

Meritage Homes CORP
Form DEF 14A
April 03, 2012
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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):

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(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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Dear Stockholders:

You are cordially invited to join us for our 2012 annual meeting of stockholders, which will be held on Friday, May 25, 2012, at 10:00 a.m. local time in our corporate offices at 17851 North 85th Street, Suite 300, Scottsdale, Arizona 85255. Holders of record of our common stock as of March 30, 2012, are entitled to notice of and to vote at the 2012 annual meeting.

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

We are pleased to be furnishing these materials to our stockholders via the Internet again this year. We believe this approach will allow us to continue to provide you with the information that you need while expediting your receipt of these materials, lowering our costs of delivery, and reducing the environmental impact of our annual meeting. If you would like us to send you printed copies of our proxy statement and accompanying materials, we will be happy to do so at no charge upon your request. For more information, please refer to the Notice of Internet Availability of Proxy Materials that we previously mailed to you on or about April 10, 2012.

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

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

We thank you for your support.

Sincerely,

Steven J. Hilton

Chairman and Chief Executive Officer

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

Listed on the New York Stock Exchange MTH

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Date: Friday, May 25, 2012

Time: 10:00 a.m. local time

Meritage Homes Corporation

17851 North 85th Street, Suite 300

Scottsdale, Arizona 85255

To Our Stockholders:

You are invited to attend the Meritage Homes Corporation 2012 annual meeting of stockholders at which we will conduct the following business:

1. Election of four Class I Directors, each to hold office until our 2014 annual meeting and one Class II Director, to hold office until the 2013 annual meeting,
2. Ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2012 fiscal year,
3. Advisory vote to approve compensation of Named Executive Officers (Say on Pay),
4. Amendment to our 2006 Stock Incentive Plan to increase the number of shares available for issuance, and

5. The conduct of any other business that may properly come before the meeting or any adjournment or postponement thereof. These items are more fully described in the accompanying proxy. Only stockholders of record at the close of business on March 30, 2012 are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement thereof.

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

By Order of the Board of Directors,

C. Timothy White, Secretary

Scottsdale, Arizona

April 2, 2012

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 25, 2012:

THIS PROXY STATEMENT AND MERITAGE S 2011 ANNUAL REPORT TO STOCKHOLDERS ARE AVAILABLE AT *INVESTORS.MERITAGEHOMES.COM*. ADDITIONALLY, AND IN ACCORDANCE WITH SEC RULES, YOU MAY ACCESS THESE MATERIALS ON THE COOKIES-FREE WEBSITES INDICATED IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS THAT YOU RECEIVE.

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MERITAGE HOMES CORPORATION

17851 NORTH 85TH STREET

SUITE 300

SCOTTSDALE, ARIZONA 85255

(480) 515-8100

www.meritagehomes.com

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Meritage Homes Corporation to be used in voting at our annual meeting of stockholders on Friday, May 25, 2012. The meeting will be held at 10:00 a.m. local time at our corporate offices at 17851 North 85th Street, Suite 300, Scottsdale, Arizona 85255.

On or about April 10, 2012, a Notice of Internet Availability of Proxy Materials (the "Notice") was mailed to stockholders of record as of the close of business on March 30, 2012 (the "record date") and this proxy and the related materials were made available on our website. We are furnishing our proxy materials to our stockholders on the Internet in lieu of mailing a printed copy of our proxy materials to each stockholder of record. You will not receive a printed copy of our proxy materials unless you request one. The Notice instructs you as to how you may access and review on the Internet all of the important information contained in the proxy materials, or request a printed copy of those materials. The Notice also instructs you as to how you may vote your proxy.

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

The Meritage Board of Directors is soliciting proxies. We will bear the entire cost of proxy solicitation, including charges and expenses of brokerage firms and others for forwarding solicitation material to beneficial owners of our outstanding common stock. We intend to retain the services of Alliance Advisors or another proxy solicitation firm. We anticipate the costs associated with proxy solicitation will not exceed \$15,000.

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 2011 Annual Report to Stockholders that is available on our website at *investors.meritagehomes.com*.

Information about our company is provided on our Internet website at *www.meritagehomes.com*. Our periodic and current reports, including any amendments, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (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 Exchange Act reports or this proxy statement.

Meritage operates within a comprehensive plan of corporate governance for the purpose of defining responsibilities and setting high standards for ethical conduct. Our Board of Directors has established an Audit Committee, Executive Compensation Committee and Nominating/Governance Committee. The charter of each of these committees is available on our website, along with our Code of Ethics and our Corporate Governance Principles and Practices. Our committee charters, Code of Ethics and Corporate Governance Principles and Practices are also available in print, free of charge, to any stockholder who requests them by calling us or by writing to us at our principal executive offices at the address listed above, Attention: Corporate Secretary.

VOTING SECURITIES OUTSTANDING

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On the record date, there were 32,748,087 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.

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VOTING PROXIES

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

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

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

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

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

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SUMMARY

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

General Information

Date, Time and Place of Meeting	The annual meeting will be held on Friday, May 25, 2012, at 10:00 a.m. local time at our corporate offices at 17851 North 85th Street, Suite 300, Scottsdale, Arizona 85255.
Record Date	The record date for the annual meeting is March 30, 2012. Investors 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	<p>You can vote in person at the annual meeting or submit a proxy to have your shares represented without attending the annual meeting. The shares represented by a properly executed proxy will be voted as you direct. To submit a proxy, you must follow the instructions provided in this proxy statement and in the Notice. You may submit your proxy via the Internet, regular mail, or by calling the telephone number provided in the Notice, and you will be asked to enter your 11- or 12-digit control number. If you request a printed copy of these materials, you may also fill out and sign the proxy card enclosed therein and return it by mail in the envelope provided.</p> <p>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, regular mail, 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.</p>
Quorum	The presence in person or by proxy of stockholders representing a majority of the votes entitled to be cast at the meeting is necessary to constitute a quorum at the meeting. Abstentions and broker non-votes are counted as present for purposes of determining whether a quorum exists.
<i>The Proposals</i>	
Election of Directors (page 8)	<p>Steven J. Hilton, Raymond Oppel, Richard T. Burke, Sr. and Dana Bradford are each presently serving as Class I Directors. Messrs. Hilton, Oppel, Burke and Bradford are nominated for re-election. Michael R. Odell is presently serving as a Class II Director and is nominated for election as he was recently appointed by the Board in December 2011.</p> <p>The Board of Directors recommends a vote FOR each of these directors.</p> <p>If a quorum is present, the four Class I nominees who receive the most votes and the Class II nominee who receives the most votes will be elected. Broker non-votes and votes that are withheld will not count as votes cast either for or against the nominee. Please vote on this matter.</p>
Ratification of Auditor (page 8)	<p>Ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the 2012 fiscal year.</p> <p>The Board of Directors recommends a vote FOR this proposal.</p> <p>If a quorum is present, an affirmative vote of the majority of the votes cast at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Abstentions will not be counted either for or against this proposal. If the appointment is not approved by the stockholders, the adverse vote will be considered a direction to the Audit Committee to consider other auditors for next year. However, because of the difficulty in making any substitution of auditors after the beginning of the current year, the appointment in 2012 will stand, unless the Audit Committee determines there is a reason for making a change.</p>

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Advisory Vote to Approve Compensation of our Named Executive Officers (Say on Pay) (page 9)

Stockholders will be given the opportunity to vote on an advisory resolution to approve the compensation of our Named Executive Officers (NEOs) (commonly referred to as Say on Pay).

The Board of Directors recommends a vote FOR the resolution approving the compensation of our NEOs.

If a quorum is present, approval of the advisory vote requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions will not be counted either for or against this proposal.

Approval of an Amendment to our 2006 Stock Incentive Plan to Increase the Number of Shares Available for Issuance (page 10)

Under our 2006 Stock Incentive Plan, the Company's executives, officers, employees, non-employee directors, consultants and advisors are eligible to receive awards of stock options, stock appreciation rights, restricted stock awards, performance share awards and performance based awards. We are asking for your approval of an amendment to the 2006 Stock Incentive Plan. The amendment will increase the number of shares available under the Plan by 1,200,000 shares from 1,850,000 (excluding shares remaining available for grant that were rolled into the 2006 Stock Incentive Plan from our former stock plan) to 3,050,000. We are asking for you to approve this amendment because the Board has determined that increasing the number of shares available for grant generally under the plan is necessary to be able to grant additional equity awards in order to continue to retain and motivate key employees in the continuing difficult homebuilding environment.

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

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

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ELECTION OF DIRECTORS

(PROPOSAL NO. 1)

Our Board of Directors currently has eight 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 for re-election Steven J. Hilton, Raymond Oppel, Richard T. Burke, Sr., and Dana Bradford, each of whom are presently serving as Class I Directors. Michael R. Odell was appointed by the Board as a Class II Director in December 2011 and is therefore standing for election for the first time. Mr. Odell was approached by the Nominating/Governance Committee based on the Board's knowledge of his significant business experience.

Biographical information for each of our director nominees is set forth on pages 19 and 20.

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

vote **FOR** all nominees;

WITHHOLD votes for all nominees; or

WITHHOLD votes as to specific nominees.

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

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

**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 2012.

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

If a quorum is present, an affirmative vote of the majority of the votes cast at the annual meeting is required to ratify the selection of Deloitte & Touche LLP as the Company's independent auditor. Abstentions will not be counted either for or against this proposal. If the appointment of Deloitte & Touche LLP as auditors for 2012 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 after the beginning of the current year, the appointment in 2011 will stand, unless the Audit Committee determines there is a reason for making a change.

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

VOTE FOR PROPOSAL NO. 2.

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ADVISORY VOTE ON SAY ON PAY

(PROPOSAL NO. 3)

Stockholders will be given the opportunity to vote on the following advisory resolution (commonly referred to as "Say on Pay"):

RESOLVED, that compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby APPROVED.

Background on Proposal

In accordance with the Dodd-Frank Act and related SEC rules, stockholders are being given the opportunity to vote at the annual meeting on this advisory resolution regarding the compensation of our NEOs.

At our 2011 Annual Meeting of Stockholders, the Company's stockholders approved the compensation of our NEOs (on an advisory basis) by 91% of total votes cast. This high approval rating further indicates that our stockholders are in agreement with our Compensation Committee and its direction of setting compensation arrangements based on thresholds that are in line with the goals of our stockholders. While the advisory vote approved our current compensation package, we have nonetheless made revisions to further tighten our NEO compensation packages, including the elimination of tax gross-ups on insurance premium reimbursements effective in fiscal 2013 as well as implemented tighter restrictions on re-pricing of options or SARS awards in our stock incentive plan. In addition, at our 2011 Annual Meeting of Stockholders, the stockholders indicated, on an advisory vote basis, that they preferred that we hold Say on Pay votes on an annual basis. In light of these results, the Company's Board of Directors has decided to hold its future advisory votes on the compensation of named executive officers annually until the next frequency vote. This Proposal No. 3 represents this year's Say on Pay vote and we anticipate holding a Say on Pay vote again in 2013. A frequency vote is required to be held at least once every six years.

For a comprehensive description of our executive compensation program, philosophy and objectives, including the specific elements of executive compensation that comprised the program in 2011, please refer to the Compensation Discussion and Analysis. The Summary Compensation Table and other executive compensation tables (and accompanying narrative disclosures) that follow it, beginning at page 35, provide additional information about the compensation that we paid to our NEOs in 2011. As described in the Compensation Discussion and Analysis, which begins at page 25, our executive compensation program is designed to drive and reward superior performance both annually and over the long term while simultaneously striving to be externally competitive. During 2011, through the combined efforts of our NEOs in these challenging economic times, particularly in the homebuilding industry, Meritage was successful in achieving the following accomplishments:

Generated year-over-year increases in many of our key operating metrics, including home orders, order backlog, average sales price and the number of actively selling communities.

Announced entry into two new and promising markets: Raleigh-Durham, North Carolina and Tampa, Florida. Sales operations began in Raleigh in the fourth quarter with 24 sales in three actively-selling communities. Operations in Tampa are expected to begin in the first half of 2012.

Successfully differentiated ourselves from other production builders through Meritage Green, our energy-efficiency program, which we believe has helped us to increase both sales and profitability.

The Board and NEOs recognize the long-term challenges the Company has faced through the downturn and over the past several years. While the above accomplishments were recognized, the Company has implemented prudent and responsible compensation policies in the shareholders interest, some of which include:

Actions over the last several years have included freezing base salaries for our NEOs, despite automatic increase provisions in some employment agreements, with Mr. Hilton taking a voluntary pay cut in 2009. In 2010, Mr. Hilton's pay was re-established at the 2008 rate, and only Messrs. Seay and Davis received salary increases to bring them more in line with market compensation levels.

The Compensation Committee is continually evaluating the compensation packages for our NEOs and adjusting them as conditions warrant, including setting performance targets for both cash and equity awards. Some of such awards have been forfeited over the last several years in cases where targets were not met.

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Other than auto allowances and reimbursement of certain life and disability or long-term care insurance premiums, perquisites for our NEOs were essentially discontinued.

NEOs must comply with security ownership requirements, as discussed on page 30.

Incentive compensation is balanced between cash and equity awards, as discussed on page 29.

Each employment agreement of our NEOs includes a provision for the clawback (or offset) of incentive bonuses to the extent any financial results are misstated as the result of the NEO's willful misconduct or gross negligence.

Effects of Advisory Vote

Because the vote on this proposal is advisory in nature, it will not affect any compensation already paid or awarded to our NEOs and will not be binding on the Board or the Executive Compensation Committee. However, the Executive Compensation Committee will consider the outcome of the vote when making future executive compensation decisions.

If a quorum is present, approval of the advisory vote requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions will not be counted either for or against this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR APPROVAL OF THE RESOLUTION

SET FORTH ABOVE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

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. 4)

On February 10, 2012, our Board of Directors adopted amendments to the Meritage Homes Corporation 2006 Stock Incentive Plan (the "2006 Plan"), including an amendment that subject to stockholder approval would increase the number of shares available under the Plan by 1,200,000 shares to 3,050,000. In addition to the proposed 3,050,000 total availability in the 2006 Plan, our prior plan had 5,900,000 shares approved, and of that amount, 1,863,832 shares were transferred into the 2006 Plan because they were never granted or were granted and subsequently canceled or forfeited. Based on current grant and cancellation/forfeiture rates, we believe the proposed share increase should be sufficient for grants through at least 2014. In addition to the share count increase, the amendments strengthen the 2006 Plan's prohibition against re-pricing underwater options to include a prohibition against cash buybacks. Only the amendment to increase the number of shares under the 2006 Plan is subject to and being presented for stockholder approval.

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 amendment highlighted, in addition to changes enhancing the 2006 Plan's prohibitions against re-pricing. The closing price for our common stock on March 30, 2012, as reported on the NYSE, was \$27.06 per share. We anticipate filing a Form S-8 registration statement with the SEC shortly after the annual meeting to register the additional shares approved by this proposal.

The Board believes the 2006 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 reaching our conclusion as to the appropriateness of the additional share proposal, we reviewed key metrics that are typically used to evaluate such proposals. Many investors use a burn rate calculation in order to quantify how quickly a company uses its shareholder capital. Meritage has a three-year burn rate of 1.97%, well below the threshold set by a major proxy advisory firm for our industry (consumer durables and apparel) of 4.81%. This burn rate assumes a 1.5x weighting for restricted stock grants. Our unweighted burn rate is 1.44%. Further, our burn rate has steadily decreased over the last three years included in the calculation. Additionally, many investors look at voting power dilution to see the effect that shares will have on dilution. Full voting power dilution of all outstanding shares, assuming all 1,200,000 shares in the proposal were

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fully dilutive as of December 31, 2011, would yield a 10.03% dilution for Meritage, which is well below our industry median.

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Administration

The 2006 Plan will be administered by the Compensation Committee. The Compensation Committee has the authority to interpret and administer the 2006 Plan in order to carry out the purposes of the 2006 Plan. The Compensation Committee has the authority to determine those persons eligible to receive Awards, the number of shares subject to an award and to establish and interpret the terms and conditions of any Awards. The Compensation Committee may also make exceptions to the provisions of any Awards. All determinations of the Compensation Committee are final and binding.

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, 2011, there were seven non-employee directors and approximately 125 officers and employees of the Company and its subsidiaries eligible to participate in the 2006 Stock Incentive Plan.

Types of Awards

The 2006 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 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 Compensation Committee may grant both nonqualified stock options and incentive stock options under the 2006 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 10 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, without stockholder approval, be repriced, cancelled and regranted at a lower exercise price, or repurchased for cash, 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 Plan, although the shares are generally subject to a risk of forfeiture or to other conditions or restrictions for specified periods of time. The Compensation Committee does not typically issue a stock certificate representing a restricted stock award until the restrictions applicable to all or part of the award have lapsed, and the Compensation Committee has discretion to waive in whole or in part restrictions or forfeiture conditions relating to the restricted stock award.

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

Performance-Based Awards. The purpose of performance-based awards is to qualify restricted stock or performance share awards as performance-based compensation pursuant to Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). Section 162(m) of the Code limits the Company's federal income tax deduction for compensation paid to any of the executive officers named in the summary compensation table of its annual proxy statement. The limit is \$1 million per officer per year, with certain exceptions. However, the deductibility limit does not apply to performance-based compensation if the qualifying performance criteria and maximum amounts payable upon the satisfaction of performance goals are approved in advance by the Company's stockholders. Stockholders previously approved the qualifying performance criteria and maximum amounts payable for purposes of Section 162(m) of the Code at the Company's annual meeting of stockholders in 2010 and this approval is valid until 2015.

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

Change in Control

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

Amendment to or Termination of the 2006 Plan

The Compensation Committee, with the Board's approval, may amend, alter or discontinue the 2006 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 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 10 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.

U.S. Federal Tax Consequences

The following is only a summary of the consequences of U.S. federal income taxation to the participant and the Company with respect to the grant and exercise of Awards under the 2006 Plan. The summary is not complete, does not discuss the income tax laws of any state or foreign country in which a participant may reside, and is subject to change. Participants in the 2006 Plan should consult their own tax advisors regarding the specific tax consequences to them of participating in and receiving Awards under the 2006 Plan.

Nonqualified Stock Options and Stock Appreciation Rights. Generally, a participant will not recognize income upon the grant of a nonqualified stock option or a stock appreciation right; instead, the holder of a nonqualified stock option or a stock appreciation right will recognize ordinary income at the time of exercise in an amount equal to the excess of the fair market value of the common stock at the time of exercise over the exercise price. On a subsequent sale of the shares of common stock received upon exercise, the difference between the net proceeds of sale and the fair market value of the shares on the date of exercise will generally be taxed as capital gain or loss (long-term or short-term, depending on the holding period).

Incentive Stock Options. A participant will not recognize income upon the grant of an incentive stock option. In addition, a participant will not recognize income upon the exercise of an incentive stock option if the participant satisfied certain employment and holding period requirements. To satisfy the employment requirement, a participant must exercise the option not later than three months after he or she ceases to be an employee of the Company or any of its subsidiaries (or later than one year if he or she is disabled), unless he or she has died. To satisfy the holding period requirement, a participant must hold the stock acquired upon exercise of the incentive stock option more than two years from the date of grant of the stock option and more than one year after the transfer of the shares of common stock to him or her. If these requirements are satisfied the participant will on the sale of such stock be taxed on any gain, measured by the difference between the option price and the net proceeds of sale, generally at long-term capital gains rates.

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If shares of common stock acquired upon the timely exercise of an incentive stock option are sold, exchanged, or otherwise disposed of without satisfying the holding period requirements (a disqualifying disposition), the participant will, in the usual case, recognize (i) capital gain in an amount equal to the excess, if any, of the sales price over the fair market value of the shares on the date of exercise; (ii) ordinary income in an amount equal to the excess, if any, of the lesser of the sales price or the fair market value of the shares on the date of exercise over the option price of the option; and (iii) capital loss equal to the excess, if any, of the option price over the sales price.

Individuals are subject to an alternative minimum tax based upon an expanded tax base to the extent such tax exceeds the regular tax liability. The amount by which the fair market value of the shares acquired upon exercise of an incentive stock option exceeds the exercise price will be included as a positive adjustment in the calculation of the employee's alternative minimum taxable income in the year of exercise. The alternative minimum tax imposed on individual taxpayers is generally equal to the amount by which a specified percentage of the individual's alternative minimum taxable income (reduced by certain exemption amounts) exceeds his or her regular income tax liability for the year.

Stock options otherwise qualifying as incentive stock options will be treated as nonqualified stock options to the extent that the aggregate fair market value of stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under all of the Company's plans) exceeds \$100,000 based on the fair market value of the stock at the date of grant.

Restricted Stock. A participant will not recognize income upon the grant of restricted stock. If the participant makes an election under Code Section 83(b) within 30 days after receiving the shares of restricted stock, however, he or she will recognize ordinary income in the year of receipt in an amount equal to the excess of the fair market value of such shares (determined without regard to the restrictions imposed by the 2006 Plan) at the time of grant over any amount paid by the participant. Then, upon the sale of such stock, the difference between the fair market value at the time of grant and the net proceeds of sale will generally be taxed as capital gain or loss (long-term or short-term, depending on the holding period). If a participant makes a Section 83(b) election with respect to shares of common stock that are subsequently forfeited, he or she will not be entitled to deduct any amount previously included in income by reason of such election. If a participant does not make a Section 83(b) election, the participant will recognize ordinary income in the year or years in which the award of restricted stock vests and any restrictions imposed by the 2006 Plan on the Award terminate in an amount equal to the excess, if any, of the fair market value of such shares on the date the restrictions expire or are removed over any amount paid by the participant. If a Section 83(b) election has not been made, any dividends received with respect to shares of common stock subject to restrictions will be treated as additional compensation income and not as dividend income.

Performance Shares. A participant will not recognize income upon the grant of a performance share. The participant will recognize ordinary income in the year vested equal to the fair market value of shares of common stock or cash received.

Withholding Taxes. Generally, the Company will be required to withhold applicable taxes with respect to any ordinary income recognized by a participant in connection with Awards granted under the 2006 Plan. The Compensation Committee may permit a participant to pay withholding taxes through the mandatory or elective sale of shares of common stock, by electing to have the Company withhold a portion of the shares that would otherwise be issued upon exercise of an Award (based upon the minimum statutory withholding amount) or by tendering shares already owned by the participant for more than six months.

Section 409A of the Internal Revenue Code of 1986, as amended, became effective as of January 1, 2009. If certain awards fail to comply with Section 409A, a participant must include in ordinary income all deferred compensation conferred by the award, pay interest from the date of the deferral and pay an additional 20% tax. The award agreement for any award that is subject to Section 409A may include provisions necessary for compliance as determined by the Compensation Committee. The Company intends (but cannot and does not guarantee) that awards granted under the 2006 Plan will comply with the requirements of Section 409A or an exception thereto and intends to administer and interpret the 2006 Plan in such a manner.

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The Company will generally be entitled to a tax deduction corresponding in amount and time to the participant's recognition of ordinary income in the circumstances described above, provided, among other things, that such deduction meets the test of reasonableness and is an ordinary and necessary business expense. However, in connection with a change in control of the Company, and depending upon the terms and conditions of Awards granted under the 2006 Plan and upon the individual circumstances of the participants, certain amounts with respect to Awards granted under the 2006 Plan may constitute excess parachute payments under the golden parachute provisions of Section 280G of the Code. Under these provisions, a participant will be subject to a 20% excise tax on any excess parachute payment and the Company will be denied any deduction with respect to such payment. In addition, in certain instances as a result of the application of Section 162(m) of the Code, the Company may be denied a compensation deduction for Awards granted to certain officers that do not qualify as performance-based compensation to the extent their aggregate compensation exceeds \$1 million in a given year.

Plan Benefits

The following table sets forth grants of options and restricted shares through March 1, 2012 made under the 2006 Plan since its inception to (i) all our named executive officers, individually and as a group; (ii) all current directors and director nominees who are not executive officers, individually and as a group; and (iii) all employees, including all current officers who are not executive officers, as a group. Grants under the plan are made at the discretion of the Board of Directors.

Individual or Group Name	Number of Shares Subject to Options and Non-Vested Shares Granted (1)	Weighted Average Exercise Price per Share (2)
Executive Officers		
Steven J. Hilton	427,500	\$ 23.40
Larry W. Seay	201,667	\$ 23.08
C. Timothy White	100,000	\$ 32.08
Steven M. Davis	106,000	\$ 28.97
Executive Officer Group (four persons)	835,167	\$ 24.10
Non-Executive Director Group		
Robert G. Sarver	29,500	\$ 25.32
Raymond Oppel	29,500	\$ 25.32
Peter L. Ax	29,500	\$ 25.32
Richard T. Burke, Sr.	29,500	\$ 25.32
Gerald W. Haddock	29,500	\$ 25.32
Dana Bradford	21,000	\$
Michael R. Odell	18,000	\$
Non-Executive Director Group (seven persons)	186,500	\$ 25.32
Non-Executive Officer Employee Group (about 125 persons)	826,016	\$ 23.77

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

(2) Weighted average exercise price per share is for options only and excludes any restricted shares.

Steven J. Hilton, Larry W. Seay, C. Timothy White and Steven Davis are each party to an employment agreement effective January 1, 2010, which contemplates that for years after 2011, the executive will receive an option to purchase shares of Company stock as follows:

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Steven J. Hilton, a minimum of 90,000 shares*

Larry W. Seay, a minimum of 36,667 shares*

C. Timothy White, a minimum of 15,000 shares*

Steven Davis, a minimum of 15,000 shares*

* Or such other equivalent number of shares subject to full