years, Mr. Burke also served as a director for First Cash Financial Services, Inc. Mr. Burke is a business and civil leader in Phoenix, Arizona, and his experience as the chairman and CEO of a multi-billion dollar public company provides the Board with outstanding corporate governance and financial insight.

Dana Bradford, 39, has been a director since August 2009. Mr. Bradford is the president and managing partner of McCarthy Capital Corporation, a private equity firm based in Omaha, Nebraska, with nearly \$1 billion in assets under management. He serves as a director of a number of private companies, including Guild Mortgage, a full-line mortgage company; Southwest Value Partners, a real estate investment firm; Waitt Corp Investments, a diversified investment company; Vornado Air, a branded consumer products company; NRG Media, a sixty station radio network; and Gold Circle Films, a movie production company. He also served as a director of the Ronald McDonald House, the National Conference for Community and Justice, the Greater Omaha Chamber of Commerce and Ballantyne (AMEX: BTN), a movie projector manufacturer. Mr. Bradford earned a bachelor's degree in business administration from the University of Arizona. Mr. Bradford brings additional perspective to the Board relating to real estate and corporate finance matters.

Class II Directors

Peter L. Ax, 51, has been a director since September 2000 and is the managing partner of Phoenix Capital Management, a venture capital firm. Mr. Ax is the former chairman and chief executive officer of SpinCycle, Inc., a publicly held consolidator and developer of coin-operated Laundromats. Previously, Mr. Ax served as head of the Private Equity Division and senior vice president of Lehman Brothers in New York. Mr. Ax is also on the board of directors of iGo, Inc. (NASDAQ: IGOI) and serves on the Advisory Board of Directors of Cascadia Capital, a

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Seattle based investment banking and merchant banking firm. In the last five years, Mr. Ax also served as a director for CashX, Inc. and Medit Marketing, Inc. Mr. Ax holds an M.B.A. from the Wharton School at the University of Pennsylvania and a law degree from the University of Arizona, and has been a certified public accountant. He has also been an accounting instructor at the Wharton School and has been a judge in the annual Wharton Business Plan competition. Mr. Ax possesses extensive skills and experience relating to, among other things, capital markets and corporate finance.

Robert G. Sarver, 48, has been a director since December 1996, and is the chairman and chief executive officer of Western Alliance Bancorporation, a director of Skywest Airlines, and the managing partner of the Phoenix Suns basketball team. He was the chairman and chief executive officer of California Bank & Trust from 1998 to 2001. From 1995 to 1998, he served as chairman of Grossmont Bank. In 1990, Mr. Sarver co-founded and currently serves as the executive director of Southwest Value Partners and Affiliates, a real estate investment company. Mr. Sarver founded the National Bank of Arizona and was its President until its acquisition by Zions Bancorporation in 1994. Mr. Sarver has been a certified public accountant. Mr. Sarver has been active in the real estate industry for more than 20 years and is known nationwide as a leader and expert in banking. He has extensive experience in a wide spectrum of successful real-estate activities, including commercial, residential and development projects.

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Gerald W. Haddock, 62, has been a director since January 2005. Mr. Haddock is the founder of Haddock Enterprises, LLC and formerly served as President and CEO of Crescent Real Estate Equities, a diversified real estate investment trust. He is currently a Director and Audit Committee Chairman of ENSCO International plc., a global offshore oil and gas drilling service company. Mr. Haddock is a former Board Member of Cano Petroleum, Inc., having served from late December 2004 to October 23, 2008. He also serves on the Board of Directors of The Baylor Foundation of Baylor University and on the Board of Trustees of the M.D. Anderson Proton Therapy Education and Research Foundation. Mr. Haddock received his Bachelor of Business Administration and Juris Doctorate degrees from Baylor University. He also received a Master of Laws in Taxation degree from New York University and a Master of Business Administration degree from Dallas Baptist University. Mr. Haddock possesses extensive experience in a variety of finance, legal and real-estate activities and his current and past leadership positions provide the Board with important insight on corporate governance matters.

In case of a Board vacancy or if the Board elects to increase its size, determinations regarding the eligibility of director candidates are made by the Nominating/Governance Committee, which considers the candidate's qualifications as to skills and experience in the context of the needs of the Board of Directors and our stockholders. The Nominating/Governance Committee also evaluates and reports to the Board of Directors regarding the independence of each candidate. Consistent with the rules and regulations of the NYSE, at least a majority of the Board of Directors must be independent.

No director will be deemed to be independent unless the Board of Directors affirmatively determines that the director has no material relationship with the Company, either directly or as an officer, shareowner, member, partner or trustee of an organization that has a relationship with the Company. The Board observes all criteria established by the NYSE and other governing laws and regulations. In its review of director independence, the Board of Directors considers all commercial, banking, consulting, legal, accounting, charitable or other business relationships the director may have with the Company.

As a result of its review, the Board of Directors has determined that a majority of Meritage's Board members are independent. Our independent directors are Peter L. Ax, Raymond Oppel, Richard T. Burke, Gerald W. Haddock and Dana Bradford.

In making this determination, the Board of Directors evaluated whether there exists any relationships between these individuals and Meritage. Except as noted below, the Board of Directors determined no relationship exists between Meritage and any independent director or any of its executive officers:

- Steven J. Hilton is not considered independent because he is employed by the Company.
- Prior to 2004, Robert G. Sarver was deemed an independent director. The Nominating/Governance Committee has continually monitored certain relationships between Mr. Sarver and Meritage along with relationships between Mr. Sarver and Mr. Hilton. Mr. Sarver and Mr. Hilton have certain business relationships unrelated to Meritage, including serving as trustees of certain of each other's family trusts. The Nominating/Governance Committee evaluated these relationships and determined that they did not impair Mr. Sarver's independence because they do not involve Meritage and are insignificant in relation to Mr. Sarver's net worth. During 2004, Mr. Sarver became the controlling owner of the Phoenix Suns basketball team, in which Mr. Hilton purchased a minority ownership interest. This relationship was closely evaluated by the Nominating/Governance Committee because of its significance to Messrs. Sarver and Hilton and because Meritage had purchased advertising with the Phoenix Suns, although that advertising contract expired in 2008. The Nominating/Governance Committee and the Board of Directors believe Mr. Sarver is a valuable member of the Board and that the Company benefits from his extensive business experience. Nevertheless, the Nominating/Governance Committee concluded it is in the best interest of Meritage's stockholders that Mr. Sarver not be

deemed an independent director.

The Board has also determined that all governance committees of the Board are composed entirely of independent directors.

Board Leadership Structure

Steven J. Hilton, our founder and CEO, also serves as a director and the Chairman of the Board. We believe Mr. Hilton's unique industry experience and continuing involvement in the day-to-day operations of the Company make him highly qualified to serve as our Board's Chairman and that this is the best leadership structure for our Board. Moreover, Mr. Hilton founded Meritage Homes Corporation and is its largest individual stockholder. Mr. Ax, our Audit Committee Chairman, also serves as the Board's lead independent director. His extensive executive and financial background is a solid foundation for this role, where he manages the executive sessions and provides guidance for the Board's direction. We believe it is important for the non-employee directors to have an independent lead director.

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CEO and Management Succession

Under the charter of the Nominating/Governance Committee, it is the role of the Nominating/Governance Committee to develop and recommend to the Board of Directors a set of corporate governance principles and practices applicable to the Company, including items such as management succession, policies and principles for CEO selection and performance review, and policies regarding succession in the event of an emergency or retirement of the CEO. The development of these policies has resulted in our Corporate Governance Principles and Practices, which provides, among other things, that our Executive Compensation Committee is to conduct an annual review of the performance of the CEO.

The Board of Directors considers management evaluation and CEO succession planning an important responsibility of the Board. Under our Corporate Governance Principles and Practices, the Board of Directors is responsible for approving a succession plan for our CEO and other senior officers. Issues relating to CEO succession planning are addressed regularly (and at least annually) by the Board.

Risk Oversight

Our Board of Directors has overall responsibility for the oversight of risk management. As part of this oversight, on a regular basis, our Board of Directors receives reports from various members of management and is actively involved in monitoring and approving key decisions relating to our operations and strategy. For example, management must obtain approval from the Board of Directors before proceeding with any land acquisition above a pre-established threshold, and our General Counsel regularly reports to the Board of Directors information concerning ongoing litigation and possible legal and other risks that might expose the Company to liability or loss. The Board also annually reviews the Company's insurance programs. Management also operates the business within parameters established by an annual budget that is reviewed and approved by the Board of Directors. At each quarterly Board meeting, management provides the Board of Directors a status report with respect to the budget and addresses any material variances. We believe our budgeting process provides a useful mechanism for identifying risks and the related rewards and provides a quantitative method for evaluating those risks and rewards. The Board of Directors also oversees risk through its standing committees. For example:

- Our Audit Committee is responsible for reviewing and analyzing significant financial and operational risks and how management is managing and mitigating such risks through its internal controls and risk management processes. Our VP of Internal Audit reports directly to the Audit Committee and provides routine updates on the progress and findings of the on-going internal audit reviews. Our external auditors also have at least quarterly discussions with our Audit Committee, and meet both with and without Company management present, to highlight what they perceive as our key financial risks. Our Audit Committee plays an important role in approving our annual internal controls monitoring plan and is regularly engaged in discussions with management regarding business risks, operational risks, transactional risks and financial risks.
- Our Executive Compensation Committee oversees risks relating to the compensation and incentives provided to our senior executive officers. The Executive Compensation Committee negotiated and approved all of the employment agreements of our NEOs and the Committee approves all grants of equity awards to all of our employees. Based on a joint decision with the Committee, we have begun using restricted share grants in lieu of stock options in our long-term equity compensation to provide an incentive to balance the assumption of risk while maintaining shareholder value. In addition, for our NEOs, a large portion of these equity grants contain performance vesting criterion.

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- We also added all of our Independent Directors to all of our Committees to provide greater Director participation in key policy decisions.

The Board and Board Committees

We currently have seven incumbent directors and the following committees: Audit Committee, Executive Compensation Committee and Nominating/Governance Committee.

During 2009, the Board of Directors held nine meetings. Each director attended at least 75% of the aggregate of all Board and committee meetings of which they were a member. Directors are expected to attend our annual meetings of stockholders. All directors attended our 2009 annual meeting, which was held on May 21, 2009.

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The following table summarizes the current members of our Board of Directors, and describes the current members of each of the committees and the number of meetings held during 2009:

Board of Directors	Audit Committee	Executive Compensation Committee	Nominating/Governance Committee
Steven J. Hilton			
Peter L. Ax +	X**	X	X
Raymond Oppel	X	X**	X
Richard T. Burke, Sr.	X	X	X
Gerald W. Haddock	X	X	X**
Dana Bradford	X	X	X
Robert G. Sarver			
Number of Meetings			

X = Member

** = Chair

+ = Lead Independent Director

Audit Committee

The Board of Directors has established an Audit Committee in accordance with Section 3(a)(58)(A) of the Exchange Act, and the rules and regulations of the NYSE. The Audit Committee assists the Board of Directors in:

- fulfilling its oversight of the integrity of our financial statements,
- reviewing and approving any related party transaction between us and senior executive officers and directors,
- determining our compliance with legal and regulatory requirements,
- determining the independent registered public accounting firm's qualifications and independence, and
- evaluating the performance of our internal audit function and independent registered public accounting firm.

The Audit Committee has the sole authority to appoint or replace the independent registered public accounting firm and approves all audit engagement fees and terms of all significant non-audit engagements with the independent registered public accounting firm in accordance with

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the pre-approval policies set forth in our Audit Committee charter. The Audit Committee has the authority to obtain advice and assistance from, and receive appropriate funding from us for, outside legal, accounting or other advisors as it deems necessary to carry out its duties.

The Audit Committee operates under a written charter established by the Board. The charter is available on our website at www.meritagehomes.com and we will provide a printed copy to any stockholder upon request. Each member of the Audit Committee meets the independence requirements of the NYSE and the Exchange Act, and is financially literate, knowledgeable and qualified to review our financial statements. The Board of Directors has determined that Peter Ax, an independent director as defined by the NYSE's listing standards, is an audit committee financial expert. Information about Mr. Ax's past business and educational experience is included in his biography in this proxy statement under the caption Continuing Director Information.

The report of the Audit Committee is included in this proxy statement under the caption Report of the Audit Committee.

Executive Compensation Committee

Responsibilities. The Board of Directors has established our Executive Compensation Committee (the Compensation Committee) in accordance with the NYSE's rules and regulations. The Compensation Committee regularly reports to the Board of Directors and its responsibilities include:

- reviewing and approving goals and objectives relative to the compensation of our NEOs, evaluating our NEOs' performance in light of these goals and approving the compensation of our NEOs,
- overseeing all equity-based award grants,

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- making recommendations to the Board of Directors with regard to non-NEO compensation and equity-based awards, and
- producing a report on executive compensation to be included in our annual proxy statement.

Composition and Independence. The Compensation Committee is currently comprised of five members of the Board, each of whom is designated to be independent under the Corporate Governance Standards of the NYSE, a non-employee director under Section 16 of the Exchange Act, and an outside director for purposes of Section 162(m) of the Code. Generally the Compensation Committee chairman is in charge of setting the schedule for the Compensation Committee's meetings, as well as the agenda of each meeting.

Charter. The Compensation Committee operates under a written charter, which is available on our website at www.meritagehomes.com. We will provide a printed copy of the charter to any stockholder upon request.

Outside Consultants. The Compensation Committee has the specific authority to hire outside advisors and consultants. However, no consultants were hired during 2007, 2008 or 2009 to assist in any compensation-related matters.

Role of Executives in the Compensation Setting Process. The Compensation Committee determines executive compensation with respect to our NEOs independent of management. With respect to compensation of non-NEOs, the Compensation Committee functions in an oversight role as these decisions are considered the responsibility of management. For example, the Compensation Committee reviews the compensation for various non-NEOs to evaluate reasonableness in comparison to industry standards and may make recommendations to the CEO regarding changes in non-NEO compensation. The Compensation Committee approves all grants of equity-based awards. For the NEOs, the number and type of equity award grants in most cases are determined based on an employment agreement between the Company and the NEO; however, they may be adjusted based on the Compensation Committee's review of the NEO's performance and competitive market factors. For non-NEOs, management is responsible for recommending to the Compensation Committee the persons to receive grants and the nature and size of the proposed award. Because management is responsible for the day-to-day operation of the Company, the Compensation Committee believes that management is in the best position to make this recommendation.

Compensation Committee Interlocks and Insider Participation. None of the members of the Compensation Committee is, or has been, an employee of Meritage or any of its subsidiaries. There were no interlocking relationships between Meritage and other entities that might affect the determination of the compensation of Meritage's executive officers.

Nominating/Governance Committee

The Board of Directors has established a Nominating/Governance Committee, which directly reports to the Board of Directors and is responsible for:

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- identifying individuals qualified to become Board members and recommending director nominees for the next annual meeting of stockholders,
- developing and recommending Corporate Governance Principles and Practices applicable to us,
- and addressing such items as management succession, including policies and principles for our CEO selection and performance review and succession in the event of an emergency or retirement of the CEO,
- leading the Board of Directors in its annual review of the Board's performance, and
- recommending nominees for the Compensation Committee and Audit Committee.

The Nominating/Governance Committee has the sole authority to retain and terminate any search firm used to identify director candidates, including sole authority to approve the search firm's fees and other retention terms. The Nominating/Governance Committee operates under a written charter, which is available on our website at www.meritagehomes.com. We will provide a printed copy of the charter to any stockholder upon request. Each member of the Nominating/Governance Committee meets the independence requirements of the NYSE.

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Director Nomination Process

Stockholder Nominees. The policy of the Nominating/Governance Committee is to consider properly submitted stockholder nominations for candidates for membership on the Board of Directors as described below. In evaluating such nominations, the Nominating/Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership qualifications and criteria described below. Any stockholder nominations proposed for consideration by the Nominating/Governance Committee must include the nominee's name and qualifications for Board membership and should be submitted to:

Meritage Homes Corporation
17851 North 85th Street
Suite 300
Scottsdale, Arizona 85255
Attn: Corporate Secretary

The Secretary will forward all nominations to the Nominating/Governance Committee. In addition, our bylaws permit stockholders to nominate directors for consideration at an annual stockholder meeting. For a description of the process for submitting such nominations, and the deadline to propose actions for consideration at next year's annual meeting, please see "Stockholder Proposals" on page 45 of this proxy statement.

Director Qualifications. The Nominating/Governance Committee will evaluate prospective nominees using the standards and qualifications set forth in our Corporate Governance Principles and Practices. Prospective nominees should have the highest professional and personal ethics and values, as well as broad experience at the policy-making level in business, government, education or public interest. They should be committed to enhancing stockholder value and should have sufficient time to devote to carrying out their duties and to provide insight based upon experience, talent, skill and expertise appropriate for the Board. Each prospective nominee must be willing and able to represent the interests of our stockholders.

Identifying and Evaluating Nominees for Directors. The Nominating/Governance Committee utilizes a variety of methods for identifying and evaluating nominees to serve as directors. The Nominating/Governance Committee assesses the current composition of the Board of Directors, the balance of management and independent directors and the need for Audit Committee expertise in its evaluation of prospective nominees. In the event that vacancies are anticipated, or otherwise arise, the Nominating/Governance Committee may seek recommendations from current Board members, professional search firms, outside legal, accounting and other advisors, or stockholders in order to locate qualified nominees. Although not specifically addressed in its charter, the Nominating/Governance Committee also evaluates each candidate in the context of maintaining and creating Board diversity, as previously discussed. After completing its evaluation, the Nominating/Governance Committee will make a recommendation to the full Board of Directors as to the persons who should be nominated by the Board of Directors, and the Board will determine the nominees after considering such recommendations.

Executive Sessions of Independent Directors

Our Corporate Governance Principles and Practices dictate that the non-management members of the Board of Directors will meet in executive session at least quarterly outside the presence of directors that are employees or officers of the Company. The non-management directors met in

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executive session four times during 2009. Peter Ax is our Lead Independent Director and presides over these executive session meetings.

Code of Ethics

We are committed to conducting business consistent with the highest ethical and legal standards. The Board of Directors has adopted a Code of Ethics, which is applicable to all employees, including our senior and executive management and our directors. The Code is available on our website at www.meritagehomes.com and we will provide a print copy to any stockholder upon request.

Communications with the Board of Directors

Interested persons may communicate with the Board of Directors by writing to our Lead Independent Director at the address set forth on page 1.

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COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Summary Compensation Table and related tables that are presented immediately below.

Introduction and Summary

The purpose of this compensation discussion and analysis (CD&A) is to provide information about each material element of compensation that we pay or award to, or that is earned by, our NEOs. For our 2009 fiscal year, our NEOs were:

- Steven J. Hilton, Chairman and Chief Executive Officer,

- Larry W. Seay, Executive Vice President, Chief Financial Officer,

- C. Timothy White, Executive Vice President, General Counsel and Secretary, and

- Steven Davis, Executive Vice President, Chief Operating Officer

This CD&A addresses and explains the numerical and related information contained in the summary compensation tables and includes actions regarding executive compensation that occurred after the end of our 2009 fiscal year, including the award of bonuses related to 2009 performance, and the adoption of any new, or the modification of any existing, compensation programs, if applicable.

Overview

Compensation Philosophy and Objectives

Our executive compensation program is designed to drive and reward superior corporate performance both annually and over the long term while simultaneously striving to be externally competitive. We continually review our executive compensation program to ensure it reflects good governance practices and is in the best interests of stockholders, while meeting the following core objectives:

- *Pay for Performance* A substantial portion of the total compensation for each NEO is intended to be variable on a pay-for-performance basis. The terms of the performance-based compensation contemplated in each NEO's employment agreement is first based upon an assessment of external market data to ensure that the compensation formula is competitive relative to the compensation paid by companies with which we compete for executive talent. This compensation is derived based on (i) the performance of the Company as a whole, as measured against our peer group and (ii) the officer's role in the attainment of the Company's performance. Due to the ongoing economic recession and severe downturn in the homebuilding industry, the Compensation Committee has approved a greater percentage of long-term pay for performance awards to our NEOs than what has been our historical composition to more closely align the goals of management with those of our shareholders.
- *Stock Ownership* We are committed to utilizing our compensation program to increase executive stock ownership over time. We believe that equity ownership directly aligns the interests of our executives with those of our stockholders and helps to focus our executives on long-term stockholder value creation. Commencing in 2007, we began to award restricted stock to our NEOs as we believe such awards provide our NEOs with an incentive to continue to increase long-term stockholder value, even during periods of declining stock prices. We believe the granting of both options and restricted stock are important retention tools and are widely used in our industry.
- *Recruiting and Retention* Due to the competitive nature of our industry, we are committed to providing total compensation opportunities that are competitive with, though not identical to, the practices of other large public homebuilders in our industry. We intend for our compensation program to be sufficiently aligned with industry practices so that we can continue to attract and retain outstanding executives who are motivated to help us achieve our mission.

Compensation Peer Group

We compete with homebuilding companies of various sizes for executive talent, and therefore the Compensation Committee generally reviews composite market data reflecting the market median compensation paid to similarly situated executives. While market data is an important factor considered by the Compensation Committee when setting compensation, it is only one of multiple factors, and the amount paid to each executive may be more or less than the composite market median based on the performance of the Company and the executive, the roles and responsibilities of the executive, experience level of the individual, internal equity and other factors that the Compensation Committee deems important.

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Compensation Update for Fiscal Year 2009

In light of the continuing turmoil in the general economy as well as the prolonged downturn in the homebuilding industry in particular, we have re-assessed our historical compensation strategy to better align ourselves with current market conditions. Management and our Compensation Committee continuously review our compensation practices to ensure they are prudent and reasonable in comparison to our peers, while still robust enough to attract and maintain key talent. Highlights of our significant events and changes are as follows:

- NEOs elected to forgo annual salary increases in 2009 even though they were contemplated in certain of their respective employment agreements. Additionally, several of our NEOs also assumed additional responsibility as a result of our reductions in force.

- Effective for 2009, our CEO voluntarily reduced his base salary by \$217,500 to \$800,000.

- No cash bonuses were earned by the NEOs under each of their respective employment agreements. The Compensation Committee approved discretionary bonuses for 2009 for all of our NEOs, although our CEO declined to accept his discretionary bonus.

- We have shifted the mix of the compensation to our NEOs to be more heavily-weighted towards long-term incentives than it has historically been, particularly via the use of equity-based compensation while maintaining a total compensation package that we believe is in line with our peer group.

- As part of this shift towards increased use of equity compensation, the equity awards granted for our NEOs for 2008 and 2009 exceeded the amounts contemplated under each of their respective employment agreements.

- Additionally, beginning in 2009, a meaningful portion of our NEOs' equity-based compensation is contingent upon the successful attainment of certain financial and operational goals.

- We have maintained our policy of virtually no perquisites to our NEOs. For a detail of the perquisites paid in 2009, refer to the All Other Compensation Table .

We believe these practices more closely align the compensation of our NEOs with the interests of our stockholders and the success of the Company. We will continue to monitor current events and trends in our industry and adjust our strategy accordingly.

Compensation Program and Payments

The key components of our executive compensation program are base salary, annual incentive compensation and long-term incentive compensation. In addition, our NEOs have the opportunity to participate in our company-wide 401(k) plan and to receive certain personal benefits, as described below. The employment agreements of our CEO and other NEOs were amended in 2010 as noted under the caption "2010 Developments."

Base Salary

The purpose of the base salary is to provide a fixed amount of cash compensation that is not variable and is generally competitive with market practices. Consistent with industry practice and our pay-for-performance objective, the base salary for each of our NEOs is designed to account for a relatively small portion of their overall compensation. As compared to our compensation peer group, we target our NEO salaries to be commensurate with other public homebuilders of similar size. We believe the NEO base salaries are appropriate based on the officers' roles, responsibilities, experience and contributions to the company, as well as market data.

Due to the reduced levels of discretionary bonuses in 2009, base salaries accounted for a more significant portion of our NEOs' total compensation this year. The Compensation Committee believes this demonstrates the merits of the design of our overall compensation package because the Company's lower financial performance resulted in a significantly lower level of compensation for our NEOs, particularly cash-based compensation.

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The employment agreements we have previously entered into with our NEOs remained in place during 2009 and contemplated a fixed base salary with annual increases that could also be increased at the discretion of the Compensation Committee. In 2008, our NEOs agreed to no base salary increases for 2008 and 2009. In addition, our CEO agreed to voluntarily reduce his 2009 base salary by \$217,500.

Annual Incentive Compensation

In accordance with the terms of each NEO's employment agreement, each NEO was eligible for additional annual incentive compensation. As compared to our peer group, we target our NEO incentive compensation to be commensurate with other public homebuilders of similar size. The incentive compensation is designed to comply with the requirements of Section 162(m) of the Code to ensure the tax deductibility of incentive compensation paid to our named executive officers. Under Section 162(m), we cannot deduct compensation in excess of \$1 million that is paid to an NEO in any year unless the compensation qualifies as performance-based compensation under Section 162(m).

We believe investors within the public homebuilder industry look to several key financial metrics when valuing companies. These metrics include Adjusted EBITDA, return on assets and return on equity. For our NEOs, we have structured the cash incentive component of their compensation to result in the possible award of a percentage of Adjusted EBITDA, as defined below. The level of the cash incentive award is based upon our financial performance compared to other public homebuilders in multiple metrics. If the Company compares favorably (e.g., the top half) in each metric (i.e., return on assets and return on equity), the executive is eligible for the maximum award, subject to formal Compensation Committee approval. Where the Company's performance falls in the lower levels of the metric, the executive is entitled to a lower, or no, bonus, also subject to formal Compensation Committee approval.

The specific details of each NEO's 2009 incentive compensation are further described in this proxy under the section Compensation Discussion and Analysis Employment Agreements.

Although Meritage did not generate net income or EBITDA as defined for compensation calculation purposes during 2009, the Compensation Committee awarded discretionary bonuses to our NEOs in recognition of the officers' efforts and accomplishments during a particularly challenging economic environment in 2009; however, Mr. Hilton declined to accept his payment. In 2008, no incentive payments were made to Messrs. Hilton, Seay, White or Davis in accordance with the terms of their respective employment agreements.

Compensation Determinations and Relevant Factors

When determining the amount (or exclusion of) bonus and incentive compensation to be paid for 2009, the Compensation Committee reviewed and considered the following information:

- Feedback from the full Board of Directors (excluding the CEO) regarding the performance of the CEO for 2009,

- The financial and stock performance of the Company, comparable public companies and other companies in our industry with which we compete, including the total relative stockholder return of our Company and our competitors, and
- The recommendation of the CEO regarding the bonus and incentive compensation to be paid to each NEO, which the Compensation Committee discussed with the CEO.

Long-Term Incentive Awards

Long-term incentives are intended to provide compensation opportunities based on the creation of stockholder value and an increase in our stock price. The upside potential of stock option awards will be realized by the NEOs only if our stock price performance improves over the vesting period and/or the term of the awards. Stock options granted to our NEOs generally have a five-year pro-rata vesting schedule and a seven-year term. Commencing in 2007, we began awarding our NEOs restricted stock awards as part of our total equity compensation structure, in addition to stock option grants. Starting in 2009, we began granting restricted stock and performance-based restricted stock to our NEOs. The restricted stock awards generally have either a three-year pro-rata or three-year cliff vesting schedule. As further discussed below, commencing in 2009, a portion of the restricted stock awards vest annually with no performance criteria while the remaining awards of restricted stock vest on a three-year pro-rata basis contingent first upon the achievement of certain pre-specified performance criteria.

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In connection with our equity awards, we have also adopted equity ownership requirements as further discussed below in the section Compensation Discussion and Analysis Compensation Program and Payments Security Ownership Requirements.

The Compensation Committee believes that equity awards provide a strong long-term incentive for our NEOs (and other officers and employees) that, along with their security ownership, help to align the interests of management with our investors. The Compensation Committee believes that these equity-based awards provide the opportunity for our executives to benefit from strong equity performance and, particularly in the case of the restricted stock awards that have been granted since 2007, the NEOs focus on balancing stability and preservation of the stock value against being incentivized to potentially take on an imprudent level of additional risk to drive stock appreciation with equity awards such as stock options. The Company and the Compensation Committee also believe that an appropriate mix of cash compensation and non-cash compensation in the form of stock options and restricted stock awards benefits us because these non-cash compensation awards do not require the use of our working capital. The Compensation Committee is mindful of the fact that stock options and restricted stock awards represent an expense under generally accepted accounting principles and a cost to the Company and its stockholders in the form of dilution. Accordingly, we seek to achieve an appropriate balance between cash and non-cash compensation such that management is appropriately incentivized, our working capital and financial results are minimally affected and our stockholders do not experience undue dilution.

Other Compensation

The Compensation Committee does not believe in the extensive use of perquisites as a component of executive compensation. Since 2007, the Company eliminated all benefits relating to personal use of charter aircraft for our CEO. The Compensation Committee believes that the perquisites provided to our NEOs (above those received by all employees or officers in general) are limited, but help maintain the competitiveness of our compensation package as compared to our peer companies. The types of perquisites we provide to our NEOs generally consist of car allowances, enhanced life and disability insurance and annual physicals.

Tax Considerations

Section 162(m) of the Code limits the deductibility of executive compensation paid by publicly held corporations to \$1 million for each NEO named in this proxy statement. The \$1 million limitation generally does not apply to compensation that is pursuant to a performance-based plan approved by stockholders. Our policy is to comply with the requirements of Section 162(m) and generally maintain deductibility for all executive compensation, although we reserve the right, as do most public companies, to make non-deductible payments where we determine it is in the best interests of Meritage and its stockholders.

At the 2006 Annual Meeting of Stockholders, our stockholders approved the 2006 Incentive Plan. The purpose of the 2006 Incentive Plan is to provide for annual incentive awards to the Company's key executives, including the NEOs, and it is the vehicle through which we pay our cash performance bonuses. The 2006 Incentive Plan is administered by the Compensation Committee and provides for cash awards payable to executives upon the attainment of certain predetermined performance goals for the Company. It is our intent that performance-based awards made pursuant to the 2006 Incentive Plan qualify as deductible compensation under Section 162(m) of the Code.

The current employment agreement for our CEO contemplates the payment of a base salary and benefits that will likely exceed slightly the limitations provided for under Section 162(m). It is not expected that we will incur a Section 162(m) excess resulting in a lost tax deduction that

is material.

Security Ownership Requirements

In 2006, we adopted security ownership requirements for our directors and certain executive officers. The Board of Directors believes that these guidelines align the interests of our directors and executive officers with those of stockholders. Our directors and executive officers are required to comply with the following ownership guidelines:

- Directors, two times annual director fees (exclusive of committee or lead director fees),
- CEO, four times base salary, and
- COO, CFO and General Counsel, two times base salary

In the case of the appointment of a new officer or director, such person is expected to comply with the requirements within three years of the date of appointment. In order to enable our directors and officers to prudently manage their personal financial

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affairs, our policy provides that once compliance is obtained, subsequent changes in stock price will not affect the person's compliance with the guidelines. For purposes of the security ownership requirement, stock options and non-vested restricted stock are not considered owned. As of December 31, 2009, all officers and directors were in compliance with their respective security ownership requirements.

Stock Options and Other Equity-Based Awards

Meritage has traditionally granted stock options to directors, senior executive officers and other employees to provide a means for incentive compensation and to align the interests of management with the interest of Meritage's stockholders. At the 2006 Annual Meeting of Stockholders, the Company's stockholders approved the 2006 Stock Incentive Plan (as subsequently amended). The 2006 Stock Incentive Plan contemplates and allows for a variety of equity-based awards, including stock options, restricted stock, stock appreciation rights and other performance-based awards that were not previously authorized. Since the approval of the 2006 Stock Incentive Plan, the Company has begun to grant restricted stock awards as a means of providing incentive compensation and reduce the Company's sole reliance on stock options, bringing it more in line with industry trends.

In response to disclosure rules adopted by the SEC and other well-publicized stock option dating concerns, the Board of Directors of Meritage in 2006 approved comprehensive policies relating to the granting of stock options and other equity-based awards. Following is a summary of key aspects of our policies:

- All stock option grants, restricted stock awards and other equity based awards (stock-based grants) must be approved by the Compensation Committee.

- All stock-based grants will be approved at formal meetings (including telephonic) of the Compensation Committee.

- The date for determining the strike price and similar measurements will be the date of the meeting (or a specified date shortly after the meeting) or, in the case of an employee, director or consultant not yet hired, appointed or retained, respectively, the subsequent date of hire, appointment or retention, as the case may be.

- The annual stock-based grant shall be approved at a regularly scheduled meeting of the Compensation Committee during the first part of the year, but generally after the annual earnings release. We believe that coordinating the main annual award grant after our annual earnings release will generally result in this grant being made at a time when the public is in possession of all material information about us.

- The customary annual grant to executive officers and directors shall occur approximately at the same time as the customary annual grant to other employees.

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- The Company shall not intentionally grant stock-based awards before the anticipated announcement of materially favorable news or delay the grant of stock-based awards until after the announcement of materially unfavorable news.

- The Compensation Committee will approve stock-based grants only for persons specifically identified at the meeting by management.

Although our Company-wide 2010 annual grant was finalized in January 2010 to coincide with a scheduled Executive Compensation Committee meeting, the 2010 equity grant for our NEOs and Board members was not approved until February 11, 2010, consistent with our 2009 annual grant, which was also finalized in February 2009, in each case subsequent to our year-end earnings release. We elected to accelerate our 2008 annual grant to December 2007 to provide additional long term incentives to our employees and management team in anticipation of lower cash bonus payments.

Employment Agreements In Effect for 2009

For 2007, 2008 and 2009, the NEOs' compensation was governed by their respective employment agreements, of which the key compensation elements within each agreement are discussed below. In January 2010, we entered into employment agreements with the CEO and each NEO, and the Compensation Committee reviewed and approved the terms of each agreement. These new agreements are discussed in more detail below under the caption 2010 Developments.

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Steven J. Hilton, CEO

In 2007, the Company and Steven J. Hilton entered into an amended and restated employment agreement, which was scheduled to expire on December 31, 2008 but was automatically extended to December 31, 2009 pursuant to the agreement's automatic one year renewal provisions. This agreement provided Mr. Hilton with a base salary of \$1,017,500 per year. In 2009, Mr. Hilton voluntarily reduced his base pay to \$800,000. This agreement also provided that Mr. Hilton was entitled to reimbursement of reasonable and customary business expenses, payments to purchase a \$5 million term life insurance policy, payments to purchase disability insurance providing for monthly benefit payments of approximately \$20,000, participation in our Executive Supplemental Savings Plan (which enables deferred compensation in excess of 401(k) limitations), and use of a Company-provided automobile.

Mr. Hilton's agreement also provided for an annual cash incentive bonus based on the Company's attainment of defined performance objectives. Mr. Hilton was entitled to an annual bonus equal to 0.825% of EBITDA if the Company's return on assets was in the top half of public homebuilders having revenues of \$500 million or more, and an additional 0.825% of EBITDA if the Company's return on equity was in the top half of these public homebuilders. If either measurement fell within the 33rd to 49th percentile, the bonus would be 0.5363% of EBITDA for the applicable measurement, and if either measurement fell below the 33% threshold, then there would not be any formula bonus paid with respect to such measurement. The Compensation Committee had complete discretion to act reasonably to increase or reduce the amount of this bonus component (including reducing the bonus to zero) or provide separate supplemental awards, regardless of whether the Company met the goals discussed above. Mr. Hilton was not paid a bonus in 2007 or 2008. In 2009, the Compensation Committee awarded him a discretionary bonus, which he declined.

Mr. Hilton's agreement was amended and restated in January 2010 and is discussed below under the caption 2010 Developments.

Larry W. Seay, Executive Vice President and Chief Financial Officer

In 2007, the Company and Larry W. Seay entered into an amended and restated employment agreement, which was scheduled to expire on December 31, 2008 but was automatically extended to December 31, 2009 pursuant to the agreement's automatic one year renewal provisions. This agreement initially provided Mr. Seay with a base salary of \$450,000 per year, which could be adjusted from time to time, provided that it could not be reduced without Mr. Seay's consent. In order to keep Mr. Seay's compensation in line with other CFOs in our peer group, the Compensation Committee recommended to increase Mr. Seay's base salary to \$500,000 for 2008; however, Mr. Seay voluntarily agreed to forfeit the increase and maintained his 2007 base salary of \$450,000. Mr. Seay also declined a salary adjustment in 2009. This agreement also provided that Mr. Seay was entitled to reimbursement of reasonable and customary business expenses, a \$1,200 per month automobile allowance and an annual benefit of up to \$20,000 to provide Mr. Seay with a \$3 million term life insurance policy, consistent with our practice for other NEOs.

Mr. Seay's agreement also provided for an annual cash incentive bonus based on the Company's attainment of defined performance objectives. Mr. Seay was entitled to a bonus equal to 0.20% of EBITDA if the Company's return on assets was in the top half of public homebuilders having revenues of \$500 million or more, and an additional 0.20% of EBITDA if the Company's return on equity was in the top half of these public homebuilders. If either measurement fell within the 33rd to 49th percentile, the bonus would be 0.13% of EBITDA for the applicable measurement, and if either measurement fell below the 33% threshold, then there would not be any formula bonus paid with respect to such measurement. The Compensation Committee had complete discretion to act reasonably to increase or reduce the amount of this bonus component (including reducing the bonus to zero) or provide separate supplemental awards, regardless of whether the Company met the goals discussed above. Mr. Seay did not earn a bonus in 2007 or 2008. In 2009, the Compensation Committee awarded him a \$250,000 discretionary

bonus in recognition of the Mr. Seay's efforts and accomplishments during a particularly challenging economic environment in 2009.

Mr. Seay's agreement was amended and restated in January 2010 and is discussed below under the caption 2010 Developments.

C. Timothy White, Executive Vice President, General Counsel and Secretary

The Company had an employment agreement with C. Timothy White that was scheduled to expire on December 31, 2008 but was renewed through December 31, 2009 under an automatic one year renewal option. The agreement provided for a base salary for 2008 of \$551,250 with an increase of 5% on January 1 of any renewal term; however, Mr. White voluntarily forfeited his base pay increase and maintained his 2008 base pay at \$525,000, consistent with 2007. He also declined a salary adjustment in 2009. Mr. White was entitled to an annual cash incentive bonus equal to 0.1125% of EBITDA. Mr. White was awarded a discretionary bonus by the Compensation Committee of \$250,000 in 2009 in recognition of Mr. White's efforts and accomplishments during a particularly challenging economic environment in 2009. He did not receive any incentive bonus payments in 2008. Mr. White's

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employment agreement also contemplated that he would receive an annual option grant to acquire 15,000 shares of common stock at an exercise price equal to the fair market value on the date of grant. In addition, Mr. White was entitled to a \$1,200 per month automobile allowance, \$3 million of term life insurance coverage and such other benefits as are regularly provided by the Company to its senior management.

Mr. White's agreement was amended and restated in January 2010 and is discussed below under the caption 2010 Developments.

Steven M. Davis, Executive Vice President and Chief Operating Officer

In 2006, the Company entered into an employment agreement with Steven M. Davis. This agreement had a two-year term and was scheduled to expire on October 16, 2008 but was automatically extended to October 16, 2009 pursuant to the agreement's automatic one-year renewal provisions. The agreement provided for a base salary of \$400,000 with an increase of 5% on November 1, 2008 and November 1 of any renewal term; however, Mr. Davis voluntarily forfeited his base pay increase on November 1, 2008 and 2009 and maintained his base pay at \$400,000. Mr. Davis was also entitled to a performance-based incentive bonus, which was targeted to be between 0.25% and 0.33% of EBITDA. Mr. Davis did not earn any cash bonus under the terms of his employment agreement for 2008 and, at the Compensation Committee's discretion, no such bonus was paid for 2008. The Compensation Committee awarded Mr. Davis a discretionary bonus of \$375,000 in 2009 in recognition of the Mr. Davis' efforts and accomplishments during a particularly challenging economic environment in 2009. Mr. Davis' employment agreement also contemplated that he would receive an annual option grant to acquire 15,000 shares of common stock at an exercise price equal to the fair market value on the date of grant. In addition, Mr. Davis was entitled to a \$1,250 per month automobile allowance and such other benefits as are regularly provided by the Company to its senior management.

Mr. Davis' agreement was amended and restated in January 2010 and is discussed below under the caption 2010 Developments.

Discussion of CEO and NEO Compensation

Following is a discussion of the compensation paid, awarded or earned in 2009 to the Company's CEO and NEOs.

CEO Compensation

Meritage's CEO, Steven J. Hilton, was compensated in 2009 pursuant to the terms of his employment agreement, which provided for a base salary, a bonus based on Company performance and, if earned, other customary executive benefits. Under this agreement, a substantial portion of Mr. Hilton's potential compensation was performance-based to align his goals and efforts with the interests of our stockholders.

Salary. Mr. Hilton was paid a base salary of \$800,000 in 2009, a voluntary reduction from the \$1,017,500 contemplated in his agreement.

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Restricted Stock. In 2009, Mr. Hilton received 45,000 restricted stock awards. These awards vest in equal installments on the annual anniversary of the date of grant for the next three years. Additionally, Mr. Hilton was awarded 67,500 shares of performance stock, which also vest in equal installments over the next three years only if the following performance criteria are met:

Number of Shares	Measurement Date	Performance Criteria
11,250	February 11, 2010	125% of 2009 Pre-tax income is greater than budget or 2009 Pre-tax income is within \$9 million of budget
11,250	February 11, 2011	125% of 2010 Pre-tax income is greater than budget or 2010 Pre-tax income is within \$9 million of budget
11,250	February 11, 2012	125% of 2011 Pre-tax income is greater than budget or 2011 Pre-tax income is within \$9 million of budget
6,750	February 11, 2010	2009 SG&A expense less than 110% of budget
6,750	February 11, 2011	2010 SG&A expense less than 110% of budget
6,750	February 11, 2012	2011 SG&A expense less than 110% of budget
4,500	February 11, 2010	2009 Customer Service Satisfaction Rating greater than 8.0
4,500	February 11, 2011	2010 Customer Service Satisfaction Rating greater than 8.0
4,500	February 11, 2012	2011 Customer Service Satisfaction Rating greater than 8.0

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The number of shares and type of equity award for the 2009 grant was determined by the Compensation Committee and was deemed commensurate with compensation packages of other CEOs of public homebuilders when evaluated in connection with Mr. Hilton's total cash and equity compensation. For 2009, the Compensation Committee determined that the Company met each of the performance criteria for the February 11, 2010 measurement date as follows:

- The Company's 2009 Pre-tax income was \$(25,750), which exceeded budget by more than \$9 million
- The Company's 2009 SG&A expense was \$60,175, which was within 110% of budget
- The Company's 2009 Customer Service Satisfaction Rating exceeded 8.0

Accordingly, Mr. Hilton received 22,500 shares of the Company's common stock on February 11, 2010.

Options. Mr. Hilton was not granted any options in 2009.

Performance-Based Bonus. For 2009, Mr. Hilton was entitled to a cash performance-based bonus pursuant to the terms set forth in his employment agreement. The Company did not generate sufficient net income or EBITDA for a bonus to be earned; however, the Compensation Committee approved a discretionary bonus, which Mr. Hilton declined.

Other Benefits. The Company also provided to Mr. Hilton other benefits consistent with our normal executive employment arrangements. These benefits are detailed in the All Other Compensation Table included in this proxy statement and in 2009 totaled less than \$55,000.

Other NEO Compensation

Following is a discussion of compensation paid during 2009 to the other NEOs named in this proxy statement.

Larry W. Seay, Executive Vice President and Chief Financial Officer. Mr. Seay was compensated in 2009 pursuant to the terms of his employment agreement, which provided for a base salary, a bonus based on Company performance, if earned, and other customary executive benefits. Under this agreement, a substantial portion of Mr. Seay's potential compensation is performance-based to align his goals and efforts with the interests of our stockholders.

Salary. Mr. Seay was paid a base salary of \$450,000 in 2009. Although Mr. Seay's employment agreement contemplated an increase in 2008 and 2009, he voluntarily forfeited such increases.

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Restricted Stock. In 2009, Mr. Seay received 30,000 restricted stock awards. These awards vest in equal installments on the annual anniversary of the date of grant for the next three years. Additionally, Mr. Seay was awarded 45,000 shares of performance stock, which also vest in equal installments over the next three years only if the following performance criteria are met.

Number of Shares	Measurement Date	Performance Criteria
7,500	February 11, 2010	125% of 2009 Pre-tax income is greater than budget or 2009 Pre-tax income is within \$9 million of budget
7,500	February 11, 2011	125% of 2010 Pre-tax income is greater than budget or 2010 Pre-tax income is within \$9 million of budget
7,500	February 11, 2012	125% of 2011 Pre-tax income is greater than budget or 2011 Pre-tax income is within \$9 million of budget
4,500	February 11, 2010	2009 SG&A expense less than 110% of budget
4,500	February 11, 2011	2010 SG&A expense less than 110% of budget
4,500	February 11, 2012	2011 SG&A expense less than 110% of budget
3,000	February 11, 2010	2009 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2011	2010 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2012	2011 Customer Service Satisfaction Rating greater than 8.0

The number of shares and type of equity award for the 2009 grant was determined by the Compensation Committee and was deemed commensurate with compensation packages of other CFOs of public homebuilders when evaluated in connection with Mr. Seay's total cash and equity compensation. For 2009, the Compensation Committee determined that the Company met each of the performance criteria for the February 11, 2010 measurement date as follows:

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- The Company's 2009 Pre-tax income was \$(25,750), which exceeded budget by more than \$9 million
- The Company's 2009 SG&A expense was \$60,175, which was within 110% of budget
- The Company's 2009 Customer Service Satisfaction Rating exceeded 8.0

Accordingly, Mr. Seay received 15,000 shares of the Company's common stock on February 11, 2010.

Options. Mr. Seay was not granted any options in 2009.

Performance-Based Bonus. For 2009, Mr. Seay was entitled to a cash performance-based bonus pursuant to the terms set forth in his employment agreement. The Company did not generate sufficient net income or EBITDA for a bonus to be earned; however, the Compensation Committee awarded Mr. Seay a discretionary bonus of \$250,000 in recognition of Mr. Seay's efforts and accomplishments during a particularly challenging economic environment in 2009.

Other Benefits. We also provided to Mr. Seay other benefits consistent with our normal executive employment arrangements and his employment agreement. These benefits are detailed in the All Other Compensation Table included in this proxy statement and in 2009 totaled less than \$49,000.

C. Timothy White, Executive Vice President, General Counsel and Secretary. Mr. White was compensated in 2009 pursuant to the terms of his employment agreement, which provided for a base salary, a bonus based on Company performance, if earned, and stock options and other customary executive benefits. Under this agreement, a portion of Mr. White's compensation was performance-based to align his goals and efforts with the interests of our stockholders.

Salary. Mr. White was paid a base salary of \$525,000. Although Mr. White's employment agreement contemplated an annual increase in his base salary in 2008 and 2009, Mr. White voluntarily agreed to forfeit these increases.

Restricted Stock. In 2009, Mr. White received 30,000 restricted stock awards. These awards vest in equal installments on the annual anniversary of the date of grant for the next three years. Additionally, Mr. White was awarded 45,000 shares of performance stock, which also vest in equal installments over the next three years only if the following performance criteria are met.

Number of Shares	Measurement Date	Performance Criteria
7,500	February 11, 2010	125% of 2009 Pre-tax income is greater than budget or 2009 Pre-tax income is within \$9 million of budget

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7,500	February 11, 2011	125% of 2010 Pre-tax income is greater than budget or 2010 Pre-tax income is within \$9 million of budget
7,500	February 11, 2012	125% of 2011 Pre-tax income is greater than budget or 2011 Pre-tax income is within \$9 million of budget
4,500	February 11, 2010	2009 SG&A expense less than 110% of budget
4,500	February 11, 2011	2010 SG&A expense less than 110% of budget
4,500	February 11, 2012	2011 SG&A expense less than 110% of budget
3,000	February 11, 2010	2009 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2011	2010 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2012	2011 Customer Service Satisfaction Rating greater than 8.0

The number of shares and type of equity award for the 2009 grant was determined by the Compensation Committee and was deemed commensurate with compensation packages of other General Counsels of public homebuilders when evaluated in connection with Mr. White's total cash and equity compensation. For 2009, the Compensation Committee determined that the Company met each of the performance criteria for the February 11, 2010 measurement date as follows:

- The Company's 2009 Pre-tax income was \$(25,750), which exceeded budget by more than \$9 million
- The Company's 2009 SG&A expense was \$60,175, which was within 110% of budget
- The Company's 2009 Customer Service Satisfaction Rating exceeded 8.0

Accordingly, Mr. White received 15,000 shares of the Company's common stock on February 11, 2010.

Options. Mr. White was not granted any options in 2009.

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Performance-Based Bonus. For 2009, Mr. White was entitled to a cash performance-based bonus pursuant to the terms set forth in his employment agreement. The Company did not generate sufficient net income or EBITDA to earn a bonus; however, the Compensation Committee awarded Mr. White a discretionary bonus of \$250,000 in recognition of Mr. White's efforts and accomplishments during a particularly challenging economic environment in 2009.

Other Benefits. The Company also provided to Mr. White other benefits consistent with our normal executive employment arrangements and his employment agreement. These benefits are detailed in the All Other Compensation Table included in this proxy statement and in 2009 totaled less than \$46,000.

Steven M. Davis, Executive Vice President and Chief Operating Officer. Mr. Davis was compensated in 2009 pursuant to the terms of his employment agreement, which provided for a base salary, a bonus based on Company performance, if earned, and stock options and other customary executive benefits. Under this agreement, a portion of Mr. Davis's compensation was performance-based to align his goals and efforts with the interests of our stockholders.

Salary. Mr. Davis was paid a base salary of \$400,000 in 2008. Although Mr. Davis's employment agreement contemplated an annual increase in his base salary in 2008 and 2009, Mr. Davis voluntarily agreed to forfeit this increase.

Restricted Stock. In 2009, Mr. Davis received 30,000 restricted stock awards. These awards vest in equal installments on the annual anniversary of the date of grant for the next three years. Additionally, Mr. Davis was awarded 45,000 shares of performance stock, which also vest in equal installments over the next three years only if the following performance criteria are met.

Number of Shares	Measurement Date	Performance Criteria
7,500	February 11, 2010	125% of 2009 Pre-tax income is greater than budget or 2009 Pre-tax income is within \$9 million of budget
7,500	February 11, 2011	125% of 2010 Pre-tax income is greater than budget or 2010 Pre-tax income is within \$9 million of budget
7,500	February 11, 2012	125% of 2011 Pre-tax income is greater than budget or 2011 Pre-tax income is within \$9 million of budget
4,500	February 11, 2010	2009 SG&A expense less than 110% of budget
4,500	February 11, 2011	2010 SG&A expense less than 110% of budget
4,500	February 11, 2012	2011 SG&A expense less than 110% of budget
3,000	February 11, 2010	2009 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2011	2010 Customer Service Satisfaction Rating greater than 8.0
3,000	February 11, 2012	2011 Customer Service Satisfaction Rating greater than 8.0

The number of shares and type of equity award for the 2009 grant was determined by the Compensation Committee and was deemed commensurate with compensation packages of other COOs of public homebuilders when evaluated in connection with Mr. Davis's total cash and equity compensation. For 2009, the Compensation Committee determined that the Company met each of the performance criteria for the February 11, 2010 measurement date as follows:

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- The Company's 2009 Pre-tax income was \$(25,750), which exceeded budget by more than \$9 million
- The Company's 2009 SG&A expense was \$60,175, which was within 110% of budget
- The Company's 2009 Customer Service Satisfaction Rating exceeded 8.0

Accordingly, Mr. Davis received 15,000 shares of the Company's common stock on February 11, 2010.

Options. Mr. Davis was not granted any options in 2009.

Performance-Based Bonus. For 2009, Mr. Davis was entitled to a cash performance-based bonus pursuant to the terms set forth in his employment agreement. The Company did not generate sufficient net income or EBITDA to earn a bonus; however, the Compensation Committee awarded Mr. Davis a discretionary bonus of \$375,000 in recognition of Mr. Davis' efforts and accomplishments during a particularly challenging economic environment in 2009.

Other Benefits. The Company also provided to Mr. Davis other benefits consistent with our normal executive employment arrangements. These benefits are detailed in the All Other Compensation Table included in this proxy statement and in 2009 totaled less than \$33,000.

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2010 Developments

On January 19, 2010, the Company entered into amended and restated employment agreements and amended and restated change of control agreements with Mr. Hilton, Mr. Seay, Mr. White and Mr. Davis.

The key provisions of the employment agreements are as follows:

Effective Date: January 1, 2010

Expiration Date: December 31, 2012

Renewal Provisions: Each agreement is subject to automatic one year renewal provisions, unless on or before August 31, 2012 (or August 31 of any renewal term), the executive or the Company notifies the other that it wishes to terminate the agreement.

Base Salary:	Steven J. Hilton	\$	1,017,500
	Larry W. Seay	\$	500,000
	C. Timothy White	\$	525,000
	Steven Davis	\$	500,000

Other Benefits: Each agreement provides that the executive is entitled to such other benefits as are regularly provided by the Company to its management (i.e., health and life insurance) and the following items:

For Steven J. Hilton, payments to purchase a \$5 million life insurance policy, payments to purchase disability insurance providing for monthly benefit payments of approximately \$20,000, use of a chartered airplane for business use purposes only, and use of a Company-provided automobile.

For Larry W. Seay, C. Timothy White and Steven Davis, an automobile allowance of \$1,200 per month and a \$3 million term life insurance policy (maximum contribution by the Company towards annual premium of \$20,000).

Annual Incentive Cash Bonus: Each employment agreement provides for an annual cash incentive bonus based on the Company's attainment of defined performance objectives. In 2010, each executive is entitled to a bonus equal to a percentage of Adjusted EBITDA (as set forth below which varies by executive) if the Company's return on assets is in the top half of public homebuilders having revenues of \$500 million or more, and an additional percentage of Adjusted EBITDA (as set forth below which varies by executive) if the Company's return on equity is in the top half of these public homebuilders. If either measurement falls within the 33% to 49% percentile, the bonus shall be calculated as a lower percentage of Adjusted EBITDA (as set forth below which varies by executive) for the applicable measurement, and if either measurement falls below the 33% threshold, then there will not be any formula bonus paid with respect to such measurement.

For purposes of determining the executive's formula bonuses, Adjusted EBITDA means EBITDA adjusted to exclude impairments, one-time bond, refinancing and offering costs and significant litigation, settlement payments by the Company and similar costs associated with one-time extraordinary events as well as the deductions relating to the compensation of the Company's Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and General Counsel.

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The following matrix sets forth the applicable EBITDA bonus percentages for each executive:

Measurement Criteria	Executive			
	Steven J. Hilton	Larry W. Seay	C. Timothy White	Steven Davis
Company's Return on Assets*				