

Meritage Homes CORP  
Form DEF 14A  
April 01, 2008

QuickLinks -- Click here to rapidly navigate through this document

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

**SCHEDULE 14A**

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

Filed by the Registrant

Filed by a Party other than the Registrant

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:

Edgar Filing: Meritage Homes CORP - Form DEF 14A

---

(5) Total fee paid:

---

o Fee paid previously with preliminary materials.

o 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.:

---

(3) Filing Party:

---

(4) Date Filed:

---

---

Edgar Filing: Meritage Homes CORP - Form DEF 14A

Dear Stockholders:

You are cordially invited to join us for our 2008 annual meeting of stockholders, which will be held on Thursday, May 15, 2008, 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 31, 2008, are entitled to notice of and to vote at the 2008 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 will also report on matters of current interest to our stockholders.

We hope you will be able 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 by completing and signing the enclosed proxy card 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.

Sincerely,

Steven J. Hilton  
Chairman and Chief Executive Officer  
17851 North 85<sup>th</sup> Street      Suite 300      Scottsdale, Arizona      85255      Phone 480-515-8100

*Listed on the New York Stock Exchange MTH*

---

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

---

**Date: Thursday, May 15, 2008**  
**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 2008 Annual Meeting of Stockholders for the following purposes:

1. To elect three Class I Directors, each to hold office until our 2010 annual meeting,
2. To ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2008 fiscal year,
3. To approve an amendment to our 2006 Stock Incentive Plan to increase shares available for issuance,
4. To approve an amendment to our 2006 Stock Incentive Plan to increase the annual maximum granting limits to a participant,
5. To approve an amendment to our Articles of Incorporation to authorize preferred stock, 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 31, 2008 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. A copy of our 2007 Annual Report to Stockholders, which includes our audited consolidated financial statements, is enclosed.

By Order of the Board of Directors,

C. Timothy White, Secretary

Scottsdale, Arizona  
April 1, 2008

**YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING, PLEASE SUBMIT YOUR PROXY BY SIGNING AND DATING THE ENCLOSED PROXY CARD AND RETURNING IT IN THE ENVELOPE PROVIDED. YOU MAY ALSO VOTE YOUR SHARES AND SUBMIT A PROXY BY USING THE INTERNET OR TELEPHONE AS DESCRIBED ON THE PROXY CARD.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 15, 2008 THIS PROXY STATEMENT AND MERITAGE'S 2007 ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT [WWW.MERITAGEHOMES.COM](http://WWW.MERITAGEHOMES.COM).**

---

**MERITAGE HOMES CORPORATION**

17851 NORTH 85<sup>TH</sup> STREET  
SUITE 300  
SCOTTSDALE, ARIZONA 85255  
*www.meritagehomes.com*

---

**PROXY STATEMENT**

---

This proxy statement is furnished to you 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 May 15, 2008. 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. The proxy materials relating to the annual meeting, together with our 2007 Annual Report to Stockholders (which includes audited consolidated financial statements for our fiscal year ended December 31, 2007), were mailed on or about April 7, 2008 to stockholders of record at the close of business on March 31, 2008 (the "record date").

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 sign and return the enclosed proxy card or to provide your proxy over the telephone or via the Internet. Refer to your proxy card for instructions about submitting a proxy by telephone, Internet and mail.

**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. We may solicit proxies through the mail, by personal interview or telephone, including through the use of a third party proxy solicitor. If we use a proxy solicitor, we estimate the cost will be approximately \$9,500.

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 2007 Annual Report to Stockholders that was mailed to you along with this proxy statement.

Information about our company and communities 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 following address: Meritage Homes Corporation, 17851 North 85<sup>th</sup> Street, Suite 300, Scottsdale, Arizona 85255, Attention: Legal Department. Our telephone number is (480) 515-8100.

---

### VOTING SECURITIES OUTSTANDING

On the record date, there were 26,388,494 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 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 as the Company's independent registered public accounting firm, **FOR** the amendments to the 2006 Stock Incentive Plan and **FOR** the amendment to our charter to authorize Preferred Stock.

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 these proxy materials are 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. 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 on Proposal 1 (Election of Directors) and Proposal 2 (Ratification of Independent Registered Public Accounting Firm), but will not be able to vote your shares on Proposals 3 and 4 (Approval of Amendments to the 2006 Stock Incentive Plan) or Proposal 5 (Approval of Authorization of Preferred Stock), and your shares will be counted as a "broker non-vote" on those proposals.

As the 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.

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 an 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 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 owner does not provide instructions. As a result, brokers or other entities holding shares for an owner in street name may vote on routine proposals even if no voting instructions are provided by the owner.

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 the proxy to vote in their discretion on all matters on which the shares of common stock represented by such proxy are entitled to vote.

---

TABLE OF CONTENTS

	<b>Page</b>
Summary	2
Election Of Directors (Proposal No. 1)	6
Ratification Of Independent Registered Public Accounting Firm (Proposal No. 2)	7
Information Relating to Proposals No. 3 and 4	8
Proposal to Approve Authorization of Preferred Stock (Proposal No. 5)	14
Security Ownership By Management And Principal Stockholders	17
Corporate Governance Principles And Board Matters	19
Continuing Director Information	25
Compensation Discussion And Analysis	26
Director Compensation	47
Executive Compensation Committee Report	48
Securities Authorized For Issuance Under Equity Compensation Plans	49
Section 16(a) Beneficial Ownership Reporting Compliance	50
Certain Relationships And Related Transactions	50
Independent Auditors	51
Report Of The Audit Committee	52
Stockholder Proposals	53
Other Matters	53
Electronic Delivery Of Future Annual Meeting Materials	54



**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.

**General Information**

**Date, Time and Place of Meeting** The annual meeting will be held on Thursday, May 15, 2008 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 31, 2008. 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 fill out your proxy card and return it by mail, call the telephone number and follow the instructions on your proxy card or follow the instructions on your proxy card to submit your proxy via the Internet.

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 entitled to cast 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 and entitled to vote for purposes of determining whether a quorum exists.

**The Proposals**

**Election of Directors (page 6)** Steven J. Hilton, Raymond Oppel and Richard T. Burke, Sr., each of whom is presently serving as a Class I Director, are nominated for re-election.

**The Board of Directors recommends a vote "for" each of these directors.** If a quorum is present, the three nominees who receive the most votes will be elected. Broker non-votes and votes that are withheld have no legal effect. Please vote on this matter.

Ratification of Auditor (page 7)

Ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2008 fiscal year.

**The Board of Directors recommends a vote "for" this proposal.** An affirmative vote of the majority of the shares present at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Broker non-votes and votes that are withheld have no legal effect. Please vote on this matter. 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 2008 will stand, unless the Audit Committee finds other good reason for making a change.

Approval of an Amendment to the 2006 Stock Incentive Plan to Increase the Number of Shares Available (page 8)

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 two amendments to the 2006 Stock Incentive Plan. Each proposal is independent of, and not conditioned upon, approval of the other. The first amendment will increase the number of shares available under the Plan. 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 vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, abstentions will have the same effect as votes against the proposal and broker non-votes 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.

Approval of an Amendment to the 2006 Stock Incentive Plan to Increase the Annual Limit on the Amount that can be Granted to any One Individual (page 8)

We are also asking for your approval of an amendment to the 2006 Stock Incentive Plan to change the maximum number of shares with respect to one or more awards that can be granted to a participant during a single year. The Board has determined that increasing the amount subject to the annual grant limitation is appropriate in order to retain and motivate key employees in the current difficult homebuilding environment.

We note that our equity grants are within guidelines established for our industry and similarly-sized companies by major stockholder advocate groups.

**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 vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on this amendment, abstentions will have the same effect as votes against the proposal and broker non-votes 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 Charter to Authorize Preferred Stock (page 14)

Our last proposal asks you to approve an amendment to our charter that would increase the number of shares of capital stock the Company is authorized to issue from 125,000,000 to 135,000,000 by authorizing for issuance up to 10,000,000 shares of preferred stock ("Preferred Stock"), in addition to the currently authorized 125,000,000 shares of common stock.

We are asking you to approve the authorization of Preferred Stock to enhance our flexibility in structuring future public or private financing transactions. Because an issuance of Preferred Stock may be treated differently than an issuance of debt under the covenants contained in our current credit facilities and indentures, we believe that having the flexibility to issue Preferred Stock may be beneficial for purposes of being able to raise additional funds in the future, if needed, while maintaining compliance with those covenants.

The Board of Directors represents that it does not intend to issue, without prior stockholder approval, any series of Preferred Stock for any defensive or anti-takeover purpose, to implement any stockholder rights plan or with features intended to make any attempted acquisition of the Company more difficult or costly.

**The Board of Directors has approved this amendment and recommends a vote "for" this proposal.** The affirmative vote of holders of record of not less than a majority of the outstanding shares of common stock on the record date is required for approval of the proposed amendment to the charter. Because the affirmative vote of a majority of our outstanding shares is required to approve this proposal, broker non-votes and abstentions have the same effect as a vote against this proposal, so please vote.

**ELECTION OF DIRECTORS  
(PROPOSAL NO. 1)**

Our Board of Directors currently has six 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.

Biographical information for each of our director nominees is set forth below:

**Steven J. Hilton, 46,** 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 and combined with Legacy Homes in 1997, which thereafter became Meritage. Mr. Hilton received his Bachelor of Science degree in accounting from the University of Arizona and is a director of Western Alliance Bancorporation, a \$4 billion community bank based in Las Vegas, Nevada.

**Raymond Oppel, 51,** 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 over 18 years of experience in the homebuilding business.

**Richard T. Burke, Sr., 64,** was appointed as a director in 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. Mr. Burke is also a director of First Cash Financial Services, Inc.

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. In the vote on the election of the director nominees, stockholders may:

vote **FOR** all nominees;

vote to **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 three nominees who receive the most votes will be elected. Broker non-votes and votes that are withheld have no effect.

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

**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 2008.

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

An affirmative vote of the majority of the shares present at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Broker non-votes and votes that are withheld have no effect. If the appointment of Deloitte & Touche LLP as auditors for 2008 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 2008 will stand, unless the Audit Committee finds other good 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.**

**AMENDMENTS TO THE 2006 STOCK INCENTIVE PLAN**

**Information Relating to Proposals 3 and 4**

On January 16, 2008, 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 from 700,000 (excluding shares remaining available for grant that were rolled into the 2006 Stock Incentive Plan from our former stock option plan) to 1,600,000 and change the maximum number of shares with respect to one or more awards that can be granted to any one person from an aggregate of 100,000 shares to 250,000 shares per year. Each of these amendments is set forth below in a separate proposal for approval by stockholders. Each proposal is independent of, and not conditioned upon, approval of the other. The affirmative vote of a majority of the votes cast is required for approval of this amendment to the 2006 Stock Incentive Plan, provided that the total vote cast on the proposal represents over 50% in interest of all securities entitled to vote on the proposal. For purposes of the vote on the amendment, abstentions will have the same effect as votes against the proposal, and broker non-votes 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.

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 31, 2008, as reported on the NYSE, was \$19.32 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.

In order to facilitate approval of this proposal and alleviate any stockholder concerns regarding the number of equity awards we intend to grant in a given year, our Compensation Committee and management commit to our stockholders that for fiscal years 2007, 2008 and 2009, we will not grant during such three fiscal years a number of shares subject to options or other awards such that the average number of shares granted during such three fiscal years is greater than 3.33% of the average number of shares of our common stock that were outstanding at the beginning of each of the three fiscal years ("Burn Rate"). For calculation purposes, the Burn Rate is determined as (i) for each fiscal year, the number of new grants for shares underlying options, SARs, and similar awards plus one and a half times the number of new grants for shares underlying other equity-related awards (including restricted stock and deferred stock) for which the participant does not pay the grant date share value, divided by (ii) the number of shares outstanding at the beginning of each corresponding fiscal year. This limitation applies to awards that can result in the delivery of shares but would exclude any plans assumed in connection with an acquisition.

**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, 2007, there were five non-employee directors and approximately 140 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 (the "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 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 during 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.

*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 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.

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**

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;

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.

**Plan Benefits**

The following table sets forth grants of options and restricted shares through March 1, 2008 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

Edgar Filing: Meritage Homes CORP - Form DEF 14A

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	Weighted Average Exercise Price Per Share
<b>Executive Officers</b>		
Steven J. Hilton	243,160	\$ 29.97
Larry W. Seay	154,000	\$ 26.00
C. Timothy White	87,500	\$ 25.73
Steven M. Davis	95,000	\$ 20.95
Sandra R.A. Karrmann	28,500	\$ 41.49
<hr/>		
Executive Officer Group (five persons)	608,160	\$ 27.49
<hr/>		
<b>Non-Executive Officer Director Group</b>		
Robert G. Sarver	28,500	\$ 19.69
Raymond Oppel	28,500	\$ 19.69
Peter L. Ax	28,500	\$ 19.69
Richard T. Burke, Sr.	28,500	\$ 19.69
Gerald W. Haddock	28,500	\$ 19.69
<hr/>		
Non-Executive Officer Director Group (five persons)	142,500	\$ 19.69
<hr/>		
Non-Executive Officer Employee Group (about 140 persons)	1,900,136	\$ 33.27
<hr/>		

**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 31, 2008, (i) 28,444 shares have been issued upon exercise of options or vesting of non-vested shares under the 2006 Stock Incentive Plan, (ii) option grants representing 1,540,977 shares were outstanding under the 2006 Stock Incentive Plan and (iii) 137,832 shares of restricted stock had been awarded under the 2006 Stock Incentive Plan and not otherwise forfeited or cancelled. The total number of shares of common stock available for awards under the 2006 Stock Incentive Plan currently is 433,353, 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 current 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 from 700,000 (excluding shares that were rolled into the 2006 Stock Incentive Plan from our former incentive plan) to 1,600,000.

**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.**

**PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO INCREASE THE LIMIT ON THE NUMBER OF SHARES OF COMMON STOCK WITH RESPECT TO ONE OR MORE AWARDS THAT MAY BE GRANTED TO A PARTICIPANT DURING A CALENDAR YEAR (PROPOSAL NO. 4)**

During 2007, equity awards were approved under the 2006 Stock Incentive Plan that exceeded the plan's annual limitation on the number of shares with respect to one or more Awards that may be granted to any participant during a single calendar year. As a result, the Company withheld the awards that exceeded the annual limit, and determined that an amendment to the 2006 Stock Incentive Plan was warranted to enable larger grants.

The Board has determined that increasing the amount of shares subject to the annual grant limitation is appropriate in order to retain and motivate key employees in the current difficult homebuilding environment. We note that our equity grants are within guidelines established for our industry and similarly-sized companies by major stockholder advocate groups. The Board is asking the stockholders to approve this amendment to the 2006 Stock Incentive Plan that would change the maximum number of shares with respect to one or more Awards that could be issued to any one person from an aggregate of 100,000 shares to 250,000 shares per year.

**THE BOARD RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL TO APPROVE AN AMENDMENT TO THE 2006 STOCK INCENTIVE PLAN TO INCREASE THE LIMIT ON THE NUMBER OF SHARES OF COMMON STOCK WITH RESPECT TO ONE OR MORE AWARDS THAT MAY BE GRANTED TO A PARTICIPANT DURING A CALENDAR YEAR.**

**PROPOSAL TO APPROVE AUTHORIZATION OF PREFERRED STOCK  
(PROPOSAL NO. 5)**

On January 16, 2008, the Board of Directors declared advisable and approved, subject to the approval of the stockholders, an amendment to the Company's Articles of Incorporation increasing the number of shares of capital stock the Company is authorized to issue from 125,000,000 to 135,000,000 by authorizing for issuance up to 10,000,000 shares of Preferred Stock, in addition to the currently authorized 125,000,000 shares of common stock. The proposed amendment to the Company's Articles of Incorporation is attached to this proxy statement as *Appendix B*.

**Reasons for the Proposal**

The proposed amendment, if approved by stockholders, will supplement our authorized common stock by creating an undesignated class of Preferred Stock. Although the Board of Directors has no immediate plans to issue Preferred Stock, the Board believes that the proposed authority to issue Preferred Stock will enhance the Company's flexibility in structuring future public or private financings and possible acquisitions. The Preferred Stock also may be useful in connection with stock dividends, equity compensation plans or other proper corporate actions.

Preferred stock provides investors with a preference over the common stockholders upon a liquidity event, usually in the amount invested, plus accrued but unpaid dividends, if any. Further, the conversion feature of Preferred Stock, if any, will generally enable an investor to choose between the amount it would receive upon conversion into common stock and the amount due under the preference.

Because an issuance of Preferred Stock may be treated differently than an issuance of debt under the covenants contained in our current credit facilities and indentures, we believe that having the flexibility to issue Preferred Stock may be beneficial for purposes of being able to raise additional funds in the future, if needed, while maintaining compliance with those covenants. In this regard, Preferred Stock established by the Board of Directors, if the charter amendment is approved, could be treated as equity, mezzanine, or debt on our balance sheet based on the underlying structure of the transaction. Dividends on the Preferred Stock, depending on how the security is structured, may or may not be considered as interest for purposes of interest coverage ratios. If Preferred Stock is authorized, we would have the opportunity to negotiate terms most beneficial to us, subject to market conditions, relative to our balance sheet and indebtedness.

Having the authority to issue Preferred Stock by Board action will enable us to develop equity securities with terms tailored to specific purposes and to avoid the possible delay associated with, and significant expense of, calling and holding a special meeting of stockholders to authorize additional capital stock. The Board believes that an enhanced ability to respond to opportunities and to favorable capital market conditions before the opportunities or conditions pass is in the best interests of the Company and its stockholders.

**Effect of Amendment**

If the proposal is approved, the Board of Directors would be authorized to issue at its discretion one or more series of Preferred Stock from time to time without any further shareholder action, unless additional shareholder action is required by law, the Articles of Incorporation, regulatory authorities or the rules of any stock exchange on which the Company's securities are then listed. The authority of the Board of Directors would include, among other things, establishing the number of shares constituting a series, dividend rights, voting rights, conversion or exchange privileges, redemption features, sinking fund provisions, and rights in the event of a voluntary or involuntary liquidation or dissolution.

*Effect on Common Stock*

It is not possible to state the actual effects of the proposed Preferred Stock upon the rights of holders of common stock until the Board of Directors determines the respective rights of the holders of one or more series of Preferred Stock. The issuance of shares of Preferred Stock may, however, adversely affect the rights of the holders of common stock. For example, in the absence of a proportionate increase in the Company's earnings and book value, an increase in the aggregate number of outstanding shares caused by the issuance of Preferred Stock would dilute the earnings per share and book value per share of all outstanding shares of common stock. In addition, a series of Preferred Stock could rank senior to the common stock as to dividend rights or liquidation preferences or both, may have full or enhanced voting rights, and may be convertible into shares of common stock. The effects of an issuance of Preferred Stock could include (i) reduction of the amount of funds otherwise available for payment of dividends on common stock, (ii) restrictions on dividends on common stock, (iii) dilution of the voting power of common stock, and (iv) restrictions on the rights of holders of common stock to share in the Company's assets on liquidation until satisfaction of any liquidation preference granted to the holders of Preferred Stock.

*"De-Clawed" Blank Check Preferred Stock*

The Board of Directors represents that it does not intend to issue, without prior stockholder approval, any series of Preferred Stock for any defensive or anti-takeover purpose, to implement any stockholder rights plan or with features intended to make any attempted acquisition of the Company more difficult or costly, without stockholder approval. However, within these limits, the Board of Directors may issue Preferred Stock for financing, acquisition or other corporate purposes that has the effect of making an acquisition of the Company more difficult or costly, as could also be the case if the Board were to issue additional common stock for such purposes. Consequently, the Board of Directors believes that, as structured, the Preferred Stock is in the best interests of the Company and its stockholders because it (i) is consistent with sound corporate governance principles and (ii) enhances our ability to take advantage of financing alternatives and acquisition opportunities.

**Other Considerations**

Notwithstanding the above, any Preferred Stock issued could make a change in control of the Company more difficult, and therefore less likely, by reducing the likelihood of an inexpensive hostile takeover attempt during times when our stock price experiences significant volatility. Any such issuance could dilute the stock ownership or voting rights of, or increase the costs to, a person seeking to obtain control of the Company, thereby deterring or rendering more difficult a merger, tender offer, proxy contest or other extraordinary transaction. To the extent that it impedes any such attempts, the amendment to our charter may serve to perpetuate current management.

The amendment to the Articles of Incorporation is not being proposed in response to any known effort or threat to acquire control of the Company and is not part of a plan by management to adopt a series of amendments to the charter and bylaws that would thwart such efforts.

Existing provisions in the Articles of Incorporation and bylaws may also have the effect of delaying or preventing a merger with or acquisition of the Company, even where the stockholders may consider it to be favorable. These provisions could also prevent or hinder an attempt by stockholders to replace our current directors and include: (i) a classified board of directors; (ii) a provision that directors may only be removed for cause (iii) a limitation on the maximum number of directors; (iv) a limitation on the ability of stockholders to call a special meeting of stockholders; (v) a provision that only the directors can amend the bylaws; and (vi) advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at a stockholders meeting. In addition, the Maryland Business Combination statute provides, generally, that no

stockholder holding more than 10% of the outstanding shares of common stock may engage in a merger or other similar transaction with the Company for a period of five years after first obtaining that 10% stockholder position unless that acquisition, or the proposed merger or other transaction, were approved by the Board of Directors before the interested stockholder acquired the 10% or greater interest.

**Approval Requirements**

The affirmative vote of holders of record of not less than a majority of the outstanding shares of common stock on the record date is required for approval of the proposed amendment to the Articles of Incorporation. Because the affirmative vote of a majority of our outstanding shares is required to approve this proposal, broker non-votes and abstentions have the same effect as a vote against this proposal. If the proposed amendment is approved by the stockholders, it will become effective upon its acceptance by the State Department of Assessments and Taxation of Maryland, which is expected to occur as soon as reasonably practicable after approval.

**THE BOARD RECOMMENDS THAT YOU VOTE "FOR" APPROVAL OF THE AMENDMENT TO OUR ARTICLES OF INCORPORATION AUTHORIZING THE ISSUANCE OF PREFERRED STOCK.**

## SECURITY OWNERSHIP BY MANAGEMENT AND PRINCIPAL STOCKHOLDERS

**Management.** The following table summarizes, as of March 17, 2008, 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.

<b>Name Of Beneficial Owner(1)</b>	<b>Position With The Company</b>	<b>Number Of Shares Owned(2)</b>	<b>Right To Acquire By May 16, 2008</b>	<b>Total Shares Beneficially Owned</b>	<b>Percent Of Outstanding Shares</b>
Steven J. Hilton	Director, Chairman and CEO	1,849,054(3)	228,642	2,077,696	7.9
Robert G. Sarver	Director	474,000(4)	12,000	486,000	1.8
Raymond Oppel	Director	25,000(5)	22,000	47,000	*
Peter L. Ax	Director	14,000	12,000	26,000	*
Richard T. Burke, Sr.	Director	4,000	12,000	16,000	*
Gerald W. Haddock	Director	8,000(6)	2,000	10,000	*
Larry W. Seay	Executive Vice President, Chief Financial Officer	67,076	91,333	158,409	*
C. Timothy White	Executive Vice President, General Counsel and Secretary	21,264(6)	23,000	44,264	*
Steven M. Davis	Executive Vice President National Homebuilding Operations	5,000	3,000	8,000	*
Sandra R.A. Karrmann	Former Exec. Vice President, Chief Human Resources Officer				*
All current directors and executive officers as a group (10 persons)		2,467,394	405,975	2,873,369	10.9

\*

Less than 1%.

(1)

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

(2)

The amounts shown include the shares of common stock actually owned as of March 17, 2008, 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 17, 2008 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



## Edgar Filing: Meritage Homes CORP - Form DEF 14A

percentage of the shares of stock owned by any other person. The shares owned do not include any unvested restricted stock.

(3) Shares are held by family trusts. Subsequent to March 17, 2008, 800,000 of these shares were pledged to a third-party lending institution.

(4) Mr. Sarver is deemed to indirectly own an additional 8,000 shares through his family members, and 875,000 shares are owned by Southwest Value Partners Fund XIV, LP, an entity in which Mr. Sarver indirectly shares control over voting, purchase and disposition of these shares. Additionally, an entity of which Mr. Sarver is a member owns 1,000,000 shares of our common stock. Mr. Sarver has expressly disclaimed any beneficial ownership of these shares.

(5) 6,000 shares are owned indirectly by family trusts.

(6) All shares pledged to a third-party lending institution to secure a loan.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

**Certain Other Beneficial Owners.** Based on filings made under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 17, 2008, 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
LMM, LLC(1)	100 Light Street Baltimore, MD 21202	2,600,000	9.91%
Invesco, Ltd.(2)	1360 Peachtree Street NE Atlanta, GA 30309	2,492,536	9.50%
T. Rowe Price Associates, Inc.(3)	100 E. Pratt Street Baltimore, MD 21202	2,491,400	9.40%
Earnest Partners, LLC(4)	1180 Peachtree Street NE, Suite 2300 Atlanta, GA 30309	2,099,841	8.00%
Barclays Global Investors, NA(5)	45 Fremont Street San Francisco, CA 94105	1,920,783	7.32%
State Street Bank & Trust Co.(6)	One Lincoln Center Boston, MA 02111	1,680,590	6.40%

- (1) Based solely on a Schedule 13G/A, filed with the SEC February 14, 2008, LLM, LLC has shared voting and dispositive power with respect to 2,600,000 shares.
- (2) Based solely on a Schedule 13G, filed with the SEC February 13, 2008, Invesco, Ltd. and certain affiliated entities have shared voting and dispositive power with respect to 2,492,536 shares.
- (3) Based solely on a Schedule 13G, filed with the SEC February 13, 2008, T. Rowe Price Associates, Inc. has sole voting power with respect to 756,300 shares and sole dispositive power with respect to 2,491,400 shares.
- (4) Based solely on a Schedule 13G/A, filed with the SEC January 31, 2008, Earnest Partners, LLC has sole voting power with respect to 639,312 shares, shared voting power with respect to 511,129 shares and sole dispositive power with respect to 2,099,841 shares.
- (5) Based solely on a Schedule 13G, filed with the SEC February 5, 2008, Barclays Global Investors, NA and certain affiliated entities have sole voting power with respect to 1,589,746 shares and sole dispositive power with respect to 1,920,783 shares.
- (6) Based solely on a Schedule 13G, filed with the SEC February 12, 2008, State Street Bank & Trust Co. has sole voting and dispositive power with respect to 1,680,590 shares.

## 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,

our philosophy with respect to director compensation,

requirements regarding 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.meritagehomes.com](http://www.meritagehomes.com) and we will provide a print copy to any stockholder upon request. These principles are reviewed regularly by the Nominating/Governance Committee and changes are made as appropriate.

### Director Qualification and Independence

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 or partner 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

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

any 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, identified by an asterisk in the next table, are Peter Ax, Raymond Oppel, Richard Burke and Gerald Haddock.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

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. In 2006, Peter Ax, an independent and our lead director, acquired from Meritage a used sports utility vehicle. The purchase price for the vehicle was \$35,000, which was the fair market value of the vehicle based on well-known and reliable published sources. The Board considered this relationship and determined that it does not impair Mr. Ax's independence because the transaction was based on reliable market data and the value of the transaction is, individually and in the aggregate, immaterial in relation to Mr. Ax's net worth.

Steven J. Hilton is not considered independent because he is employed by the Company.

Prior to 2004, Robert 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. The Nominating/Governance Committee evaluated these relationships and determined that they do not impair Mr. Sarver's independence because they did 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 has purchased advertising with the Phoenix Suns. Although 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, 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.

### **CEO and Management Succession**

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 to approve 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.

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 and that the entire Board of Directors is responsible to approve a succession plan for the CEO and other senior officers.

Under its charter, the Executive Compensation Committee develops and presents annually to the Board a management succession program for the CEO and selected senior executives. Additionally, our CEO performs annual evaluations of other senior management and reports to the Board on these evaluations with recommendations from time to time of potential successors.

While the Executive Compensation Committee develops and presents a management succession program to the Board, the entire Board has primary responsibility for CEO succession planning and develops both long-term and contingency plans for succession of the CEO.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

### The Board and Board Committees

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

During 2007, the Board of Directors held ten meetings. Each director attended all of these meetings and the committee meetings of which he is a member, except as follows: Mr. Haddock did not attend one Board meeting, one Executive Compensation Committee meeting and two Audit Committee meetings, and Mr. Sarver did not attend two Board meetings. Directors are expected to attend our annual meetings of stockholders. All directors attended our 2007 annual meeting, which was held on May 16, 2007.

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 2007.

Board of Directors	Audit Committee	Executive Compensation Committee	Nominating/Governance Committee
Steven J. Hilton			
Peter L. Ax* +	X**	X	X
Robert G. Sarver			
Raymond Opperl*	X	X**	X
Richard T. Burke, Sr.*	X		
Gerald W. Haddock*		X	X**
<b>Number of Meetings</b>	9	10	3

\* = Independent Director      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 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 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](http://www.meritagehomes.com) and we will provide a print 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 on page 52.

#### ***Executive Compensation Committee***

*Responsibilities.* The Board of Directors has established our 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 CEO and CFO, evaluating our CEO's and CFO's performance in light of these goals and approving the compensation of our CEO and CFO,

ensuring that a management succession program for our CEO and selected senior executives is developed and presented annually to the Board,

overseeing all equity-based award grants,

making recommendations to the Board of Directors with regard to non-CEO/CFO 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 three 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 Compensation Committee's meetings and calendar, 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](http://www.meritagehomes.com) and we will provide a print copy to any stockholder upon request. The Executive Compensation Committee Report is included in this proxy statement at page 48.

*Outside Consultants.* The Compensation Committee has the specific authority to hire outside advisors and consultants. In 2006, the Compensation Committee retained Pearl Meyer & Partners, a compensation consulting firm, to reevaluate the compensation programs for our CEO and CFO. The Compensation Committee provided direction to Pearl Meyer & Partners concerning the nature of the engagement, the Compensation Committee's philosophy with respect to executive compensation and key terms and conditions that the Compensation Committee believed should be addressed in connection with the negotiation process with our CEO and CFO. The scope of the Pearl Meyer & Partners' work was to (i) assist the Compensation Committee in understanding the nature and level of executive compensation at comparable public companies, both within the homebuilding industry and companies of comparable size as Meritage, but outside the homebuilding industry, (ii) assist the Compensation Committee in developing a compensation structure for our CEO and CFO based on this analysis and the Compensation Committee's instructions and (iii) refine the proposed structure based on the negotiation process between the Company and the executives. As part of the work process, the Compensation Committee met 13 times with Pearl Meyer & Partners without management present. With the assistance of Pearl Meyer & Partners, we negotiated and entered into amended and restated employment and change of control agreements with Steven J. Hilton, our Chief Executive Officer and Larry W. Seay, our Chief Financial Officer. These employment and change of control agreements were entered into effective January 1, 2007 and are discussed in more detail later in this proxy under the

heading "Compensation Discussion and Analysis Employment Agreements." As part of its annual review process in 2006, the Compensation Committee also retained Pearl Meyer & Partners to assist the Compensation Committee in understanding the nature and level of non-employee director compensation at comparable public companies.

During 2006, management of the Company had also retained Pearl Meyer & Partners to assist the Company in understanding the current environment and trends relating to compensation within the homebuilding industry in general. The Compensation Committee was advised of this engagement and had an opportunity to review the scope of this assignment, which was more limited than the work Pearl Meyer & Partners performed for the Compensation Committee with respect to the CEO and CFO employment agreements. The specific purpose of this study is to understand the nature and levels of compensation paid to senior management with day-to-day responsibility for homebuilding operations (for example, regional and division presidents).

No consultants were hired during 2007 to assist in any compensation-related matters, as there were no modifications to existing named executive officers ("NEO") employment agreements.

*Role of Executives in the Compensation Setting Process.* The Compensation Committee determines executive compensation with respect to the CEO and CFO independent of management. With respect to determining compensation of the other NEOs, the CEO and our human resources department prepare and present information and recommendations to the Compensation Committee for review, consideration and approval. 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 compensation. The Compensation Committee approves all grants of equity-based awards. For the NEOs, equity award grants in most cases are determined based on an employment agreement between the Company and the NEO and may be adjusted upwards 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 Executive 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:

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 Executive Compensation Committee and Audit Committee.



## Edgar Filing: Meritage Homes CORP - Form DEF 14A

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](http://www.meritagehomes.com) and we will provide a print copy to any stockholder upon request. Each member of the Nominating/Governance Committee meets the independence requirements of the NYSE.

### ***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 85<sup>th</sup> 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 53 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. 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 executive session six times during 2007. 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 CEO and our CFO and our directors. The Code is available on our website at [www.meritagehomes.com](http://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 24.

### **CONTINUING DIRECTOR INFORMATION**

Meritage divides its Board of Directors into two classes, one of which is up for election this year, as set forth under "Election of Directors (Proposal No. 1)." The following sets forth biographical information regarding each member of the class of directors whose term will continue until our 2009 Annual Meeting of Stockholders.

**Peter L. Ax, 49,** has been a director since September 2000 and is the managing partner of Phoenix Capital Management, a merchant banking 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 Medit Marketing, Inc. and Mobility Electronics and serves on the Advisory Board of Directors of Cascadia Capital, a Seattle based investment banking and merchant banking firm. 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.

**Robert G. Sarver, 46,** 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.

**Gerald W. Haddock, 60,** was appointed as a director in 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, Inc., a leading global offshore oil and gas drilling service company, and a director of Cano Petroleum, Inc., a Fort Worth-based producer of crude oil and natural gas that specializes in enhanced recovery technology. 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.

## 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 2007 fiscal year, our named executive officers were:

Steven J. Hilton, our Chairman and Chief Executive Officer;

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

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

Steven Davis, our Executive Vice President National Homebuilding Operations.

Sandra R. A. Karrmann, our former Executive Vice-President and Chief Human Resources Officer, is also an NEO because she served in the above-described capacities until mid-2007. 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 2007 fiscal year, including the award of bonuses related to 2007 performance, and the adoption of any new, or the modification of any existing, compensation programs.

### ***The Executive Compensation Committee***

The Compensation Committee of Meritage's Board of Directors is currently comprised of three 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. The members of the Committee are Raymond Oppel (Chairman), Peter L. Ax and Gerald W. Haddock. Generally, the Compensation Committee Chairman is in charge of setting the Compensation Committee's meetings and calendar, as well as the agenda of each meeting. For additional information regarding the Compensation Committee, please see "The Board and Board Committees" information contained under the heading "Corporate Governance Principles and Board Matters" in this proxy statement. In addition, we also refer you to the Executive Compensation Committee Report included in this proxy statement at page 48.

### ***Significant Compensation Events in 2007***

As discussed in more detail in this CD&A section, Sandra R. A. Karrmann, the Company's former Executive Vice President and Chief Human Resources Officer, resigned in August 2007. As provided for in the employment agreement between the Company and Ms. Karrmann, this action triggered the re-payment of \$100,000 of her hiring bonus paid in 2005.

In addition, we amended and restated our employment and change of control agreements with Steven J. Hilton and Larry W. Seay, our CEO and CFO, respectively, in early January 2007.

### **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 and delivered 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.

*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 have begun to award both stock options and restricted stock to our NEOs as we believe the use of restricted stock provides 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. As collectively determined by the Compensation Committee and Pearl Meyer & Partners, for 2006, our compensation peer group for benchmarking the CEO and CFO compensation consisted of the following companies:

Beazer Homes USA, Inc.	KB Home	Pulte Homes, Inc.
Brookfield Homes Corporation	Lennar Corporation	The Ryland Group, Inc.
Centex Corporation	M.D.C. Holdings, Inc.	Standard Pacific Corp.
Dominion Homes, Inc.	M/I Homes, Inc.	Technical Olympic USA, Inc.
D.R. Horton, Inc.	NVR, Inc.	Toll Brothers, Inc.
Hovnanian Enterprises, Inc.	Orleans Homebuilders, Inc.	WCI Communities, Inc.

In addition, in 2006 we considered the CEO's and CFO's compensation when compared against the compensation of CEOs and CFOs across all industries for companies with annual revenues between \$2.5 billion and \$3.5 billion, which resulted in 135 companies for CEO data and 119 companies for CFO data. We also used market data and other available information for the benchmarking of our other NEOs. We have not revised our CEO and CFO compensation packages since early 2007.

## 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.

### *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 accounts for a relatively small portion of their overall compensation. As compared to our compensation peer group, we target our NEO salaries to be in the 40<sup>th</sup> 60<sup>th</sup> percentile. 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.

### *Annual Incentive Compensation*

In accordance with the terms of each NEO's employment agreement, each NEO is eligible for additional annual incentive compensation. As compared to our peer group, we target our NEO incentive compensation to be in the 60<sup>th</sup> 75<sup>th</sup> percentile. 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 EBITDA, return on assets and return on equity. For our CEO and CFO, we have structured the cash incentive component of their compensation to result in the possible award of a percentage of 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.

For our other NEOs, we have structured the cash incentive component of the executive's compensation to provide for a bonus generally based on our financial performance and the executive's achievement of selected function area/individual performance goals.

The specific details of each NEO's 2007 incentive compensation are further detailed in this proxy under the section "Compensation Discussion and Analysis Employment Agreements."

As Meritage did not generate net income or EBITDA as defined for compensation calculation purposes during 2007, the Compensation Committee concluded that no annual incentive payments should be made to Messrs. Hilton and Seay in accordance with the terms of their respective employment agreements. Following discussions with the CEO, the Compensation Committee assessed the contributions of Mr. Davis and Mr. White, and a discretionary bonus was approved for each by the Compensation Committee in January 2008, as governed by their employment agreements.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

### *Compensation Determinations and Relevant Factors*

When determining the amount (or exclusion of) bonus and incentive compensation to be paid for 2007, 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 2007;

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 recommendations of the CEO regarding the bonus and incentive compensation to be paid to each NEO for 2007, 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 also awarded our NEOs restricted stock, which have either a three-year pro-rata or cliff vesting schedule.

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 stock options and/or restricted stock 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. Accordingly, competitive equity-based awards are provided for in the employment agreements with our NEOs. 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 stock options, subjects the executives to downside risk from weak equity performance as compensation provided in the form of stock options will have no value if the market price of our stock is not in excess of the strike price of the 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 is 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. Under the CEO's existing employment agreement, the Company eliminated all benefits relating to personal use of charter aircraft. 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 consists of car allowances, enhanced life and disability insurance and annual physicals.

***Taxation 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 Stock 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 Stock 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 awards made pursuant to the 2006 Stock 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 the limitations provided for under Section 162(m). The Compensation Committee believes that the excess non-deductible amounts that will be paid to our CEO over the \$1 million limitation will primarily be due to the value assigned to perquisites, and not due to the granting of additional awards at the Compensation Committee's discretion. It is expected that the Section 162(m) excess will be less than \$100,000 for 2007 for all NEOs, resulting in a lost tax deduction that is not 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;

CFO, two times base salary;

General Counsel, two times base salary; and

Other executive officers, as required by the Board of Directors.

Our policy provides for a reasonable transition period such that each director and covered officer needs to comply with the guidelines by April 30, 2008. 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 matters, 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.

***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. Prior to 2006, the Company did not traditionally make



other equity-based awards, such as restricted stock. At the 2006 Annual Meeting of Stockholders, the Company's stockholders approved the 2006 Stock Incentive Plan. 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. Since the approval of the 2006 Stock Incentive Plan, the Company has made a limited number of restricted stock awards. Management and the Compensation Committee believe that, in the future, the Company may expand the use of 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.

Prior to 2006, Meritage did not have a formal policy with respect to the timing of stock option awards, although our general practice was to make one main grant on an annual basis. This annual grant usually occurred during the first half of the year and generally covered awards to the existing directors, executive officers and other officers and employees selected to receive an award. It was also our practice to make awards during the year from time to time in situations involving newly hired executives and employees, or the promotion of existing executives or employees. In response to the new executive compensation 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 new 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 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 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 at the same time as the customary annual grant to other employees.

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.

In addition to our 2007 annual grant completed January 29, 2007, 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.

#### **Tender Offer**

In October 2007, we announced a Company-wide stock option tender offer to purchase, for a one-time cash payment of \$1.50 per option, all stock options granted to employees and directors between January 1, 2005 and December 31, 2006 with a strike price in excess of \$45.00. A total of

665,000 options were eligible for repurchase. The tender offer expired October 29, 2007 with all 665,000 options tendered for an aggregate cash payment of \$997,500. We have noted below under the heading "Other Benefits" in each discussion of CEO and NEO compensation what payments were made in connection with the tender offer.

### **Employment Agreements**

We have entered into an employment agreement with the CEO and each NEO, and the Compensation Committee reviewed and approved the terms of each agreement. The key compensation elements within each agreement are discussed below. In addition to these compensation elements, these employment agreements also provide severance benefits to each executive upon certain termination events. These severance provisions are discussed later in this proxy statement under the heading "Compensation Discussion and Analysis Potential Payments Upon Termination or Change-of-Control."

#### ***Steven J. Hilton, CEO***

Effective January 1, 2007, the Company and Steven J. Hilton entered into an amended and restated employment agreement. The new employment agreement expires on December 31, 2008 and is subject to automatic one year renewal provisions, unless on or before September 15<sup>th</sup> prior to any expiration, either Mr. Hilton or the Company notifies the other that it wishes to terminate the agreement. The employment agreement provides Mr. Hilton with a base salary of \$1,017,500 per year, which may be adjusted from time to time, provided that it may not be reduced without Mr. Hilton's consent. The employment agreement also provides that Mr. Hilton is 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. Although Mr. Hilton's employment agreement provides that he is entitled to use of charter aircraft for business purposes, Mr. Hilton was not granted any personal use of charter aircraft.

Under the employment agreement, Mr. Hilton will receive an option to acquire 90,000 shares of Meritage common stock at an exercise price equal to the closing price on the date of grant. This option shall have a seven year term and shall vest ratably over five years from the date of grant. In addition, Mr. Hilton will be granted 18,000 restricted shares in 2007. These shares will vest in equal increments over the three-year period beginning on the anniversary of the date of grant. After 2007, Mr. Hilton may receive equity-based awards in such amounts and forms as the Committee determines in its sole discretion. All options or other equity-based awards granted to Mr. Hilton will be made pursuant to our policies governing stock-based grants, as discussed elsewhere in this proxy statement.

Mr. Hilton's employment agreement also provides for an annual cash incentive bonus based on the Company's attainment of defined performance objectives. In 2007, Mr. Hilton is entitled to a bonus equal to 0.825% of EBITDA 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 0.825% of EBITDA if the Company's return on equity is in the top half of these public homebuilders. If either measurement falls within the 33<sup>rd</sup> to 49<sup>th</sup> percentile, the bonus shall be 0.5363% of EBITDA 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. The Compensation Committee has 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 if the Company meets the goals discussed above. The cash incentive bonus component shall be paid no later than March 15 of the following year, and it shall be paid pursuant to the 2006 Stock Incentive Plan to the extent possible.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

The employment agreement also includes a claw-back provision requiring the recovery by the Company of all or part of prior bonuses in the event the performance measure used to calculate the bonus is restated downward as a result of Mr. Hilton's willful misconduct or gross negligence. We may recover any such claw-backs through an offset to future awards payable under the employment agreement, or from Mr. Hilton directly. The agreement also includes non-compete and non-solicit covenants as well as a requirement for Mr. Hilton to provide post-termination consulting services to us at our request.

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

Effective January 1, 2007, the Company and Larry W. Seay entered into an amended and restated employment agreement. The employment agreement expires on December 31, 2008 and is subject to automatic one year renewal provisions, unless on or before September 15<sup>th</sup> prior to any expiration, either Mr. Seay or the Company notifies the other that it wishes to terminate the agreement. The employment agreement provides Mr. Seay with a base salary of \$450,000 per year, which may be adjusted from time to time, provided that it may not be reduced without Mr. Seay's consent. The employment agreement also provides that Mr. Seay is 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.

Under the employment agreement, Mr. Seay will receive an option to acquire 36,667 shares of Meritage common stock at an exercise price equal to the closing price on the date of grant. This option shall have a seven year term and shall vest ratably over five years from the date of grant. In addition, Mr. Seay will be granted 7,333 restricted shares in 2007. These shares will vest in equal increments over the three-year period beginning on the anniversary of the date of grant. After 2007, Mr. Seay may receive equity-based awards in such amounts and forms as the Board of Directors determines in its sole discretion. All options or other equity-based awards granted to Mr. Seay will be made pursuant to our policies governing stock-based grants, as discussed elsewhere in this proxy statement.

Mr. Seay's employment agreement also provides for an annual cash incentive bonus based on the Company's attainment of defined performance objectives. In 2007, Mr. Seay is entitled to a bonus equal to 0.20% of EBITDA 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 0.20% of EBITDA if the Company's return on equity is in the top half of these public homebuilders. If either measurement falls within the 33<sup>rd</sup> to 49<sup>th</sup> percentile, the bonus shall be 0.13% of EBITDA 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. The Compensation Committee has 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 if the Company meets the goals discussed above. The cash incentive bonus component shall be paid no later than March 15 of the following year, and it shall be paid pursuant to the 2006 Stock Incentive Plan to the extent possible.

The employment agreement also includes a claw-back provision requiring the recovery by the Company of all or part of prior bonuses in the event the performance measure used to calculate the bonus is restated downward as a result of Mr. Seay's willful misconduct or gross negligence. The Company may recover any such claw-backs through an offset to future awards payable under the employment agreement, or from Mr. Seay directly. The agreement also includes non-compete and non-solicit covenants as well as a requirement for Mr. Seay to provide post-termination consulting services to us at our request.

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

The Company has an employment agreement with C. Timothy White that expired on December 31, 2007 and was renewed through December 31, 2008 under an automatic one year renewal option. The agreement provides for a base salary for 2007 of \$525,000 with an increase of 5% on January 1 of any renewal term. Mr. White is entitled to an annual cash incentive bonus for 2006 and 2007 equal to 0.1125% of EBITDA. Mr. White's employment agreement also contemplates that he will 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 is 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.

***Steven M. Davis, Executive Vice President National Homebuilding Operations***

In October 2006, the Company entered into an employment agreement with Steven M. Davis. This agreement has a two-year term and expires on October 16, 2008, subject to automatic one-year renewal options. The agreement provides for a base salary of \$400,000 with an increase of 5% on November 1, 2007 and November 1 of any renewal term. Mr. Davis was entitled to a bonus in 2006 of \$400,000, subject to full or partial repayment if Mr. Davis is terminated prior to September 16, 2009. For 2007 and forward, Mr. Davis is entitled to a performance-based incentive bonus, which is targeted to be between 0.25% and 0.33% of EBITDA. The payout range will be based on Mr. Davis' achievement of specific goals to be mutually agreed upon between Mr. Davis and the Company's CEO, subject to approval by the Compensation Committee. Mr. Davis' employment agreement also contemplates that he will 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 is entitled to a \$1,250 per month automobile allowance and a Company-paid annual physical at a first class facility.

***Sandra R.A. Karrmann, Executive Vice President and Chief Human Resources Officer***

In September 2006, the Company entered into an employment agreement with Sandra R.A. Karrmann, with a two year term scheduled to expire on September 26, 2008. Ms. Karrmann resigned in August 2007, triggering a repayment of \$100,000 of her hiring bonus paid in 2005.

**Discussion of CEO and NEO Compensation**

Following is a discussion of the compensation paid in 2007 to the Company's CEO and NEOs. The cash incentive performance-based bonus component for our CEO, CFO and General Counsel is based on percentage of "EBITDA." For purposes of determining the cash incentive performance-based bonuses for our executive officers discussed below, the Compensation Committee has defined EBITDA as earnings before interest (comprised of interest expense and interest amortized to cost of sales), income taxes, depreciation, amortization and non-recurring financing charges. The Compensation Committee believes that EBITDA is an appropriate measure for measuring financial performance because EBITDA is used by management to analyze and compare Meritage with other homebuilding companies on the basis of operating performance and the Compensation Committee believes it is a financial measure widely used by investors and analysts in the homebuilding industry. Thus, the Compensation Committee believes that motivating management to achieve high levels of EBITDA aligns management's interest with the interest of our stockholders.

**CEO Compensation**

Meritage's CEO, Steven J. Hilton, was compensated in 2007 pursuant to the terms of his employment agreement, which provides for a base salary, a bonus based on Company performance, stock options, and other customary executive benefits. Under this agreement, a substantial portion of Mr. Hilton's potential compensation is performance-based to align his goals and efforts with the interests of our stockholders.

*Salary.* Mr. Hilton was paid a base salary of \$1,017,500 in 2007.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

*Options.* In 2007, Mr. Hilton was granted options to acquire 75,160 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. Additionally, Mr. Hilton was granted 18,000 restricted shares. These grants were consistent with the terms of his employment agreement. The total options granted were less than the 90,000 contemplated in his employment agreement due to annual granting limit maximums established by the 2006 Stock Incentive Plan documents.

*Performance-Based Bonus.* For 2007, the Compensation Committee determined that no performance-based bonus should be paid to Mr. Hilton based on the parameters and formula reflected in his employment agreement.

*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 2007 totaled less than \$210,000, and include \$150,000 Mr. Hilton was also paid in connection with the Company-wide stock option tender offer discussed above.

On January 2, 2008, Mr. Hilton was granted options to acquire 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant.

### **Other NEO Compensation**

Following is a discussion of compensation paid during 2007 to the other NEOs named in this proxy statement.

*Larry W. Seay, Executive Vice President and Chief Financial Officer.* Mr. Seay was compensated in 2007 pursuant to the terms of his employment agreement, which provides for a base salary, a bonus based on Company performance, stock options, 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 2007.

*Options.* In 2007, Mr. Seay was granted options to acquire 36,667 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. Additionally, Mr. Seay was granted 7,333 restricted shares. These grants were consistent with the terms of his employment agreement. In December 2007, the Compensation Committee approved a second 2007 grant to all eligible employees under which Mr. Seay was also granted 53,214 options to acquire shares of our common stock at an exercise price equal to the closing price of our stock on the date of grant.

*Performance-Based Bonus.* For 2007, the Compensation Committee determined that no performance-based bonus for Mr. Seay should be paid based on the parameters and formula reflected in his employment agreement.

*Other Benefits.* We also provided to Mr. Seay other benefits consistent with our normal executive employment arrangements and his previous employment agreement. These benefits are detailed in the All Other Compensation Table included in this proxy statement and in 2007 totaled less than \$115,000, and include \$60,000 Mr. Seay was paid in connection with the Company-wide stock option tender offer discussed above.

On January 2, 2008, Mr. Seay was granted options to acquire 36,786 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant.

*C. Timothy White, Executive Vice President, General Counsel and Secretary.* Mr. White was compensated in 2007 pursuant to the terms of his employment agreement, which provides for a base

salary, a bonus based on Company performance, 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 in 2007.

*Options.* In 2007, Mr. White was granted options to acquire 15,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. This grant was in accordance with his employment agreement. Additionally, Mr. White was granted 7,500 restricted shares. In connection with the Company-wide December 2007 grant discussed above, Mr. White was also granted 50,000 additional options to purchase our common stock, with an exercise price equal to the closing price of our stock on the date of grant.

*Performance-Based Bonus.* For 2007, the Compensation Committee approved a \$450,000 discretionary bonus for Mr. White based on recommendations from management, his performance evaluation and as a retention tool based on actions of other companies in our industry.

*Other Benefits.* The Company also provided to Mr. White 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 2007 totaled less than \$95,000, and include \$52,500 Mr. White was paid in connection with the Company-wide stock option tender offer discussed above.

*Steven M. Davis, Executive Vice President National Homebuilding Operations.* Mr. Davis was compensated in 2007 pursuant to the terms of his employment agreement, which provides for a base salary, a bonus based on Company performance, 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 2007.

*Options.* In 2007, Mr. Davis was granted options to acquire 15,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. This grant was in accordance with his employment agreement. In connection with the Company-wide December 2007 grant discussed above, Mr. Davis was granted 40,000 additional options to purchase our common stock, with an exercise price equal to the closing price of our stock on the date of grant.

*Performance-Based Bonus.* For 2007, the Compensation Committee approved a \$250,000 discretionary bonus for Mr. Davis based on recommendations from management, his performance evaluation and as a retention tool based on actions of other companies in our industry.

*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 2007 totaled less than \$135,000, and include \$22,500 Mr. Davis was paid in connection with the Company-wide stock option tender offer discussed above.

*Sandra R.A. Karrmann, Former Executive Vice President and Chief Human Resources Officer.* Ms. Karrmann was compensated during 2007 pursuant to the terms of her employment letter agreement, which provided for a base salary, a bonus based on the achievement of specified goals, a hiring bonus, stock options and other customary executive benefits. Under this agreement, a portion of Ms. Karrmann's potential compensation was performance-based to align her goals and efforts with the interests of our stockholders.

## Edgar Filing: Meritage Homes CORP - Form DEF 14A

*Salary.* Ms. Karrmann was paid a base salary of \$213,328 through her termination date in August 2007.

*Options.* Under her employment agreement, in 2007 Ms. Karrmann was granted options to acquire 15,000 shares of our common stock at an exercise price equal to the closing price of our common stock on the date of grant. She was also granted 3,500 restricted shares. All equity awards were terminated upon her resignation.

*Hiring Bonus.* Pursuant to the terms of her employment letter agreement, Ms. Karrmann repaid \$100,000 of her hiring bonus upon her resignation.

*Other Benefits.* Through the date of her resignation, the Company also provided to Ms. Karrmann 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 2007 totaled less than \$30,000.

### 2007 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(3)	Option Awards \$(5)	Non-Equity Incentive Plan Compensation (\$)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings(\$)	All Other Compensation \$(7)	Total(\$)
Steven J Hilton, Chairman and CEO(1)	2007	1,017,500		205,233	2,880,731			206,848	4,310,312
	2006	1,017,500			1,196,481	7,296,282		229,942	9,740,205
Larry W. Seay, EVP and CFO(2)	2007	450,000		83,610	1,207,531		2,210	113,735	1,857,086
	2006	303,877		10,449	451,734	1,768,796	3,574(6)	40,137	2,578,567
C. Timothy White, EVP, General Counsel and Secretary	2007	525,000	450,000	64,877	884,612			92,420	2,016,909
	2006	500,000			290,596	597,474		36,768	1,424,838
Steven M. Davis, EVP National Homebuilding Operations	2007	400,000	250,000	155,929	364,560			218,985	1,389,474
	2006	83,333	400,000	27,624	13,903			5,524	530,384
Sandra R.A. Karrmann, Former EVP and Chief Human Resources Officer(4)	2007	213,328		30,276	78,743			27,397	349,744
	2006	303,296	157,000		111,324	250,000		38,526	860,146

(1) All compensation is for Mr. Hilton's services in his capacity as the Chairman and Chief Executive Officer of the Company. Mr. Hilton did not receive any separate compensation for his services as a director.

(2) The \$10,449 of stock awarded to Mr. Seay in 2006 was pursuant to our Company-wide longevity award program available to all employees.

(3) The non-vested shares (restricted stock) grants have a fair value equal to the closing price of our stock on the