

MERITAGE CORP
Form DEF 14A
April 09, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

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

Filed by the Registrant **X**
Filed by a Party other than the Registrant **O**

Check the appropriate box:

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

Meritage 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):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date: Wednesday, May 12, 2004
Time: 10:00 a.m. Texas time

The Crescent Club
200 Crescent Court
Dallas, Texas 75201

To Our Stockholders:

You are invited to attend the Meritage Corporation 2004 Annual Meeting of Stockholders. The purposes of the meeting are:

1. To elect three Class I Directors, each to hold office for a two-year term,

2. To approve an amendment to our Stock Option Plan to increase the total number of shares authorized for issuance by 800,000 and change the maximum number of shares that can be issued to any one person from 300,000 in the aggregate to 100,000 shares per year, and
3. To transact any other business that may properly come before the meeting.

These items are more fully described in the following pages.

Only stockholders of record at the close of business on March 31, 2004 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof. A copy of our 2003 Annual Report to Stockholders, which includes audited financial statements, is enclosed.

By Order of the Board of Directors

LARRY W. SEAY, SECRETARY

Scottsdale, Arizona
April 9, 2004

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 BY USING THE INTERNET OR TELEPHONE AS DESCRIBED ON THE PROXY CARD.

**MERITAGE CORPORATION
8501 E. PRINCESS DRIVE
SUITE 290
SCOTTSDALE, ARIZONA 85255**

PROXY STATEMENT

This Proxy Statement is furnished to you in connection with the solicitation of proxies by the Board of Directors of Meritage Corporation to be used in voting at our Annual Meeting of Stockholders on May 12, 2004. The meeting will be held at 10:00 a.m. at The Crescent Club, 200 Crescent Court, Dallas, Texas 75201. The proxy materials relating to the annual meeting, together with our annual report (which includes audited consolidated financial statements for our fiscal year ended December 31, 2003), were mailed on or about April 9, 2004 to stockholders of record at the close of business on March 31, 2004 (the record date).

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 above address. 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 use telephone or Internet voting. Refer to your proxy card for instructions about voting 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.

The following information should be reviewed along with the audited consolidated financial statements, notes to consolidated financial statements, report of independent auditors and other information included in our 2003 Annual Report that was mailed to you along with this Proxy Statement.

VOTING SECURITIES OUTSTANDING

On the record date, there were 13,283,647 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. Shares represented by a proxy will be voted in the manner directed by a stockholder. If no direction is made, proxies will be voted (i) for the nominees for election of directors set forth in Proposal No. 1 Election of Directors, (ii) for the amendments to our Stock Option Plan set forth in Proposal No. 2 Proposal to Approve Amendment to the Meritage Corporation Stock Option Plan, and (iii) at the discretion of the proxy holders, on all other matters properly brought before the meeting.

VOTE NECESSARY FOR ACTION

Directors will be elected by a plurality of the votes cast at the Annual Meeting. This means that the three nominees that receive the largest number of **FOR** votes cast will be elected as Class I Directors. Most other actions require an affirmative vote of the majority of shares present at the meeting. If you mark **withhold authority** on your proxy with respect to the election of a nominee, your vote will not count either **for** or **against** the nominee. Brokers who hold shares in street name for customers who are beneficial owners of such shares are prohibited from giving a proxy to vote such customers' shares on **non-routine** matters in the absence of specific instructions from such customers. This is commonly referred to as a **broker non-vote**. Abstentions and broker non-votes have the effect of a **no** vote on matters other than director elections.

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ELECTION OF DIRECTORS (Proposal No. 1)

Our Board of Directors currently has seven members. The directors are divided into two classes serving staggered two-year terms. This year our Class I Directors are up for election. The Board, upon recommendation of the Nominating/Governance Committee, has nominated Steven J. Hilton, Raymond Oppel and William G. Campbell, who are presently serving as Class I Directors, for re-election.

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 if a vacancy should occur before election, the Board may either reduce its size or designate a substitute nominee. If a substitute nominee is named, the Board will vote the proxies held by it for the election of the substitute nominee. In the vote on the election of three 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, we will vote your properly completed proxy **FOR** the Board's nominees.

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

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DIRECTOR INFORMATION

John R. Landon, 46, is co-chairman and co-chief executive officer of Meritage Corporation. Mr. Landon founded Texas-based Legacy Homes in 1987, which became a part of Meritage Corporation in 1997. Prior to founding Legacy Homes, Mr. Landon's experience included land acquisition and development operations for a large homebuilder, sales and land development for the Trammel Crow Residential Group and public accounting with Ernst & Whinney. Mr. Landon received his undergraduate degree in accounting from Louisiana State University.

Steven J. Hilton, 42, is co-chairman and co-chief executive officer of Meritage Corporation. Mr. Hilton 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

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became Meritage Corporation. Mr. Hilton received his Bachelor of Science degree in accounting from the University of Arizona and is a director of Western Alliance Bancorporation, a \$1.6 billion community bank.

Robert G. Sarver, 42, has been a director since December 1996, and is the chairman and chief executive officer of Western Alliance Bancorporation and a director of Skywest Airlines. 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.

Raymond Oppel, 47, 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 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 15 years of experience in the homebuilding business.

Peter L. Ax, 45, has been a director since September 2000 and is the managing partner of Phoenix Capital Management, an investment banking and 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 CashX, Inc. and Medit Marketing, Inc. Mr. Ax holds an M.B.A. from the Wharton School at the University of Pennsylvania, 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.

William G. Campbell, 45, has been a director since May 2002. Mr. Campbell is a co-founder and managing director of Knightsbridge Realty Capital, Inc., an advisory firm that plans and implements capitalization strategies for commercial real estate. Prior to forming Knightsbridge, Mr. Campbell was division manager of FINOVA Realty Capital, the commercial real estate financing division of the FINOVA Group. From 1995 until its acquisition by FINOVA in 1997, Mr. Campbell was chief operating officer of Belgravia Capital Corporation, a nationwide commercial mortgage-banking firm. Mr. Campbell holds an M.B.A. from Pepperdine University and has been a certified public accountant.

C. Timothy White, 43, has been a director since December 1996, and served as a director of Monterey Homes from February 1995 until December 1996. Mr. White is a partner in the national law firm of Greenberg Traurig, LLP, where his practice focuses on representation of homebuilders. Greenberg Traurig provides legal services to Meritage. From 1989 to October 2002, Mr. White was an attorney with the law firm of Tiffany & Bosco, P.A., which also provided legal services to Meritage.

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SECURITY OWNERSHIP BY MANAGEMENT AND PRINCIPAL STOCKHOLDERS

Management. The following table summarizes, as of March 15, 2004, 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 compensation summary under **Executive Compensation** ;
- all Meritage directors and executive officers as a group.

The address for our directors and executive officers is c/o Meritage Corporation, 8501 East Princess Drive, Suite 290, Scottsdale, Arizona 85255. 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.

Name Of Beneficial Owner	Position With The Company	Number Of Shares Owned(1)	Right To Acquire By May 15,	Total Beneficial Share	Percent Of Outstanding Shares
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		<u>2004</u>			
John R. Landon	Director, Co-Chairman and Co-CEO	1,010,168(2)	97,200	107,368	8.3%
Steven J. Hilton	Director, Co-Chairman and Co-CEO	1,100,616(3)	92,200	192,816	8.9%
Robert G. Sarver	Director	479,000(4)	32,500	511,500	3.8%
Raymond Oppel	Director		7,500	7,500	*
Peter L. Ax	Director		16,500	16,500	*
William G. Campbell	Director		2,500	2,500	*
C. Timothy White	Director	632	32,500	33,132	*
Larry W. Seay	Chief Financial Officer, Vice President-Finance and Secretary	14,108	46,400	60,508	*
Richard T. Morgan	Vice President and Treasurer	5,152	24,200	29,352	*
All directors and executive officers as a group (9 persons)		2,609,676	351,500	961,176	22.2%

* Less than 1%.

- (1) The amounts shown include the shares of common stock actually owned as of March 15, 2004, and the shares which the person or group had the right to acquire within 60 days of that date. In calculating the percentage of ownership, all shares of common stock which the identified person had the right to acquire within 60 days of March 15, 2004 upon exercise of options are considered as outstanding for computing the percentage of the shares owned by that person or group, but are not considered as outstanding for computing the percentage of the shares of stock owned by any other person.
- (2) Mr. Landon owns 933,334 shares with his spouse, as tenants-in-common.
- (3) Shares are held by family trusts.
- (4) Mr. Sarver is deemed to beneficially own 3,000 shares through his spouse and 1,000 shares through a minor child.

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Certain Other Beneficial Owners. Based on filings made under the Exchange Act, as of March 15, 2004, the only other known beneficial owners of more than 5% of Meritage common stock are shown in the following table:

<u>Certain Other Beneficial Owners</u>	<u>Address Of Beneficial Owner</u>	<u>Shares Beneficially Owned At December 31, 2003</u>	
		<u>Number</u>	<u>Percent</u>
Capital Growth Management LP (1)	One International Place, Boston, MA 02110	1,052,700	8.0%
FMR Corp. (2)	82 Devonshire Street, Boston, MA 02109	723,200	5.5%
Wasatch Advisors, Inc. (3)	150 Social Hall Avenue, Salt Lake City, UT 84111	724,709	5.5%
Wellington Management Company, LLP (4)	75 State Street, Boston, MA 02109	739,500	5.6%

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- (1) Based solely on Schedule 13G/A, filed with the SEC on February 6, 2004. Capital Growth Management LP (CGM) has sole voting power with respect to 1,052,700 shares and shared dispositive power with respect to those 1,052,700 shares. The Schedule 13G/A also states that CGM disclaims any beneficial interest in the shares.
- (2) Based solely on Schedule 13G/A, filed with the SEC on February 17, 2004. FMR Corp. has sole voting power with respect to 23,200 shares and sole dispositive power with respect to 723,200 shares. The interest of Fidelity Low Priced Stock Fund, an investment company registered under the Investment Company Act of 1940, in Meritage common stock amounted to 700,000 shares or 5.3% of total outstanding shares at December 31, 2003. The voting of these 700,000 shares is carried out under guidelines established by the fund's Boards of Trustees.
- (3) Based solely on Schedule 13G, filed with the SEC on February 18, 2004. Wasatch Advisors, Inc. has sole voting and dispositive power with respect to 724,709 shares.
- (4) Based solely on Schedule 13G/A, filed with the SEC on February 12, 2004. Wellington Management Company, LLP has shared voting power with respect to 479,300 shares and shared dispositive power with respect to 739,500 shares.

CORPORATE GOVERNANCE PRINCIPLES AND BOARD MATTERS

The Board of Directors is elected by the stockholders to oversee their interests in the health and overall success of our business. The Board serves as the ultimate decision-making body of the Company, except for those matters reserved to or shared with our stockholders. The Board selects and oversees the members of senior management who are charged by the Board with conducting the business of the Company. Meritage operates within a comprehensive plan of corporate governance for the purpose of defining and setting high standards for ethical conduct. This plan provides an important framework within which the Board of Directors can pursue the Company's 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,
- director access to officers and employees,
- our philosophy with respect to director compensation,

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

Our Corporate Governance Principles and Practices are available on our website at www.meritagecorp.com. 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 age, skills, and experience in the context of the needs of the Board of Directors. The Nominating/Governance Committee also evaluates the independence of each candidate. Consistent with rules and regulations of the New York Stock Exchange (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, 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 annual review of Director independence, the Board of Directors considers all commercial, banking, consulting, legal, accounting, charitable or other business relationships any Director may have with the Company.

As a result of its annual review, the Board of Directors has determined that a majority of Meritage's Board members are independent. Our independent directors, which are identified by an asterisk in the next table, are Robert Sarver, Raymond Oppel, Peter Ax and William Campbell. In making this determination, the Board of Directors evaluated whether there exists any material relationships between these individuals and Meritage. The Board of Directors determined that there does not exist any material relationships between the Company and Peter Ax and William Campbell. The Board identified and evaluated certain relationships that exist between the Company and Robert Sarver and Raymond Oppel, but determined these relationships are not material and do not affect Messrs. Sarver's nor Oppel's independence.

- In the case of Mr. Sarver, he indirectly owns a 5% beneficial interest, through a partnership, in real property subject to a purchase contract with Meritage. Mr. Sarver's beneficial interest in this property is estimated to be approximately \$230,000. In addition, from time to time, we charter an aircraft from a company owned by Mr. Sarver. The Board of Directors determined that these items are not material and do not affect Mr. Sarver's independence because these transactions and holdings are not significant to Mr. Sarver's net worth or financial position.
- In the case of Mr. Oppel, in 2001 he discontinued making investments in transactions involving Meritage. Prior to this, Mr. Oppel made investments as a minority investor in several limited partnerships that are party to option contracts that sell housing lots to Meritage. In addition, Mr. Oppel has a minority interest in an entity that in 2001 entered into a contract with Hammonds Homes for the sale of housing lots. By virtue of our acquisition of Hammonds Homes in 2002, Meritage became a party to this contract. The Board of Directors determined that these transactions are not material and do not affect Mr. Oppel's independence because the transactions are not significant to Mr. Oppel's net worth or financial position.

John Landon and Steven Hilton are not considered independent because they are employed by the Company and C. Timothy White is not considered independent because he is a partner in a law firm that provides legal services to the Company.

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

The Board and Board Committees

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

During 2003, the Board held seven meetings. Each director attended all of these meetings and the committee meetings of which he is a member, with the exception of Mr. Sarver who was unable to attend two audit committee meetings. Directors are expected to attend the Meritage Annual Meeting of Stockholders. All directors attended our 2003 annual meeting, which was held on May 21, 2003.

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 2003.

<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Executive Compensation Committee</u>	<u>Nominating/Governance Committee</u>
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<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Executive Compensation Committee</u>	<u>Nominating/Governance Committee</u>
John R. Landon			
Steven J. Hilton			
Robert G. Sarver*	X	X	X**
Raymond Oppel*	X	X	X
Peter L. Ax* +	X**	X**	
William G. Campbell*	X		X
C. Timothy White			
<u>Number of Meetings</u>	8	4	1

* Independent X = Member ** = Chair + = Lead Independent Director

Audit Committee

The Board of Directors has established an Audit Committee in accordance with the Securities Exchange Act of 1934. The Audit Committee assists the Board of Directors:

- in fulfilling its oversight of the integrity of the Company's financial statements,
- in determining the Company's compliance with legal and regulatory requirements,
- in determining the independent auditors' qualifications and independence, and
- in evaluating the performance of the Company's internal audit function and independent auditors.

The Audit Committee has the sole authority to appoint or replace the independent accountants and approves all audit engagement fees and terms of all significant non-audit engagements with the independent accountants 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 the Company 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 restated charter is attached to this Proxy Statement as *Exhibit A* and is also available on our website at www.meritagecorp.com. Each member of the Audit Committee meets the independence requirements of the NYSE and the Securities Exchange Act of 1934, and is financially literate, knowledgeable and qualified to review our financial statements. The Board of Directors has designated each Peter Ax and Robert Sarver an audit committee financial expert. Information about Messrs. Sarver's and Ax's past business and educational experience is included in their biographies in this Proxy Statement under the caption Director Information.

The report of the Audit Committee is included in this Proxy Statement on page 17.

Executive Compensation Committee

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

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- reviewing and approving goals and objectives relative to the compensation of our Co-CEOs, evaluating our Co-CEOs' performance in light of these goals and approving the compensation of our Co-CEOs,
- making recommendations to the Board of Directors with regard to non-CEO compensation plans and equity-based plans, and
- producing a report on executive compensation to be included in our annual Proxy Statement.

The Executive Compensation Committee operates under a written charter, which is available on our website at www.meritagecorp.com. Each member of the Executive Compensation Committee meets the independence requirements of the NYSE. The report of the Executive Compensation Committee is included in this Proxy Statement at page 12.

Nominating/Governance Committee

The Board of Directors has established a Nominating/Governance Committee, which reports directly 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 the Company,
- 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.

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.meritagecorp.com. 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 shareholder 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 shareholder nominations proposed for consideration by the Nominating/Governance Committee should include the nominee's name and qualifications for Board membership and should be submitted to:

Meritage Corporation
8501 E. Princess Drive
Suite 290
Scottsdale, Arizona 85255
Attn: Corporate Secretary

The Secretary will forward all nominations to the Nominating/Governance Committee. In addition, the Company's bylaws permit stockholders to nominate directors for consideration at an annual shareholder meeting. For a description of the process for submitting such nominations, and the deadline to propose actions

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Director Qualifications. The Nominating/Governance Committee will evaluate prospective nominees using the standards and qualifications set forth in the Company's 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 the stockholders of the Company.

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 several times during 2003 and early 2004. Peter Ax has been appointed the Lead Independent Director and presides over these executive session meetings.

Code of Ethics

Meritage Corporation is 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 Co-CEOs and our Chief Financial Officer. The Code is available on our website at www.meritagecorp.com.

Communications with the Board of Directors

Interested persons may communicate with the Board of Directors, including the Lead Independent Director, by writing to our Corporate Secretary at the address set forth on page 8.

DIRECTOR COMPENSATION

Non-employee directors received an annual retainer of \$32,000 in 2003, plus expenses related to attending Board and Committee meetings. Beginning in 2004, our non-employee directors will receive an annual retainer of \$50,000, plus expenses. Our Lead Independent Director receives \$55,000 in addition to his annual retainer. Non-employee directors receive no additional cash compensation for attending Board or Committee meetings. In 2003, each non-employee director was granted options to acquire 2,500 shares of our common stock as additional consideration for their services. Beginning in 2004, each non-employee director will be granted options to acquire 5,000 shares of our common stock. Non-employee director stock options vest in equal share increments on each of the first two anniversary dates of the date of grant and have an exercise price equal to the closing price of our common stock on the grant date.

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EXECUTIVE COMPENSATION

The following table summarizes the compensation we paid in 2003, 2002 and 2001 to our co-chief executive officers and other most highly compensated executive officers who were paid in excess of \$100,000 in 2003.

SUMMARY COMPENSATION TABLE

Annual Compensation	Long-Term Compensation Awards
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Name And Principal Position	Year	Salary (\$)	Bonus(\$)	Other Annual Compensation (\$)	Securities Underlying Options (#)	All Other Compensation\$(4)
John R. Landon Co- Chairman and Co-Chief Executive Officer	2003	\$ 712,500	\$2,582,856		40,000	\$94,673
	2002	425,000	1,935,043		40,000	58,575
	2001	425,000	1,417,401		49,000	57,277
Steven J. Hilton Co- Chairman and Co-Chief Executive Officer	2003	712,500	2,582,856		40,000	61,192
	2002	425,000	1,935,043		40,000	23,026
	2001	425,000	1,417,401		49,000	40,964
Larry W. Seay Chief Financial Officer, Vice President-Finance and Secretary	2003	262,019	786,784(1)		15,000	20,144
	2002	224,678	600,130(2)		15,000	12,937
	2001	195,346				