

## MERITAGE HOMES CORPORATION

### CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

#### Director Qualifications

The Board of Directors (the “Board”) will have a majority of directors who meet the criteria for independence required by the New York Stock Exchange. The Nominating/Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. This assessment will include members’ qualification as independent, as well as consideration of age, skills, and experience in the context of the needs of the Board. Nominees for directorship will be selected by the Nominating/Governance Committee in accordance with the policies and principles in its charter. The invitation to join the Board should be extended by the Board itself, by the Chairman of the Nominating/Governance Committee and the Chairman of the Board.

The Board presently has six members. The Board believes that a size of six to ten is an appropriate size.

The Board does not believe it should establish term limits. While term limits could help insure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop over time increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole through this “institutional knowledge.” As an alternative to term limits, the Nominating/Governance Committee will review from time to time each director’s continuation on the Board.

The Board does not believe that a director should serve as a board member of more than three other public companies. The Board will specifically evaluate the qualifications of any director that serves on the board of more than three other public companies.

Any director that is also an officer or employee of the Company agrees to tender their resignation from the Board upon termination of his or her employment as an officer or employee of the Company. In exercising its fiduciary duty, the Board may in its discretion accept or refuse to accept such resignation. Because the Board believes strongly in protecting the shareholder franchise, this resignation policy does not apply where a director/officer owns a significant amount of Meritage stock (more than 300,000 shares).

#### Director Responsibilities

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its Stockholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company’s senior executives and its outside advisors and auditors. The directors shall also be entitled to have the Company purchase directors’ and officers’ liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Company’s charter, bylaws and any indemnification agreements, and to exculpation as provided by Maryland law and the Company’s charter.

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board’s understanding of the business to be conducted at a Board or committee meeting should generally be distributed to the directors before the meeting, and directors should review these materials in advance of the meeting.

The Chairmen will establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are

not on the agenda for that meeting. The Board shall advise and participate in the Company's long-range strategic plans, and such issues should be addressed during at least one Board meeting each year.

The non-management directors will meet in executive session at least quarterly. The director who presides at these meetings will be chosen by the independent directors, and his/her name will be disclosed in the Company's annual proxy statement.

### **Board Committees**

The Board will have at all times an Audit Committee, an Executive Compensation Committee and a Nominating/Governance Committee. All of the members of these committees will be independent directors under the criteria established by the New York Stock Exchange.

Committee members will be appointed by the Board upon recommendation of the Nominating/Governance Committee. The Board will not mandate rotation of the Committee members, but will consider from time to time the membership of the Committees.

Each committee will have its own written charter. The charters will set forth the authority and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board. The charters will also provide that each committee will annually evaluate its performance.

### **Director Access to Officers and Employees**

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer, Chief Financial Officer, General Counsel, or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, unless inappropriate, copy the Chief Executive Officer on any written communications between a director and an officer or employee of the Company.

### **Director Compensation**

The form and amount of director compensation will be determined by the Executive Compensation Committee in accordance with the policies and principles set forth in its charter, and the Executive Compensation Committee will conduct an annual review of director compensation. The Executive Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with, or provides other indirect forms of compensation to, a director or an organization with which the director is affiliated.

### **Director Orientation and Continuing Education**

All new directors should participate in an orientation program sponsored by the Company. This orientation will be designed to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Ethics, its principal officers, its internal audit function, and its independent auditors. In addition, the Board encourages each director to attend prominent continuing education programs (including programs accredited by Institutional Shareholder Services). The Company will pay for the director's tuition and reasonable and customary travel expenses to attend continuing education programs.

## Chief Executive Officer Evaluation and Management Succession

The Executive Compensation Committee will conduct an annual review of the performance of the Chief Officer(s), as set forth in its charter. The Board will review the Executive Compensation Committee's report in order to ensure that the Chief Executive Officer is providing the best leadership for the Company in the long- and short-term.

The Board of Directors shall be responsible to approve a succession plan for the Chief Executive Officer(s) and the senior officers of the Company. The entire Board will work with the Nominating/Governance Committee to nominate and evaluate potential successors to the Chief Executive Officer(s).

## Stockholding Requirements

In order to more closely align the interests of directors and senior corporate management with those of stockholders, the Board has adopted guidelines requiring that directors and certain senior corporate officers acquire and maintain ownership, directly or beneficially, of a meaningful amount of Meritage stock ("Stock Ownership Guidelines"). As currently structured, each covered individual must acquire and continue to own a minimum level of Meritage stock equivalent in value to a specified multiple of the individual's annual base salary or annual director's fees. The required multiples vary according to the covered position and are summarized below.

<u>Position</u>	<u>Value of Required Stock Ownership</u>
Directors	2 x Annual Director Fees (exclusive of any committee fees)
CEO	4 x Base Salary
CFO	2 x Base Salary
General Counsel	2 x Base Salary
Other Executive Officers	As required by the Board

The Board has delegated to the Nominating/Corporate Governance Committee the primary responsibility for overseeing and implementing the Stock Ownership Guidelines, including interpreting, monitoring compliance with and enforcing the Stock Ownership Guidelines as adopted or amended by the Board from time to time.

For purposes of the Stock Ownership Guidelines, stock is deemed "owned" for both directors and officers in the case of (a) shares owned outright, (b) beneficially-owned shares, and (c) vested stock or stock equivalents, such as restricted stock or stock units. Stock options, whether vested or not, do not count as stock "owned."

A transition period has been established to provide a reasonable time for existing and new covered persons to achieve the required minimum ownership levels. Each Director and covered executive officer is expected to reach full compliance with these guidelines by April 30, 2008. Upon the appointment of a new executive officer or election of a director, such person will be expected to reach full compliance with these guidelines by the date that is three years after such appointment or election.

For purposes of determining compliance with the policy, the measurement date for determining compliance with the guidelines will be the earlier of (1) the date on which the director or officer provides notice and appropriate documentation of compliance to the Nominating/Governance Committee or (2) the later of April 30, 2008 or three years after appointment or election. Once compliance is obtained, subsequent changes in stock prices will not affect a director's or officer's compliance with the guidelines.

## **Annual Performance Evaluation**

The Board will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating/Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

Dated: February 15, 2006