HORTON D R INC /DE/
Form DEF 14A
December 09, 2016
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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  x

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))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

# D.R. Horton, Inc.

**(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):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On**

**Thursday, January 19, 2017**

Dear Fellow Stockholder of D.R. Horton:

You are invited to attend the 2017 Annual Meeting of Stockholders of D.R. Horton, *America s Builder*. Our 2017 Annual Meeting will be held at our corporate offices located at: D.R. Horton Tower, 301 Commerce Street, Fort Worth, Texas 76102, on Thursday, January 19, 2017, at 10:00 a.m., central time, for the following purposes:

To elect the five directors named in our proxy statement;

To seek an advisory vote on the approval of executive compensation;

To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm; and

To conduct other business properly brought before the meeting.

Only stockholders of record at the close of business on Monday, November 28, 2016, are entitled to notice of and to vote at the 2017 Annual Meeting or any adjournment thereof.

While we would like to have each of you attend the meeting and vote your shares in person, we realize this may not be possible. However, whether or not you plan to attend the meeting, your vote is very important. For convenience of our stockholders, proxies may be given either by telephone, electronically through the Internet, or by mail.

A form of proxy on which to indicate your vote by mail and an envelope, postage prepaid, in which to return your proxy are enclosed. WE URGE YOU TO COMPLETE AND RETURN YOUR PROXY BY ONE OF THESE METHODS SO THAT YOUR SHARES WILL BE REPRESENTED. If you decide later to attend the 2017 Annual Meeting, you may revoke your proxy at that time and vote your shares in person. If you desire any additional information concerning the 2017 Annual Meeting, we would be glad to hear from you.

Very truly yours,

DONALD R. HORTON
*Chairman of the Board*

Fort Worth, Texas

December 9, 2016

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**D.R. Horton Tower**

**301 Commerce Street**

**Fort Worth, Texas 76102**

**www.drhorton.com**

# PROXY STATEMENT

**for the**

# 2017 ANNUAL MEETING OF STOCKHOLDERS

## To Be Held On January 19, 2017

## GENERAL

**Time, Place and Purposes of Meeting**

Our 2017 Annual Meeting of Stockholders will be held on Thursday, January 19, 2017, at 10:00 a.m., central time, at our corporate offices located at D.R. Horton Tower, 301 Commerce Street, Fort Worth, Texas. The purposes of the 2017 Annual Meeting are set forth in the Notice of Annual Meeting of Stockholders to which this Proxy Statement is attached. D.R. Horton, Inc. is referred to as *D.R. Horton,* the *Company,* *we,* and *our* in this Proxy Statement.

**Solicitation of Proxies**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of D.R. Horton. D.R. Horton expects that this Proxy Statement and the accompanying form of proxy will first be released to our stockholders of record on or about December 9, 2016. The cost of this solicitation will be paid by D.R. Horton. The solicitation of proxies will be made primarily by use of the mail. In addition, directors, officers and regular employees of D.R. Horton may make solicitations without special compensation by telephone, facsimile, e-mail or personal interview. They may request banks, brokers, fiduciaries and other persons holding stock in their names, or in the names of their nominees, to forward proxies and proxy materials to their principals and obtain authorization for the execution and return of such proxies to management. D.R. Horton will reimburse such banks, brokers and fiduciaries for their reasonable out-of-pocket expenses for this service.

**Revocation and Voting of Proxies**

Stockholders may vote by marking, signing and dating each proxy card received and returning it in the prepaid envelope, by telephone or electronically through the Internet by following the instructions included on the enclosed proxy card or by casting votes in person at the meeting. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which are designed to comply with Delaware law, allow stockholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded. Stockholders who hold shares in street name through a broker or other nominee may be able to vote by telephone or electronically through the Internet in accordance with the voting instructions provided by that institution.

Any proxy given may be revoked by a stockholder at any time before it is exercised by filing with D.R. Horton a notice in writing revoking it, by duly executing and returning a proxy bearing a later date or by voting by telephone or Internet. Proxies also may be revoked by any stockholder present at the 2017 Annual Meeting who expresses a desire to vote his or her shares in person. Each shareholder may appoint only one proxy holder or representative to attend the meeting on his or her behalf. If you require directions to our meeting, please contact Investor Relations at (817) 390-8200. Subject to such revocation and except as otherwise stated herein or in the form of proxy, all proxies duly executed and received prior to, or at the time of, the 2017 Annual

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Meeting will be voted in accordance with the specifications of the proxies. If no specification is made, proxies will be voted as follows: (i) FOR each of the nominees for election of directors *(see Proposal One on page 5),* (ii) FOR the adoption of the advisory resolution on executive compensation *(see Proposal Two on page 54),* (iii) FOR ratification of the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm *(see Proposal Three on page 57),* and at the discretion of the proxy holders on all other matters properly brought before the 2017 Annual Meeting or any adjournment or postponement thereof.

**Outstanding Shares and Voting Rights**

November 28, 2016 has been set as the record date for the purpose of determining stockholders entitled to notice of, and to vote at, the 2017 Annual Meeting. There were 373,225,734 shares of D.R. Horton s common stock, $.01 par value, issued and outstanding on the record date. On any matter submitted to a stockholder vote, each holder of common stock will be entitled to one vote, in person or by proxy, for each issued and outstanding share of common stock registered in his or her name on the books of D.R. Horton as of the record date. A list of such stockholders will be available for examination by any stockholder at the offices of D.R. Horton set forth above for at least ten days before the 2017 Annual Meeting.

**Quorum Requirement**

The D.R. Horton Bylaws provide that there will be a quorum if the holders of a majority of the issued and outstanding shares of common stock entitled to vote are present in person or represented by proxy. The aggregate number of votes entitled to be cast by all stockholders present in person or represented by proxy at the 2017 Annual Meeting, whether those stockholders vote for, against or abstain from voting on any matter, will be counted for purposes of determining whether a quorum exists. Broker non-votes, which are described below under *Vote Required,* will be considered present for purposes of determining whether a quorum exists.

**Vote Required**

**NOTICE: Brokers and banks are not permitted to vote on certain non-routine proposals without instructions from the beneficial owner, as discussed in more detail below. Proposal One and Proposal Two are non-routine proposals. Therefore, if your shares are held through a broker, bank or other nominee, your shares will not be voted on Proposal One or Proposal Two unless you provide voting instructions to your broker or bank as described herein.**

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the *beneficial owner* of shares held in *street name.* If a broker or bank holds your shares, you may have received this Proxy Statement directly from them, together with instructions as to how to direct the broker or bank to vote your shares. If you intend to have your vote counted, it is important that you return your voting instructions to your broker or bank. Under the rules of the New York Stock Exchange *( NYSE ),* a broker or bank has the authority to vote on certain *routine* proposals without voting instructions from the beneficial owner. A *broker non -vote* occurs when the broker or bank is unable to vote on a *non-routine* proposal because it does not have discretionary authority and the beneficial owner has not provided voting instructions. Brokers or banks may not vote on Proposal One or Proposal Two at the 2017 Annual Meeting without voting instructions from the beneficial owner because those proposals are *non-routine* proposals. Brokers and banks may vote on Proposal Three at the 2017 Annual Meeting without voting instructions from the beneficial owner because this proposal is *routine.*

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The following table reflects the vote required for each proposal and the effect of broker non-votes and abstentions on the vote, assuming a quorum is present at the meeting:

| Proposal | Vote Required | NYSE Routine and Non-Routine Matters: Effect of Broker Non-Votes and Abstentions |
|---|---|---|
| (1) Election of Directors | (1) The number of shares voted for a director must exceed the number of shares voted against that director | (1) *Non-Routine:* Brokers and banks do not have discretionary authority to vote on this proposal in the event voting instructions are not received from street-name holder<br><br>Broker non-votes have no effect<br>Abstentions have no effect |
| (2) Advisory vote on the approval of executive compensation | (2) An affirmative vote of the holders of a majority of our common stock which has voting power present in person or represented by proxy and is entitled to vote | (2) *Non-Routine:* Brokers and banks do not have discretionary authority to vote on this proposal in the event voting instructions are not received from street-name holder<br><br>Broker non-votes have no effect<br>Abstentions have the same effect as a vote against the proposal |
| (3) Ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm | (3) An affirmative vote of the holders of a majority of our common stock which has voting power present in person or represented by proxy and is entitled to vote | (3) *Routine:* Brokers and banks have discretionary authority to vote on this proposal in the event voting instructions are not received from street-name holder<br><br>Abstentions have the same effect as a vote against the proposal |

**Stockholders Sharing the Same Address**

The broker, bank or other nominee of any stockholder who is a beneficial owner, but not the record holder, of the Company s common stock may deliver only one copy of this Proxy Statement and our Annual Report to multiple stockholders sharing an address, unless the broker, bank or nominee has received contrary instructions from one or more of the stockholders.

In addition, with respect to record holders, in some cases, only one copy of this Proxy Statement and our Annual Report will be delivered to multiple stockholders sharing an address, unless the Company has received contrary instructions from one or more of the stockholders. Upon written or oral request, the Company will deliver free of charge a separate copy of this Proxy Statement and our Annual Report to a stockholder at a shared address to which a single copy was delivered. You can notify your broker, bank or other nominee (if you are not the record holder) or the Company (if you are the record holder) that you wish to receive a separate copy of our proxy statements and annual reports in the future, or alternatively, that you wish to receive a single copy of the materials instead of multiple copies. The Company s contact information for these purposes is: D.R. Horton, Inc., Attention: Thomas B. Montano, Vice President, Corporate and Securities Counsel, 301 Commerce Street, Suite 500, Fort Worth, Texas 76102, telephone number: (817) 390-8200, or e-mail: tbmontano@drhorton.com.

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**Future Stockholder Communications through the Internet**

Stockholders may elect to receive future notices of meetings, proxy materials and annual reports electronically through the Internet. The consent of stockholders who have previously consented to electronic delivery will remain in effect until withdrawn. To consent to electronic delivery:

- stockholders whose shares are registered in their own name, and not in street name through a broker or other nominee, may simply log in to www.proxyvote.com, the Internet site maintained by Broadridge Financial Solutions, Inc. and follow the step-by-step instructions; and

- stockholders whose shares are registered in street name through a broker or other nominee must first vote their shares using the Internet at: www.proxyvote.com, the Internet site maintained by Broadridge Financial Solutions, Inc., and immediately after voting, fill out the consent form that appears on-screen at the end of the Internet voting procedure.

The consent to receive stockholder communications through the Internet may be withdrawn at any time to resume receiving stockholder communications in printed form.

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR**

**THE STOCKHOLDER MEETING TO BE HELD JANUARY 19, 2017**

The Notice, Proxy Statement and Annual Report on Form 10-K are available at

https://materials.proxyvote.com/23331A

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## PROPOSAL ONE

## ELECTION OF DIRECTORS

Our Board of Directors currently consists of five members who were elected at the 2016 Annual Meeting and will serve until the 2017 Annual Meeting and until their successors have been elected and qualified.

The Nominating and Governance Committee recommended to the Board of Directors our five current directors as director nominees, each of whom is listed below under the heading *Nominees for Director*. After review and consideration by the Board of Directors, the Board nominated Donald R. Horton, Barbara K. Allen, Brad S. Anderson, Michael R. Buchanan and Michael W. Hewatt, as recommended by the Nominating and Governance Committee, for election as directors of D.R. Horton at the 2017 Annual Meeting.

Unless otherwise specified in the accompanying proxy, the shares voted by proxy will be voted for each of the persons named below as nominees for election as directors. Nominees who are elected as directors will be elected for one-year terms and will serve until the next annual meeting of stockholders and their successors have been elected and qualified. We do not know of any reason why any of the nominees would be unable to serve. However, if any of the nominees is unable to serve or for good cause will not serve as a director at the time of the 2017 Annual Meeting, the Board may designate a substitute nominee or reduce the size of the Board. If the Board designates a substitute nominee, the persons named as proxies may vote FOR that substitute nominee.

The D.R. Horton Bylaws require that to be elected, a director nominee must receive a majority of the votes cast with respect to such nominee in uncontested elections (the number of shares voted for a director nominee must exceed the number of votes cast against that nominee). In a contested election, where the number of nominees exceeds the number of directors to be elected (which is not the case at the 2017 Annual Meeting), the directors will be elected by a plurality of the shares present in person or by proxy and entitled to vote on the election of directors. Under the Corporate Governance Principles of the Company, any director who is not elected is required to tender his or her resignation to the Chairman of the Board within a reasonable time following certification of the vote. The Nominating and Governance Committee, which is composed of only independent directors, will consider the resignation offer and make a recommendation to the Board as to whether to accept or reject the resignation offer, or whether other action should be taken. The Board will act on the Nominating and Governance Committee s recommendation within 90 days following certification of the election results. Thereafter, the Board will promptly publicly disclose in a report filed with the Securities and Exchange Commission *( SEC )* its decision regarding the director s resignation offer (including the reason(s) for rejecting the resignation offer, if applicable).

**The Board of Directors Unanimously Recommends that Stockholders Vote FOR**

**Each of the Following Director Nominees.**

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**Nominees for Director**

The following is a summary of certain information regarding the nominees for election as directors.

***DONALD R. HORTON,*** *age 66, director since 1991.* Mr. Horton has been executive Chairman of the Board of D.R. Horton since it was formed in July 1991, and he was President and CEO from July 1991 through November 1998. He has been involved in the real estate and homebuilding industries since 1972, and he was the founder, sole or principal stockholder, director and president of each of D.R. Horton s predecessor companies since their respective organization, which date from 1978 to 1990.

*Key Director Qualifications*. Mr. Horton s 38 years of extensive experience in the homebuilding industry provides valuable leadership to the Board and to the Company. Mr. Horton brings to the Board his experience as founder of the Company, Chairman of the Board and former CEO and President of the Company and its predecessor companies. Mr. Horton is also the largest individual stockholder of the Company. As founder of the Company, Mr. Horton has a unique understanding of all phases of the homebuilding business. Mr. Horton s leadership and strategic vision provides the Board and the Company with distinct advantages in the homebuilding industry.

***BARBARA K. ALLEN,*** *age 70, director since 2014.* Ms. Allen has significant experience researching, analyzing and making investment decisions related to housing-related companies. Ms. Allen retired from Avondale Partners in July 2006 where she was a Partner and Housing, Construction and Retailing Analyst. From February 1997 through December 2004, she was the Home Construction, Building Materials, Home Furnishing and DIY (Do It Yourself) Retailing Analyst for Natexis Bleichroeder, Inc. Ms. Allen was a Vice President, Equity Research for Donaldson, Lufkin & Jenrette from January 1993 through January 1996. She served in other roles at Oppenheimer & Company, Kidder, Peabody, Inc., and Prudential Securities prior to January 1993. Ms. Allen has been a member of the Audit, Compensation and Nominating and Governance Committees since 2014.

*Key Director Qualifications*. Ms. Allen s extensive experience working as an analyst and consultant with housing-related companies provides valuable knowledge to the Board with regard to strategic decisions, including investment, operating and financing matters.

***BRAD S. ANDERSON,*** *age 55, director since 1998.* Mr. Anderson has been an Executive Vice President of CBRE Group, Inc., formerly CB Richard Ellis, Inc., an international real estate brokerage company, since 2009, and he has held various positions in Phoenix, Arizona with its predecessor, CB Commercial Real Estate Group, Inc., since January 1987. He served as Interim Chairman of the Board of Continental Homes Holding Corp. from October 1997 through April 1998, when it merged into D.R. Horton, and he became a director of D.R. Horton at that time. Mr. Anderson has been a member of both the Audit and Compensation Committees since 1998, and he has been a member of the Nominating and Governance Committee since November 2003.

*Key Director Qualifications*. Mr. Anderson s extensive experience working with an international real estate brokerage company allows him to bring beneficial insight and perspective to the Board, as a number of factors that affect the real estate brokerage industry also affect the homebuilding industry. Mr. Anderson also brings to the Board his valuable experience of formerly serving on another public homebuilding company s board and serving on the Company s Board and its Committees since 1998.

***MICHAEL R. BUCHANAN,*** *age 69, director since 2003.* Mr. Buchanan has significant commercial banking experience with several banking institutions serving the real estate and homebuilding sectors. He retired from commercial banking in March 2002. From March 2002 to March 2003, Mr. Buchanan was engaged as a senior advisor to Banc of America Securities. From 1998 to March 2002, Mr. Buchanan was a Managing Director of Bank of America, an executive officer position in which he was head of its national real estate banking group. From 1990 to 1998, Mr. Buchanan was an Executive Vice President of NationsBank, which later merged with Bank of America. Mr. Buchanan is also a member of the Board of Directors and a member of the capital committee and the audit committee of Piedmont Office Realty Trust, Inc., a real estate investment trust publicly traded on the NYSE. Mr. Buchanan was appointed to our Board s Audit Committee in July 2003, Nominating and Governance Committee in November 2003 and Compensation Committee in January 2004.

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*Key Director Qualifications*. Mr. Buchanan is a highly experienced commercial banker who served the real estate and homebuilding sectors. His experience in these areas allows him to provide the Board with both a broad-based and a granular perspective on the homebuilding industry. Mr. Buchanan also brings his experience of serving on the board of a real estate investment trust, thereby providing the Board with additional perspective on the real estate industry and serving on a board of directors.

***MICHAEL W. HEWATT,*** *age 67, director since 2005.* Mr. Hewatt is a certified public accountant performing auditing and tax services as a sole practitioner. He has worked for Hewatt & Associates or its predecessor firms since 1980. From 1971 to 1979, Mr. Hewatt worked in the tax and audit areas at Coopers & Lybrand (now PricewaterhouseCoopers LLP) and was an audit manager for five years during that period. Mr. Hewatt is a member of the American Institute of Certified Public Accountants, former member of the board of directors of the Texas Society of Certified Public Accountants and former President of the Texas Society of Certified Public Accountants Fort Worth Chapter. Mr. Hewatt has been a director of D.R. Horton since 2005 and has been a member of the Audit, Compensation and Nominating and Governance Committees since that time.

*Key Director Qualifications*. Mr. Hewatt has extensive experience working as a certified public accountant for a national and local firm. This experience enables Mr. Hewatt to provide valuable perspective on accounting, auditing and tax matters to the Board and its Committees.

**Other Executive Officers**

***DAVID V. AULD,*** *age 60*, is President and Chief Executive Officer of D.R. Horton, positions he has held since October 2014. Mr. Auld was Executive Vice President and Chief Operating Officer from November 2013 through October 2014. Mr. Auld was Region President overseeing the Company s homebuilding operations in Florida, North and South Carolina, Georgia and Alabama from 2005 to 2013. From 1988 to 2005, Mr. Auld served as the Division President of the Company and its predecessor s Orlando Division. Prior to 1988, Mr. Auld worked for Texas American Bank and General Dynamics. Mr. Auld graduated from Texas Tech University in 1978 with a bachelor of business administration degree in accounting.

***MICHAEL J. MURRAY,*** *age 50*, is Executive Vice President and Chief Operating Officer of D.R. Horton, positions he has held since October 2014. Mr. Murray served as Senior Vice President of Business Development from 2012 through October 2014. From 2004 to 2012, Mr. Murray served as the Company s Vice President and Controller after joining the Company in 2002 as the Director of Internal Audit. He began his career at Price Waterhouse LLP (now PricewaterhouseCoopers LLP) and then worked at several other companies in finance and accounting roles prior to joining the Company. Mr. Murray graduated from the University of Texas at Arlington in 1988 with a bachelor of business administration degree in accounting.

***BILL W. WHEAT,*** *age 50*, is Executive Vice President and Chief Financial Officer of D.R. Horton, positions he has held since 2003. Mr. Wheat was the Company s Senior Vice President and Controller from 2000 through 2003, after joining the Company in 1998 as an Accounting Manager. Mr. Wheat also served as a member of the Board of Directors of the Company from October 2003 through January 2011. Mr. Wheat began his career at Price Waterhouse LLP (now PricewaterhouseCoopers LLP) and then worked at The Bombay Company in several financial and accounting roles prior to joining the Company. Mr. Wheat graduated from Baylor University in 1988 with a bachelor of business administration degree in accounting and finance.

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## CORPORATE GOVERNANCE AND BOARD MATTERS

### Corporate Governance Standards

Our Board of Directors has adopted a number of standards to comply with requirements of the Sarbanes-Oxley Act of 2002 *(the Sarbanes-Oxley Act )* and the final rules of the NYSE and SEC relating to the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act *(the Dodd-Frank Act )* and other corporate governance matters. Our Board has adopted the D.R. Horton Corporate Governance Principles which contain a number of corporate governance initiatives designed to comply with the NYSE listing standards *(the NYSE Rules )* and the rules and regulations of the SEC *(the SEC Rules )* relating to corporate governance. The significant corporate governance initiatives adopted by the Board of Directors are discussed below. The Corporate Governance Principles can be found under the Investor Relations and Corporate Governance links on our website at www.drhorton.com.

***Qualifications and Characteristics for Directors***

The Nominating and Governance Committee utilizes a variety of methods for identifying nominees for director, including considering potential director candidates who come to the Committee s attention through current officers, directors, professional search firms, stockholders or other persons. Once a potential nominee has been identified, the Nominating and Governance Committee evaluates whether the nominee has appropriate qualifications and characteristics to become a director in light of the current make-up of the Board of Directors. We do not have a formal or informal diversity policy regarding the selection or qualification of directors. We believe that appropriate director qualifications and characteristics include having directors with diverse backgrounds, education, experiences, expertise and perspectives. These qualifications and characteristics are discussed below.

***Key Qualifications and Experiences.*** As a leading national homebuilding company, we believe certain qualifications and experiences are important to the overall composition of our Board. We do not require that each director possess each of the qualifications listed below, but rather we look to whether our Board as a whole possesses these qualifications.

*Real Estate Experience*. We seek to have directors with expertise or key experience in the real estate industry, which includes experience in homebuilding, land development, real estate brokerage and sales, commercial development and leasing, financing and banking in the real estate industry or experience in analyzing or consulting in these key areas. These key qualifications enable our Board to understand key operational aspects related to our business of running a national homebuilding company.

*Business, Management, Accounting and Finance Experience*. We seek to have directors with expertise or key experience in business, management, accounting, finance or similar positions. We believe these key qualifications are important to the Board as it oversees risks in the Company s key functional areas of homebuilding operations, financing and liquidity, financial reporting, internal control and regulatory compliance, and compensation.

*Strategic Vision and Leadership*. We seek to have directors with expertise or key experiences in positions that require strategic vision, leadership and decision making. We believe directors acquire these key qualifications through experience as executives, managers, entrepreneurs, business owners, directors, consultants, analysts or advisors. We believe these key qualifications are important to the Board, as directors with these attributes provide sound business judgment, leadership and strategic vision to the Board and the Company.

The key qualifications possessed by our nominees are discussed under each nominee s name and profile beginning on page 6.

***Key Characteristics.*** In addition to the key qualifications and experiences discussed above, we also believe each member of the Board of Directors should have the following minimum characteristics:

- high personal and professional ethical standards, integrity and values;
- commitment to representing the long-term interests of the stockholders;

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practical wisdom, mature judgment and collegiality;

objectivity and inquisitiveness; and

willingness to offer his or her resignation in the event of any significant change in personal circumstances that could affect the discharge of his or her responsibilities as a director, including a change in his or her principal job responsibilities.

Ordinarily, directors who serve as chief executive officers or in equivalent positions for other companies should not serve on more than one other board of a public company in addition to the D.R. Horton Board, and other directors should not serve on more than two other boards of public companies in addition to the D.R. Horton Board. Because of the value the Board places on having directors who are knowledgeable about the Company and its operations, neither the Board nor the Nominating and Governance Committee believes that an arbitrary term limit on director service is appropriate.

***Retirement Age Policy***

On January 25, 2007, our Board adopted a retirement policy for directors. Under the policy, directors may not stand for re-election after they have reached the age of 75. Directors serving on the Board on January 25, 2007, which include all current directors other than Barbara K. Allen, are exempt from this policy.

***Majority Vote Standard and Resignation Policy***

The Company s Bylaws provide that in an uncontested election of directors, a director nominee must receive a majority of the votes cast to be elected. Any current director who is not re-elected is required to tender his or her resignation to the Chairman of the Board within a reasonable time following certification of the vote. Details regarding the majority vote standard and resignation policy are discussed under *Proposal One Election of Directors* on page 5.

***Procedures for Nominating or Recommending for Nomination Candidates for Director***

Our Bylaws provide that any stockholder may make nominations for the election of directors if notice of such nominations is delivered to, or mailed and received at, the principal executive offices of D.R. Horton not later than the close of business on the 90th calendar day or earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year s annual meeting. However, in the event that the date of the annual meeting is changed by more than 30 calendar days from the anniversary date of the preceding year s meeting, for notice by the stockholder to be timely, it must be so delivered not earlier than the close of business on the 120th calendar day prior to such meeting and not later than the close of business on the later of the 90th calendar day prior to such meeting or the 10th calendar day following the day on which public disclosure of the date of such meeting is made. Such public disclosure is defined to mean a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or a document publicly filed by the Company with the SEC pursuant to Sections 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended *(the Exchange Act ).* In addition, the notice must include information specified in our Bylaws, including information concerning the nominee, the stockholder and the beneficial owner, as the case may be. Because no such nominations have been made in accordance with our Bylaws, only the nominations of the Board of Directors may be voted upon at the 2017 Annual Meeting.

In addition, the Nominating and Governance Committee has adopted a policy permitting stockholders to recommend candidates for director for consideration by the committee. The Nominating and Governance Committee will consider candidates recommended by stockholders on the same basis as candidates identified through other means. Stockholders wishing to recommend candidates for election must give notice to the Nominating and Governance Committee by following the same deadlines for notice to submit a nomination outlined in our Bylaws and described above. Each notice must set forth the same information required by our Bylaws to submit a nomination. All recommended candidates shall, at a minimum, possess the characteristics for directors discussed above. The Nominating and Governance Committee may request additional information to assist in the evaluation of the candidacy of such person.

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***Director Independence***

Our Board of Directors is composed of a majority of independent directors in accordance with the NYSE Rules. Our Board made the independence determination of its members based on the *Independence Standards* discussed below.

Our Board has adopted a set of *Independence Standards,* consistent with the NYSE Rules, to aid it in determining whether a member of the Board is independent under the NYSE Rules. In accordance with these Independence Standards, a director must not have a direct or indirect material relationship with the Company or its management, other than as a director. The Independence Standards specify the criteria by which the independence of our directors will be determined, including strict guidelines for directors and their immediate family members with respect to past employment or affiliation with the Company, its management or its independent auditor.

The Independence Standards are contained in the Corporate Governance Principles set forth on our website, www.drhorton.com, under the Investor Relations and Corporate Governance links. These include the following:

- A director who is an employee or whose immediate family member is an executive officer of D.R. Horton is not independent until three years after the end of such employment relationship.

- A director who receives, or whose immediate family member receives, more than $120,000 per year in direct compensation from D.R. Horton, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than $120,000 per year in compensation. Compensation received by an immediate family member for service as a non-executive employee or non-member of senior management of D.R. Horton will not be considered in determining independence under this test.

- A director is not independent if (i) the director or an immediate family member is a current partner of D.R. Horton s external audit firm, (ii) the director is a current employee of such firm, (iii) the director s immediate family member is a current employee of such firm and personally works on D.R. Horton s audit, or (iv) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such firm and personally worked on D.R. Horton s audit within that time.

- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of D.R. Horton s present executives serves on that company s compensation committee is not independent until three years after the end of such service or employment relationship.

- A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, D.R. Horton for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million or 2% of such other company s consolidated gross revenues, is not independent until three years after falling below such threshold.

- If a director serves as an executive officer, director or trustee of a charitable or educational organization and D.R. Horton s contributions to the organization are less than $500,000, then the relationship will not be considered to be a material relationship that would impair a director s independence.

For purposes of these Independence Standards, an *immediate family member* includes a director s spouse, parents, children, siblings, mother and father-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares the director s home.

***Audit Committee Independence, Financial Literacy and Audit Committee Financial Expert***

In addition to being independent based on the Independence Standards, the NYSE Rules require that each member of an audit committee satisfy additional independence and financial literacy requirements and at least one of these members must satisfy the additional requirement of having accounting or related financial management expertise. This additional requirement can be satisfied by the Board determining that at least one Audit Committee member is an *audit committee financial expert* within the meaning of the SEC Rules.

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Accordingly, the Corporate Governance Principles contain a set of standards that relate to audit committee independence, financial literacy and audit committee accounting and financial management expertise. Generally, the additional independence standard provides that (i) a member of the Audit Committee or his or her immediate family members are prohibited from receiving any direct or indirect compensation or fee from the Company, its subsidiaries or its affiliates, and (ii) he or she may not be an affiliated person of the Company or any of its subsidiaries. Generally, the financial literacy standard provides that the Board, in its business judgment, shall determine if each member is financially literate, taking into account factors such as the member s education, experience and ability to read and understand financial statements of public companies. Also, audit committee financial experts must have five additional attributes, which are (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company s financial statements, or experience actively supervising one or more persons engaged in such activities, (iv) an understanding of internal control over financial reporting and (v) an understanding of audit committee functions. Altogether, attributes (i) through (v) are referred to as the *Financial Expert Attributes.* The audit committee financial expert standards are set forth in the Corporate Governance Principles.

***Compensation Committee Independence***

In addition to being independent based on the Independence Standards, the NYSE Rules require that each member of a compensation committee satisfy additional independence requirements. The NYSE Rules require that the Board consider all factors specifically relevant to determining whether a director has a relationship to the Company that is material to that director s ability to be independent from management in connection with the duties of a compensation committee member, including, but not limited to (i) the source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the Company to such director and (ii) whether such director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company.

***Board Determinations***

Based on the independence, financial literacy and financial expert standards discussed above, the Board has determined that Barbara K. Allen, Brad S. Anderson, Michael R. Buchanan, and Michael W. Hewatt are (i) independent, for purposes of serving as independent members of the Board of Directors and the Nominating and Governance Committees, (ii) independent, for purposes of serving as independent members on the Audit Committee and the Compensation Committee, and (iii) financially literate, for purposes of serving on the Audit Committee. The Board has also determined, as set forth below, that Mr. Hewatt and Mr. Buchanan each have the Financial Expert Attributes described above.

*Mr. Hewatt.* Mr. Hewatt acquired the Financial Expert Attributes primarily through his 45 years of experience working as a certified public accountant for Coopers & Lybrand LLP and Hewatt & Associates, CPAs and its predecessor and successor entities, as applicable. Mr. Hewatt s experience as an auditor provided him active experience in designing and conducting audits and reviewing financial statements, which developed his understanding of generally accepted accounting principles and financial statements as well as his abilities to assess the application of such principles in accounting for estimates, accruals and reserves and to evaluate related internal control structures. Mr. Hewatt s active status as a certified public accountant requires him to stay current on pronouncements and advisory notices issued by accounting, auditing and tax regulatory boards and organizations. Mr. Hewatt has additional experience in providing management advisory, tax advisory and tax preparation services, which has provided him with a strong background in the Internal Revenue Code (the *Code* ) and in dealing with the Internal Revenue Service. Mr. Hewatt has prepared and issued audit and management advisory reports to the boards of directors of his clients, whereby he has gained an understanding of the functioning of boards of directors and related committees. Mr. Hewatt s clients have included public and private companies, governmental organizations and non-profit organizations.

*Mr. Buchanan.* Mr. Buchanan acquired the Financial Expert Attributes primarily through his experience as a commercial banker in the real estate and homebuilding sectors, including serving as head of Bank of America s national real estate group. Mr. Buchanan s responsibilities as a banker required him to analyze and evaluate financial statements to make credit and lending decisions. In this regard, he developed significant expertise in understanding the integrity of the financial information used to prepare financial statements and how such information should be used to analyze and evaluate a company s financial condition and its ability to meet the company s debt obligations. As head of the national real estate group at Bank of America, Mr. Buchanan also actively supervised others in conducting financial statement and financial condition analysis and evaluation.

As provided by the safe harbor contained in the SEC Rules, our audit committee financial experts will not be deemed *experts* for any purpose as a result of being so designated. Such designation does not impose on such persons any duties, obligations or liabilities that are greater than the duties, obligations and liabilities imposed on such persons as members of the Audit Committee or the Board of Directors in the absence of such designation, and such designation does not affect the duties, obligations or liabilities of any other member of the Audit Committee or the Board of Directors.

The Board also determined that Mr. Horton, a director nominee, is not independent because he is an executive officer.

***Code of Ethical Conduct for the CEO, CFO and Senior Financial Officers***

In accordance with SEC Rules, the Audit Committee and the Board have adopted the *Code of Ethical Conduct for the CEO, CFO and Senior Financial Officers*. The Board believes that these individuals must set an exemplary standard of conduct for D.R. Horton, particularly in the areas of accounting, internal accounting control, auditing and finance. The ethics code sets forth ethical standards the designated officers must adhere to and other aspects of accounting, auditing and financial compliance. The full text of the *Code of Ethical Conduct for the CEO, CFO and Senior Financial Officers* has been posted to the Company s website, www.drhorton.com, under the Investor Relations and Corporate Governance links. Information relating to any amendment to or waiver of a provision of the *Code of Ethical Conduct for the CEO, CFO and Senior Financial Officers* will be disclosed on the website within four business days of such amendment or waiver.

***Corporate Code of Business Conduct and Ethics***

The Board of Directors has adopted a *Corporate Code of Business Conduct and Ethics* for employees and directors of D.R. Horton in accordance with the NYSE Rules. The Board adopted the *Corporate Code of Business Conduct and Ethics* to provide guidance to the Board and management in areas of ethical business conduct and risk and to provide guidance to employees and directors by helping them recognize and deal with ethical issues including, but not limited to, (i) conflicts of interest, (ii) corporate opportunities, (iii) confidentiality, (iv) fair dealing, (v) protection of corporate assets, (vi) compliance with rules and regulations, including insider trading of securities, and (vii) confidential reporting of unethical behavior and hotline telephone numbers. The *Corporate Code of Business Conduct and Ethics* can be found on the Company s website under the Investor Relations and Corporate Governance links.

***Complaint Procedures For Accounting, Internal Control, Auditing and Financial Matters***

In accordance with SEC Rules, the Audit Committee has established procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal control, auditing or financial matters (collectively, *Accounting Matters* ) and (ii) the confidential, anonymous submission by employees of concerns regarding questionable Accounting Matters. The Audit Committee oversees treatment of complaints and concerns in this area. The full text of the *Complaint Procedures For Accounting, Internal Control, Auditing and Financial Matters* has been posted to the Company s website under the Investor Relations and Corporate Governance links.

***Executive Sessions of the Board of Directors***

In accordance with the NYSE Rules, the non-management members of the Board of Directors have held and will continue to hold regularly scheduled executive sessions of the non-management directors, each of whom is independent. Michael R. Buchanan, Chairman of the Nominating and Governance Committee, presides at these executive sessions. During fiscal 2016, the non-management directors met four times in executive session, without members of management present.

***Communications with the Board of Directors and Stockholder Engagement***

Stockholders and other interested parties can communicate with any member of our Board by sending the communication to the Chairman of the Nominating and Governance Committee, who also serves as the Presiding Director. Currently, Mr. Buchanan serves as our Presiding Director. Send communications to: Presiding Director c/o Thomas B. Montano, Vice President Corporate Counsel and Corporate Compliance Officer, D.R. Horton, Inc., 301 Commerce Street, Suite 500, Fort Worth, Texas 76102. Our Corporate Counsel will review the communications and determine if such communications come within the purview of a Board committee or Board member(s). After such determination, these communications will be promptly forwarded to such Board member(s) or the Presiding Director as applicable. The Presiding Director reports these communications to the Board on a quarterly basis. Further information may be obtained on the Company s website under the Investor Relations and Corporate Governance links.

Our executive management team actively engages in communications throughout the year with stockholders of all ownership levels. Generally these communications involve participating in investor presentations and question and answer sessions, meeting with investors and stockholders one-on-one and in small groups, and responding to investor and stockholder letters, emails and telephone calls. Management s discussions with stockholders and the investment community address numerous aspects of our business and matters of importance or concern to our stockholders. When investors or stockholders ask our executive team to share an observation, question or comment with our Board, they do, so that the Board can then consider the matter as part of its governance responsibilities.

**Board Leadership Structure, Board s Role in Risk Oversight and Board and Committee Meetings**

***Board Leadership Structure***

Our Board of Directors operates under the leadership of our executive Chairman of the Board and founder, Donald R. Horton. Mr. Horton has been executive Chairman of the Board of the Company and its predecessor companies since 1978. We do not have a policy that requires the positions of Chairman of the Board and CEO be separated, but we have had a separate Chairman of the Board and CEO since 1998. We believe the separation of these positions is appropriate at this time as it allows our executive Chairman to focus on overall strategy and vision while leading the Board and the Company in overseeing key risk and management issues facing the Board and the Company. We further believe that Mr. Horton s extensive experience in the homebuilding industry enables him to provide valuable insight and leadership to both the Board and the Company. Mr. Horton s role as an executive officer also benefits the Board and the Company as he works with key officers of the Company to implement the Board s strategies and oversight functions on a daily basis.

Our Nominating and Governance Committee, which is composed of four independent directors, oversees our corporate governance, and we have taken a number of measures that collectively provide for our effective corporate governance. Our independent directors meet regularly throughout the year in executive session to encourage open communication and discussion among the independent directors without the presence of management. The Presiding Director chairs these meetings. Overall, the Board is composed of four independent directors and one management director. The Board has designated four primary committees that are responsible for various duties of the Board or its Committees, as applicable. The four committees of the Board are the Nominating and Governance Committee, Audit Committee, Compensation Committee, and Executive Committee. The Committees of the Board are discussed in more detail under the heading *Committees of the Board* on page 16.

***Board s Role in Risk Oversight***

Our Board and Board Committees have overall risk oversight responsibility of the Company, but do not provide day-to-day risk management of the Company which is the responsibility of our key officers and managers. The risk management process established and overseen by the Company s executive management includes centralized corporate review of the market, real estate, financial, legal and environmental risks associated with each transaction and management approval of funds disbursed. Because of the manner in which the Board and Committees oversee risk, the Board s role in risk oversight does not have an effect on the Board s leadership structure. Risk oversight is reviewed in the risk areas of the Company listed below.

*Homebuilding Operations*. Our ability to build and sell homes that meet buyer demand is determined by our ability to control, buy and develop land and lots in a cost effective manner. As a result, we use substantial financial resources to control, buy and develop land and lots. We control the amount of financial resources used in the acquisition of land and lots through a process which requires divisional, regional and corporate approval before financial resources are authorized for this purpose. Corporate approval includes review by corporate legal and accounting personnel and approval by our Chairman, CEO or executive officers. Our chief financial officer and chief legal officer both report to the Board regarding our process of reviewing, approving and funding land and lot acquisitions. We believe this process adequately manages the risk related to our land and lot acquisitions.

*Financing and Liquidity*. Our financing and liquidity positions may fluctuate due to changes in the homebuilding industry and in home sales demand. Our Board oversees financing and liquidity risk by regularly monitoring our financial and liquidity position to ensure we maintain the financial resources needed to fund our homebuilding operations and other financing and operating expenses. At each quarterly meeting, management reviews information related to the Company s financial and liquidity position with the Board, which includes projected short and long-term financing and liquidity needs. To further manage risk in this area, the Board approves a limit on the amount of debt and equity that may be repurchased each year. Any debt or equity issuance or debt or equity repurchase above the approved limit must be separately approved by the Board. We believe these procedures provide adequate risk oversight of financing and liquidity matters affecting the Company.

*Financial Reporting, Internal Control and Regulatory Compliance*.

*Audit Committee Risk Oversight*. The Audit Committee of the Board provides risk oversight with respect to financial reporting, internal control over financial reporting, internal audit and related regulatory compliance matters. Each quarter, our Audit Committee discusses with our independent auditor its review of our interim financial information and, after our fiscal year-end, discusses its audit of our annual consolidated financial statements, including our procedures on internal control over financial reporting. Also, during the fiscal year, our Audit Committee meets in private session (without the presence of management) with our independent auditor to discuss any matters related to the audit of our annual consolidated financial statements and review of our internal control over financial reporting.

Each quarter, our Audit Committee meets with our director of internal audit and reviews the results of the internal audits of the Company s operating divisions and other key control areas performed during the quarter. Each year, the Audit Committee reviews and approves the internal audit plan for the forthcoming fiscal year. The internal audit plan is designed using a risk-based approach focusing on key risk areas in the Company s homebuilding and financial services operations and other key control areas. During the fiscal year, the Audit Committee meets in private session (without the presence of management) with our internal audit director.

Throughout the fiscal year, our Audit Committee invites guest speakers to give presentations on a variety of topics related to recent or anticipated changes to accounting rules and regulations, tax laws and regulations, corporate governance and financial reform rules and regulations. By staying informed, the Audit Committee is able to oversee the Company s compliance with regulatory issues in these areas, and to discuss with management any actions necessary to maintain or become compliant with such regulatory matters.

*Compensation Risk Oversight*. The Compensation Committee provides risk oversight with respect to compensation of the Company s employees, including the named executive officers and other key officers, with the assistance of the Board. We regularly review the Company s compensation policies and practices and believe that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company. We believe we have established a short and long-term compensation program that properly incentivizes desired performance and mitigates inappropriate risk-taking. We believe the following compensation components help us achieve this balance:

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|---|---|
| *Base Salary:* | We set fixed base salaries in amounts that we believe are commensurate with the level of experience, responsibility and tenure of the executive. We believe that providing an appropriate base salary mitigates inappropriate risk-taking by providing a fixed and certain level of semi-monthly income. |
| *Annual Bonus Plan:* | With respect to our Chairman, CEO and COO, we provide annual incentive bonus opportunities based on various performance goals. Recent performance goals were based on pre-tax income. Our CFO is awarded an annual discretionary bonus based on his responsibilities. Final payout of these annual awards is at the discretion of the Compensation Committee. Their discretion can be used to reduce payouts when the Committee believes levels achieved result in an inappropriately high level of annual pay when balanced with the total compensation package and taking into consideration the Company s and the executive s performance. We believe we mitigate risk related to the annual performance goals through the approval process with respect to the final payout of these awards, the quarterly review of our financial statements by our management and through our internal control over financial reporting. |
| *Long-Term Bonus Plan:* | With respect to our Chairman, CEO, COO and CFO, we use a combination of equity awards in the form of performance restricted stock units and time-based restricted stock units to incentivize performance on key operational and financial goals important to the Company and its stockholders over a period longer than one fiscal year. We believe the long-term nature of these performance awards mitigates risk because the level of performance achieved is analyzed over several fiscal years (typically three), thereby allowing us to take into account any short-term or one-time events that may not be sustainable over a longer period. |
| *Stock Options:* | We use stock options as a component of long-term compensation to incent performance and to serve as a retention tool. We believe time-based vesting of our stock options creates a continuing incentive to grow value in the Company stock price, balancing out the risk taking incentives that might otherwise apply to performance-based options. We mitigate risk related to granting stock options by not granting stock options in coordination with the release of material non-public information. Further, we have several levels of review when stock options are approved and granted, including approval by the Compensation Committee and review by corporate legal, human resources and accounting personnel to ensure the terms of the stock options approved match the terms of the stock options issued. |
| *Restricted Stock Units:* | We use restricted stock units as a component of long-term compensation to incent performance and to serve as a retention tool. We believe time-based vesting of our restricted stock units creates a continuing incentive to grow value in the Company stock price, balancing out the risk taking incentives that might otherwise apply to performance-based units. We mitigate risk related to granting restricted stock units by not granting restricted stock units in coordination with the release of material non-public information. Further, we have several levels of review when restricted stock units are approved and granted, including approval by the Compensation Committee and review by corporate legal, human |

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|---|---|
| | resources and accounting personnel to ensure the terms of the restricted stock units approved match the terms of the restricted stock units issued. |
| *Performance Goals:* | The Compensation Committee has selected a variety of short and long-term operating and financial performance goals to incent performance and to drive increased Company operating and financial results on these goals. The performance goals tied to the annual cash bonus and restricted stock unit bonus programs relate to consolidated pre-tax income, return on investment, gross profit, selling, general and administrative expense and total shareholder return. The Company has established appropriate controls around the determination of the components that define these goals which mitigate risk related to monitoring the actual performance of these goals. |
| *Discretion and Clawback:* | We further mitigate compensation risk by giving the Compensation Committee sole discretion to reduce the final payout on a portion of the total compensation awarded. The Compensation Committee maintains sole discretion to reduce the final payout for the Annual Bonus Plan. The Committee does not have sole discretion with respect to the annual salary, stock options and time-based restricted stock units because these items are fixed. Additionally, the Committee does not have discretion with respect to the performance-based restricted stock units. |
| | Our executive officers are subject to the clawback provisions of the Sarbanes-Oxley Act. Our executive officers that receive performance-based compensation are subject to appropriate clawback provisions to comply with enacted federal legislation regarding clawback provisions on performance-based executive compensation. |
| *Hedging Company Securities:* | Our directors and executive officers are prohibited from engaging in short sales of our securities or from engaging in transactions designed to hedge the value of our securities held by them. Our directors and executive officers have not pledged as collateral our securities held by them. |

***Board Meetings***

During our fiscal year ended September 30, 2016 ( *fiscal 2016* ), our Board of Directors held four meetings and acted once by written consent. Each current director attended all of the Board meetings and all of the committee meetings for the committees on which he or she served during fiscal 2016. Executive sessions of our non-management directors, all of whom are independent, are regularly held. The sessions are scheduled and chaired by the Chairman of the Nominating and Governance Committee, who also acts as our Presiding Director. Although we do not have a policy with respect to director attendance at our annual meeting of stockholders, the 2016 Annual Meeting was attended by each of our directors.

***Committees of the Board***

The Board of Directors has four committees: the Executive Committee, the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. The Board of Directors has adopted governing Charters for each of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee. Each of the Charters is posted on the Company s website under the Investor Relations and Corporate Governance links.

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***Executive Committee***

The Executive Committee, while the Board is not in session, possesses all of the powers and may carry out all of the duties of the Board of Directors in the management of the business of D.R. Horton which by state or federal law or the NYSE Rules may be delegated to it by the Board of Directors. During fiscal 2016, the Executive Committee was composed of Donald R. Horton.

***Nominating and Governance Committee***

The members of the Nominating and Governance Committee are Michael R. Buchanan, Barbara K. Allen, Brad S. Anderson and Michael W. Hewatt, with Mr. Buchanan serving as Chairman. Each committee member has been determined by the Board to be independent in accordance with the NYSE Rules. During fiscal 2016, the Nominating and Governance Committee met three times and took no action by written consent, and each current member attended all of the meetings in person or by telephone conference.

The Nominating and Governance Committee Charter has been posted to the Company s website under the Investor Relations and Corporate Governance links. The Nominating and Governance Committee s primary purpose is to provide assistance to the Board of Directors in fulfilling its responsibility to the stockholders by:

- identifying individuals qualified to become directors consistent with criteria approved by the Board and recommending to the Board the qualified candidates for directorships to be filled by the Board or by the stockholders;
- developing and recommending to the Board a set of corporate governance principles applicable to the Company; and
- overseeing the evaluation of the Board and key management.

***Compensation Committee***

The members of the Compensation Committee are Brad S. Anderson, Barbara K. Allen, Michael R. Buchanan and Michael W. Hewatt, with Mr. Anderson serving as Chairman. Each Compensation Committee member has been determined to be independent under the NYSE Rules, an outside director under Section 162(m) of the Code, and a non-employee director under Rule 16b-3 under the Exchange Act. During fiscal 2016, the Compensation Committee met seven times and took no action by written consent, and each current member attended all of the meetings in person or by telephone conference.

The Compensation Committee Charter has been posted to the Company s website under the Investor Relations and Corporate Governance links. The Charter provides that the Compensation Committee shall assist the Board of Directors in discharging its responsibility to the stockholders with respect to the Company s compensation programs and compensation of the Company s executive officers.

The Compensation Committee Charter also sets forth the responsibilities and duties of the committee with regard to reviewing the compensation for the CEO and other executive officers, monitoring incentive and equity-based compensation plans, preparing an annual report on executive compensation and reporting to the Board of Directors.

***Audit Committee***

The members of the Audit Committee are Michael W. Hewatt, Barbara K. Allen, Brad S. Anderson and Michael R. Buchanan, with Mr. Hewatt serving as Chairman. During fiscal 2016, the Audit Committee met four times and took no action by written consent, and each current member attended all of the meetings in person or by telephone conference.

As discussed under the heading *Corporate Governance Standards* on page 8 of this Proxy Statement, each member of the Audit Committee has been determined by the Board to be *independent* and *financially literate* in accordance with NYSE Rules, the SEC Rules, and the corporate governance and independence

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standards adopted by the Board. Also, the Board has determined that both Mr. Buchanan and Mr. Hewatt are *audit committee financial experts* under such rules, regulations and standards as set forth in the Company s Corporate Governance Principles posted on our website.

The Audit Committee operates pursuant to an Audit Committee Charter, which was approved and adopted by the Board of Directors and posted to the Company s website under the Investor Relations and Corporate Governance links. The duties and responsibilities of the Audit Committee are set forth in its Charter. The Audit Committee s primary purposes are to:

- assist the Board in fulfilling its oversight responsibilities relating to the:
  - integrity of the Company s financial statements;
  - Company s compliance with legal and regulatory requirements;
  - independent auditor s qualifications and independence; and
  - performance of the Company s internal audit function and independent auditor; and
- prepare an Audit Committee report to be included in the Company s annual proxy statement.

Further discussion regarding the Audit Committee s processes and procedures regarding the Company s audited consolidated financial statements for the year ended September 30, 2016 and other matters are discussed in the Audit Committee Report on page 56 of this Proxy Statement.

**Compensation of Directors**

Our Board of Directors approves the annual compensation and fees paid to our non-management directors, each of whom is listed in the *Director Compensation for Fiscal 2016* table. Traditionally, the Board has strived to set non-management director compensation at a reasonable level of cash and equity compensation. Over the last three fiscal years, the total annual compensation of directors has varied primarily due to the granting of long-term equity awards in certain years. Our Chairman, a member of executive management, does not receive any compensation for serving on the Board of Directors.

***Director Fees Paid in Cash**.* In fiscal 2016, each non-management director received $15,000 for each Board meeting attended in person or by telephone conference, paid quarterly and not to exceed $60,000 per year. In addition, each non-management director who served on a committee of the Board of Directors received an annual fee of $5,000 per committee, paid quarterly, and each non-management director who served as the Chairman of a committee of the Board of Directors received an annual fee of $2,500 per committee, paid quarterly.

***Director Retainer Fees Paid in Restricted Stock Units**.* Our non-management directors received retainer fees paid in the form of restricted stock units that vest annually in equal installments over three years. In January 2016, Ms. Allen, Mr. Anderson, Mr. Buchanan and Mr. Hewatt each received 12,000 restricted stock units as reflected in the Director Compensation table on page 19.

***Restricted Stock Units**.* When a new non-management director joins our Board, the Board of Directors may award restricted stock units to the new non-management director. In addition to the initial grant received upon joining the Board, we have awarded restricted stock units to our non-management directors at other times to balance the mix of non-management director compensation between cash and equity. Traditionally, these restricted stock units have vested over five years. There were no restricted stock units awarded to our non-management directors during fiscal 2016 other than the retainer restricted stock units discussed above.

***Stock Options**.* When a new non-management director joins our Board, he or she traditionally has been awarded stock options. These stock options have an exercise price equal to the closing price of our common stock on the date of approval and grant. Traditionally, these stock options have vested over five years and have a ten-year term. In addition to the initial grant received upon joining the Board, we have awarded stock options to non-management directors at other times, which have ranged from one-year to five-year intervals. There were no stock options granted to non-management directors during fiscal 2016 or fiscal 2015.

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***Expenses and Health Care Plan***. Each non-management director is entitled to reimbursement for reasonable expenses relating to their service on the Board and any committee, including travel, meals and other related expenses. Each non-management director is eligible to participate in the Company s health care plan and Ms. Allen, Mr. Buchanan and Mr. Hewatt elected to participate in the plan in fiscal 2016.

**Director Compensation for Fiscal 2016**

| Name(1) | Fees Earned or Paid in Cash(2) | Stock Awards(3) | Option Awards(4) | All Other Compensation(5) | Total |
|---|---|---|---|---|---|
| Barbara K. Allen | $ 75,000 | $ 309,960 | | | $ 384,960 |
| Brad S. Anderson | $ 77,500 | $ 309,960 | | | $ 387,460 |
| Michael R. Buchanan | $ 77,500 | $ 309,960 | | | $ 387,460 |
| Michael W. Hewatt | $ 77,500 | $ 309,960 | | $ 1,867 | $ 389,327 |

(1) During fiscal 2016, the Company paid director fees only to non-management directors.

(2) Amounts represent non-management director fees paid in cash during fiscal 2016.

(3) Amount represents the grant date fair value of $25.83 per unit for the 12,000 restricted stock units granted to each non-management director on January 21, 2016. The grant date fair value of the restricted stock units was determined in accordance with accounting guidance for share-based payments. The Company recognizes expense for this award over its three-year vesting period.

As of September 30, 2016, each non-management director held the following number of unvested restricted stock units:

| Name | Unvested Restricted Stock Units |
|---|---|
| Barbara K. Allen | 17,983 |
| Brad S. Anderson | 15,760 |
| Michael R. Buchanan | 15,760 |
| Michael W. Hewatt | 15,760 |

(4) The non-management directors did not receive stock option awards during fiscal 2016. As of September 30, 2016, each non-management director held the following number of outstanding vested and unvested stock options:

| Name | Outstanding Stock Options Vested | Unvested |
|---|---|---|
| Barbara K. Allen | | 5,000 |
| Brad S. Anderson | 38,000 | 2,000 |
| Michael R. Buchanan | 12,000 | 2,000 |
| Michael W. Hewatt | 18,000 | 2,000 |

(5) Amount represents the participant s portion of the group health care plan premium paid by the Company.

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## BENEFICIAL OWNERSHIP OF COMMON STOCK

**Management**

The following table shows the beneficial ownership of the common stock of D.R. Horton as of November 28, 2016 by (i) each director, (ii) each named executive officer, and (iii) all directors and executive officers as a group. Unless stated otherwise, the shares are owned directly and the named beneficial owners possess sole voting and investment power with respect to the shares set forth in the table. The address for each beneficial owner in the table below is c/o D.R. Horton, Inc., 301 Commerce Street, Suite 500, Fort Worth, Texas 76102.

| | Amount and Nature of Common Stock Beneficially Owned(1) | |
|---|---|---|
| Name of Beneficial Owner | Number of Shares Beneficially Owned | Percent of Class(2) |
| Donald R. Horton | 26,162,879(3) | 6.99% |
| Barbara K. Allen | 11,873 | * |
| Brad S. Anderson | 63,888 | * |
| David V. Auld | 261,287 | * |
| Michael R. Buchanan | 26,940 | * |
| Michael W. Hewatt | 27,000 | * |
| Michael J. Murray | 155,400 | * |
| Bill W. Wheat | 274,042 | * |
| All directors and executive officers as a group (8 persons) | 26,983,309 | 7.20% |

* Less than 1%.

A named executive officer.

(1) Beneficial ownership includes the following shares which the executive officers and directors could acquire by exercising stock options on or within 60 days after November 28, 2016: Mr. Horton: 1,150,000, Mr. Anderson: 38,000, Mr. Auld: 180,000, Mr. Buchanan: 12,000, Mr. Hewatt: 18,000, Mr. Murray: 145,000, and Mr. Wheat: 184,000.

The beneficial ownership also includes the following restricted stock units that vest on or within 60 days after November 28, 2016: Ms. Allen: 6,223, Mr. Anderson: 4,000, Mr. Buchanan: 4,000, and Mr. Hewatt: 4,000.

For all directors and executive officers as a group, these stock options and restricted stock units represent an aggregate of 1,745,223 shares.

(2) The percentages are calculated based on 373,225,734 issued and outstanding shares on November 28, 2016. For each person, separately, his or her percentage was calculated by including his or her stock options and restricted stock units set forth in note (1) in both the numerator and denominator, and for the group, the percentage was calculated by including the 1,745,223 stock options and restricted stock units set forth in note (1) in both the numerator and denominator.

(3) These shares do not include (i) 2,334,596 shares directly owned by Donald Ryan Horton, an adult son of Mr. Horton, (ii) 2,286,507 shares directly owned by Douglas Reagan Horton, an adult son of Mr. Horton, (iii) 1,179,795 shares held by the Donald Ryan Horton Trust, (iv) 1,179,795 shares held by the Douglas Reagan Horton Trust, (v) 1,368,005 shares held by the Martha Elizabeth Horton Trust, and (vi) 1,499,984 shares held by the Donald Ray Horton Trust. Mr. Horton disclaims any beneficial interest in these shares. These trusts were established by Mr. Horton and his wife for the benefit of their descendants. Terrill J. Horton serves as the sole trustee of these trusts. Terrill J. Horton is a retired director of the Company and the brother of Donald R. Horton.

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### Certain Other Beneficial Owners

Based on Schedule 13G filings under the Exchange Act, available as of November 28, 2016, the only other known beneficial owners of more than 5% of D.R. Horton common stock outstanding were the following.

| Name and Address of Beneficial Owner | Shares Beneficially Owned Number | Percent |
|---|---|---|
| The Vanguard Group[(1)]<br>100 Vanguard Blvd.<br>Malvern, Pennsylvania 19355 | 29,670,164 | 8.02% |
| BlackRock, Inc.[(2)]<br>55 East 52nd Street<br>New York, New York 10055 | 28,078,655 | 7.6% |
| Sanders Capital, LLC[(3)]<br>390 Park Avenue<br>17th Floor<br>New York, New York 10022 | 22,382,027 | 6.07% |

(1) Based solely upon information contained in the most recently filed Schedule 13G/A of The Vanguard Group, filed with the SEC on February 11, 2016, reflecting beneficial ownership as of December 31, 2015. According to this Schedule 13G/A, The Vanguard Group had sole voting power for 602,786 of these shares, shared voting power for 32,400 of these shares, sole dispositive power for 29,019,836 of these shares and shared dispositive power for 650,328 of these shares.

(2) Based solely upon information contained in the most recently filed Schedule 13G/A of BlackRock, Inc., filed with the SEC on February 10, 2016, reflecting beneficial ownership as of December 31, 2015. According to this Schedule 13G/A, BlackRock, Inc. had sole voting power for 25,028,303 of these shares, no shared voting power, sole dispositive power for 28,078,655 of these shares and no shared dispositive power.

(3) Based solely upon information contained in the Schedule 13G of Sanders Capital, LLC filed with the SEC on January 29, 2016, reflecting beneficial ownership as of December 31, 2015. According to this Schedule 13G, Sanders Capital, LLC had sole voting power for 8,779,627 of these shares, no shared voting power, sole dispositive power for 22,382,027 of these shares and no shared dispositive power.

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## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

***Overview***

Our Compensation Committee strives to design a fair and competitive compensation program for executive officers that will attract, motivate and retain highly qualified and experienced executives, reward superior performance and provide incentives that are based on performance of the Company, with an overall emphasis on maximizing our long-term stockholder value. Our executive compensation program consists of several components, including base salaries, cash bonuses, performance-based equity awards, time-based equity awards, deferred compensation plans and retirement benefits. This compensation discussion and analysis provides information regarding our compensation objectives, the relationship between the components of our compensation program and our objectives, and factors considered by the Compensation Committee in establishing compensation levels for our named executive officers. Our fiscal 2016 named executive officers are:

- Donald R. Horton, Chairman of the Board;
- David V. Auld, President and Chief Executive Officer;
- Michael J. Murray, Executive Vice President and Chief Operating Officer; and
- Bill W. Wheat, Executive Vice President and Chief Financial Officer.

***Executive Summary Key Operating and Financial Results***

The homebuilding business requires long-term planning and implementation of operating strategies over several years to deliver successful operating and financial results. Accordingly, in the table below and summary that follows, we set forth key operating and financial results of the Company for fiscal years 2016, 2015 and 2014. For the 15th consecutive fiscal year, we closed more homes than any other homebuilder in the United States. Our pre-tax income increased in fiscal 2016 compared to fiscal 2015 and 2014, and we believe our business is well-positioned for the future based on our land and finished lot position, inventory of available homes, strong balance sheet and liquidity position and broad geographic operating base. The fiscal 2016 compensation received by our executives reflects their contribution to the Company s improved financial and operating results.

**Key results in fiscal years 2016, 2015 and 2014:**

| | As of and for the Fiscal Year Ended September 30, | | |
|---|---|---|---|
| **Key Result** | **2016** | **2015** | **2014** |
| Homes Closed | 40,309 | 36,648 | 28,670 |
| Revenues | $12.2 billion | $10.8 billion | $8.0 billion |
| Pre-Tax Income | $1.4 billion | $1.1 billion | $814.2 million |
| Pre-Tax Income as % of Revenues | 11.1% | 10.4% | 10.1% |
| SG&A Expense as % of Revenues | 10.9% | 11.0% | 12.0% |
| Stockholders Equity | $6.8 billion | $5.9 billion | $5.1 billion |
| Stockholders Equity per Common Share | $18.21 | $15.99 | $14.03 |
| Common Stock Price | $30.20 | $29.36 | $20.52 |
| Cash Dividends Declared per Common Share | $0.32 | $0.25 | $0.1375 |

Key operating and financial results for fiscal 2016, as compared to fiscal 2015 were as follows:

Homes closed increased 10% to 40,309 homes in fiscal 2016 compared to 36,648 homes in fiscal 2015;

Revenues increased 12% to $12.2 billion in fiscal 2016 compared to $10.8 billion in fiscal 2015;

Pre-tax income increased 20% to $1.4 billion in fiscal 2016 from $1.1 billion in fiscal 2015;

Pre-tax income as a percentage of revenues improved to 11.1% in fiscal 2016 from 10.4% in fiscal 2015;

SG&A expense as a percentage of revenues improved to 10.9% in fiscal 2016 from 11.0% in fiscal 2015;

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Homebuilding Return on Inventory ( ROI ) improved to 15.4% in fiscal 2016 from 12.8% in fiscal 2015. ROI is calculated as homebuilding pre-tax income divided by average inventory (the sum of ending inventory balances for the trailing five quarters divided by five);

Stockholders equity increased 15% to $6.8 billion in fiscal 2016 compared to $5.9 billion in fiscal 2015;

Stockholders equity per common share (stockholders equity divided by the number of common shares outstanding at the end of each fiscal year) increased 14% to $18.21 per share at September 30, 2016 from $15.99 per share at September 30, 2015; and

The Company s common stock price increased by 3% to $30.20 at September 30, 2016 from $29.36 at September 30, 2015. During fiscal 2016, our stock price ranged between $22.97 and $34.56.

The improvement in our operating and financial results over the last three fiscal years reflects a consistent focus on the fundamentals of our business in each of our communities across the markets in which we operate. We manage our business in each market to achieve an optimal balance of sales pace, pricing, profit margins and inventory levels in each community to maximize the returns on our inventory investments.

**Advisory Vote and Process for Determining Compensation**

***2016 Advisory Vote on Executive Compensation***

At our last Annual Meeting of Stockholders held on January 21, 2016, our stockholders voted in favor of a resolution to approve, on an advisory basis, the compensation of the Company s named executive officers disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in our Proxy Statement for the Company s 2016 Annual Meeting of Stockholders. Approximately 95.01% voted in favor of the advisory vote on executive compensation. The Compensation Committee evaluated the results of the 2016 advisory vote and did not make any changes to our executive compensation program and policies as a result of the vote.

***Authority and Role of Compensation Committee***

Our Compensation Committee evaluates performance and approves compensation for our Chairman and our CEO and makes compensation recommendations to the Board with respect to other named executive officers. The Compensation Committee also administers our equity programs, which include awards under our 2006 Stock Incentive Plan and all other compensation plans that are intended to qualify as performance-based. Our equity and compensation plans are discussed under the heading *Incentive Bonus Plans Approved by Stockholders* on page 38. The duties of the Compensation Committee are summarized under the heading *Compensation Committee* on page 17 and are more fully set forth in the Compensation Committee Charter, which is available on our website under the Investor Relations and Corporate Governance links.

***Compensation Committee Risk Oversight***

The Compensation Committee provides risk oversight with respect to compensation of the Company s employees, including the named executive officers and other key officers, with the assistance of the Board. The Compensation Committee s risk oversight is discussed in more detail under the heading *Board s Role in Risk Oversight Compensation Risk Oversight* on page 14.

***Role of Chairman and Chief Executive Officer***

Our Chairman and our CEO review and discuss salary and bonus compensation of our other named executive officers and our Chairman makes recommendations to the Compensation Committee regarding our executive officers, other than for himself. The Compensation Committee considers these recommendations when making its recommendation to the Board. At the request of the Compensation Committee, our Chairman also provides a recommendation concerning the annual base salary and incentive bonus program for our CEO, but not for himself.

***Review of Compensation***

We review the compensation of our executive officers on a regular basis. With respect to fiscal 2016 executive compensation, the Compensation Committee formally met in October, November and December of 2015, and in January, February, April, July, November and December of 2016 to review and discuss compensation matters. In addition, the Compensation Committee has discussions with management during the year regarding these matters. To assist the Compensation Committee, the Company engages the services of Equilar, a leading third-party provider of financial and executive compensation data. Utilizing the data provided by Equilar, the committee reviews the compensation of executives of publicly-traded companies, including our peer group and other public companies within a range of our market capitalization and industrial classification code. The scope of Equilar s services during fiscal 2016 was limited to providing access to its database to the Compensation Committee and discussing database issues with the Compensation Committee. Equilar did not advise the Compensation Committee on its executive compensation programs or decisions. The Compensation Committee does not otherwise engage any other compensation consultant to advise it on executive compensation matters.

The Compensation Committee believes it is appropriate to exercise its judgment when reviewing and setting the total mix of compensation related to short and long-term awards and cash and equity awards rather than relying on a set formula or percentage allocation. The Compensation Committee believes an important part of an executive s value is helping the Company achieve its business objectives when housing market conditions change. Accordingly, when determining the mix of compensation, the Compensation Committee considers the ability of the executive to assist the Company in achieving its business objectives as well as each executive s experience and role at the Company.

**Fiscal 2016 Outline of Executive Compensation Actions**

For fiscal 2016, the Compensation Committee took actions on matters related to executive compensation as outlined below. These executive compensation components are discussed in more detail under the referenced headings in this *Compensation Discussion and Analysis* section.

***Base Salaries*** The Board and Compensation Committee set and paid base salaries. See the heading *Base Salaries Named Executive Officers* on page 26.

***Short-Term Incentive Bonuses*** The Compensation Committee established and approved annual short-term incentive bonuses for Mr. Horton, Mr. Auld and Mr. Murray based on semi-annual pre-tax income. For fiscal 2016, Mr. Horton was eligible to earn annual short-term incentive bonuses up to a maximum of 0.6% of pre-tax income, which resulted in payments to him of $3,251,016 for the semi-annual period ended March 31, 2016 and $4,869,714 for the semi-annual period ended September 30, 2016, for a total annual cash bonus of $8,120,730. For fiscal 2016, Mr. Auld was eligible to earn annual short-term incentive bonuses up to a maximum of 0.35% of pre-tax income, which resulted in payments to him of $1,896,426 for the semi-annual period ended March 31, 2016 and $2,840,666 for the semi-annual period ended September 30, 2016, for a total annual cash bonus of $4,737,092. For fiscal 2016, Mr. Murray was eligible to earn annual short-term incentive bonuses up to a maximum of 0.1% of pre-tax income, which resulted in payments to him of $541,836 for the semi-annual period ended March 31, 2016 and $811,619 for the semi-annual period ended September 30, 2016, for a total annual cash bonus of $1,353,455. Mr. Wheat was paid semi-annual cash discretionary bonuses for the semi-annual periods ended March 31, 2016 and September 30, 2016 in the amounts of $500,000 and $600,000 (of which $100,000 was settled in shares of common stock), respectively, for a total annual cash and stock bonus of $1,100,000. See the headings *2016 Fiscal Year Annual Incentive Bonus* on page 27 and *2016 Fiscal Year Annual Incentive Bonus Results and Payout* on page 28.

***Long-Term 2019 Performance and Time-Based Restricted Stock Units (RSUs)*** In November 2016, the Compensation Committee granted to Mr. Horton, Mr. Auld and Mr. Murray performance RSUs that may vest based on performance of four goals over the three-year performance period beginning October 1, 2016 and ending September 30, 2019. Mr. Horton was awarded a target amount of 200,000 Performance RSUs, Mr. Auld was awarded a target amount of 100,000 Performance RSUs and Mr. Murray was awarded a target amount of 30,000 Performance RSUs. Mr. Wheat was awarded 30,000 time-based RSUs that vest annually in equal installments over a three-year period. See the heading *2017 Fiscal Year Award of 2019 Performance Restricted Stock Units Potential Vesting at September 30, 2019 and Award of Restricted Stock Units Time-Based Vesting* on page 38.

***Long-Term Restricted Stock Units*** The Compensation Committee approved and granted time-based vesting restricted stock units to our executive officers and key employees in fiscal 2016. See the heading *2016 Fiscal Year Award of Restricted Stock Units Time-Based Vesting* on page 37.

***Settlement of Long-Term 2016 Performance Restricted Stock Units (RSUs)*** Based on the three-year performance period from October 1, 2013 to September 30, 2016, Mr. Horton earned 325,000 shares (162.5% of target) of common stock. For additional information on the 2016 Performance RSUs, see the heading *2016 Performance Restricted Stock Units Ranking Results and Vesting at September 30, 2016* on page 30.

**Executive Compensation Objectives**

Our primary compensation objectives are to:

- motivate and retain highly qualified and experienced executives;
- award compensation that recognizes valuable short and long-term individual performance as well as the Company s overall performance; and
- implement a compensation plan that aligns our executives interests with those of our stockholders with the goal of maximizing long-term stockholder value.

As a leading national homebuilding company, we employ key executives who have delivered strong results in a competitive and challenging homebuilding market. Our key executives have experience in both up and down cycles in the homebuilding industry. The Compensation Committee considers this type of experience to be very valuable due to the cyclical nature of the homebuilding industry. Because of the performance of our key executives over the past several years, they may encounter other professional opportunities due to the extensive experience gained during their employment with us. As a result, we provide competitive compensation packages to retain our executives. We believe that to maintain our position as a leader in the homebuilding industry and to serve our stockholders interests, the Company must provide executive compensation programs that continually motivate and are effective in retaining our executives.

With the goal of maximizing long-term stockholder value, we believe it is important to have a significant portion of executive compensation tied to attaining both short and long-term goals and performance. In addition to the financial performance of the Company, we also considered certain subjective factors when reviewing an executive s value. These factors include the number of years with the Company, significance of job function, ability to analyze and make effective decisions regarding significant business and financial objectives, effectiveness of their work as part of the executive management team and their leadership to our employees. By placing importance on these qualities, we are aligning individual and corporate performance with the compensation that is ultimately paid for performance. Due to the significant number of years of dedicated service our executives have with us, the Board of Directors and Compensation Committee have chosen not to pursue written employment agreements with our executives. Based on the Compensation Committee s continual review of market trends occurring in our industry, we believe our cash and equity compensation programs are effective in allowing us to motivate and retain our executives.

**Use of Compensation Peer Group Data**

The Compensation Committee utilizes compensation data from our peer group of publicly-traded homebuilding companies to analyze compensation decisions in light of current market conditions and practices and to ensure that our compensation decisions are reasonable in comparison to our peer group and the value of

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our executives to the Company. However, the Compensation Committee does not attempt to position compensation at any specified level or ranking within our peer group. In fiscal 2016, the peer group compensation data was compiled by the Compensation Committee Chairman and the Company s legal counsel using information from Equilar s database and from the data in executive compensation discussions and tables in publicly filed proxy statements. When determining peer group averages, rankings and medians, we include our Company and each company in our peer group in the rankings and computations. Our peer group could change from year to year based on the discretion of the Compensation Committee. Our Compensation Committee considers factors such as market capitalization, competition in our markets and mergers and consolidations when determining our peer group. For fiscal 2016, our peer group consisted of the following publicly-traded homebuilding companies that had market capitalizations ranging from approximately $223 million to $9.5 billion at September 30, 2016. Our market capitalization on that date was $11.2 billion.

**Peer Group Fiscal 2016**

| | |
|---|---|
| Beazer Homes USA | M.D.C. Holdings |
| CalAtlantic Group* | Meritage Homes |
| Hovnanian Enterprises | NVR |
| KB Home | PulteGroup |
| Lennar | Toll Brothers |

* New peer company following the merger of The Ryland Group and Standard Pacific Corp. The Ryland Group was a member of the peer group prior to the merger.

In November 2016, our Compensation Committee revised our Peer Group for fiscal 2017 and going forward to remove Beazer Homes USA, Inc. and Hovnanian Enterprises, Inc. and to add Taylor Morrison Home Corporation and TRI Pointe Group, Inc. The primary reason for this change was to adjust our peer group to include the homebuilders with the largest market capitalization.

**Peer Group Fiscal 2017**

| | |
|---|---|
| CalAtlantic Group | NVR |
| KB Home | PulteGroup |
| Lennar | Taylor Morrison |
| M.D.C. Holdings | Toll Brothers |
| Meritage Homes | TRI Pointe Group |

**Components of Compensation**

***Base Salaries Named Executive Officers***

Base salaries for our executive officers provide a fixed or base level of compensation. When setting base salaries for our executives, we considered the following factors:

- level of experience, responsibility and tenure;
- amount of assets and national scope of the Company s operations;
- contributions to achievements of the Company s operating objectives;

amount of fixed cash compensation to retain the executive s services;

average and median base salaries of comparable executives in our peer group; and

recommendations of our Chairman and our CEO, other than for themselves.

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Base salaries for our named executive officers for fiscal 2015, 2016, and 2017 are set forth in the following table:

| | Base Salary | | |
|---|---|---|---|
| **Name** | **2015** | **2016** | **2017** |
| Donald R. Horton | $ 1,000,000 | $ 1,000,000 | $ 1,000,000 |
| David V. Auld | $ 700,000 | $ 700,000 | $ 700,000 |
| Michael J. Murray | $ 500,000 | $ 500,000 | $ 500,000 |
| Bill W. Wheat | $ 500,000 | $ 500,000 | $ 500,000 |

The base salary of Mr. Horton, our Chairman, was unchanged for fiscal years 2015, 2016 and 2017 and is comparable to the base salaries of similar officers in our peer group. The base salary of our Chairman reflects his significant experience in the real estate and homebuilding industry and his tenure with the Company.

The base salary of Mr. Auld, our CEO, was unchanged for fiscal years 2015, 2016 and 2017. For fiscal 2015, the base salary of the chief executive officer of each company in our peer group, including our company, ranged from $700,000 to $1,528,125 with an average of $1,040,827 and a median of $1,000,000, based on data contained in the most recently filed proxy statements of our peer group. Mr. Auld s base salary is at the low end of the CEO base salaries in our peer group, but we believe his salary is at a competitive level of fixed compensation to incent and retain his services as our CEO.

Upon Mr. Murray s promotion to the COO position at the beginning of fiscal 2015, his base salary was increased to $500,000 and was unchanged for fiscal years 2016 and 2017. For fiscal 2015, the base salary of the chief operating officer of each company in our peer group, including our company, ranged from $168,750 to $1,000,000 with an average of $624,328 and a median of $634,044 based on data contained in the most recently filed proxy statements of our peer group. We believe his salary is at a competitive level of fixed compensation to incent and retain his services as our COO.

The base salary for Mr. Wheat, our CFO, was unchanged for fiscal years 2015, 2016 and 2017. For fiscal 2015, the base salary of the chief financial officer of each company in our peer group, including our company, ranged from $341,923 to $933,333 with an average of $608,686 and a median of $634,044 based on data contained in the most recently filed proxy statements of our peer group. We believe his salary is at a competitive level of fixed compensation to incent and retain his services as our CFO.

When determining named executive officer base salaries, the Compensation Committee did not assign specific weight to the factors listed under the heading *Base Salaries Named Executive Officers,* did not assign a specific ranking that base salaries should be within the peer group and did not use a percentage or ratio that the base salaries should be in relation to total compensation.

***2016 Fiscal Year Annual Incentive Bonus***

***Chairman, Chief Executive Officer and Chief Operating Officer.*** During fiscal 2016, in furtherance of our compensation philosophy to award incentive bonuses based on performance, Mr. Horton, Mr. Auld and Mr. Murray each had the opportunity to earn a performance bonus based on the amount of pre-tax income earned by the Company during the year.

*Pre-tax income* means consolidated income before income taxes, as publicly reported by the Company in its consolidated financial statements prepared in accordance with generally accepted accounting principles.

For fiscal 2016, we believed that Mr. Horton, Mr. Auld and Mr. Murray should be incentivized to help the Company generate positive pre-tax income. The pre-tax income performance goal is intended to have our executives focus on improving important components of pre-tax income, namely, increasing revenues and controlling our cost of sales and selling, general and administrative *( SG&A )* expenses.

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The maximum percentage of pre-tax income that could be earned under the annual incentive bonus opportunity was as follows:

| | | Maximum Bonus Potential | |
|---|---|---|---|
| Name | Fiscal 2016 Performance Goal | 1st Semi-Annual Period | 2nd Semi-Annual Period |
| Donald R. Horton | Pre-Tax Income | 0.6% | 0.6% |
| David V. Auld | Pre-Tax Income | 0.35% | 0.35% |
| Michael J. Murray | Pre-Tax Income | 0.1% | 0.1% |

The 1st semi-annual period was the six months ended March 31, 2016 (first and second quarters of fiscal 2016) and the 2nd semi-annual period was the six months ended September 30, 2016 (third and fourth quarters of fiscal 2016). The hurdle or threshold for achieving an annual incentive bonus was the attainment of positive pre-tax income. If no positive pre-tax income was attained, then no bonus would be paid under the annual incentive bonus opportunity.

At the beginning of fiscal 2016, the Compensation Committee made the subjective determination to select 0.6% of pre-tax income for Mr. Horton, 0.35% for Mr. Auld and 0.1% for Mr. Murray as the maximum bonus under this performance goal based on its determination that if the maximum bonus was paid, the amount would be reasonable in relation to the goal achieved and reasonable in relation to the Company s goal of containing overall SG&A expense.

The percentage chosen for the annual incentive bonus opportunity is not based on any formulaic methodology. For fiscal 2016, the Compensation Committee believed that by using a percentage of pre-tax income, we would incent our Chairman, CEO and COO to achieve positive pre-tax income and maintain competitive levels of revenues, cost of sales and SG&A expense, all of which align their interests with those of our stockholders. By using pre-tax income as a performance goal in fiscal 2016, we balanced the mix of short-term performance period compensation with the long-term performance period compensation, which consisted of restricted stock units. Because the selection of 0.6%, 0.35% and 0.1% as the maximum percentages was a subjective determination, and not one based on any formulaic method or benchmark other than as described herein, the Compensation Committee maintained the right to use its discretion in adjusting downward the amount to be paid for this award. The Compensation Committee did not use its discretion to adjust the bonus payouts for fiscal 2016.

***2016 Fiscal Year Annual Incentive Bonus Results and Payout***

***Chairman Mr. Horton***. The table below sets forth the Company s pre-tax income and the annual incentive bonus paid for fiscal 2016 to Mr. Horton:

| | Performance Goal: Semi-Annual Pre-Tax Income ( *PTI* ) | | |
|---|---|---|---|
| Semi-Annual Period | Maximum Bonus Percentage | PTI | Bonus Paid |
| 1st Semi-Annual Period Ended March 31, 2016 | 0.6% | $ 541,836,022 | $ 3,251,016 |
| 2nd Semi-Annual Period Ended September 30, 2016 | 0.6% | $ 811,618,921 | $ 4,869,714 |
| Annual Amount | 0.6% | $ 1,353,454,943 | $ 8,120,730 |

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***Chief Executive Officer Mr. Auld.*** The table below sets forth the Company s pre-tax income and the annual incentive bonus paid for fiscal 2016 to Mr. Auld:

| | Performance Goal: Semi-Annual Pre-Tax Income ( *PTI* ) | | |
|---|---|---|---|
| **Semi-Annual Period** | **Maximum Bonus Percentage** | **PTI** | **Bonus Paid** |
| 1st Semi-Annual Period Ended March 31, 2016 | 0.35% | $ 541,836,022 | $ 1,896,426 |
| 2nd Semi-Annual Period Ended September 30, 2016 | 0.35% | $ 811,618,921 | $ 2,840,666 |
| Annual Amount | 0.35% | $ 1,353,454,943 | $ 4,737,092 |

***Chief Operating Officer Mr. Murray.*** The table below sets forth the Company s pre-tax income and the annual incentive bonus paid for fiscal 2016 to Mr. Murray:

| | Performance Goal: Semi-Annual Pre-Tax Income ( *PTI* ) | | |
|---|---|---|---|
| **Semi-Annual Period** | **Maximum Bonus Percentage** | **PTI** | **Bonus Paid** |
| 1st Semi-Annual Period Ended March 31, 2016 | 0.1% | $ 541,836,022 | $ 541,836 |
| 2nd Semi-Annual Period Ended September 30, 2016 | 0.1% | $ 811,618,921 | $ 811,619 |
| Annual Amount | 0.1% | $ 1,353,454,943 | $ 1,353,455 |

***2016 Fiscal Year Annual Discretionary Bonus***

***Chief Financial Officer Mr. Wheat**.* The Board of Directors approves a discretionary bonus for Mr. Wheat semi-annually. For the first semi-annual period ended March 31, 2016, Mr. Wheat received a $500,000 bonus paid in cash, and for the second semi-annual period ended September 30, 2016, he received a $600,000 bonus, which included $100,000 paid in common stock of the Company for a total of $1,100,000 for fiscal 2016. Mr. Wheat s fiscal 2016 discretionary bonuses totaling $1,100,000 reflected a $150,000 increase from the bonuses he received in fiscal 2015.

The increase to Mr. Wheat s bonus was discretionary, but factors considered included the performance by the Company in fiscal 2016, including higher pre-tax income in fiscal 2016 compared to fiscal 2015 and the individual performance of Mr. Wheat in his areas of responsibility. The process of awarding a discretionary bonus to Mr. Wheat includes review and consideration by our Chairman and CEO. Our Chairman then makes a recommendation to the Compensation Committee who then considers the recommendation and makes a recommendation to the Board of Directors. The discretionary bonus was not based on specific quantitative formulas, percentages or numerical weightings, but rather was related to subjective evaluations of the Company s level of profitability relative to the prior year, job performance and the level of retention risk related to the Company s ability to continue to employ Mr. Wheat as our CFO. The amount of discretionary bonus awarded to Mr. Wheat was not benchmarked or tied to any other performance metrics or pay of similar executives at peer companies, although the Compensation Committee did review the pay of chief financial officers in our peer group.

Mr. Wheat s responsibilities within the Company were considered when determining the amount of his discretionary bonus. As Executive Vice President and CFO, Mr. Wheat works closely with our Chairman, CEO and COO in setting operational strategies for our homebuilding and financial services operations, communicating and implementing such strategies across the Company, analyzing and monitoring the Company s performance

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and reviewing and approving investments in land and lots. These operational strategies include our homebuilding and financial services business plans and incentive compensation, land and lot investment criteria, level of homes in inventory, expense levels, capital structure and liquidity goals, among others. Mr. Wheat also provides executive management direction and oversight to the financial services operations and serves as a director on the boards of the Company s mortgage and insurance subsidiaries.

Mr. Wheat has direct responsibility for the Company s financial reporting process, including the effectiveness and integrity of the Company s financial, internal and disclosure controls and procedures, and compliance with all applicable financial reporting rules and regulations for public companies. Mr. Wheat is also directly responsible for providing executive management oversight of the Company s accounting, management reporting, internal audit, finance, treasury and tax functions. Additionally, Mr. Wheat is directly involved in the Company s investor relations process, including interactions with investors in the Company s equity and debt securities and industry research analysts. He also assists in the executive management oversight of the Company s information technology, human resources, public communications, marketing and corporate purchasing functions.

***2016 Performance Restricted Stock Units Ranking Results and Vesting at September 30, 2016***

***Chairman***. In November 2016, Mr. Horton was awarded 325,000 shares of common stock based on a target number of 200,000 performance restricted stock units ( *2016 Performance RSUs* ) granted in November 2013. The performance period for the 2016 Performance RSUs was the three-year period of October 1, 2013 to September 30, 2016 *(the 2016 Performance Period )*. The 2016 Performance RSUs vested based on the following four performance goals ( *Performance Goals* ):

| Performance Goal | Performance Comparison | Weighting to Total Award |
|---|---|---|
| Relative TSR | S&P 500 Index TSR | 25% |
| Relative ROI | Peer Group | 25% |
| Relative SG&A | Peer Group | 25% |
| Relative GP | Peer Group | 25% |

*TSR:* means total shareholder return (stock price increases and decreases plus dividends) of the Company over the 2016 Performance Period as determined by Standard and Poor s using the same methodology used by Standard and Poor s in preparing the stock performance graph included each year in the Company s Form 10-K.

*ROI:* means return on investment which is consolidated pre-tax income or loss divided by average total assets over the 2016 Performance Period.

*SG&A:* means consolidated selling, general and administrative expense (including corporate general and administrative expenses) as a percentage of consolidated revenues over the 2016 Performance Period.

*GP:* means gross profit defined as homebuilding revenues minus homebuilding cost of sales, including inventory and land option charges, divided by homebuilding revenues over the 2016 Performance Period.

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The following table sets forth the potential performance adjustments that may be made to the 2016 Performance RSUs based on the final performance rankings of the peer group and the Company.

**2016 Performance RSUs**

**Potential Performance Adjustments as a Percentage of Target**

**Donald R. Horton**

**TSR Portion of Award**
***(weighted 25% of target award)***

| Company TSR Relative to S&P 500 Index TSR | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| *Percentage Points Below Index:* | | |
| 10 Percentage Points | | zero |
| **9 Percentage Points** | ***Threshold*** | **5,000** |
| 8 Percentage Points | | 10,000 |
| 7 Percentage Points | | 15,000 |
| 6 Percentage Points | | 20,000 |
| 5 Percentage Points | | 25,000 |
| 4 Percentage Points | | 30,000 |
| 3 Percentage Points | | 35,000 |
| 2 Percentage Points | | 40,000 |
| 1 Percentage Point | | 45,000 |
| **Equal to S&P 500 Index TSR** | ***Target*** | **50,000(1)** |
| *Percentage Points Above Index:* | | |
| 1 Percentage Point | | 55,000 |
| 2 Percentage Points | | 60,000 |
| 3 Percentage Points | | 65,000 |
| 4 Percentage Points | | 70,000 |
| 5 Percentage Points | | 75,000 |
| 6 Percentage Points | | 80,000 |
| 7 Percentage Points | | 85,000 |
| 8 Percentage Points | | 90,000 |
| 9 Percentage Points | | 95,000 |
| **10 Percentage Points** | ***Maximum*** | **100,000** |

**ROI, SG&A and GP Portions of Award**
***(each weighted 25% of target award)***

| Performance Level Compared to Peer Group | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| 11th Place | | zero |
| **10th Place** | ***Threshold*** | **25,000** |
| 9th Place | | 50,000 |
| 8th Place | | 75,000 |
| 7th Place | | 100,000 |
| 6th Place | | 125,000 |
| **5th Place** | ***Target*** | **150,000(2)** |
| 4th Place | | 187,500 |
| 3rd Place | | 225,000 |
| 2nd Place | | 262,500 |
| **1st Place** | ***Maximum*** | **300,000** |

**(1)** Target number listed is 25% of the total target number of 200,000 and other numbers are 25% of the other possible performance adjustments from the target.

**(2)** Target number listed is 75% of the total target number of 200,000 and other numbers are 75% of the other possible performance adjustments from the target.

As set forth in the rankings tables above, the target number of 2016 Performance RSUs could have been increased to a maximum of 400,000 for Mr. Horton upon maximum achievement of each of the four Performance Goals and decreased to a minimum of zero for Mr. Horton upon minimum achievement of each of the four Performance Goals. Performance and percentages that fell between the ranking results in the tables were ranked using pro-rata linear interpolation as set forth in the tables above. For the 2016 Performance RSUs, the Company s peer group consisted of the nine publicly-traded homebuilding companies of the ten companies listed on page 26 in the table *Peer Group Fiscal 2016* . The CalAtlantic Group was not included in the final results because during the performance period The Ryland Group merged with Standard Pacific Corp., becoming CalAtlantic Group. Each 2016 Performance RSU represented the contingent right to receive one share of common stock if vesting was satisfied. The 2016 Performance RSUs had no rights to dividends or voting prior to vesting and payout in common stock.

Vesting of the 2016 Performance RSUs with respect to the TSR Performance Goal was determined after the 2016 Performance Period based on a comparison of the Company s TSR to the S&P 500 Index s TSR as computed by Standard and Poor s using their TSR methodology. Vesting of the 2016 Performance RSUs with respect to the ROI, SG&A and GP Performance Goals was determined after the 2016 Performance Period based on the relative ranking of the Company s performance on each Performance Goal to each peer group company s performance on each Performance Goal. If any portion of the 2016 Performance RSUs did not vest due to inadequate relative performance, that portion would have been forfeited.

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The hurdle or threshold for earning or vesting in 2016 Performance RSUs with respect to the TSR goal was to perform better than ten percentage points below the S&P 500 Index. The hurdle or threshold for earning or vesting in the 2016 Performance RSUs with respect to the ROI, SG&A and GP Performance Goals is to perform no worse than tenth place because in that event no bonus on that specific goal would be earned.

The following tables set forth the final peer group rankings based on TSR, ROI, SG&A and GP for the peer group and the Company with respect to the 2016 Performance RSUs:

**2016 Performance RSUs**

**Final Peer Group Rankings**

| | Relative Total Shareholder Return | |
|---|---|---|
| **Company / Index Name** | **Base Period 9/30/2013** | **Year Ending 9/30/2016** |
| D.R. Horton, Inc. | 100 | 159.48* |
| S&P 500 Index | 100 | 137.36 |

* Final performance goal ranking attained by the Company on the TSR performance goal was 22.12 points above the S&P 500 Index at September 30, 2016, as reflected in the table above.

| | ROI, SG&A and GP Rankings | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Performance Goal** | **10th Place** | **9th Place** | **8th Place** | **7th Place** | **6th Place** | **5th Place** | **4th Place** | **3rd Place** | **2nd Place** | **1st Place** |
| Relative ROI | 0.10% | 1.49% | 7.90% | 13.38% | 19.33% | 25.04% | 25.33% | 25.53% | **31.57%*** | 65.39% |
| Relative SG&A | 20.47% | 13.56% | 13.05% | 12.79% | 11.96% | 11.88% | 11.65% | **11.20%*** | 10.98% | 8.40% |
| Relative GP | 14.84% | 16.30% | 16.45% | 16.84% | 18.23% | 19.38% | **19.72%*** | 21.65% | 22.79% | 24.26% |

* Final performance goal ranking attained by the Company: 2nd place on ROI, 3rd place SG&A and 4th place on GP.

**2016 Performance RSUs**

**Final Results Earned and Paid**

**Donald R. Horton**

The final payout was based on the three-year performance period ended September 30, 2016.

| **Target Number of RSUs Awarded** | **Final Company Performance Rankings** | **Number of RSUs Earned** | **Closing Stock Price at** | **Value of RSUs Earned at 9/30/2016** | **Final Payout in Common Stock** |
|---|---|---|---|---|---|

| | | | 9/30/2016 | | |
|---|---|---|---|---|---|
| 50,000 Units | TSR = 22.12 Points Above | 100,000 Units | $30.20 | $3,020,000 | 100,000 Shares |
| 50,000 Units | ROI = 2nd Place | 87,500 Units | $30.20 | $2,642,500 | 87,500 Shares |
| 50,000 Units | SG&A = 3rd Place | 75,000 Units | $30.20 | $2,265,000 | 75,000 Shares |
| 50,000 Units | GP = 4th Place | 62,500 Units | $30.20 | $1,887,500 | 62,500 Shares |
| **200,000 Units** | | **325,000 Units** | **$30.20** | **$9,815,000** | **325,000 Shares** |

A normalization adjustment was made to the final peer group rankings to include the results of discontinued operations for one peer group member in calculating ROI, SG&A and GP so that all peer group members and the Company were treated consistently. The normalization adjustment did not change the Company s final ranking on the ROI, SG&A or GP goals.

After reviewing the above final performance goal rankings for the 2016 Performance RSUs, the Compensation Committee approved the issuance of 325,000 shares of common stock to Mr. Horton.

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***2016 Fiscal Year Award of 2018 Performance Restricted Stock Units Potential Vesting at September 30, 2018 and Award of Restricted Stock Units Time-Based Vesting***

***Chairman, Chief Executive Officer and Chief Operating Officer***. Under our long-term incentive program, our Chairman, CEO and COO have the opportunity to earn incentive awards based on performance over a period longer than one year. By awarding a portion of compensation over a longer time period, the interests of these executives are aligned with the interests of our stockholders.

In the first quarter of fiscal 2016, the Compensation Committee awarded performance restricted stock units *(the 2018 Performance RSUs )* to Mr. Horton, Mr. Auld and Mr. Murray as follows:

| Name | Target Number of 2018 Performance RSUs |
|---|---|
| Donald R. Horton | 200,000 |
| David V. Auld | 100,000 |
| Michael J. Murray | 30,000 |

The 2018 Performance RSUs, based on four performance goals of total shareholder return, return on investment, selling, general and administrative expense, and gross profit ( *TSR , ROI , SG&A , and GP* ), will vest, if at all, after the completion of the performance period, which i the three-year period of October 1, 2015 through September 30, 2018 *(the 2018 Performance Period )*, and based on final performance rankings. The four performance goals, weightings and performance goal definitions for the 2018 Performance RSUs are similar to those set forth on page 30 and discussed below in the tables and discussion on pages 34, 35 and 36.

The Compensation Committee chose the TSR performance goal because TSR takes into account changes in our stock price plus dividends paid during the 2018 Performance Period compared to the S&P 500 Index s TSR. By comparing our TSR to the S&P 500 Index s TSR, we have a goal that incents our executives to achieve a return to our stockholders that is better than the return achieved by a broad-based index of companies. We believe the three performance goals of ROI, SG&A and GP are important internal operating metrics. ROI incents our executives to achieve operating profitability relative to our total assets which measures our efficiency at using our assets to generate pre-tax income. SG&A incents our executives to control selling, general and administrative expenses. GP incents our executives to maximize our sales prices and control sales incentives and costs of sales, which are composed of the costs of land, labor, materials and products used in building our homes.

In fiscal 2016, when determining the target number of 2018 Performance RSUs, the Compensation Committee reviewed the estimated annual compensation expense for these awards in relation to the Company s estimated annual financial metrics, such as revenue and pre-tax income. The Compensation Committee chose to further incent these executive officers by potentially increasing the target up to the maximum, as set forth in the tables on pages 34, 35 and 36, in the event that maximum performance is achieved on the four Performance Goals. The Compensation Committee subjectively chose the maximum of two times the target amount to further incent performance toward the top performance in the homebuilding industry. When the 2018 Performance RSUs were granted, the target and maximum amounts were subjective determinations and not based on any formulaic method or benchmark.

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The target number of the 2018 Performance RSUs may be increased or decreased based on relative performance over the three-year 2018 Performance Period as set forth in the following tables.

**2018 Performance RSUs**

**Potential Performance Adjustments as a Percentage of Target**

**Donald R. Horton**

**TSR Portion of Award**

***(weighted 25% of target award)***

| Company TSR Relative to S&P 500 Index TSR | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| *Percentage Points Below Index:* | | |
| 10 Percentage Points | | zero |
| **9 Percentage Points** | ***Threshold*** | **5,000** |
| 8 Percentage Points | | 10,000 |
| 7 Percentage Points | | 15,000 |
| 6 Percentage Points | | 20,000 |
| 5 Percentage Points | | 25,000 |
| 4 Percentage Points | | 30,000 |
| 3 Percentage Points | | 35,000 |
| 2 Percentage Points | | 40,000 |
| 1 Percentage Point | | 45,000 |
| **Equal to S&P 500 Index TSR** | ***Target*** | **50,000**(1) |
| *Percentage Points Above Index:* | | |
| 1 Percentage Point | | 55,000 |
| 2 Percentage Points | | 60,000 |
| 3 Percentage Points | | 65,000 |
| 4 Percentage Points | | 70,000 |
| 5 Percentage Points | | 75,000 |
| 6 Percentage Points | | 80,000 |
| 7 Percentage Points | | 85,000 |
| 8 Percentage Points | | 90,000 |
| 9 Percentage Points | | 95,000 |
| **10 Percentage Points** | ***Maximum*** | **100,000** |

**ROI, SG&A and GP Portions of Award**

***(each weighted 25% of target award)***

| Performance Level Compared to Peer Group | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| 11th Place | | zero |
| **10th Place** | ***Threshold*** | **25,000** |
| 9th Place | | 50,000 |
| 8th Place | | 75,000 |
| 7th Place | | 100,000 |
| 6th Place | | 125,000 |
| **5th Place** | ***Target*** | **150,000**(2) |
| 4th Place | | 187,500 |
| 3rd Place | | 225,000 |
| 2nd Place | | 262,500 |
| **1st Place** | ***Maximum*** | **300,000** |

**(1)** Target number listed is 25% of the total target number of 200,000 and other numbers are 25% of the other possible performance adjustments from the target.

**(2)** Target number listed is 75% of the total target number of 200,000 and other numbers are 75% of the other possible performance adjustments from the target.

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**2018 Performance RSUs**

**Potential Performance Adjustments as a Percentage of Target**

**David V. Auld**

**TSR Portion of Award**
***(weighted 25% of target award)***

| Company TSR Relative to S&P 500 Index TSR | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| *Percentage Points Below Index:* | | |
| 10 Percentage Points | | zero |
| **9 Percentage Points** | ***Threshold*** | **2,500** |
| 8 Percentage Points | | 5,000 |
| 7 Percentage Points | | 7,500 |
| 6 Percentage Points | | 10,000 |
| 5 Percentage Points | | 12500 |
| 4 Percentage Points | | 15,000 |
| 3 Percentage Points | | 17,500 |
| 2 Percentage Points | | 20,000 |
| 1 Percentage Point | | 22,500 |
| **Equal to S&P 500 Index TSR** | ***Target*** | **25,000(1)** |
| *Percentage Points Above Index:* | | |
| 1 Percentage Point | | 27,500 |
| 2 Percentage Points | | 30,000 |
| 3 Percentage Points | | 32,500 |
| 4 Percentage Points | | 35,000 |
| 5 Percentage Points | | 37,500 |
| 6 Percentage Points | | 40,000 |
| 7 Percentage Points | | 42,500 |
| 8 Percentage Points | | 45,000 |
| 9 Percentage Points | | 47,500 |
| **10 Percentage Points** | ***Maximum*** | **50,000** |

**ROI, SG&A and GP Portions of Award**
***(each weighted 25% of target award)***

| Performance Level Compared to Peer Group | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| 11th Place | | zero |
| **10th Place** | ***Threshold*** | **12,500** |
| 9th Place | | 25,000 |
| 8th Place | | 37,500 |
| 7th Place | | 50,000 |
| 6th Place | | 62,500 |
| **5th Place** | ***Target*** | **75,000(2)** |
| 4th Place | | 93,750 |
| 3rd Place | | 112,500 |
| 2nd Place | | 131,250 |
| **1st Place** | ***Maximum*** | **150,000** |

**(1)** Target number listed is 25% of the total target number of 100,000 and other numbers are 25% of the other possible performance adjustments from the target.

**(2)** Target number listed is 75% of the total target number of 100,000 and other numbers are 75% of the other possible performance adjustments from the target.

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**2018 Performance RSUs**

**Potential Performance Adjustments as a Percentage of Target**

**Michael J. Murray**

**TSR Portion of Award**

***(weighted 25% of target award)***

| Company TSR Relative to S&P 500 Index TSR | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| *Percentage Points Below Index:* | | |
| 10 Percentage Points | | zero |
| **9 Percentage Points** | ***Threshold*** | **750** |
| 8 Percentage Points | | 1,500 |
| 7 Percentage Points | | 2,250 |
| 6 Percentage Points | | 3,000 |
| 5 Percentage Points | | 3,750 |
| 4 Percentage Points | | 4,500 |
| 3 Percentage Points | | 5,250 |
| 2 Percentage Points | | 6,000 |
| 1 Percentage Point | | 6,750 |
| **Equal to S&P 500 Index TSR** | ***Target*** | **7,500(1)** |
| *Percentage Points Above Index:* | | |
| 1 Percentage Point | | 8,250 |
| 2 Percentage Points | | 9,000 |
| 3 Percentage Points | | 9,750 |
| 4 Percentage Points | | 10,500 |
| 5 Percentage Points | | 11,250 |
| 6 Percentage Points | | 12,000 |
| 7 Percentage Points | | 12,750 |
| 8 Percentage Points | | 13,500 |
| 9 Percentage Points | | 14,250 |
| **10 Percentage Points** | ***Maximum*** | **15,000** |

**ROI, SG&A and GP Portions of Award**

***(each weighted 25% of target award)***

| Performance Level Compared to Peer Group | Payout | Number of Performance RSUs Awarded |
|---|---|---|
| 11th Place | | zero |
| **10th Place** | ***Threshold*** | **3,750** |
| 9th Place | | 7,500 |
| 8th Place | | 11,250 |
| 7th Place | | 15,000 |
| 6th Place | | 18,750 |
| **5th Place** | ***Target*** | **22,500(2)** |
| 4th Place | | 28,125 |
| 3rd Place | | 33,750 |
| 2nd Place | | 39,375 |
| **1st Place** | ***Maximum*** | **45,000** |

**(1)** Target number listed is 25% of the total target number of 30,000 and other numbers are 25% of the other possible performance adjustments from the target.

**(2)** Target number listed is 75% of the total target number of 30,000 and other numbers are 75% of the other possible performance adjustments from the target.

As set forth in the rankings tables above, the target number of 2018 Performance RSUs may be increased to a maximum of 400,000 for Mr. Horton, 200,000 for Mr. Auld and 60,000 for Mr. Murray upon maximum achievement of each of the four Performance Goals and decreased to a minimum of zero for Mr. Horton, Mr. Auld and Mr. Murray upon minimum achievement of each of the four Performance Goals. Performance and percentages that fall between the maximum and the minimum will be ranked using pro-rata linear interpolation as set forth in the tables above. For the 2018 Performance RSUs, the Company s peer group consists of the ten publicly-traded homebuilding c