

HORTON D R INC /DE/  
Form S-4/A  
January 16, 2002

**Table of Contents**

As filed with the Securities and Exchange Commission on January 16, 2002

Registration No. 333-73888

---

---

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

---

**Amendment No. 3**

to

**Form S-4**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

---

**D.R. Horton, Inc.**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**1531**

*(Primary Standard Industrial  
Classification Code Number)*

**75-2386963**

*(I.R.S. Employer  
Identification No.)*

**1901 Ascension Blvd., Suite 100**

**Arlington, Texas 76006**

**(817) 856-8200**

*(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)*

---

**Paul W. Buchschacher**

**Vice President & Corporate Counsel**

**1901 Ascension Blvd., Suite 100**

**Arlington, Texas 76006**

**(817) 856-8200**

*(Name and address, including zip code, and telephone number,  
including area code, of agent for service)*

---

**With copies to:**

**Irwin F. Sentilles, III**

**Gibson, Dunn & Crutcher LLP**

**2100 McKinney Avenue, Suite 1100**

**Dallas, Texas 75201**

**(214) 698-3100**

---

**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective and the effective time of the merger of Schuler Homes, Inc. with and into the Registrant as described in the Agreement and Plan of Merger dated as of October 22, 2001, as amended.

If any of the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box:

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

---

---

---

**TABLE OF CONTENTS**

**D.R. HORTON, INC. -- SCHULER HOMES, INC. JOINT PROXY STATEMENT/PROSPECTUS**

**Merger Proposed: Your Vote Is Important**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

**SUMMARY**

**General**

**The Companies**

**The Merger Consideration (see page 65)**

**Election Procedure (see page 67)**

**Recommendation of the Schuler Board of Directors (see page 40)**

**Recommendation of the D.R. Horton Board of Directors (see page 42)**

**Schuler s Reasons for the Merger (see page 40)**

**D.R. Horton s Reasons for the Merger (see page 42)**

**Required Vote (see pages 32 and 34)**

**Opinion of Schuler s Financial Advisor (see page 45)**

**Opinion of D.R. Horton s Financial Advisor (see page 49)**

**Ownership and Board Composition of D.R. Horton After the Merger (see page 78)**

**Appraisal Rights (see page 60)**

**Terms and Conditions of the Merger Agreement (see page 68)**

**Comparative Rights of Stockholders (see page 91)**

**United States Federal Income Tax Consequences of the Merger to Schuler Stockholders (see page 96)**

**Interests of Certain Persons in the Merger (see page 57)**

**Selected Historical Financial Data of D.R. Horton**

**Selected Historical Financial Data of Schuler**

**Selected Historical Financial Data of Schuler Residential**

**Selected Historical Financial Data of Western Pacific**

**Summary Selected Unaudited Pro Forma Combined Financial Data (see page 80)**

**Comparative Per Share Data**

**Market Price and Dividend Data**

**RISK FACTORS**

**THE STOCKHOLDER MEETINGS**

**The Schuler Special Meeting**

**The D.R. Horton Annual Meeting**

**PROXIES**

**Proxy Cards**

**Solicitation of Proxies**

**How to Revoke Your Proxy**

**THE MERGER**

**Background to the Merger**

**Recommendation of the Schuler Board of Directors; Schuler s Reasons for the Merger**

**Recommendations of the D.R. Horton Board of Directors; D.R. Horton s Reasons for the Merger**

**Opinion of Schuler s Financial Advisor**

**Opinion of D.R. Horton s Financial Advisor**

**Accounting Treatment**

**Interests of Certain Persons in the Merger**

**Appraisal Rights**

**New York Stock Exchange and Nasdaq National Market Listing**

**Debt Financing**

**THE MERGER AGREEMENT**

General

Effective Time

Corporation Organization and Governance

Merger Consideration

Election Procedure

Schuler Stock Options

Representations and Warranties

Actions of Schuler and D.R. Horton Prior to the Merger

Conditions to the Completion of the Merger

Termination of the Merger Agreement

Termination Fees and Expenses

Effect of Termination

Amendments

Compensation and Benefits

Schuler Directors and Officers Insurance and Indemnification

Mutual Release of Obligations; Insurance

DIRECTORS AND MANAGEMENT OF D.R. HORTON FOLLOWING THE MERGER

VOTING AGREEMENTS

AFFILIATE AGREEMENTS

Restrictions on Resales of D.R. Horton Common Stock by Schuler Affiliates

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

DESCRIPTION OF D.R. HORTON CAPITAL STOCK

D.R. Horton Preferred Stock

D.R. Horton Common Stock

Anti-Takeover Effects of Provisions of D.R. Horton's Charter and Bylaws

COMPARATIVE RIGHTS OF STOCKHOLDERS

UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

ADDITIONAL INFORMATION ABOUT D.R. HORTON

Directors and Executive Officers

D.R. Horton's Principal Stockholders

Management

Certain Other Beneficial Owners

Executive Compensation

Director Compensation

Transactions with Management

Compensation Committee Interlocks and Insider Participation

Committee Report on Executive Compensation

Stock Performance

Meetings and Committees of the Board

Audit Committee Report

Independent Auditors

Audit Fees and Other Fees

Section 16(a) Beneficial Ownership Reporting Compliance

ADDITIONAL MATTERS FOR CONSIDERATION OF D.R. HORTON STOCKHOLDERS

Election of Directors

Amendment of 1991 Stock Incentive Plan

LEGAL MATTERS

EXPERTS

STOCKHOLDER PROPOSALS

WHERE YOU CAN FIND MORE INFORMATION

ARTICLE 1 The Merger

ARTICLE 2 Effect of the Merger on the Capital Stock of the Constituent Corporations; Exchange of Certificates

ARTICLE 3 Representations and Warranties of the Company

ARTICLE 4 Representations and Warranties of DHI

ARTICLE 5 Conduct of Business Pending the Merger

ARTICLE 6 Additional Agreements

ARTICLE 7 Termination, Amendment and Waiver

ARTICLE 8 Conditions to Closing

ARTICLE 9 General Provisions

DELAWARE GENERAL CORPORATION LAW SECTION 262 APPRAISAL RIGHTS

SIGNATURES

EX-15.1 Letter - Unaudited Interim Financial Info

EX-23.1 Consent of Ernst & Young LLP-Ft Worth, TX

EX-23.2 Consent of Ernst & Young LLP-Los Angeles

---

**Table of Contents**

January 17, 2002

Dear Schuler Homes Stockholder:

You are cordially invited to attend a special meeting of stockholders of Schuler Homes, Inc. to be held at 400 Continental Boulevard, Suite 100, El Segundo, California 90245, on Thursday, February 21, 2002, at 9:00 a.m. local time.

At the special meeting, you will be asked to vote on the merger of Schuler with and into D.R. Horton, Inc. At the effective time of the merger, the separate corporate existence of Schuler will cease, and D.R. Horton will be the surviving corporation.

Your board of directors believes that the merger offers significant potential by combining the strengths and attributes of two premier companies. It is expected to create the second largest homebuilder based on units closed. We believe the merger allows you to participate in a more diversified company. In addition, we expect the transaction to be beneficial to you since D.R. Horton enjoys significantly greater liquidity and superior access to the capital markets.

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of your Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock. Alternatively, you may elect to receive merger consideration in the form of all cash or all D.R. Horton common stock in an amount equal to the base merger consideration. However, because both the total cash portion of the merger consideration and the total number of shares of D.R. Horton common stock to be issued as merger consideration will be fixed, elections to receive all cash or all D.R. Horton common stock will be subject to proration. You do not have to make an election to receive the base merger consideration. If you decide to make an election, however, you must make the election for all of your shares.

The exact number of shares of D.R. Horton common stock that will be included in the base merger consideration will be based on the average closing price of D.R. Horton common stock as reported for New York Stock Exchange composite transactions for the 15 trading days ending on, and including, the third trading day prior to the special meeting. Subject to the provisions of the merger agreement, and as more fully described in the enclosed Joint Proxy Statement/ Prospectus, the fraction of a share of D.R. Horton common stock per share of Schuler common stock included in the base merger consideration will range from .487, if the average closing price is \$27.51 or higher, to .635, if the average closing price is \$17.50 or lower. However, if the average closing price is less than \$16.00, Schuler may terminate the merger agreement unless D.R. Horton makes an election to increase the cash portion of the merger consideration or the stock portion of the merger consideration, or a combination thereof, so that the base merger consideration for each share of Schuler common stock equals at least \$14.25, valued at the average closing price.

Assuming the average closing price for the merger was the closing price of D.R. Horton common stock on January 14, 2002, which was \$30.58, the base merger consideration would consist of \$4.09 and .487 shares of D.R. Horton common stock for each outstanding share of Schuler common stock, for a total merger consideration of \$18.98 per share. Promptly after determination of the base merger consideration, Schuler and D.R. Horton will issue a press release advising their stockholders of the fraction of a share of D.R. Horton common stock included in the base merger consideration.

---

**Table of Contents**

An additional illustration of the different amounts of base merger consideration Schuler stockholders would receive for each share of Schuler common stock, based on various assumed average closing prices for D.R. Horton common stock, is set forth on page 3 of the enclosed Joint Proxy Statement/ Prospectus. Since the number of shares of D.R. Horton common stock you will receive will be calculated based on an average closing price, the market value of the shares of D.R. Horton common stock that you receive upon completion of the merger may be greater or less than the calculated value.

Your board of directors has unanimously determined that the merger agreement is advisable, fair to and in the best interests of Schuler and its stockholders and recommends that you vote **FOR** approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. I strongly support the merger and join with the other members of the board in enthusiastically recommending the merger to you.

The accompanying Joint Proxy Statement/ Prospectus provides detailed information about the proposed merger. We encourage you to read carefully the entire document, including the annexes.

Whether or not you plan to attend the special meeting, please take the time to vote by completing and mailing your proxy card in the enclosed envelope as promptly as possible so that your shares will be voted at the special meeting. This will not limit your right to vote in person or to attend the special meeting.

Please refer to the election form and letter of transmittal which will be mailed separately for instructions regarding your stock certificates.

Very truly yours,

JAMES K. SCHULER

*Co-Chairman, President and Chief Executive Officer*

---



**Table of Contents**

January 17, 2002

Dear D.R. Horton Stockholder:

You are cordially invited to attend the 2002 annual meeting of the stockholders of D.R. Horton, Inc. to be held at 1901 Ascension Blvd., Suite 100, Arlington, Texas 76006, on Thursday, February 21, 2002, at 11:00 a.m. local time.

D.R. Horton has entered into a merger agreement with Schuler Homes, Inc. providing for the merger of Schuler into D.R. Horton, with D.R. Horton as the surviving corporation. At the annual meeting, we will ask you to consider and vote on the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement, including the issuance of D.R. Horton common stock in connection with the merger.

Your board of directors believes that the merger offers significant strategic benefits for D.R. Horton and its stockholders. We expect to create the nation's second largest homebuilder based on units closed. The merger strengthens D.R. Horton's current market position while expanding its geographic presence and product offerings in key Western markets. On a combined basis, D.R. Horton will become the largest homebuilder in Southern California and the second largest in the State of California. In addition, the combined companies will be ranked first in market share in nine markets, and will be ranked in the top five in an additional 20 markets, based on units closed. The merger also reflects our strategy of pursuing acquisitions of homebuilders that have strong management teams. We expect the merger to be accretive to earnings.

Your board of directors has determined that the merger is advisable and is in the best interests of D.R. Horton and its stockholders, has unanimously approved the merger and the issuance of D.R. Horton common stock in connection with the merger, and recommends that you vote **FOR** this proposal. I strongly support the merger and join with the other members of the board in enthusiastically recommending the merger to you.

In addition to voting on the merger agreement, at the annual meeting we will ask you to:

elect ten directors; and

consider and vote on an amendment to the D.R. Horton 1991 Stock Incentive Plan to increase the total number of shares authorized for issuance thereunder by 1,600,000 shares, with the amendment to be effective upon effectiveness of the merger.

Your board of directors recommends that you vote **FOR** these proposals.

The accompanying Joint Proxy Statement/ Prospectus provides detailed information about the proposed merger and the other matters to be voted on at the annual meeting. We encourage you to read carefully the entire document, including the annexes.

Whether or not you plan to attend the annual meeting, please take the time to vote by completing and mailing your proxy card in the enclosed envelope as promptly as possible so that your shares will be voted at the annual meeting. Doing so will not limit your right to vote in person or to attend the annual meeting.

Very truly yours,

DONALD R. HORTON  
*Chairman of the Board*

---

**Table of Contents**

**SCHULER HOMES, INC.**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To be held on February 21, 2002**

To Our Stockholders:

Notice is hereby given that Schuler Homes, Inc. is holding a special meeting of its stockholders at 9:00 a.m. local time, on Thursday, February 21, 2002, at 400 Continental Boulevard, Suite 100, El Segundo, California 90245, for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger dated as of October 22, 2001, as amended November 8, 2001, between D.R. Horton, Inc. and Schuler Homes, Inc., and the transactions contemplated by the merger agreement.

2. To transact any other business that properly comes before the meeting or any adjournment or postponement of the meeting.

Only stockholders of record at the close of business on January 14, 2002, will be entitled to notice of or to vote at the meeting or any adjournment or postponement of that meeting.

By Order of the Board of Directors

JAMES K. SCHULER  
*Co-Chairman, President and  
Chief Executive Officer*

January 17, 2002

**Important: To ensure that your stock is represented at the special meeting, please fill in, date and sign the enclosed proxy and return it promptly in the enclosed return envelope, which requires no postage if mailed in the United States.**

---

**Table of Contents**

**D.R. HORTON, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on February 21, 2002**

To Our Stockholders:

Notice is hereby given that D.R. Horton, Inc. is holding its 2002 annual meeting of stockholders at 11:00 a.m. local time, on Thursday, February 21, 2002, at 1901 Ascension Blvd., Suite 100, Arlington, Texas 76006 for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of October 22, 2001, as amended November 8, 2001, between D.R. Horton, Inc. and Schuler Homes, Inc., and the transactions contemplated by the merger agreement, including the issuance of D.R. Horton common stock in connection with the merger of Schuler into D.R. Horton;

2. To elect ten directors;

3. To consider and vote on an amendment to the D.R. Horton 1991 Stock Incentive Plan to increase the total number of shares authorized for issuance thereunder by 1,600,000 shares; and

4. To transact any other business that properly comes before the meeting or any adjournment or postponement of the meeting.

Only stockholders of record at the close of business on January 14, 2002, will be entitled to notice of or to vote at the meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

DONALD R. HORTON  
*Chairman of the Board*

January 17, 2002

**Important: To ensure that your shares are represented at the annual meeting, please fill in, date and sign the enclosed proxy and return it promptly in the enclosed return envelope, which requires no postage if mailed in the United States.**

---

**Table of Contents****D.R. HORTON, INC. SCHULER HOMES, INC.****JOINT PROXY STATEMENT/ PROSPECTUS****Merger Proposed: Your Vote Is Important**

The boards of directors of D.R. Horton, Inc. and Schuler Homes, Inc. have each unanimously approved the merger of Schuler into D.R. Horton pursuant to the terms of a merger agreement entered into on October 22, 2001, as amended November 8, 2001. As a result, at the effective time of the merger, the separate corporate existence of Schuler will cease, and D.R. Horton will be the surviving corporation in the merger. In order to complete the merger, both companies must obtain the approval of their stockholders. Meetings of the stockholders of Schuler and D.R. Horton will be held on February 21, 2002 to vote on the merger.

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock determined as set forth in the table below, based on the average closing price of D.R. Horton common stock as reported for New York Stock Exchange composite transactions for the 15 trading days ending on, and including, the third trading day prior to the Schuler stockholder meeting:

Average Closing Price of D.R. Horton Common Stock	D.R. Horton Common Stock Issued for Each Schuler Share	Total Amount of Base Merger Consideration for Each Share of Schuler Common Stock Consisting of \$4.09 in Cash and Shares of D.R. Horton Common Stock at the Average Closing Price
\$27.51 or higher	0.487 shares	\$17.49 or higher
\$23.51 to \$27.50	Fraction of a share equal to the quotient obtained by dividing \$13.395 by the average closing price of D.R. Horton common stock	\$17.49
\$19.50 to \$23.50	0.570 shares	\$15.21 to \$17.49
\$17.51 to \$19.49	Fraction of a share equal to the quotient obtained by dividing \$11.115 by the average closing price of D.R. Horton common stock	\$15.21
\$16.00 to \$17.50	0.635 shares	\$14.25 to \$15.20

If the average closing price of D.R. Horton common stock determined as set forth above is less than \$16.00, the total amount of the base merger consideration would be less than \$14.25. However, in that event, Schuler can terminate the merger agreement, unless D.R. Horton makes an election to increase the cash portion of the merger consideration or the stock portion of the merger consideration, or both, so that the amount of the base merger consideration of cash and D.R. Horton common stock for each share of Schuler common stock equals at least \$14.25.

Alternatively, a Schuler stockholder may elect to receive the amount of the base merger consideration in the form of all cash or all D.R. Horton common stock. However, because both the total cash portion of the merger consideration and the total number of shares of D.R. Horton common stock to be issued as merger consideration will be fixed, that election will be subject to proration.

This Joint Proxy Statement/ Prospectus provides Schuler stockholders and D.R. Horton stockholders with detailed information about the proposed merger. It also constitutes the prospectus of D.R. Horton with respect to its common stock to be issued to the stockholders of Schuler in connection with the merger. In addition, this Joint Proxy Statement/ Prospectus constitutes the proxy statement for the 2002 annual meeting of D.R. Horton stockholders. We encourage you to read this entire document carefully.

On October 22, 2001, the day before the merger was announced, the closing price of D.R. Horton common stock, which is traded on the New York Stock Exchange under the symbol DHI, was \$21.10. On the same day, the last sale price of Schuler Class A common stock, which is traded on the Nasdaq National Market under the symbol SHLR, was \$12.00. On January 14, 2002, the closing price of D.R. Horton common stock reported on the New York Stock Exchange composite tape was \$30.58 per share, and the last sale price of Schuler Class A common stock

reported on the Nasdaq National Market was \$19.00 per share. Assuming the average closing price for the merger were the closing price of D.R. Horton common stock on January 14, 2002, the base merger consideration would consist of \$4.09 and .487 shares of D.R. Horton common stock for each outstanding share of Schuler common stock, for a total consideration of \$18.98 per share. Promptly after determination of the base merger consideration, Schuler and D.R. Horton will issue a press release advising their stockholders of the fraction of a share of D.R. Horton common stock included in the base merger consideration.

All information contained in this Joint Proxy Statement/ Prospectus with respect to D.R. Horton has been provided by D.R. Horton. All information contained in this Joint Proxy Statement/ Prospectus with respect to Schuler has been provided by Schuler.

**For risk factors involved in the transaction that you may want to consider, including risks involved in an investment in D.R. Horton common stock, see the section of this Joint Proxy Statement/ Prospectus captioned Risk Factors beginning on page 26.**

**The D.R. Horton common stock to be issued pursuant to this Joint Proxy Statement/ Prospectus has not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Joint Proxy Statement/ Prospectus. Any representation to the contrary is a criminal offense.**

This Joint Proxy Statement/ Prospectus is dated January 17, 2002, and is first being mailed to holders

of Schuler common stock and D.R. Horton common stock on or about January 18, 2002.

---

**Table of Contents**

This document incorporates important business and financial information about D.R. Horton and Schuler that is not included in or delivered with this document. This information is available without charge to stockholders upon written or oral request at the applicable company's address and telephone number listed on page 6. To obtain timely delivery stockholders must request the information no later than February 11, 2002.

---

**Table of Contents****TABLE OF CONTENTS**

<b>CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION</b>	iv
<b>QUESTIONS AND ANSWERS ABOUT THE MERGER</b>	1
<b>SUMMARY</b>	7
General	7
The Companies	7
The Merger Consideration	8
Election Procedure	10
Recommendation of the Schuler Board of Directors	10
Recommendation of the D.R. Horton Board of Directors	11
Schuler's Reasons for the Merger	11
D.R. Horton's Reasons for the Merger	11
Required Vote	11
Opinion of Schuler's Financial Advisor	12
Opinion of D.R. Horton's Financial Advisor	12
Ownership and Board Composition of D.R. Horton After the Merger	12
Appraisal Rights	12
Terms and Conditions of the Merger Agreement	13
Comparative Rights of Stockholders	13
United States Federal Income Tax Consequences of the Merger to Schuler Stockholders	13
Interests of Certain Persons in the Merger	13
Selected Historical Financial Data of D.R. Horton	14
Selected Historical Financial Data of Schuler	15
Selected Historical Financial Data of Schuler Residential	17
Selected Historical Financial Data of Western Pacific	19
Summary Selected Unaudited Pro Forma Combined Financial Data	21
Comparative Per Share Data	23
Market Price and Dividend Data	25
<b>RISK FACTORS</b>	26
<b>THE STOCKHOLDERS MEETINGS</b>	31
The Schuler Special Meeting	31
The D.R. Horton Annual Meeting	33
<b>PROXIES</b>	34
Proxy Cards	34
Solicitation of Proxies	35
How to Revoke Your Proxy	35
<b>THE MERGER</b>	35
Background to the Merger	35
Recommendation of the Schuler Board of Directors; Schuler's Reasons for the Merger	40
Recommendations of the D.R. Horton Board of Directors; D.R. Horton's Reasons for the Merger	42
Exchanged Information	44
Opinion of Schuler's Financial Advisor	45
Opinion of D.R. Horton's Financial Advisor	49
Accounting Treatment	57
Interests of Certain Persons in the Merger	57
Appraisal Rights	60
New York Stock Exchange and NASDAQ National Market Listing	62
Debt Financing	62
<b>THE MERGER AGREEMENT</b>	64
General	64
Effective Time	64
Corporation Organization and Governance	64
Merger Consideration	65

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

Election Procedure	67
Schuler Stock Options	68
Representations and Warranties	68
Actions of Schuler and D.R. Horton Prior to the Merger	69
Conditions to the Completion of the Merger	73
Termination of the Merger Agreement	75
Termination Fees and Expenses	76
Effect of Termination	77
Amendments	77
Compensation and Benefits	77
Schuler Directors and Officers Insurance and Indemnification	78
Mutual Release of Obligations; Insurance	78
<b>DIRECTORS AND MANAGEMENT OF D.R. HORTON FOLLOWING THE MERGER</b>	78
<b>VOTING AGREEMENTS</b>	79
<b>AFFILIATE AGREEMENTS</b>	79



**Table of Contents**

<b>UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS</b>	80
<b>DESCRIPTION OF D.R. HORTON CAPITAL STOCK</b>	89
D.R. Horton Preferred Stock	89
D.R. Horton Common Stock	89
Anti-Takeover Effects of Provisions of D.R. Horton's Charter and Bylaws	89
<b>COMPARATIVE RIGHTS OF STOCKHOLDERS</b>	91
<b>UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER</b>	96
<b>ADDITIONAL INFORMATION ABOUT D.R. HORTON</b>	101
Directors and Executive Officers	101
D.R. Horton's Principal Stockholders	104
Executive Compensation	106
Director Compensation	108
Transactions with Management	108
Compensation Committee Interlocks and Insider Participation	109
Committee Report on Executive Compensation	109
Stock Performance	112
Meetings and Committees of the Board	113
Audit Committee Report	113
Independent Auditors	114
Audit Fees and Other Fees	114
Section 16(a) Beneficial Ownership Reporting Compliance	115
<b>ADDITIONAL MATTERS FOR CONSIDERATION OF D.R. HORTON STOCKHOLDERS</b>	115
Election of Directors	115
Amendment of 1991 Stock Incentive Plan	115
<b>LEGAL MATTERS</b>	123
<b>EXPERTS</b>	123
<b>STOCKHOLDER PROPOSALS</b>	124
<b>WHERE YOU CAN FIND MORE INFORMATION</b>	124

## List of Annexes:

Annex I	Agreement and Plan of Merger (conformed as amended)
Annex II	Opinion of UBS Warburg LLC
Annex III	Opinion of Banc of America Securities LLC
Annex IV	Delaware Appraisal Rights Statute

**Table of Contents**

**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This Joint Proxy Statement/ Prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent expectations or beliefs of D.R. Horton and Schuler concerning future events, and no assurance can be given that the results described will be achieved. These forward-looking statements can generally be identified by the use of statements that include words or phrases such as estimate, project, believe, expect, anticipate, intend, plan, foresee, likely, will, other similar words or phrases. All forward-looking statements are based upon information available to D.R. Horton and Schuler on the date of this Joint Proxy Statement/ Prospectus. Neither D.R. Horton nor Schuler undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

These forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside of D.R. Horton's and Schuler's control, that could cause actual results to differ materially from the results discussed in the forward-looking statements, including, among other things, the matters discussed in this Joint Proxy Statement/ Prospectus in the sections captioned: Summary ; Risk Factors ; The Merger Recommendations of the Schuler Board of Directors; Schuler's Reasons for the Merger ; The Merger Recommendations of the D.R. Horton Board of Directors; D.R. Horton's Reasons for the Merger ; The Merger Opinion of Schuler's Financial Advisor; and The Merger Opinion of D.R. Horton's Financial Advisor . Additional information about issues that could lead to material changes in performance is contained in D.R. Horton's and Schuler's filings with the SEC.

**Table of Contents**

**QUESTIONS AND ANSWERS ABOUT THE MERGER**

Q: *What will happen in the proposed transaction?*

A: Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock. Alternatively, a Schuler stockholder may elect to receive merger consideration in the form of all cash or all D.R. Horton common stock, but that election will be subject to proration. As a result of the merger, the separate corporate existence of Schuler will cease, and D.R. Horton will be the surviving corporation after the merger. Outstanding shares of D.R. Horton common stock prior to the merger will remain shares of D.R. Horton common stock.

Q: *Why are Schuler and D.R. Horton merging? How will I benefit?*

A: D.R. Horton believes its stockholders will benefit as a result of the combined company's strengthened position in existing homebuilding markets, entry into new homebuilding markets, broader product offering and increased efficiencies and cost savings. Schuler believes that its stockholders will enjoy the same benefits as D.R. Horton stockholders from the merger and may also realize other benefits by virtue of the merger, as described in this Joint Proxy Statement/ Prospectus.

Q: *When do you expect to complete the merger?*

A: We are working to complete the merger as quickly as possible. Currently, we expect to complete the merger during the first calendar quarter of 2002.

Q: *Assuming a Schuler stockholder receives shares of D.R. Horton common stock in the merger, will the rights of the stockholder as a D.R. Horton stockholder be different from what they were as a Schuler stockholder?*

A: Yes. Schuler and D.R. Horton each have different charter documents and by-laws. For a summary of material differences between the rights of Schuler stockholders and the rights of D.R. Horton stockholders, please refer to "Comparative Rights of Stockholders" beginning on page 91.

Q: *What do I do to vote?*

A: After reading this Joint Proxy Statement/ Prospectus, you should fill out and sign your proxy card, and then mail it in the enclosed return envelope as soon as possible so that your shares will be represented at the meeting. You may also return your proxy card by facsimile. Schuler stockholders may fax their completed and signed proxy cards to (201) 296-4142. D.R. Horton stockholders may fax their completed and signed proxy cards to (718)259-1144. **To vote on the merger, Schuler stockholders do not need to complete an election form with respect to the merger consideration.**

Q: *What happens if I don't return a proxy card or vote at the meeting?*

A: Failure to return your proxy card or vote in person at the meeting will have the same effect as voting against approval of the merger. For each of Schuler and D.R. Horton the affirmative vote of a majority of its outstanding common stock is required to approve the merger, and in Schuler's case a majority of outstanding Class A common stock and Class B common stock voting as separate classes is also required. Therefore, it is important that you return your proxy card.

Q: *May I vote in person?*

A: Yes. You may attend the meeting and vote your shares in person, whether or not you have sent in a proxy card.

**Table of Contents**

Q: *Can I revoke my proxy after I have mailed or faxed my signed proxy card?*

A: Yes. You can revoke your proxy at any time before your proxy is voted at the applicable stockholder meeting. You can do that by:

attending the applicable stockholder meeting and voting in person;

completing, signing and mailing in or transmitting by facsimile a new proxy card (in time so that the new proxy card is received prior to the applicable stockholder meeting);

revoking your proxy by facsimile at (201) 296-4142 for Schuler stockholders and (718) 259-1144 for D.R. Horton stockholders; or

sending a written notice to the address specified below stating that you are revoking your proxy (in time so that the notice is received prior to the applicable stockholder meeting):

**D.R. Horton Stockholders:**

D.R. Horton, Inc.  
1901 Ascension Blvd.  
Suite 100  
Arlington, TX 76006  
Attn: Vice President and Corporate Counsel

**Schuler Stockholders:**

Schuler Homes, Inc.  
400 Continental Blvd.  
Suite 100  
El Segundo, CA 90245  
Attn: Corporate Secretary

Q: *If my shares are held in street name, will my broker vote them for me?*

A: Your broker will vote your shares with respect to the merger only if you provide instructions on how to vote. For both Schuler stockholders and D.R. Horton stockholders, if you fail to provide your broker with instructions, your shares will not be voted with respect to the merger, and the failure to provide instructions will have the same effect as a vote against approval of the merger. You cannot vote your shares held in street name by returning a proxy card to us. However, if you are a D.R. Horton stockholder, your broker can vote your shares for the amendment to the D.R. Horton stock incentive plan and for the election of D.R. Horton directors without instructions.

You should follow the directions provided by your broker to vote your shares.

Q: *What does it mean if I get more than one proxy card?*

A: You may own both Schuler and D.R. Horton common stock, or your shares may be registered in different names or at different addresses or may be in more than one account. Sign and return all proxy cards to be sure that all of your shares of Schuler and D.R. Horton common stock are voted.

Q: *What will Schuler stockholders receive in the merger?*

A: Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock, based on the average closing price of D.R. Horton common stock as reported for NYSE composite transactions for the 15 trading days ending on, and including, the third trading day prior to the Schuler stockholder meeting. Alternatively, a Schuler stockholder may elect to receive merger consideration in the form of all cash or all D.R. Horton common stock, but that election will be subject to proration. A Schuler stockholder cannot make an election for less than all of his or her shares.

Both the total cash portion of the merger consideration and the total number of shares of D.R. Horton common stock to be issued as merger consideration will be fixed. The total amount of cash that D.R. Horton will pay as part of the merger consideration is equal to the product of \$4.09 multiplied by the number of shares of Schuler common stock outstanding, other than dissenting shares, immediately prior to the effective time of the merger, unless D.R. Horton elects to increase the cash portion of the merger consideration if the average closing price

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

of D.R. Horton common stock were to fall below \$16.00. The total number of shares of D.R. Horton common stock issued as merger consideration will be determined in the manner set forth in the table below as if each stockholder had elected to receive the base merger consideration.

**Table of Contents**

The following table shows, at various assumed average closing prices of D.R. Horton common stock, the fraction of a share of D.R. Horton common stock that would be issued as part of the base merger consideration, and the total amount of the base merger consideration per share of Schuler common stock. This table does not include cash to be received in lieu of fractional shares.

**The range of average closing prices presented in the following table is for illustrative purposes only. No assurance can be given that any illustrative average closing price shown in the table will be equivalent to the market value of D.R. Horton common stock on the date such stock is received by a holder of Schuler common stock or at any other time. The market value of D.R. Horton common stock received by a holder of Schuler common stock may be greater or less than the recent market values of D.R. Horton common stock or the average closing price used to calculate the base merger consideration.**

Assumed Average Closing Price of D.R. Horton Common Stock	Fraction of a Share of D.R. Horton Common Stock Issued for Each Schuler Share	Amount of Base Merger Consideration for Each Share of Schuler Stock Consisting of \$4.09 in Cash and Shares of D.R. Horton Common Stock at the Average Closing Price
\$33.50	.487	\$20.40
\$33.00	.487	\$20.16
\$32.50	.487	\$19.92
\$32.00	.487	\$19.67
\$31.50	.487	\$19.43
\$30.50	.487	\$18.94
\$30.00	.487	\$18.70
\$29.50	.487	\$18.46
\$29.00	.487	\$18.21
\$28.50	.487	\$17.97
\$28.00	.487	\$17.73
\$27.51	.487	\$17.49
\$27.00	.496	\$17.49
\$26.50	.505	\$17.49
\$26.00	.515	\$17.49
\$25.50	.525	\$17.49
\$25.00	.536	\$17.49
\$24.50	.547	\$17.49
\$24.00	.558	\$17.49
\$23.51	.570	\$17.49
\$23.00	.570	\$17.20
\$22.50	.570	\$16.92
\$22.00	.570	\$16.63
\$21.50	.570	\$16.35
\$21.00	.570	\$16.06
\$20.50	.570	\$15.78
\$20.00	.570	\$15.49
\$19.50	.570	\$15.21
\$19.00	.585	\$15.21
\$18.50	.601	\$15.21
\$18.00	.617	\$15.21
\$17.51	.635	\$15.21
\$17.00	.635	\$14.89
\$16.50	.635	\$14.57
\$16.00	.635	\$14.25

**Table of Contents**

If the average closing price of D.R. Horton common stock determined as set forth above is less than \$16.00, the total amount of the merger consideration would be less than \$14.25. However, in that event, Schuler can terminate the merger, unless D.R. Horton makes an election to increase either the cash portion of the merger consideration or the stock portion of the merger consideration, or both, so that the total amount of the base merger consideration for each share of Schuler common stock equals at least \$14.25, valued at the average closing price. Schuler is unable to determine currently whether it would exercise its right to terminate the merger agreement in that event. Schuler believes that any decision to terminate the merger agreement should be based on the facts and circumstances existing at the time the decision is required, including then current market conditions in the homebuilding industry in general, and with respect to D.R. Horton and Schuler in particular. If the total amount of the merger consideration falls below \$14.25, Schuler will announce whether it will exercise its right to terminate the merger agreement in the press release announcing the determination of the base merger consideration. Schuler does not currently intend to resolicit proxies if it does not exercise its right to terminate. However, because the announcement will be made not later than the opening of business on the second trading day prior to the Schuler stockholder meeting, Schuler stockholders may then submit or revoke their proxies in accordance with the procedures described in the section entitled "Proxies," including transmission by facsimile.

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if a Schuler stockholder makes an election to receive all cash, each share of Schuler common stock held by the stockholder will be converted into the right to receive cash in an amount equal to the base merger consideration. Subject to such adjustments, elections and limitations, if a Schuler stockholder makes an election to receive all D.R. Horton common stock, each share of the stockholder's Schuler common stock will be converted into the right to receive the number of shares of D.R. Horton common stock, valued using the average closing price described above, equal to the base merger consideration.

Elections to receive all cash or all D.R. Horton common stock will be subject to proration, since both the total amount of cash and the total number of shares of D.R. Horton common stock will be fixed, based on the number of shares of Schuler common stock outstanding immediately prior to the merger. For example, if a Schuler stockholder elects to receive the merger consideration as all cash, and either there have not been enough elections by other Schuler stockholders for all D.R. Horton common stock, or some of the Schuler stockholders have dissented from the merger, or both, the Schuler stockholder electing all cash would receive a prorated combination of cash and D.R. Horton common stock. The cash portion would consist of an amount of cash per share equal to the total cash portion of the merger consideration less the cash paid to Schuler stockholders receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares of Schuler common stock for which an all cash election has been made. In that example, the remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above, so that the total prorated combination of cash and D.R. Horton common stock per share of Schuler common stock would equal the amount of the base merger consideration. Notwithstanding the prorations, the amount of cash that a stockholder electing all cash will receive will not be less than \$4.09 per share of Schuler common stock.

In another example, if a Schuler stockholder elects to receive all stock, and not enough Schuler stockholders have elected to receive all cash, the stockholder electing to receive all stock would receive for each share of Schuler common stock cash equal to the total cash portion of the merger consideration minus the aggregate amount of cash payable with respect to the shares for which an all cash election has been made and the shares receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares for which an all stock election has been made. The remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above so that the total amount of cash and prorated stock would equal the amount of the base merger consideration.

Since calculation of the number of shares of D.R. Horton common stock that a Schuler stockholder will receive in the merger is based on an average closing price, the market value of the shares of D.R. Horton common stock that a Schuler stockholder receives upon completion of the merger may be greater or less than the calculated value.

**Table of Contents**

Q: *Does a Schuler stockholder have to make an election to receive the base merger consideration?*

A: No. **If a Schuler stockholder wishes to receive the base merger consideration, no election is necessary.** A Schuler stockholder must make an election only to receive merger consideration in the form of all cash or all D.R. Horton common stock.

Q: *How long do Schuler stockholders have to elect to receive the merger consideration as all cash or all D.R. Horton common stock?*

A: Until the day before the Schuler special meeting of stockholders.

Q: *How does a Schuler stockholder make an election to receive the merger consideration as all cash or all D.R. Horton common stock?*

A: If a Schuler stockholder desires to elect the form of merger consideration he or she will receive for shares of Schuler common stock, the Schuler stockholder must complete, date and sign the election form and letter of transmittal and send it to the exchange agent, American Stock Transfer & Trust Company, at one of the addresses provided on the election form, including a letter of transmittal. The election form must be returned by 5:00 p.m., New York City Time, on Wednesday, February 20, 2002. Schuler stockholders who do not return the election form will receive the base merger consideration of cash and D.R. Horton common stock. For detailed information on the procedure for electing to receive cash or shares of D.R. Horton common stock in the merger, see Summary-Election Procedure beginning on page 10. To make a valid election, Schuler stockholders must send in their stock certificates with their election form. Stockholders that do not send in an election form will receive the base merger consideration, and will receive written instructions after the merger is completed for exchanging stock certificates for the base merger consideration.

Q: *What should Schuler stockholders do if their stock certificates are lost, stolen or destroyed?*

A: If an election is made with respect to shares represented by a lost, stolen or destroyed certificate, the Schuler stockholder should notify Schuler's transfer agent, Mellon Investor Services at (800) 356-2017 to obtain a replacement certificate. If an election is not made with respect to shares represented by a lost, stolen or destroyed certificate, the Schuler stockholder must notify American Stock Transfer & Trust Company and follow the procedures outlined in the letter of transmittal.

Q: *Should Schuler stockholders send in their stock certificates now?*

A: If they are to receive the base merger consideration, Schuler stockholders should submit a letter of transmittal after the merger. Otherwise, Schuler stockholders should submit their stock certificates to the exchange agent at the time they submit the election form. Instructions on how to exchange Schuler stock certificates are enclosed with the election form.

Q: *Will I have appraisal rights?*

A: Schuler stockholders who do not wish to accept the merger consideration and who comply with all of the requirements of Delaware law will have the right under the Delaware corporate statute to be paid the judicially determined appraised value of their shares. That appraised value will not include any value arising from the prospects of Schuler's merger with D.R. Horton under the merger agreement. The appraised value may be more than, less than or equal to the amount of cash and the market value of the D.R. Horton shares a Schuler stockholder would receive as a result of the merger if the stockholder did not exercise appraisal rights.

D.R. Horton stockholders will not be entitled to appraisal rights in connection with the merger.

Exercise of appraisal rights is subject to a number of technical and procedural requirements. Generally, in order to exercise appraisal rights, a Schuler stockholder must:

be a stockholder of record and hold the shares of Schuler common stock through the time of the merger;

before the vote on the merger, state in writing that the stockholder objects to the merger and intends to demand payment for the stockholder's shares; and

not vote in favor of the merger.





**Table of Contents**

**Merely voting against the merger will not protect a Schuler stockholder's right of appraisal.** Annex IV contains the text of the Delaware appraisal rights statute.

D.R. Horton has the right not to proceed with the merger if holders of more than 8% of the Schuler common stock exercise appraisal rights.

Q: *As a Schuler stockholder, will I be taxed as a result of the merger?*

A: Tax consequences to a particular Schuler stockholder will depend upon whether that Schuler stockholder receives a combination of D.R. Horton common stock and cash, all cash, or all D.R. Horton common stock in the merger, and may also depend upon the stockholder's basis in the Schuler stock. Legal counsel to D.R. Horton and Schuler have delivered opinions that the merger will qualify as a reorganization under the Internal Revenue Code, with the result that:

neither D.R. Horton nor Schuler will recognize gain as a result of the merger, and

Schuler stockholders will recognize any gain for U.S. federal income tax purposes, but only to the extent that they receive cash in the merger.

Specifically, if a Schuler stockholder receives both D.R. Horton common stock and cash in the merger, the stockholder will recognize gain equal to the lesser of the amount of gain realized and the amount of cash received. If a Schuler stockholder receives only cash the stockholder will recognize gain or, alternatively, depending upon its particular circumstances, the stockholder likely will be permitted to recognize loss, equal to the difference between the amount of cash received and its basis in its Schuler stock.

We describe the material U.S. federal income tax consequences of the merger in more detail beginning on page 96. The tax consequences of the merger to each Schuler stockholder will depend upon the facts of each stockholder's particular situation. Schuler stockholders should consult their own tax advisor for a full understanding of the tax consequences of the merger.

Q: *What will happen to D.R. Horton stockholders as a result of the merger?*

A: For D.R. Horton stockholders, each outstanding share of D.R. Horton common stock and each option to purchase D.R. Horton common stock will remain outstanding and unchanged. D.R. Horton stockholders will not need to do anything with their stock certificates.

Q: *Will the D.R. Horton board of directors change as a result of the merger?*

A: Yes. D.R. Horton has agreed to use its best efforts to appoint James K. Schuler to the D.R. Horton board upon completion of the merger. Otherwise, the D.R. Horton board of directors will not change as a result of the merger.

Q: *Who can answer any other questions I may have?*

A: If you have questions about the merger or the stockholders meetings you may contact any of the following:

**For D.R. Horton stockholders:**

D.R. Horton, Inc.  
1901 Ascension Blvd.  
Suite 100  
Arlington, TX 76006  
Attn: Investor Relations  
Telephone No.: (817) 856-8200

**For Schuler stockholders:**

Thomas Connelly, Corporate Secretary  
Schuler Homes, Inc.  
400 Continental Blvd.  
Suite 100  
El Segundo, CA 90245  
Telephone No.: (310) 648-7200

Q: *Where can I find more information about Schuler and D.R. Horton?*

A: The discussion under the section captioned **Where You Can Find More Information** on page 124 explains how you can obtain further information.



**Table of Contents**

**SUMMARY**

*The following briefly summarizes the key aspects of the merger and other significant information contained in this Joint Proxy Statement/Prospectus. It may not contain all of the information that is important to you. To understand the transaction more fully, and for a more complete description of the terms of the transaction, you should read this entire document and the documents to which we refer you. See the section captioned *Where You Can Find More Information* (page 124) for sources of additional information and how to get copies of documents to which we refer you.*

**General**

This Joint Proxy Statement/ Prospectus relates to the proposed acquisition of Schuler by D.R. Horton through a merger of Schuler into D.R. Horton. As a result, the separate corporate existence of Schuler will cease, and D.R. Horton will be the surviving corporation in the merger. The Schuler common stock will be converted into a combination of cash and D.R. Horton common stock as provided in the merger agreement. The base merger consideration for each share of Schuler common stock consists of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock. Alternatively, a Schuler stockholder may elect to receive merger consideration in the form of all cash or all D.R. Horton common stock, but that election will be subject to proration. There are no federal or state regulatory requirements that must be complied with or approvals that must be obtained in connection with the merger. The full text of the Agreement and Plan of Merger dated as of October 22, 2001, as amended November 8, 2001, between D.R. Horton and Schuler, is attached to this Joint Proxy Statement/ Prospectus as Annex I.

**The Companies**

*D.R. Horton.* D.R. Horton is a national homebuilder engaged in constructing and selling single-family homes in metropolitan areas of the Mid-Atlantic, Midwest, Southeast, Southwest and West regions of the United States. D.R. Horton offers high quality homes, designed principally for first-time and move-up home buyers. D.R. Horton homes generally range in size from 1,000 to 5,000 square feet and range in price from \$80,000 to \$900,000. For the fiscal year ended September 30, 2001, D.R. Horton closed 21,371 homes with an average sales price approximating \$200,700. For the quarter ended December 31, 2001, D.R. Horton generated 5,144 net new sales contracts with an aggregate value of \$1,021.4 million.

D.R. Horton is one of the largest and most geographically diversified homebuilders in the United States, with operating divisions in 20 states and 38 markets as of September 30, 2001. The markets D.R. Horton operates in include: Albuquerque, Atlanta, Austin, Birmingham, Charleston, Charlotte, Chicago, Columbia, Dallas, Denver, Fort Myers/ Naples, Fort Worth, Greensboro, Greenville, Hilton Head, Houston, Jacksonville, Killeen, Las Vegas, Los Angeles, Louisville, Maryland-D.C., Miami/ West Palm Beach, Minneapolis/ St. Paul, Myrtle Beach, New Jersey, Orlando, Phoenix, Portland, Raleigh/ Durham, Richmond, Sacramento, Salt Lake City, San Antonio, San Diego, Tucson, Virginia-D.C. and Williamsburg. D.R. Horton builds homes under the names D.R. Horton, Arappco, Cambridge, Continental, Dietz-Crane, Dobson, Emerald, Mareli, Milburn, Regency, SGS, Torrey and Trimark.

D.R. Horton's financial reporting segments consist of homebuilding operations and financial services. D.R. Horton's homebuilding operations comprise the most substantial part of its business, with more than 98% of consolidated revenues in fiscal 2001. The homebuilding operations segment generates the majority of its revenues from the sale of completed homes with a lesser amount from the sale of land and lots. The financial services segment generates its revenues from originating and selling mortgages and collecting fees for title insurance and closing services. Financial information, including revenue, pre-tax income and identifiable assets of both reporting segments are included in D.R. Horton's consolidated financial statements.

D.R. Horton was incorporated in Delaware on July 1, 1991 to acquire all of the assets and businesses of 25 predecessor companies, which were residential home construction and development companies owned or controlled by Donald R. Horton. D.R. Horton's principal executive offices are located at 1901 Ascension Blvd., Suite 100, Arlington, Texas 76006, and the telephone number is (817) 856-8200.

**Table of Contents**

*Schuler.* Schuler is among the fifteen largest homebuilders in the country based on number of homes sold, and is among the top five homebuilders in California, Colorado, Hawaii and Washington. Schuler designs, builds and markets single-family attached and detached homes to entry-level and first-time move-up buyers and, to a lesser extent, second-time move-up buyers in the States of California, Colorado, Hawaii, Washington, Oregon and Arizona. On a pro forma basis combining Schuler with Western Pacific, in the twelve months ended September 30, 2001, Schuler closed 5,254 homes with an average sales price approximating \$293,000. For the quarter ended December 31, 2001, Schuler closed 1,495 new homes with revenues of \$426.6 million, and generated 1,185 new orders valued at \$374.6 million. At December 31, 2001, Schuler had a backlog of 1,692 sold homes valued at \$524.0 million. Through its subsidiaries, Schuler also provides customer financing to its buyers in Colorado, Northern California and Washington.

Schuler builds homes under the names Schuler Homes, Western Pacific Housing, Melody Homes and Stafford Homes. Schuler maintains a conservative land acquisition policy, generally using options or land purchase agreements to obtain control of desired parcels of land.

On April 3, 2001, Schuler completed a business combination that combined the operations of Schuler Residential, Inc. (formerly Schuler Homes, Inc.) with those of Western Pacific Housing, a homebuilding company that operated in the State of California. Schuler's principal executive offices are located at 400 Continental Blvd., Suite 100, El Segundo, California 90245, and its telephone number is (310) 648-7200.

**The Merger Consideration** (see page 65)

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock as set forth in the table below, based on the average closing price of D.R. Horton common stock as reported for New York Stock Exchange composite transactions for the 15 trading days ending on, and including, the third trading day prior to the Schuler stockholder meeting:

Average Closing Price of D.R. Horton Common Stock	D.R. Horton Common Stock Issued for Each Schuler Share	Total Amount of Base Merger Consideration for Each Share of Schuler Common Stock Consisting of \$4.09 in Cash and Shares of D.R. Horton Common Stock at the Average Closing Price
\$27.51 or higher	0.487 shares	\$17.49 or higher
\$23.51 to \$27.50	Fraction of a share equal to the quotient obtained by dividing \$13.395 by the average closing price of D.R. Horton common stock	\$17.49
\$19.50 to \$23.50	0.570 shares	\$15.21 to \$17.49
\$17.51 to \$19.49	Fraction of a share equal to the quotient obtained by dividing \$11.115 by the average closing price of D.R. Horton common stock	\$15.21
\$16.00 to \$17.50	0.635 shares	\$14.25 to \$15.20

**Table of Contents**

If the average closing price of D.R. Horton common stock determined as set forth above is less than \$16.00, the total amount of the merger consideration would be less than \$14.25. However, in that event, Schuler can terminate the merger agreement, unless D.R. Horton makes an election to increase the cash portion of the merger consideration or the stock portion of the merger consideration, or both, so that the amount of the base merger consideration for each share of Schuler common stock equals at least \$14.25, consisting of cash and shares of D.R. Horton common stock valued at the average closing price. Schuler is unable to determine currently whether it would exercise its right to terminate the merger agreement in that event. Schuler believes that any decision to terminate the merger agreement should be based on the facts and circumstances existing at the time the decision is required, including then current market conditions in the homebuilding industry in general, and with respect to D.R. Horton and Schuler in particular. If the total amount of the merger consideration falls below \$14.25, Schuler will announce whether it will exercise its right to terminate the merger agreement in the press release announcing the determination of the merger consideration. Schuler does not currently intend to resolicit proxies if it does not exercise its right to terminate. However, because the announcement will be made not later than the opening of business on the second trading day prior to the Schuler stockholder meeting, Schuler stockholders may then submit or revoke their proxies in accordance with the procedures described in the section entitled Proxies, including transmission by facsimile.

Alternatively, a Schuler stockholder may elect to receive merger consideration in the form of all cash or all D.R. Horton common stock, but that election will be subject to proration. A Schuler stockholder cannot make an election for less than all of his or her shares. Both the total cash portion of the merger consideration and the total number of shares of D.R. Horton common stock to be issued as merger consideration will be fixed. The total amount of cash that D.R. Horton will pay as part of the merger consideration is equal to the product of \$4.09 multiplied by the number of shares of Schuler common stock outstanding, other than dissenting shares, immediately prior to the effective time of the merger, unless D.R. Horton elects to increase the cash portion of the merger consideration if the average closing price of D.R. Horton common stock were to fall below \$16.00. The total number of shares of D.R. Horton common stock issued as merger consideration will be determined in the manner set forth above as if each stockholder had elected to receive the base merger consideration.

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if a Schuler stockholder makes an election to receive all cash, each share of Schuler common stock held by the stockholder will be converted into the right to receive cash in an amount equal to the base merger consideration. Subject to such adjustments, elections and limitations, if a Schuler stockholder makes an election to receive all D.R. Horton common stock, each share of the stockholder's Schuler common stock will be converted into the right to receive the number of shares of D.R. Horton common stock, valued using the average closing price described above, equal to the base merger consideration.

Elections to receive all cash or all D.R. Horton common stock will be subject to proration, since both the total amount of cash and the total number of shares of D.R. Horton common stock will be fixed, based on the number of shares of Schuler common stock outstanding immediately prior to the merger. For example, if a Schuler stockholder elects to receive the merger consideration as all cash, and either there have not been enough elections by other stockholders for all D.R. Horton common stock, or some of the Schuler stockholders have dissented from the merger, or both, the Schuler stockholder will receive a prorated combination of cash and D.R. Horton common stock. The cash portion will consist of an amount of cash per share equal to the total cash portion of the merger consideration less the cash paid to stockholders receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares of Schuler common stock for which an all cash election has been made. In that example, the remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above, so that the total prorated combination of cash and D.R. Horton common stock equals the amount of the base merger consideration. Notwithstanding the proration procedure, the amount of cash that a Schuler stockholder electing all cash will receive will not be less than \$4.09 per share of Schuler common stock.

In another example, if a Schuler stockholder elects to receive all stock, and not enough Schuler stockholders have elected to receive all cash, the stockholder electing to receive all stock will receive for each share of Schuler common stock cash equal to the total cash portion of the merger consideration

## **Table of Contents**

minus the aggregate amount of cash payable with respect to the shares for which an all cash election has been made and the shares receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares for which an all stock election has been made, and the remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above so that the total amount of cash and prorated stock would equal the amount of the base merger consideration.

If a Schuler stockholder does not make an election, or does not make an election properly or otherwise loses the election, that stockholder will receive the base merger consideration of cash and D.R. Horton common stock. The base merger consideration is not subject to proration due to the number of all cash or all stock elections.

### **Election Procedure** (see page 67)

Each Schuler stockholder may receive merger consideration as the base merger consideration of a combination of D.R. Horton common stock and cash, or may elect to receive the merger consideration as all cash or all D.R. Horton common stock, subject to proration. **If a Schuler stockholder wants to receive the base merger consideration, no election is necessary.** No Schuler stockholder may make an election for less than all of his or her shares. An election form, including a letter of transmittal, will be sent to each Schuler stockholder in a mailing separate from this Joint Proxy Statement/ Prospectus. If shares are held in street name through a broker, the broker will mail the election form to the beneficial owner under separate cover, together with a letter of instructions for making an election. Beneficial owners should read the election form together with this Joint Proxy Statement/ Prospectus.

Schuler stockholders who become stockholders following the record date of the Schuler special meeting may contact American Stock Transfer & Trust Company by calling toll-free at (800) 937-5449, to receive an election form.

For an election to be effective, the election form must be properly completed, and the electing Schuler stockholder must send the form, together with all of the stockholder's certificates, duly endorsed in blank or otherwise in a form which is acceptable for transfer on the books of Schuler or by appropriate guarantee of delivery as described in the form of election, to American Stock Transfer & Trust Company, the exchange agent, at one of the addresses provided in the election form. The exchange agent must receive the completed form of election and stock certificates by 5:00 p.m., New York City Time, on February 20, 2002.

Schuler stockholders can revoke their election prior to 5:00 p.m., New York City Time, on February 20, 2002, by sending written notice executed by the Schuler stockholder to the exchange agent, American Stock Transfer & Trust Company, in accordance with the instructions on the election form. If a Schuler stockholder properly revokes an election, the exchange agent will treat the subject shares as shares for which no election has been made, unless the Schuler stockholder thereafter submits another properly completed election form prior to the deadline for submission. Stock certificates submitted with an election form will be automatically returned if the merger agreement is terminated.

**To facilitate the election process, Schuler stockholders will be able to revoke their elections by facsimile prior to the deadline set forth above at the following telephone number: (718) 259-1144.**

D.R. Horton will determine, or delegate to the exchange agent to determine, whether election forms have been properly completed, signed and submitted or revoked and may disregard immaterial defects in election forms. If D.R. Horton or the exchange agent determines that an election was not properly made, the election will have no force and effect and the exchange agent will treat the subject shares as shares for which no election has been made. The decision of D.R. Horton or the exchange agent in all these matters will be conclusive and binding. Neither D.R. Horton nor the exchange agent will be under any obligation to notify any Schuler stockholder of any defect in his or her election form submitted to the exchange agent. D.R. Horton will also make, or will delegate to the exchange agent to make, all computations regarding merger consideration to be received by holders of shares of Schuler common stock and all of D.R. Horton's or the exchange agent's computations will be conclusive and binding on the holders of shares of Schuler common stock.

## **Table of Contents**

### **Recommendation of the Schuler Board of Directors** (see page 40)

The Schuler board of directors has unanimously determined that the merger agreement is advisable, fair to and in the best interests of Schuler and its stockholders and recommends that Schuler stockholders vote **FOR** approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

### **Recommendation of the D.R. Horton Board of Directors** (see page 42)

The D.R. Horton board has unanimously approved the merger and the issuance of D.R. Horton common stock in connection with the merger, has determined that the merger is advisable and is in the best interests of D.R. Horton and its stockholders, and recommends that the holders of D.R. Horton common stock vote **FOR** the merger and the share issuance.

### **Schuler's Reasons for the Merger**(see page 40)

The Schuler board of directors considered, with the assistance of management and its financial and legal advisors, a number of factors, both positive and negative, in determining that the merger of Schuler with D.R. Horton is fair to Schuler stockholders and approving the merger agreement and the transactions contemplated by the merger agreement.

### **D.R. Horton's Reasons for the Merger**(see page 42)

The D.R. Horton board of directors considered, with the assistance of management and its financial and legal advisors, a number of factors, both positive and negative, in approving the merger agreement and the transactions contemplated by the merger agreement.

### **Required Vote** (see pages 32 and 34)

*Schuler.* The affirmative vote, in person or by proxy, of the holders as of the Schuler record date of a majority of the outstanding shares Schuler common stock, and the affirmative vote, in person or by proxy, of the holders as of the Schuler record date of a majority of the outstanding shares of Schuler Class A common stock and Class B common stock, each voting as a separate class, is required for the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

The James and Patricia Schuler Foundation, James K. Schuler as trustee for two family trusts, and WPH-Schuler LLC have entered into a voting agreement with D.R. Horton pursuant to which they have agreed to vote approximately 46.0% of the voting power of the outstanding shares of Schuler common stock, representing 23.4% of the Class A common stock and 100% of the Class B common stock, in favor of the approval and adoption of the merger agreement. The James and Patricia Schuler Foundation and the two family trusts also own 5,216,914 shares of Schuler Class A common stock, representing 23.3% of Schuler's Class A common stock, that are not subject to the voting agreement. Mr. Schuler has orally informed Schuler and D.R. Horton that the foundation and the two family trusts currently intend to vote the shares not subject to the voting agreement in favor of the approval and adoption of the merger agreement.

On the Schuler record date, Schuler's directors, executive officers and their affiliates beneficially owned approximately 10.6 million shares of Schuler Class A common stock. Of those shares, Schuler's directors, executive officers and their affiliates were entitled to vote approximately 10.5 million shares of Schuler Class A common stock, which represented approximately 47.0% of the voting power of the Schuler Class A common stock, and 33.1% of the voting power of the Schuler common stock, outstanding and entitled to vote on that date. There is no agreement or arrangement regarding voting by Schuler's directors or executive officers other than as described with respect to the voting agreement. Schuler's directors, executive officers and their affiliates have orally informed Schuler and D.R. Horton that they intend to vote in favor of the merger agreement.

*D.R. Horton.* The affirmative vote, in person or by proxy, of holders of a majority of the outstanding shares of D.R. Horton common stock is required for the approval of the merger and the issuance of D.R. Horton common stock in connection with the merger. The affirmative vote, in



person or by proxy, of

## **Table of Contents**

holders of a majority of the outstanding shares of D.R. Horton common stock present at the meeting is required for the approval of the amendment to D.R. Horton's 1991 Stock Incentive Plan. For election of D.R. Horton's directors, nominees receiving a plurality of the votes cast at the meeting will be elected to serve as directors.

Donald R. Horton and Terrill J. Horton, as trustee for four trusts for the benefit of family members of Donald R. Horton, which are collectively the beneficial owners as of the record date of approximately 16% of the outstanding shares of D.R. Horton common stock, have entered into a voting agreement with Schuler, agreeing, among other things, to vote their shares in favor of the approval and adoption of the merger agreement and the issuance of D.R. Horton common stock in connection with the merger.

On the D.R. Horton record date, D.R. Horton's directors, executive officers and their affiliates beneficially owned approximately 14.0 million shares of D.R. Horton common stock. Of those shares, D.R. Horton's directors, executive officers and their affiliates were entitled to vote approximately 13.6 million shares of D.R. Horton common stock, which represented approximately 17.6% of the total amount of D.R. Horton common stock outstanding and entitled to vote on that date. There is no agreement or arrangement regarding voting by D.R. Horton's directors or executive officers other than with respect to the voting agreement described above. D.R. Horton's directors, executive officers and their affiliates have orally informed D.R. Horton and Schuler that they intend to vote in favor of the merger agreement and the issuance of D.R. Horton common stock in connection with the merger.

### **Opinion of Schuler's Financial Advisor**(see page 45)

In connection with the merger, the Schuler board of directors received an opinion from UBS Warburg LLC, Schuler's financial advisor, concerning the fairness of the merger consideration as of the date of the opinion, as described in more detail on page 45. We encourage you to read the opinion carefully in its entirety for a description of the matters covered, procedures followed, assumptions made, matters considered and limitations on the review undertaken. The full text of UBS Warburg LLC's written opinion, dated October 22, 2001, is attached to this Joint Proxy Statement/ Prospectus as Annex II. **UBS Warburg LLC's opinion is addressed to the Schuler board of directors and does not constitute a recommendation to any stockholder with respect to any matter relating to the merger.**

### **Opinion of D.R. Horton's Financial Advisor**(see page 49)

In connection with the merger, the D.R. Horton board of directors received an opinion from Banc of America Securities LLC, D.R. Horton's financial advisor, concerning the fairness of the merger consideration as of the date of the opinion, as described in more detail on page 49. We encourage you to read the opinion carefully in its entirety for a description of the matters covered, procedures followed, assumptions made, matters considered and limitations on the review undertaken. The full text of Banc of America Securities LLC's written opinion, dated October 22, 2001, is attached to this Joint Proxy Statement/ Prospectus as Annex III. **Banc of America Securities LLC's opinion is addressed to the D.R. Horton board of directors and does not constitute a recommendation to any stockholder with respect to any matter relating to the merger.**

### **Ownership and Board Composition of D.R. Horton After the Merger** (see page 78)

D.R. Horton currently estimates that the number of shares of D.R. Horton common stock issued to Schuler stockholders in the merger will constitute between 20% and 25% of the outstanding common stock of D.R. Horton after the merger. D.R. Horton has agreed to use its best efforts to appoint Mr. Schuler to the D.R. Horton board of directors upon completion of the merger.

### **Appraisal Rights** (see page 60)

Holders of Schuler common stock will be entitled to appraisal rights in connection with the merger under Section 262 of the Delaware General Corporation Law. The requirements and procedures for exercising appraisal rights are described in detail in the section of this Joint Proxy Statement/ Prospectus captioned "Appraisal Rights" beginning on page 60. A copy of the appraisal rights provisions of the Delaware statute is attached as Annex IV to this Joint Proxy Statement/ Prospectus.



## **Table of Contents**

Holders of D.R. Horton common stock are not entitled to appraisal rights in connection with the merger.

### **Terms and Conditions of the Merger Agreement** (see page 68)

The merger agreement contains representations, warranties, covenants and conditions that Schuler and D.R. Horton believe are customary for transactions of this type.

### **Comparative Rights of Stockholders** (see page 91)

If the merger is completed, the stockholders of Schuler will become stockholders of D.R. Horton. The certificate of incorporation and bylaws of D.R. Horton will govern the rights of all of D.R. Horton's stockholders, including the former Schuler stockholders.

### **United States Federal Income Tax Consequences of the Merger to Schuler Stockholders** (see page 96)

D.R. Horton and Schuler have received opinions from Gibson, Dunn & Crutcher LLP that the merger will constitute a reorganization within the meaning of the Internal Revenue Code, and it is a condition to the merger that these opinions be given again as of the closing date. However, as described in the opinions, the U.S. federal income tax consequences of the merger to Schuler stockholders will depend upon the form of consideration received in the merger.

If a Schuler stockholder receives a combination of D.R. Horton common stock and cash (other than cash in lieu of a fractional share) in exchange for Schuler common stock, the stockholder will generally recognize gain in an amount equal to the lesser of the total amount of cash received or the amount of gain realized on the exchange, but will not be permitted to recognize a loss. Any gain recognized will be treated either as a capital gain or as a dividend, depending on the stockholder's individual circumstances.

If a Schuler stockholder receives solely D.R. Horton common stock (and possibly cash in lieu of a fractional share) in exchange for the Schuler common stock, then the stockholder will not recognize gain or loss, except with respect to the fractional share. If a Schuler stockholder receives solely cash, then the stockholder will recognize gain (or, alternatively, will likely be permitted to recognize loss) equal to the difference between the amount of cash received and the stockholder's basis in the Schuler stock. The tax treatment of any gain recognized will depend upon each stockholder's individual circumstances.

**The tax treatment described above may not apply to every Schuler stockholder. Determining the actual tax consequences of the merger to Schuler stockholders may be complicated and will depend on the specific situation of each stockholder and on variables not within our control. Schuler stockholders should consult their own tax advisors for a full understanding of the tax consequences of the merger.**

### **Interests of Certain Persons in the Merger** (see page 57)

*Schuler.* In considering the recommendation of the Schuler board of directors that Schuler stockholders vote in favor of the merger agreement and the transactions contemplated by the merger agreement, Schuler stockholders should be aware that some Schuler directors and executive officers may have interests in the merger that are in addition to the interests of Schuler stockholders generally. The Schuler board of directors was aware of, and considered, these interests in approving the merger agreement and the transactions contemplated by the merger agreement.

*D.R. Horton.* In considering the recommendation of the D.R. Horton board of directors that D.R. Horton stockholders vote in favor of the merger agreement and the transactions contemplated by the merger agreement, D.R. Horton stockholders should be aware that a D.R. Horton director may have an interest in the merger that is in addition to the interests of D.R. Horton stockholders generally. The D.R. Horton board of directors was aware of, and considered, the interest in approving the merger agreement and the transactions contemplated by the merger agreement.



**Table of Contents****Selected Historical Financial Data of D.R. Horton**

The following selected consolidated financial data of D.R. Horton for the five years ended September 30, 2001, are derived from the D.R. Horton audited consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future. You should also read the D.R. Horton historical financial statements and related notes in D.R. Horton's annual reports filed with the SEC for the year ended September 30, 2001, as well as the section of the annual reports entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference into this Joint Proxy Statement/ Prospectus.

	For the Fiscal Years Ended September 30,				
	1997	1998	1999	2000	2001
(In millions, except for number of homes and per share amounts)					
<b>Income Statement Data:</b>					
Revenues	\$ 1,578.4	\$ 2,176.9	\$ 3,156.2	\$ 3,653.7	\$ 4,455.5
Income before cumulative effect of change in accounting principle(1)	\$ 65.0	\$ 93.4	\$ 159.8	\$ 191.7	\$ 254.9
Income per share before cumulative effect of change in accounting principle:(2)					
Basic(3)	\$ 1.06	\$ 1.45	\$ 2.10	\$ 2.55	\$ 3.37
Diluted(4)	\$ 0.95	\$ 1.29	\$ 2.07	\$ 2.53	\$ 3.31
Cash dividends declared per common share	\$ 0.06	\$ 0.09	\$ 0.11	\$ 0.15	\$ 0.19
Weighted average number of shares outstanding:(2)					
Basic(3)	61.2	64.5	76.0	75.1	75.7
Diluted(4)	71.8	75.1	77.4	75.7	77.0
<b>Selected Operating Data:</b>					
Number of homes closed	10,038	13,944	18,395	19,144	21,371
New sales orders, net (homes)(5)	10,551	15,952	18,911	19,223	22,179
New sales orders, net (\$ value)(5)	\$ 1,595.7	\$ 2,533.2	\$ 3,266.2	\$ 3,676.4	\$ 4,502.6
Sales backlog at end of period (homes)(6)	3,961	6,341	7,309	7,388	9,263
Sales backlog at end of period (\$ value)(6)	\$ 609.2	\$ 1,052.9	\$ 1,356.5	\$ 1,536.9	\$ 1,933.8
<b>Other Financial Data:</b>					
Interest expensed directly and amortized to cost of sales	\$ 40.2	\$ 64.2	\$ 74.6	\$ 85.4	\$ 105.5
Provision for income taxes	43.6	65.7	104.0	117.5	152.9
Depreciation and amortization	6.6	9.4	20.3	22.0	31.2
Interest incurred(7)	51.2	70.4	81.0	110.0	136.3
Ratio of earnings to fixed charges(8)	2.9x	3.1x	4.1x	3.5x	3.7x

	As of September 30,				
	1997	1998	1999	2000	2001
<b>Balance Sheet Data:</b>					
Inventories	\$ 1,024.3	\$ 1,358.0	\$ 1,866.1	\$ 2,191.0	\$ 2,804.4
Total assets	1,248.3	1,667.8	2,361.8	2,694.6	3,652.2
Notes payable	650.7	854.5	1,190.6	1,344.4	1,884.3
Stockholders' equity	427.9	549.4	797.6	969.6	1,250.2

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

- (1) In fiscal 2001, D.R. Horton recorded the cumulative effect of a change in accounting principle, net of applicable income taxes, in the amount of \$2.1 million, to reflect the impact of the October 1, 2000 adoption of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities.

**Table of Contents**

- (2) Income per share amounts and weighted average number of shares outstanding have been adjusted as appropriate to reflect the effects of the 9% and 11% stock dividends of September 2000 and March 2001.
- (3) Basic income per share before cumulative effect of change in accounting principle is based upon the weighted average number of shares of common stock outstanding during each year.
- (4) Diluted income per share before cumulative effect of change in accounting principle is based upon the weighted average number of shares of common stock outstanding during each year, adjusted for the effects of dilutive securities outstanding.
- (5) Represents homes placed under contract during the period, net of cancellations.
- (6) Represents homes under contract but not yet closed at the end of the period.
- (7) Interest incurred consists of all interest costs, whether expensed or capitalized, including amortization of debt issuance costs.
- (8) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income before cumulative effect of change in accounting principle, income taxes, interest amortized to cost of sales, interest expense, and the portion of rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including the amortization of debt issuance costs, and the portion of rent expense deemed to represent interest.

**Selected Historical Financial Data of Schuler**

The following selected consolidated financial data of Schuler are presented on a pro forma combined basis for the six months ended September 30, 2000 and on a historical consolidated basis for the six months ended September 30, 2001 and 2000. Schuler was formed in April 2001 as a result of the combination of Schuler Residential and Western Pacific. Schuler Residential is the predecessor of Schuler. The pro forma combined financial data for the six months ended September 30, 2000 were derived from the consolidated financial statements and other internal financial data of Schuler Residential and Western Pacific. The historical financial data for the six months ended September 30, 2001 and 2000 were derived from the unaudited consolidated financial statements and the related notes of Schuler and its predecessor for the six months ended September 30, 2001 and 2000, respectively. These historical results are not necessarily indicative of the results to be expected in the future. You should also read the Schuler consolidated financial statements and related notes for the six month period ended September 30, 2001 included in the Schuler Form 10-Q for the quarter ended September 30, 2001, filed with the SEC, as well as the section of the Form 10-Q entitled

Management's Discussion and Analysis of Financial Condition and Results of Operations, incorporated into this Joint Proxy Statement/Prospectus by reference. You should also read the Schuler Residential and Western Pacific historical consolidated and combined financial statements and related notes in the Schuler annual report for the year ended March 31, 2001 filed with the SEC as well as the section of the annual report entitled Management's Discussion and Analysis



**Table of Contents**

of Financial Condition and Results of Operations, incorporated into this Joint Proxy Statement/ Prospectus by reference.

**For the Six Months Ended September 30,**

	<b>Predecessor Only</b>	<b>Pro Forma Combined(1)</b>	
	<b>2000</b>	<b>2000</b>	<b>2001</b>
(In millions, except for number of homes and per share amounts) (Unaudited)			
<b>Income Statement Data:</b>			
Revenues	\$ 333.5	\$ 499.5	\$ 698.8
Net income(2)	.1	4.5	36.1
Net income per share:			
Basic(3)	\$ 0.01	\$ 0.11	\$ 0.89
Diluted(4)	\$ 0.01	\$ 0.11	\$ 0.86
Cash dividends declared per common share			
Weighted average number of shares outstanding:			
Basic(3)	20.1	40.2	40.5
Diluted(4)	20.1	43.2	43.2
<b>Selected Operating Data:</b>			
Number of homes closed	1,544	2,115	2,472
New sales orders, net (homes)(5)	1,451	2,585	2,749
New sales orders, net (\$ value)(5)	\$ 350.0	\$ 750.8	\$ 813.0
Sales backlog at end of period (homes)(6)	976	1,990	2,002
Sales backlog at end of period (\$ value)(6)	\$ 241.8	\$ 604.0	\$ 575.9
<b>Other Financial Data:</b>			
Interest expensed directly and amortized to cost of sales	\$ 12.0	\$ 21.2	\$ 28.1
Provision (benefit) for income taxes	(0.3)	2.7	23.8
Depreciation and amortization	4.1	4.6	8.1
Lenders profit participation(7)		0.9	0.3
Minority interest in income of consolidated joint ventures(8)	0.6	2.4	0.8
Inventory impairment losses(2)	36.4	36.4	
Other non-cash charges	0.3	0.3	
Interest incurred(9)	10.4	28.2	29.8
Ratio of earnings to fixed charges(10)	1.5x	N/A	2.9x

As of  
September 30, 2001

**Balance Sheet Data:**

Inventories	\$ 994.7
Total assets	1,171.9
Notes payable	562.8
Stockholders equity	432.7

**Table of Contents**

---

- (1) Results for the six months ended September 30, 2000 are presented on a pro forma combined basis to include the results of both Schuler Residential and Western Pacific, including the following pro forma adjustments:

Net income includes a deduction of \$3.0 million from Western Pacific's operating results for income tax expense, based on an effective tax rate of 40.7%. Prior to the Schuler/ Western Pacific combination, Western Pacific was operated through a series of partnerships and therefore was not subject to taxation at the entity level.

Net income per share and the weighted average number of shares outstanding include the pro forma effect of the issuance of 20,166,000 Schuler shares of Class B common stock in the Schuler/ Western Pacific merger.

- (2) Net income for the six months ended September 30, 2000 includes a \$36.4 million non-cash charge for impairment of Schuler Residential long-lived assets, pursuant to FASB Statement No. 121. This non-cash impairment charge is a nonrecurring item and is not indicative of future operating results.
- (3) Basic net income per share is based upon the weighted average number of shares of common stock outstanding during the period.
- (4) Diluted net income per share is based upon the weighted average number of shares of common stock outstanding during each period, adjusted for the effects of dilutive securities outstanding, including Schuler's convertible subordinated debentures, which were redeemed by Schuler in August 2001.
- (5) Represents homes placed under contract during the period, net of cancellations. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority.
- (6) Represents homes under contract but not yet closed at the end of the period. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority. In the past, backlog has been a reliable indicator of future closings, but there is no assurance that homes and lots subject to pending sales contracts will close.
- (7) Represents lenders' profit participation in connection with participating loans.
- (8) Minority interest in income of consolidated joint ventures represents the amount of income from consolidated joint ventures that is attributable to the ownership interests of the minority joint venture partners. Schuler has utilized joint ventures to finance specific homebuilding projects, and the minority interest in the income of these joint ventures represents a financing cost to Schuler.
- (9) Interest incurred consists of all interest costs, whether expensed or capitalized, including amortization of debt issuance costs.
- (10) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income before income taxes, interest amortized to cost of sales, interest expense, and the portion of rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including the amortization of debt issuance costs, and the portion of rent expense deemed to represent interest. This ratio is not presented for pro forma financial results.

**Selected Historical Financial Data of Schuler Residential**

The following selected consolidated financial data of Schuler Residential represent results of operations of Schuler Residential for the five fiscal years ended March 31, 2001. The data do not include data of Western Pacific because the combination with Western Pacific occurred in April 2001. The financial data were derived from the consolidated financial statements and other financial data of Schuler Residential. These historical results are not necessarily indicative of the results to be expected in the future. In December 2000, Schuler Residential changed its accounting fiscal year from a December 31 year-end to a March 31 year-end. You should also read Schuler Residential's historical consolidated financial statements and related notes in the Schuler annual report filed with the SEC as well as the

**Table of Contents**

section of the annual report entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, incorporated by reference into this Joint Proxy Statement/ Prospectus.

	For the Fiscal Years Ended December 31,				Three Months Ended	Year Ended
	1996	1997	1998	1999	March 31, 2000	March 31, 2001
(In millions, except for number of homes and per share amounts)						
<b>Income Statement Data:</b>						
Revenues	\$ 93.6	\$ 229.6	\$ 282.9	\$ 506.8	\$ 160.7	\$ 632.4
Net income (loss)(1)	(11.4)	5.9	12.7	25.7	9.7	20.4
Net income (loss) per share:						
Basic(2)	\$ (0.55)	\$ 0.29	\$ 0.63	\$ 1.29	\$ 0.48	\$ 1.01
Diluted(3)	\$ (0.55)	\$ 0.29	\$ 0.63	\$ 1.28	\$ 0.46	\$ 1.00
Cash dividends declared per common share						
Weighted average number of shares outstanding:						
Basic(2)	20.6	20.1	20.1	20.0	20.1	20.1
Diluted(3)	22.7	22.7	22.7	22.6	22.7	23.0
<b>Selected Operating Data:</b>						
Number of homes closed	512	1,427	1,827	2,643	781	2,799
New sales orders, net (homes)(4)	453	1,757	2,100	2,936	876	2,851
New sales orders, net (\$ value)(4)	\$ 101.5	\$ 302.2	\$ 392.7	\$ 613.6	\$ 207.6	\$ 689.9
Sales backlog at end of period (homes)(5)	78	408	681	974	1,069	1,121
Sales backlog at end of period (\$ value)(5)	\$ 18.3	\$ 76.1	\$ 123.9	\$ 208.7	\$ 248.9	\$ 277.4
<b>Other Financial Data:</b>						
Interest expensed directly and amortized to cost of sales	\$ 3.9	\$ 10.6	\$ 13.7	\$ 20.8	\$ 5.5	\$ 22.8
Provision (benefit) for income taxes	(7.3)	3.6	7.9	16.2	6.2	12.5
Depreciation and amortization	0.8	2.9	3.2	5.4	1.4	6.4
Minority interest in income of consolidated joint ventures(6)				0.4	0.2	1.0
Inventory impairment losses(1)	23.9					36.4
Other non-cash charges		0.5		0.9	0.6	0.3
Interest incurred(7)	7.9	11.8	13.8	18.7	4.9	21.2
Ratio of earnings (loss) to fixed charges(8)	(1.7)x	1.6x	2.1x	3.2x	4.0x	2.5x

	As of December 31,				As of	As of
	1996	1997	1998	1999	March 31, 2000	March 31, 2001
<b>Balance Sheet Data:</b>						
Inventories	\$ 238.4	\$ 291.1	\$ 325.2	\$ 436.3	\$ 442.9	\$ 519.0
Total assets	268.9	340.6	385.5	490.5	496.9	595.9
Notes payable	102.2	151.2	177.3	236.8	224.8	294.0
Stockholders' equity	157.5	163.4	175.6	201.1	210.9	231.6

**Table of Contents**

- (1) Net income includes the following non-cash charges for impairment of long-lived assets, pursuant to FASB Statement No. 121: \$23.9 million during the year ended December 31, 1996, and \$36.4 million during the year ended March 31, 2001. These non-cash impairment charges are nonrecurring items and are not indicative of future operating results.
- (2) Basic net income (loss) per share is based upon the weighted average number of shares of common stock outstanding during each year.
- (3) Diluted net income (loss) per share is based upon the weighted average number of shares of common stock outstanding during each year, adjusted for the effects of dilutive securities outstanding, including Schuler's convertible subordinated debentures, which were redeemed by Schuler in August 2001.
- (4) Represents homes placed under contract during the period, net of cancellations. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority.
- (5) Represents homes under contract but not yet closed at the end of the period. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority. In the past, backlog has been a reliable indicator of future closings, but there is no assurance that homes and lots subject to pending sales contracts will close.
- (6) Minority interest in income of consolidated joint ventures represents the amount of income from consolidated joint ventures that is attributable to the ownership interests of the minority joint venture partners. Schuler Residential utilized joint ventures to finance specific homebuilding projects, and the minority interest in the income of these joint ventures represented a financing cost to Schuler Residential.
- (7) Interest incurred consists of all interest costs, whether expensed or capitalized, including amortization of debt issuance costs.
- (8) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income before income taxes, interest amortized to cost of sales, interest expense, the portion of rent expense deemed to represent interest, and income distributions from unconsolidated joint ventures reduced by income from unconsolidated joint ventures. Fixed charges consist of interest incurred, whether expensed or capitalized, including the amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest.

**Selected Historical Financial Data of Western Pacific**

The following selected combined financial data of Western Pacific represent results of operations of Western Pacific for the five fiscal years ended March 31, 2001. The data do not include data of Schuler Residential because the combination with Western Pacific occurred in April 2001. The financial data were derived from the combined financial statements and other financial data of Western Pacific. These historical results are not necessarily indicative of the results to be expected in the future. You should also read Western Pacific's historical financial statements and related notes in the Schuler annual report filed with the SEC as well as the section of the annual report entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," incorporated by reference into this Joint Proxy Statement/Prospectus.

	For the Fiscal Years Ended March 31,				
	1997	1998	1999	2000	2001
	(In millions, except number of homes and per share amounts)				
	(Unaudited)	(Unaudited)			
<b>Income Statement Data:</b>					
Revenues	\$78.7	\$192.9	\$423.3	\$535.0	\$709.2
Net income(1)(2)(3)	1.3	7.4	20.3	41.6	63.5

**Table of Contents****For the Fiscal Years Ended March 31,**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>(In millions, except number of homes and per share amounts)</b>					
<b>Selected Operating Data:</b>					
Number of homes closed	460	970	1,660	1,693	2,098
New sales orders, net (homes)(4)	534	1,184	1,525	1,766	2,251
New sales orders, net (\$ value)(4)	\$91.3	\$230.9	\$428.5	\$561.6	\$767.6
Sales backlog at end of period (homes)(5)	167	381	378	451	604
Sales backlog at end of period (\$ value)(5)	\$32.2	\$ 77.9	\$119.1	\$140.5	\$178.3
<b>Other Financial Data:</b>					
Interest expensed directly and amortized to cost of sales	\$ 4.2	\$ 13.9	\$ 22.6	\$ 26.6	\$ 34.1
Depreciation and amortization	0.6	0.7	0.8	0.8	0.9
Lenders profit participation(6)	0.5	0.5	6.6	5.8	2.4
Minority interest in income (loss) of consolidated joint ventures(7)	(0.3)	2.3	10.5	5.4	16.0
Other non-cash charges(1)					4.2
Interest incurred(8)	12.0	17.8	24.6	29.5	38.2
Ratio of earnings to fixed charges(9)	0.5x	1.2x	1.7x	2.3x	2.5x

**As of March 31,**

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Balance Sheet Data:</b>					
Inventories	\$143.0	\$169.5	\$268.8	\$330.3	\$339.1
Total assets	149.8	183.7	309.5	394.9	434.4
Notes payable	99.2	119.0	184.8	212.0	200.3
Total partners capital	29.9	37.1	73.0	114.6	138.4

- (1) Net income for the year ended March 31, 2001 includes a non-cash charge of \$4.2 million for compensation expense recognized in conjunction with equity interests granted to Western Pacific executives during the year ended March 31, 2001. This charge is a nonrecurring item and is not indicative of future operating results.
- (2) Western Pacific was operated through a number of partnerships and limited liability companies prior to its combination with Schuler Residential in April 2001. Therefore, each partner and member of the entities that comprised Western Pacific reflected its share of taxable income on a separate return. Accordingly, no provision for income taxes was included in the combined financial statements of Western Pacific.
- (3) Per share information is not applicable to Western Pacific, as it was operated through a series of partnerships and limited liability companies prior to its combination with Schuler Residential in April 2001.
- (4) Represents homes placed under contract during the period, net of cancellations. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority.
- (5) Represents homes under contract but not yet closed at the end of the period. Some of these contracts are subject to contingencies, including mortgage loan approval, the sale of existing homes by customers and project approvals by the applicable government authority. In the past, backlog has been a reliable indicator of future closings, but there is no assurance that homes and lots subject to pending sales contracts will close.



**Table of Contents**

- (6) Represents lenders' profit participation in connection with participating loans.
- (7) Minority interest in income (loss) of consolidated joint ventures represents the amount of income (loss) from consolidated joint ventures that is attributable to the ownership interests of the minority joint venture partners. Western Pacific utilized joint ventures to finance specific homebuilding projects, and the minority interest in the income of these joint ventures represented a financing cost to Western Pacific.
- (8) Interest incurred consists of all interest costs, whether expensed or capitalized, including amortization of debt issuance costs.
- (9) For purposes of computing the ratio of earnings to fixed charges, earnings represent the sum of income before income taxes, interest amortized to cost of sales, interest expense, the portion of the rent expense deemed to represent interest, and income distributions from unconsolidated joint ventures reduced by income from unconsolidated joint ventures. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, and the portion of rent expense deemed to represent interest.

**Summary Selected Unaudited Pro Forma Combined Financial Data** (see page 80)

Under accounting principles generally accepted in the United States, the merger of Schuler into D.R. Horton will be accounted for under the purchase method of accounting. Accordingly, the purchase price will be allocated to the Schuler assets acquired and liabilities assumed based on their respective fair values, with the excess to be allocated to goodwill. The results of operations of Schuler will be included in the D.R. Horton statements of income from the effective date of the merger. The valuations and other studies required to determine the fair value of the Schuler assets acquired and liabilities assumed have not been performed and, accordingly, the related adjustments reflected in the unaudited pro forma combined financial information are preliminary and subject to further revisions and adjustments. The total purchase price is estimated to be \$805.2 million as of September 30, 2001, which includes the value of the cash and estimated equity consideration to be paid by D.R. Horton, estimated merger costs, and costs associated with the issuance of D.R. Horton stock options in the merger. The estimated purchase price calculation assumes that the base merger consideration for each share of Schuler common stock will include \$4.09 in cash and .487 shares of D.R. Horton common stock. This calculation is detailed in Note C(1) of the Notes to the Unaudited Pro Forma Condensed Financial Statements, contained in this Joint Proxy Statement/ Prospectus. The goodwill and other intangibles acquired, based on the excess of the purchase price over the net assets to be acquired as of September 30, 2001, is currently estimated to be \$438.1 million.

The following unaudited selected consolidated financial data are presented on a pro forma combined basis to reflect the merger of D.R. Horton and Schuler, as if the two companies had been combined on October 1, 2000 for income statement, operating and other financial data, and on September 30, 2001 for balance sheet data. This pro forma combined information is derived from the historical financial statements of D.R. Horton and of Schuler and its predecessor. The companies may have performed differently if they had actually been combined during the period presented. You should not rely on the pro forma information as being indicative of the historical results that D.R. Horton would have experienced during the period presented or of the results that D.R. Horton will experience following the merger. You should also read the audited and unaudited financial statements and related notes for D.R. Horton and Schuler, as well as the section of the D.R. Horton and Schuler annual reports entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**Table of Contents**

Discussion and Analysis of Financial Condition and Results of Operations, which are incorporated into this Joint Proxy Statement/ Prospectus by reference.

**For the Fiscal Year  
Ended September 30, 2001**

**(In millions, except for number of  
homes and per share amounts)**

**Pro Forma Combined Income Statement Data:**

Revenues	\$ 5,996.3
Income before cumulative effect of change in accounting principle	346.2
Income per share before cumulative effect of change in accounting principle:	
Basic(1)	\$ 3.63
Diluted(2)	\$ 3.57
Cash dividends declared per common share(3)	\$ 0.19
Weighted average number of shares outstanding:	
Basic(1)	95.5
Diluted(2)	97.0
<b>Pro Forma Combined Selected Operating Data:</b>	
Number of homes closed	26,625
New sales orders, net (homes)(4)	27,445
New sales orders, net (\$ value)(4)	\$ 6,013.6
Sales backlog at end of period (homes)(5)	11,265
Sales backlog at end of period (\$ value)(5)	\$ 2,509.7
<b>Pro Forma Combined Other Financial Data:</b>	
Interest expensed directly and amortized to cost of sales	\$ 170.7
Provision for income taxes	213.6
Depreciation and amortization	41.3
Interest incurred(6)	203.3
Supplemental ratio of earnings to fixed charges(7)	3.5x

**As of  
September 30, 2001**

**Pro Forma Combined Balance Sheet Data:**

Inventories	\$ 3,799.1
Total assets	5,039.3
Notes payable	2,471.2
Stockholders' equity	1,874.1
Book value per common share(8)	\$ 19.38

- (1) Pro forma combined basic income per share before cumulative effect of change in accounting principle is based upon the weighted average number of shares of D.R. Horton common stock outstanding during the year, plus the assumed issuance of 19.8 million shares of D.R. Horton common stock to be issued in the merger.
- (2) Pro forma combined diluted net income per share before cumulative effect of change in accounting principle is based upon the weighted average number of shares of D.R. Horton common stock outstanding during the year, adjusted for the effects of dilutive securities outstanding, plus the assumed issuance of 19.8 million shares of D.R. Horton common stock to be issued in the merger and the assumed dilutive effect of D.R. Horton stock options to be issued in connection with the merger.



**Table of Contents**

- (3) The pro forma combined cash dividends per share are not necessarily indicative of dividends to be paid in future periods. Future dividends will be determined by the D.R. Horton board of directors based on the earnings and financial condition of D.R. Horton and its subsidiaries, as well as other factors.
- (4) Represents pro forma combined homes placed under contract during the period, net of cancellations.
- (5) Represents pro forma combined homes under contract but not yet closed at the end of the period.
- (6) Pro forma combined interest incurred consists of all interests costs, whether expensed or capitalized, including amortization of debt issuance costs.
- (7) For purposes of computing the supplemental pro forma combined ratio of earnings to fixed charges, earnings consist of the sum of income before the cumulative effect of change in accounting principle, income taxes, interest amortized to cost of sales, interest expense, and the portion of rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, and the portion of rent expense deemed to represent interest.
- (8) Pro forma combined book value per share is computed by dividing pro forma stockholders' equity by the combined number of D.R. Horton common shares outstanding at the end of the period, plus the assumed issuance of 19.8 million shares of D.R. Horton common stock to be issued in the merger.

**Comparative Per Share Data**

The following table sets forth certain historical per share data of D.R. Horton and Schuler and combined per share data on an unaudited pro forma basis after giving effect to the merger as if it had occurred on October 1, 2000. The merger is accounted for as a purchase, assuming that D.R. Horton paid \$4.09 in cash and issued .487 shares of D.R. Horton common stock in exchange for each share of Schuler common stock outstanding. This data should be read in conjunction with the selected historical audited and unaudited financial data and the historical audited and unaudited financial statements of D.R. Horton and Schuler and the notes thereto that are incorporated herein by reference. The selected pro forma combined financial information of D.R. Horton and Schuler is derived from the unaudited pro forma combined condensed financial statements and should be read in conjunction with such unaudited pro forma statements and notes thereto included elsewhere in this Joint Proxy Statement/ Prospectus. The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined financial position or results of operations for future periods or the results that actually would have been realized had D.R. Horton and Schuler been a single entity during the periods presented.

	<b>As of and for the Fiscal Year Ended September 30, 2001</b>
<b>D.R. Horton</b>	
<b>Historical Per Share:</b>	
Income before cumulative effect of change in accounting principle:	
Basic	\$ 3.37
Diluted	3.31
Cash dividends	0.19
Book value(1)	16.26
<b>Pro Forma Combined Per Horton Share:</b>	
Income before cumulative effect of change in accounting principle:	
Basic(2)	3.63
Diluted(3)	3.57
Cash dividends	0.19
Book value(1)	19.38

**Table of Contents**

**As of and for the  
Fiscal Year Ended  
September 30,  
2001**

<b>Schuler</b>	
<b>Per Share(4):</b>	
Net income:	
Basic	\$ 2.28
Diluted	2.18
Cash dividends	
Book value(1)	10.64
<b>Pro Forma Combined Per Equivalent Schuler Share(5):</b>	
Net income:	
Basic	1.77
Diluted	1.74
Cash dividends	
Book value	9.44

- (1) Historical book value per common share is computed by dividing stockholders' equity for D.R. Horton and Schuler by the number of shares of common stock outstanding at the end of the period for D.R. Horton and Schuler, respectively. Pro forma combined book value per common share for D.R. Horton is computed by dividing pro forma combined stockholders' equity by the number of shares of D.R. Horton common stock outstanding at the end of the period plus the assumed number of shares of D.R. Horton common stock to be issued in the merger.
- (2) Pro forma combined basic income per share before cumulative effect of change in accounting principle is based upon the weighted average number of shares of D.R. Horton common stock outstanding during the year, plus the assumed number of shares of D.R. Horton common stock to be issued in the merger.
- (3) Pro forma combined diluted income per share before cumulative effect of change in accounting principle per share is based upon the weighted average number of shares of D.R. Horton common stock outstanding during the year, adjusted for the effects of dilutive securities outstanding, plus the assumed number of shares of D.R. Horton common stock to be issued in the merger and the assumed dilutive effect of D.R. Horton stock options to be issued in the merger.
- (4) Schuler historical per share information is presented on a pro forma combined basis to reflect the combined results of operations of Schuler and Western Pacific for the year ended September 30, 2001.
- (5) Pro forma combined information per equivalent Schuler share is computed by multiplying D.R. Horton's pro forma combined per share information by .487, the assumed fraction of a share of D.R. Horton common stock to be issued per share of Schuler common stock as part of the base merger consideration, based on a \$32.133 average closing price of D.R. Horton common stock. The book value per equivalent Schuler share does not include the \$4.09 per share cash consideration to be paid to the Schuler stockholders.

**Table of Contents**

The following table presents the pro forma combined information per equivalent Schuler share, assuming other average D.R. Horton common stock closing prices:

	As of and for the Fiscal Year Ended September 30, 2001		
	\$ 16.000	\$ 20.000	\$ 25.000
Assumed D.R. Horton average closing price	\$ 16.000	\$ 20.000	\$ 25.000
Fraction of a D.R. Horton share to be issued per share of Schuler common stock	.635	.570	.536
Pro Forma Combined Per Equivalent Schuler Share:			
Net income:			
Basic	\$ 2.17	\$ 2.00	\$ 1.90
Diluted	2.13	1.97	1.88
Cash dividends	0.12	0.11	0.10
Book value	10.35	9.83	9.81

**Market Price and Dividend Data**

D.R. Horton common stock is listed on the New York Stock Exchange under the symbol DHI, and Schuler Class A common stock is listed on the Nasdaq National Market under the symbol SHLR. The following table sets forth for the periods indicated the high and low sale prices of D.R. Horton common stock and Schuler Class A common stock, as reported on the New York Stock Exchange composite tape and the Nasdaq National Market Quotation System, respectively, and the cash dividends paid per share by D.R. Horton. Schuler paid no dividends during the periods indicated. D.R. Horton common stock market prices have been adjusted for D.R. Horton's 9% stock dividend of September 2000 and 11% stock dividend of March 2001. Schuler common stock market prices include prices for the common stock of Schuler Residential, Inc. through April 3, 2001, at which time Schuler completed the combination of the operations of Schuler Residential with those of Western Pacific.

Quarter Ended	D.R. Horton common stock			Schuler Class A Common Stock		
	High	Low	Dividends	High	Low	Dividends
1998	September 30	\$20.61	\$12.60	\$0.0225	\$ 9.25	\$ 6.25
	December 31	19.01	8.78	0.0225	8.00	5.88
1999	March 31	19.01	12.24	0.0300	9.00	5.88
	June 30	16.53	12.71	0.0300	8.88	5.75
	September 30	14.51	10.02	0.0300	8.00	6.00
	December 31	12.86	8.26	0.0300	7.75	6.00
2000	March 31	11.62	8.99	0.0400	6.81	5.25
	June 30	12.09	10.07	0.0400	6.69	5.56
	September 30	17.36	11.36	0.0400	12.00	5.94
	December 31	23.42	13.74	0.0400	11.50	7.75
2001	March 31	24.32	17.90	0.0500	15.25	8.06
	June 30	25.99	19.25	0.0500	18.70	10.87
	September 30	30.00	17.50	0.0500	17.10	10.06
	December 31	33.50	19.87	0.0500	20.56	10.82
2002	January 1, 2002 through January 14, 2002	33.20	29.75		20.30	18.65

On October 22, 2001, the last trading day prior to public announcement of the merger, the closing price of D.R. Horton common stock reported on the New York Stock Exchange composite tape was \$21.10 per share, and the last sale price of Schuler Class A common stock reported on the Nasdaq National Market Quotation System was \$12.00 per share.

On January 14, 2002, the closing price of D.R. Horton common stock reported on the New York Stock Exchange composite tape was \$30.58 per share, and the last sale price of Schuler Class A common stock reported on the Nasdaq National Market Quotation System was \$19.00 per share.

**Table of Contents**

**RISK FACTORS**

*Schuler and D.R. Horton stockholders should consider the following risk factors, together with the other information included and incorporated by reference in this Joint Proxy Statement/ Prospectus, in deciding whether to vote to approve the merger.*

**Risk Factors Relating to the Merger**

***Changes in the market value of D.R. Horton common stock could reduce the value received for Schuler common stock.***

Approximately three-quarters, in the aggregate, of what Schuler stockholders will receive in the merger will be D.R. Horton common stock, depending on the average closing price of D.R. Horton common stock used to calculate the merger consideration. Accordingly, the value of the merger consideration will fluctuate with the market price of D.R. Horton common stock. In addition, the actual closing price of D.R. Horton common stock on the date of the merger may be less than the 15 day average closing price used to calculate the common stock portion of the merger consideration, thereby decreasing the value that Schuler stockholders receive. Further, regardless of what the price of D.R. Horton common stock may be at the time of the merger, the price of D.R. Horton common stock could fall after the merger, particularly if a substantial number of Schuler stockholders decide to sell their D.R. Horton common stock shortly after the merger.

***A Schuler stockholder who elects to receive all cash or all D.R. Horton common stock may not receive the full amount he or she elects to receive.***

Although Schuler stockholders will have the right to elect to receive merger consideration consisting of all D.R. Horton common stock or all cash, if they elect all stock or all cash, they may instead receive a prorated combination of D.R. Horton common stock and cash, because the aggregate amount of D.R. Horton common stock and cash that Schuler stockholders can receive in the merger will be fixed. Consequently, for excess cash to be available to pay Schuler stockholders who elect all cash, some of the other Schuler stockholders must elect to receive all stock. In addition, to the extent some Schuler stockholders elect to receive all stock, thus making excess cash available, that cash is subject to reduction if there are stockholders who elect appraisal rights. For Schuler stockholders that have elected to receive all stock, excess shares of D.R. Horton common stock will only be available to the extent that other Schuler stockholders have elected to receive all cash. Finally, to retain reorganization treatment of the merger for federal tax purposes, the merger agreement provides that, if more than 50% of the total value of the merger consideration would be cash, the cash portion of the merger consideration would be decreased so that at least 50% of the total value of the merger consideration would be in stock. D.R. Horton and Schuler cannot offer any assurance as to how much excess cash or excess shares of D.R. Horton common stock will be available to satisfy fully any all cash or all stock elections. See The Merger Agreement Merger Consideration for more information.

***If D.R. Horton does not successfully integrate the Schuler operations after the merger, D.R. Horton may not realize the benefits it expects from the merger.***

If D.R. Horton is not able to effectively integrate the operations and personnel of D.R. Horton and Schuler in a timely and efficient manner, it may not realize the benefits it expects from the merger. In particular, if the integration is not successful:

D.R. Horton's costs may be higher relative to its revenues than they were before the merger;

the combined company may lose key personnel;

D.R. Horton may not be able to retain or expand Schuler's market position; or

the market price of D.R. Horton common stock may decline as a result of the merger.

**Table of Contents**

*Some of Schuler's directors have other interests that could have influenced their decision to recommend the merger to Schuler stockholders, which could reduce the value to Schuler stockholders.*

Some directors of Schuler who voted on the merger could have been more likely to vote to approve the merger agreement as a result of their personal interests in the merger. On the record date, directors of Schuler and their affiliates beneficially owned approximately 47.5% of the voting power of outstanding Schuler Class A common stock and 100% of the voting power of outstanding Schuler Class B common stock. In considering the recommendation of the Schuler board of directors to approve the merger, Schuler stockholders should recognize that some of Schuler's directors participate in arrangements and all have continuing indemnification against liabilities that provide them with interests in the merger that are different from, or are in addition to, the interests of Schuler stockholders. For example, James K. Schuler, Co-chairman, President and Chief Executive Officer of Schuler, has entered into an employment agreement with D.R. Horton providing that Mr. Schuler will become a senior vice president of D.R. Horton and president of the Schuler Homes region of D.R. Horton following the merger, although his employment agreement with D.R. Horton does contain less favorable bonus and severance provisions than his current agreement with Schuler. In addition, Eugene Rosenfeld, a director of Schuler, is a limited partner of Highridge Pacific Housing Investors, LP, and Ricardo Koenigsberger and Lee Neibart, directors of Schuler, are each limited partners of Apollo Real Estate Advisors, L.P. Highridge Pacific Housing Investors, Apollo Real Estate Advisors and other entities affiliated with Apollo have direct and indirect beneficial ownership interests in the Western Pacific parties to the agreement by which Schuler acquired the business of Western Pacific Housing in April 2001. The indemnification obligations of the parties to the Western Pacific agreement will be terminated upon consummation of the merger as contemplated by the merger agreement. Also, stock options to purchase approximately 41,000 shares of Schuler's Class A common stock held by Schuler's non-employee directors will become fully vested and exercisable immediately prior to the effective time of the merger.

**Risk Factors Relating to D.R. Horton**

The following risk factors will apply to D.R. Horton and to the combined operations of D.R. Horton and Schuler after the merger.

*Because of the cyclical nature of D.R. Horton's industry, future changes in general economic, real estate construction or other business conditions could adversely affect the business of the combined companies.*

*Cyclical Industry.* The homebuilding industry is cyclical and is significantly affected by changes in general and local economic conditions, such as:

employment levels;

availability of financing for home buyers;

interest rates;

consumer confidence; and

housing demand.

An oversupply of alternatives to new homes, such as rental properties and used homes, could depress new home prices and reduce the margins on the sale of new homes.

The terrorist attacks at the World Trade Center and the Pentagon or similar acts of violence in the future, and any corresponding responses by the United States, may adversely affect general economic conditions or worsen the current slowdown of the national economy.

*Inventory Risks.* Inventory risk can be substantial for homebuilders. D.R. Horton must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within its current markets. The risks inherent in purchasing and developing land increase as consumer demand for housing decreases. Thus, D.R. Horton may have bought and developed land on

## **Table of Contents**

which it cannot build and sell homes. As a result of its growth and acquisitions, D.R. Horton is developing more land than it has in recent years. The market value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. D.R. Horton cannot assure you that the measures employed to manage inventory risks will be successful.

In addition, inventory carrying costs can be significant and can result in losses in a poorly performing project or market. In the event of significant changes in economic or market conditions, D.R. Horton may have to sell homes at a loss.

*Supply Risks.* The homebuilding industry has from time to time experienced significant difficulties, including:

shortages of qualified trades people;

reliance on local subcontractors, who may be inadequately capitalized;

shortages of materials; and

volatile increases in the cost of materials, particularly increases in the price of lumber, framing and cement, which are significant components of home construction costs.

*Risks from Nature.* Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, floods and fires, can harm the homebuilding business. The climates and geology of many of the states in which D.R. Horton will operate after the merger, including California, Florida, Georgia, Hawaii, North Carolina, Oregon, South Carolina, Texas and Washington, present increased risks of natural disaster.

As a result of all of the foregoing, in the future, potential customers may be less willing or able to buy homes from D.R. Horton, or D.R. Horton may take longer or incur more costs to build them. D.R. Horton may not be able to recapture increased costs by raising prices in many cases because it fixed its prices up to six months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

### ***Future increases in interest rates or reductions in mortgage availability could prevent potential customers from buying homes and adversely affect the business of D.R. Horton.***

Virtually all customers finance their acquisitions through lenders providing mortgage financing. Increases in interest rates or decreases in availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing. This could adversely affect the results of operations of D.R. Horton.

In addition, D.R. Horton believes that the availability of FHA and VA mortgage financing is an important factor in marketing many of its homes. Any limitations or restrictions on the availability of such financing could adversely affect its sales.

### ***Governmental regulations could increase the cost and limit the availability of the combined companies' development and homebuilding projects and adversely affect their business.***

D.R. Horton is subject to extensive and complex regulations that affect the development and homebuilding process, including zoning, density and building standards. These regulations often provide broad discretion to the governmental authorities administering the standards. This can delay or increase the costs of development or homebuilding.

D.R. Horton also is subject to a variety of local, state and federal laws and regulations concerning protection of the environment. These environmental laws may result in delays, may cause D.R. Horton to incur substantial compliance and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas.

**Table of Contents**

***The substantial debt of D.R. Horton may adversely affect its financial health and prevent it from fulfilling its obligations under its debt arrangements.***

D.R. Horton and Schuler have a significant amount of debt. As of September 30, 2001, the pro forma consolidated debt of the two companies would have been \$2.5 billion.

*Possible Consequences.* The amount of D.R. Horton's debt after the merger could have important consequences to you. For example, it could:

limit D.R. Horton's ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;

require it to dedicate a substantial portion of its cash flow from operations to the payment on its debt and reduce its ability to use cash flow for other purposes;

limit its flexibility in planning for, or reacting to, the changes in its business;

place it at a competitive disadvantage because it has more debt than some of its competitors; and

make it more vulnerable in the event of a downturn in its business or in general economic conditions.

*Dependence on Future Performance.* The ability of D.R. Horton after the merger to meet its debt service and other obligations will depend upon its future performance. D.R. Horton is engaged in a business that is substantially affected by changes in economic cycles. Revenues and earnings vary with the level of general economic activity in the markets they serve. Its business is also affected by financial, political, business and other factors, many of which are beyond its control. The factors that affect its ability to generate cash can also affect its ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect its ability to meet its debt service obligations after the merger, because borrowings under the D.R. Horton revolving credit facility bear interest at floating rates. D.R. Horton has entered into interest rate swap agreements for only a portion of its outstanding borrowings.

*Required Refinancings.* In connection with the merger, D.R. Horton will be required to refinance the indebtedness under Schuler's revolving credit facility, under which \$47.1 million principal amount was outstanding as of September 30, 2001. In addition, the holders of \$500 million principal amount of Schuler's outstanding senior and senior subordinated notes will have the right to cause D.R. Horton to repurchase their notes at 101% of the principal amount thereof. D.R. Horton believes that its existing cash and the availability under its current revolving credit facility will be sufficient to refinance the indebtedness it may be required to refinance or repurchase as a result of the merger.

The D.R. Horton revolving credit facility matures in April 2002, and D.R. Horton is negotiating with its banks concerning a new facility. Based on these negotiations, D.R. Horton believes that the amount of the new facility will be \$810 million, including \$125 million for letters of credit. D.R. Horton believes that the initial interest rate for outstanding borrowings under the new facility will be 1.625% over LIBOR. In addition, D.R. Horton believes that it can obtain access to bridge or other financing should it be required to finance the repurchase of any of the outstanding Schuler debt.

D.R. Horton's debt payment obligations for fiscal 2002 total \$234.6 million. Had the merger taken place on September 30, 2001, D.R. Horton's pro forma combined debt payment obligations for fiscal 2002 would have totaled \$309.9 million, exclusive of any required repurchase of the outstanding Schuler senior and senior subordinated notes, of which \$500 million is outstanding as of September 30, 2001. Based on the current level of operations of D.R. Horton and Schuler, D.R. Horton believes its cash flow from operations, available cash and existing or available borrowing capacity, including borrowings under its existing or new revolving credit facility, will be adequate to meet its future liquidity needs after the merger. D.R. Horton cannot assure you, however, that in the future its business will generate sufficient cash flow from operations or that borrowings will be available to it in an amount sufficient to enable it to pay its indebtedness or to fund other liquidity needs.

## **Table of Contents**

*Indenture and Credit Facility Restrictions.* The indentures governing the outstanding public debt of D.R. Horton and Schuler and the D.R. Horton revolving credit facility impose restrictions on operations and activities. The most significant restrictions relate to debt incurrence, lien incurrence, sales of assets and cash distributions by D.R. Horton, and require it to comply with certain financial covenants. If D.R. Horton fails to comply with any of these restrictions or covenants, the trustees or the banks, as appropriate, could cause its debt to become due and payable prior to maturity. D.R. Horton anticipates that it will remain in compliance with the terms of its outstanding debt after the merger.

### ***Homebuilding is very competitive, and competitive conditions could adversely affect the business of D.R. Horton.***

The homebuilding industry is highly competitive. Homebuilders compete not only for home buyers, but also for desirable properties, financing, raw materials and skilled labor. D.R. Horton competes with other local, regional and national homebuilders, including those with a sales presence on the Internet, often within larger subdivisions designed, planned and developed by such homebuilders. The competitive conditions in the homebuilding industry could result in:

difficulty in acquiring suitable land at acceptable prices;

increased selling incentives;

lower sales or profit margins; or

delays in construction of homes.

### ***Future growth requires additional capital, which may not be available.***

The operations of D.R. Horton require significant amounts of cash. D.R. Horton will be required to seek additional capital, whether from sales of equity or debt or additional bank borrowings, for the future growth and development of its business. D.R. Horton can give no assurance as to the terms or availability of such additional capital. Moreover, the current D.R. Horton credit facility and the indentures for the outstanding debt of D.R. Horton and Schuler contain, and the new D.R. Horton credit facility will contain, provisions that may restrict the debt the combined companies may incur in the future. If D.R. Horton is not successful in obtaining sufficient capital, it could reduce sales and may adversely affect D.R. Horton's future growth and results of operations.

### ***D.R. Horton cannot assure you that its growth strategies will be successful.***

Since 1993, D.R. Horton has acquired many homebuilding companies. In addition to its internal growth, D.R. Horton is currently focusing on strategic acquisitions of homebuilding companies. Successful strategic acquisitions require the integration of operations and management and other efforts to realize the benefits that may be available. Although D.R. Horton believes that it has been successful in doing so in the past, it can give no assurance that it will continue to be able to identify and integrate future successful strategic acquisitions in the future. Moreover, D.R. Horton may not be able to implement successfully its operating and growth strategies within its existing markets.

### ***Anti-takeover defenses in D.R. Horton's charter or bylaws could prevent an acquisition of D.R. Horton or limit the price that investors might be willing to pay for shares of D.R. Horton common stock.***

D.R. Horton currently has the following provisions in its charter or bylaws which could be considered to be anti-takeover provisions:

an article in its charter prohibiting stockholder action by written consent;

an article in its charter requiring the affirmative vote of the holders of two-thirds of the outstanding shares of D.R. Horton common stock to remove a director;



## **Table of Contents**

a bylaw limiting the persons who may call special meetings of stockholders to the board of directors or a committee thereof so empowered by the D.R. Horton board, the D.R. Horton bylaws or by law; and

a bylaw providing time limitations for nominations for election to the board of directors or for proposing matters which can be acted upon at stockholders' meetings.

These provisions may have the effect of delaying stockholder actions with respect to certain business combinations and the election of new members to the board of directors. As such, the provisions could have the effect of discouraging open market purchases of D.R. Horton common stock because they may be considered disadvantageous by a stockholder who desires to participate in a business combination or elect a new director. Additionally, the issuance of D.R. Horton preferred stock under certain circumstances could have the effect of delaying or preventing a change of control or other corporate action.

D.R. Horton is a Delaware corporation and is subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an interested stockholder (defined generally as a person owning 15% or more of D.R. Horton's outstanding voting stock) from engaging in a business combination with D.R. Horton for three years following the date that person became an interested stockholder unless:

before that person became an interested stockholder, D.R. Horton's board approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;

upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of D.R. Horton outstanding at the time the transaction commenced, excluding stock held by persons who are both directors and officers of D.R. Horton or by certain employee stock plans; or

on or following the date on which that person became an interested stockholder, the business combination is approved by D.R. Horton's board and authorized at a meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock of D.R. Horton, excluding shares held by the interested stockholder.

A business combination includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder.

## **THE STOCKHOLDER MEETINGS**

We are sending you this Joint Proxy Statement/ Prospectus in order to provide you with important information regarding the merger of Schuler into D.R. Horton, and in connection with the solicitation of proxies by the respective boards of directors of Schuler and D.R. Horton for use at the meetings of stockholders described below. This Joint Proxy Statement/ Prospectus also constitutes the prospectus of D.R. Horton with respect to the shares of D.R. Horton common stock to be issued to the stockholders of Schuler in connection with the merger. It also constitutes the proxy statement for D.R. Horton's 2002 annual meeting.

### **The Schuler Special Meeting**

*Time, Place and Purpose of the Meeting.* The Schuler special meeting of stockholders is scheduled to be held on Thursday, February 21, 2002, at 9 a.m. local time, at 400 Continental Boulevard, Suite 100, El Segundo, California 90245. The only matter scheduled to come before the meeting is the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement.

Schuler knows of no other matter to be brought before the Schuler special meeting. If any other business should properly come before the Schuler special meeting, the persons named in the proxy card will vote in their discretion on such matter.

## Table of Contents

*Board of Directors Recommendation.* The board of directors of Schuler has unanimously determined that the merger is advisable, fair to and in the best interests of Schuler and its stockholders and recommends that Schuler stockholders vote **FOR** approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

*Record Date.* The Schuler board of directors has fixed the close of business on January 14, 2002, as the record date for determining the stockholders entitled to vote at the Schuler special meeting. Only holders of record of shares of Schuler Class A common stock and Class B common stock on the record date are entitled to notice of and to vote at the special meeting. On the record date, 22,352,514 shares of Schuler Class A common stock and 18,754,727 shares of Schuler Class B common stock were outstanding and entitled to vote at the Schuler special meeting.

*Quorum.* The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Schuler common stock entitled to vote is required to constitute a quorum at the Schuler special meeting. Shares represented by proxies which indicate the stockholders want to abstain will be treated as being present for the purpose of determining the presence of a quorum, but will not be voted at the stockholder meeting. If a broker indicates on a proxy that it does not have authority to vote certain shares, those shares will not be considered as present. To the extent a proxy does not indicate that a broker does not have authority to vote the shares to which the proxy relates, those shares will be considered present even if the broker states they are not to be voted with regard to the merger.

If a quorum is not present, the stockholders of record, present in person or by proxy, may adjourn the meeting without notice other than announcement made at the meeting. Any business may be transacted at an adjourned meeting which might have been transacted at the Schuler special meeting as originally called. Proxies to be voted against a specific proposal may not be used to vote for an adjournment of the special meeting for the purpose of soliciting additional votes in favor of that proposal.

*Vote Required at the Schuler Special Meeting.* The affirmative vote, in person or by proxy, of the holders as of the record date of a majority of the voting power of the outstanding shares of Schuler common stock, and the affirmative votes, in person or by proxy, of the holders as of the record date of a majority of the outstanding shares of Schuler Class A common stock and Class B common stock, each voting as a separate class, is required for the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. Abstentions and broker non-votes will have the same effect as votes against the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement. For the vote of the holders of the Class A common stock and Class B common stock as a class, the holders of Schuler Class A common stock will be entitled to one vote for each share they hold, and the holders of Schuler Class B common stock will be entitled to one-half vote for each share they hold. For the separate class votes of Class A common stock and the Class B common stock, stockholders will be entitled to one vote for each share they hold.

The James and Patricia Schuler Foundation, James K. Schuler as trustee for two family trusts, and WPH-Schuler LLC have entered into a voting agreement with D.R. Horton, pursuant to which they have agreed to vote approximately 46.0% of the voting power of the outstanding shares of Schuler common stock, representing 23.4% of the Class A common stock and 100% of the Class B common stock, in favor of the approval and adoption of the merger agreement. The James and Patricia Schuler Foundation and the two family trusts also own approximately 5,216,914 shares of Schuler Class A common stock that are not subject to the voting agreement. These shares represent approximately 16.4% of the voting power of the outstanding shares of Schuler common stock representing 23.3% of the Class A common stock. Mr. Schuler has orally informed Schuler and D.R. Horton that the foundation and the two family trusts currently intend to vote the shares not subject to the voting agreement in favor of the approval and adoption of the merger agreement.

*Stockholdings.* On the record date, Schuler's directors, executive officers and their affiliates beneficially owned approximately 10.6 million shares of Schuler Class A common stock. Of those shares, Schuler's directors, executive officers and their affiliates were entitled to vote approximately 10.5 million shares of Schuler Class A common stock, representing approximately 33.1% of the voting power of Schuler

## **Table of Contents**

common stock and 47.0% of the Class A common stock, outstanding and entitled to vote on that date. There is no agreement or arrangement regarding voting by Schuler's directors or executive officers other than as described with respect to the voting agreement. Schuler's directors, executive officers and their affiliates have orally informed Schuler and D.R. Horton that they intend to vote in favor of the merger.

### **The D.R. Horton Annual Meeting**

*Time, Place and Purpose of the Meeting.* The D.R. Horton 2002 annual meeting is scheduled to be held on Thursday, February 21, 2002, at 11:00 a.m. local time, at 1901 Ascension Blvd., Suite 100, Arlington, Texas 76006. The only matters scheduled to come before the meeting are:

the proposal to approve and adopt the merger agreement and the transactions contemplated by the merger agreement including the issuance of D.R. Horton common stock in connection with the merger;

the proposal to elect ten directors; and

the proposal to amend the D.R. Horton 1991 Stock Incentive Plan to increase the total number of shares authorized by 1,600,000 shares, with such amendment to become effective upon effectiveness of the merger.

D.R. Horton knows of no other matter to be brought before the D.R. Horton 2002 annual meeting. If any other business should properly come before the annual meeting, the persons named in the proxy card will vote in their discretion on such matter.

*Board of Directors Recommendations.* The D.R. Horton board of directors has approved the merger and the issuance of D.R. Horton common stock in connection with the merger, has determined that the merger is advisable and is in the best interests of D.R. Horton and its stockholders, and recommends that the holders of D.R. Horton common stock vote **FOR** the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement and the share issuance.

The D.R. Horton board of directors recommends that the holders of the D.R. Horton common stock vote **FOR** the election of the ten directors.

The D.R. Horton board of directors recommends that the holders of the D.R. Horton common stock vote **FOR** the amendment to the D.R. Horton 1991 Stock Incentive Plan to increase the number of shares authorized by 1,600,000 shares.

*Record Date.* The board of directors of D.R. Horton has fixed the close of business on January 14, 2002, as the record date for the determination of stockholders entitled to vote at the annual meeting or any adjournments or postponements of the annual meeting. Only holders of record of D.R. Horton common stock on the record date are entitled to notice of and to vote at the annual meeting. On the record date, 77,103,841 shares of D.R. Horton common stock were outstanding and entitled to vote at the annual meeting.

*Quorum.* The presence, in person or by proxy, of the holders of a majority of the outstanding shares of D.R. Horton common stock is required to constitute a quorum at the meeting. Shares represented by proxies which indicate the stockholders want to abstain on particular proposals will be treated as being present for the purpose of determining the presence of a quorum, but will not be voted with regard to those proposals at the annual meeting. If a broker indicates on a proxy that it does not have authority to vote certain shares, those shares will not be considered as present. To the extent a proxy does not indicate that a broker does not have authority to vote the shares to which the proxy relates, those shares will be considered present even if the broker states they are not to be voted with respect to a specific proposal.

If a quorum is not present, the stockholders present, by vote of a majority of the votes cast by stockholders who are present, in person or by proxy, may adjourn the meeting, and any business which might have been transacted at the annual meeting as originally called may be transacted at the adjourned meeting. Proxies to be voted against a specific proposal may not be used to vote for an adjournment of the annual meeting for the purpose of soliciting additional votes in favor of that proposal.

**Table of Contents**

*Vote Required at the D.R. Horton 2002 Annual Meeting.* The affirmative vote, in person or by proxy, of holders of a majority of the outstanding shares of D.R. Horton common stock is required for approval and adoption of the merger agreement and the transactions contemplated by the merger agreement and the issuance of D.R. Horton common stock in connection with the merger. The affirmative vote, in person or by proxy, of holders of a majority of the outstanding shares of D.R. Horton common stock present at the meeting is required for approval of the amendment of the D.R. Horton 1991 Stock Incentive Plan. The nominees for directors receiving a plurality of the votes cast will be elected to serve until the next annual meeting of stockholders and their successors have been elected and qualified. If any nominee is unable to serve, the proxies will be voted by the proxy holders in their discretion for another person. The board of directors has no reason to believe that any nominee named will not be able to serve as a director for his or her prescribed term.

The holders of D.R. Horton common stock will be entitled to one vote for each share they hold.

Donald R. Horton and Terrill J. Horton, as trustee for four trusts for the benefit of family members of Donald R. Horton, who are collectively the beneficial owners as of the record date of approximately 17% of the outstanding shares of D.R. Horton common stock, have entered into a voting agreement with Schuler, agreeing, among other things, to vote their shares in favor of the approval and adoption of the merger agreement and the issuance of D.R. Horton common stock in connection with the merger.

*Stockholdings.* On the record date, D.R. Horton's directors, executive officers and their affiliates beneficially owned approximately 14.0 million shares of D.R. Horton common stock. Of those shares, D.R. Horton's directors, executive officers and their affiliates were entitled to vote approximately 13.6 million shares of D.R. Horton common stock, which represented approximately 17.6% of the total amount of D.R. Horton common stock outstanding and entitled to vote on that date. There is no agreement or arrangement regarding voting by D.R. Horton's directors or executive officers other than as described in this paragraph. D.R. Horton's directors, executive officers and their affiliates have informed orally D.R. Horton and Schuler that they intend to vote their shares of D.R. Horton common stock in favor of the merger and the issuance of D.R. Horton common stock in connection with the merger.

**PROXIES**

**Proxy Cards**

The Schuler and D.R. Horton boards of directors are soliciting proxies by which holders of Schuler common stock and D.R. Horton common stock can vote on the proposals regarding the merger and the merger agreement and, in the case of D.R. Horton, its annual meeting proposals. The shares that a properly completed proxy card represents will be voted in accordance with the instructions on the proxy card. If a Schuler or D.R. Horton stockholder does not return a signed proxy card, that stockholder's shares will not be voted, and that will have the same effect as a vote against approval and adoption of the merger agreement and the transactions contemplated by the merger agreement. **Schuler stockholders do not have to make an election with respect to the merger consideration before they return their proxy card.**

You are urged to mark the box on the proxy card to indicate how your shares are to be voted.

If a Schuler stockholder returns a signed proxy card, but does not indicate how the shares are to be voted, the shares represented by the proxy card will be voted for approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

If a D.R. Horton stockholder returns a signed proxy card, but does not indicate how the shares are to be voted, the shares represented by the proxy card will be voted for:

approval and adoption of the merger agreement and the transactions contemplated by the merger agreement and the approval of the issuance of D.R. Horton common stock in connection with the merger;

**Table of Contents**

election of ten directors; and

amendment of the 1991 D.R. Horton Stock Incentive Plan.

The proxy card also authorizes the persons named on the proxy card to vote in their discretion with regard to any other matter that is properly presented for action at the applicable stockholder meeting. Either company may seek to adjourn its meeting should it determine that it should do so to solicit additional votes in favor of the merger. However, neither company will use any proxies that vote against the merger to vote for such an adjournment.

**Solicitation of Proxies**

Directors, officers and employees of Schuler and D.R. Horton may solicit proxies from their respective stockholders personally or by letter, telephone or facsimile transmission. Each company will bear the expenses of any solicitation on its behalf. Directors, officers and other employees of Schuler and D.R. Horton will not be specifically compensated for soliciting proxies. Brokerage houses and other custodians, nominees and fiduciaries will be requested to forward soliciting materials to the beneficial owners of Schuler common stock and D.R. Horton common stock owned of record by those organizations. Schuler and D.R. Horton will pay the reasonable expenses of forwarding such materials.

**How to Revoke Your Proxy**

You can revoke your proxy at any time before your proxy is voted at the applicable stockholder meeting. You can do that by:

attending the applicable stockholder meeting and voting in person;

completing, signing and mailing in or transmitting by facsimile a new proxy card (in time so that the new proxy card is received before the applicable stockholder meeting);

revoking your proxy by facsimile at (201) 296-4142 for Schuler stockholders and (718) 259-1144 for D.R. Horton stockholders; or

sending a written notice to the Corporate Secretary of Schuler or the Corporate Counsel of D.R. Horton, as appropriate, stating that you are revoking your proxy (in time so that the notice is received prior to the applicable stockholder meeting).

**To facilitate the voting process for the stockholder meetings, stockholders of Schuler and D.R. Horton will be able to submit their proxies and revoke their proxies by facsimile by the stated time of the respective stockholders meetings. Schuler stockholders will be able to submit their proxies and revoke their proxies by facsimile at the following telephone number: (201) 296-4142. D.R. Horton stockholders will be able to submit and revoke their proxies by facsimile at the following telephone number: (718) 259-1144.**

**THE MERGER**

**Background to the Merger**

In March, April and May 1999, Donald R. Horton, Chairman of the Board of D.R. Horton, and Richard Beckwitt, a director and then President of D.R. Horton, discussed with James K. Schuler, Chairman of the Board, President and Chief Executive Officer of Schuler Homes, the feasibility and possible terms of a business combination between D.R. Horton and Schuler Homes. At the time Schuler Homes had not combined with Western Pacific Housing. In such connection, Schuler Homes and D.R. Horton executed a confidentiality and standstill agreement, and D.R. Horton conducted preliminary diligence. The parties terminated discussions in May 1999 due to several factors, including then current effects of the restrictive covenants in the Schuler senior notes, Hawaiian real estate market conditions, and changes in the capital markets for homebuilding stocks.

In June 1999, Mr. Beckwitt met with Eugene S. Rosenfeld, Chief Executive Officer of Western Pacific Housing, and Craig Manchester, President of Western Pacific Housing, in California to explore the

**Table of Contents**

potential acquisition by D.R. Horton of Western Pacific Housing. The parties discussed the potential benefits of combining the two companies. After several conversations, D.R. Horton and Western Pacific Housing decided not to pursue a combination at that time.

In April 2001, the operations of Schuler Homes and Western Pacific Housing were combined. At such time Mr. Schuler became Co-Chairman, President and Chief Executive Officer of Schuler, Mr. Rosenfeld became Co-Chairman and Mr. Manchester became Executive Vice President and Chief Operating Officer. During the months immediately following, the boards of directors and managements of Schuler Homes and Western Pacific Housing focused primarily on integrating the two companies, and there were no discussions of further business combinations.

During a May 2001 homebuilding industry conference in California, representatives of several companies, including Mr. Beckwitt, approached Mr. Schuler inquiring about whether the newly-combined company would be interested in initiating discussions about further merger arrangements. Mr. Schuler responded to all such inquiries that his efforts would be focused on integration of the operations of Western Pacific Housing, rather than on further combinations.

In August 2001, representatives of Banc of America Securities met with Messrs. Horton and Beckwitt in Arlington, Texas to discuss various strategic acquisition opportunities. Messrs. Horton and Beckwitt reviewed their previous discussions with Schuler Homes and determined that Schuler continued to be a leading candidate for a strategic business combination. They discussed the feasibility of such a transaction with Banc of America Securities.

On August 15, 2001, Mr. Beckwitt telephoned Mr. Schuler to reaffirm D.R. Horton's interest in pursuing a business combination with Schuler, and Mr. Schuler agreed to a meeting on August 20, 2001.

At the regularly scheduled annual organizational board of directors meeting following the Schuler annual meeting of stockholders on August 16, 2001, Messrs. Schuler and Rosenfeld informed the Schuler board that three large publicly-held homebuilders, including D.R. Horton, had expressed an interest in a business combination with Schuler through direct conversation with Messrs. Schuler and Rosenfeld and/or through conversations with representatives of UBS Warburg. The Schuler board authorized Messrs. Schuler and Rosenfeld to further explore these expressions of interest so long as the price being offered provided a substantial premium to Schuler's then-current stock price. Schuler engaged UBS Warburg to act as financial advisor to Schuler to analyze its business and strategic alternatives.

Beginning on August 17, 2001, UBS Warburg, in consultation with Messrs. Schuler and Rosenfeld, held a series of preliminary discussions with each of these potential strategic partners. Craig A. Manchester, Executive Vice President of Schuler Homes, participated in meetings with one of the potential strategic partners. Each of these companies was advised that the Schuler board was seeking non-binding indications of interest by a deadline of August 24, 2001. This deadline was later extended to August 28, 2001.

On August 20, 2001, Messrs. Horton, Beckwitt, Schuler and Rosenfeld met in Seattle. They discussed the operating results of D.R. Horton and Schuler and the potential benefits that could be realized by combining the two companies. Messrs. Schuler and Rosenfeld stated that the Schuler board would not consider any transaction that did not provide stockholders with a significant premium to Schuler's market price. Messrs. Horton and Beckwitt stated that D.R. Horton was interested in a transaction with a significant stock component. Messrs. Schuler and Rosenfeld suggested that any proposal should include a mechanism to protect the Schuler stockholders for movements in D.R. Horton's stock price. During the meeting, the participants also discussed possible board representation and employment and management issues. Mr. Schuler advised that Schuler was speaking with other potentially interested parties and that the Schuler board would like to receive a written non-binding indication of interest from D.R. Horton by August 24, 2001. D.R. Horton did not make a proposal for a combination at the meeting.

On August 21, 2001, D.R. Horton entered into a confidentiality and standstill agreement with Schuler, in which the parties agreed to keep confidential any information exchanged by them. The companies began exchanging financial and operational information. Between August 22 and August 24,

**Table of Contents**

2001, Messrs. Horton, Beckwitt, Donald J. Tomnitz, Vice Chairman, President and Chief Executive Officer of D.R. Horton, and others at D.R. Horton worked to review potential deal structures, valuations, and the strategic benefits of the combination. They were assisted by representatives of Banc of America Securities. During this period, Messrs. Schuler and Rosenfeld, representatives of UBS Warburg and Mr. Beckwitt discussed various matters, including structure and diligence matters, that could affect the indication of interest being prepared by D.R. Horton.

On August 24, 2001, D.R. Horton submitted to UBS Warburg a non-binding indication of interest to acquire Schuler in a merger transaction in which Schuler stockholders would receive a combination of cash and Horton common stock valued at between \$18.04 and \$19.95 per share through a collar mechanism based on the average sales price of D.R. Horton common stock. The proposal included a cash component of \$7.50 per share and an exchange ratio that, at its midpoint, was .479 shares of D.R. Horton common stock for each outstanding Schuler share. As of August 24, 2001, the proposal reflected a valuation of \$19.19 per share, representing a 36% premium over the then last sales price of the Schuler Class A common stock. The indication of interest provided for a seat on the D.R. Horton board for Mr. Schuler. It also provided for a break-up fee and agreements from Schuler's principal stockholders to vote in favor of the merger. On that day, Mr. Beckwitt also reviewed the proposal with Mr. Schuler and representatives of UBS Warburg in separate conversations.

On August 25, 2001, Mr. Schuler and Mr. Beckwitt spoke by telephone concerning D.R. Horton's indication of interest. Mr. Schuler advised that Schuler and its financial advisors would have comments on it. Mr. Schuler informed Mr. Beckwitt that Schuler intended to hold a board meeting by August 28, 2001 to review the expected indications of interest.

On August 27, 2001, Mr. Beckwitt spoke by telephone with representatives of UBS Warburg to clarify the terms of the D.R. Horton indication of interest. The participants discussed the pricing collar for the stock portion of the proposed merger consideration, the treatment of outstanding options, the proposed break-up fee and the proposed voting agreements. The UBS Warburg representatives sought assurances of D.R. Horton's ability to finance the transaction, a break-up fee from D.R. Horton and increased board representation. The UBS Warburg representatives advised that Schuler was waiting for additional proposals and requested more time to receive and consider them. Later that day Messrs. Horton and Beckwitt discussed the UBS Warburg conversation with representatives of Banc of America Securities. Mr. Beckwitt then had separate telephone conversations with Mr. Schuler and representatives of UBS Warburg to inform them that D.R. Horton was prepared to pursue other opportunities and would withdraw its proposal if D.R. Horton did not have a response to its indication of interest by the extended deadline of August 28, 2001.

On August 27, 2001, the board of directors of Schuler met to review the status of discussions about a potential business combination with Schuler legal and financial advisors and to address other unrelated business. Prior to the meeting, UBS Warburg distributed materials to the board of directors regarding current valuations of homebuilding companies and premium values paid in acquisition situations. Representatives of UBS Warburg informed the board of directors that one potential suitor had withdrawn from further discussions, that D.R. Horton had submitted a written indication of interest and that discussions were still proceeding with another potentially interested party. The UBS Warburg representatives then reviewed for the board the basic terms of the D.R. Horton proposal, and the Schuler board authorized UBS Warburg to proceed with negotiating several aspects of the D.R. Horton proposal.

On August 28, 2001, representatives of UBS Warburg had a telephone conversation with Mr. Beckwitt. During the conversation, the UBS Warburg representatives advised that Schuler would be interested in moving forward with a combination if the price were increased and other adjustments made to the D.R. Horton proposal. They asked that the stock component of the merger consideration be increased. They requested an increase to .485 shares from .479 shares at the midpoint of the exchange ratio collar, for D.R. Horton stock prices of between \$22 and \$26 per share. They also requested a reduced break-up fee, voting agreements from the D.R. Horton insiders and a break-up fee from D.R. Horton.

**Table of Contents**

Also on August 28, 2001, after reviewing the UBS Warburg requests with Mr. Horton, Mr. Beckwitt telephoned the UBS Warburg representatives. In response to the Schuler proposal, Mr. Beckwitt proposed an increase in the midpoint for the exchange ratio to .481 shares of D.R. Horton common stock. He requested, however, a 30-day exclusivity period and related break-up fee to allow D.R. Horton to complete its diligence of Schuler, to permit the negotiation of a definitive merger agreement and to obtain the required board approvals. D.R. Horton's revised proposal provided for merger consideration in the range of \$18.08 and \$20.01 per share, payable in cash and shares of D.R. Horton common stock depending upon the average closing price of D.R. Horton's common stock. The proposed merger consideration consisted of approximately 60% stock and 40% cash. If the requisite average stock price had been the closing price of D.R. Horton's common stock on August 28, 2001, the merger consideration would have reflected a valuation of \$19.01 for each share, representing a 38% premium over the last sales price of Schuler Class A common stock. Inasmuch as the final potential bidder had not submitted a written proposal by the extended August 28, 2001 deadline, the UBS Warburg representatives were authorized to advise D.R. Horton that the proposed increase and an exclusivity period were acceptable. On August 29, 2001, with many of the key terms of the D.R. Horton proposal having been negotiated to the satisfaction of Messrs. Schuler and Rosenfeld, Schuler executed an agreement to negotiate exclusively with D.R. Horton through September 24, 2001.

On August 31, 2001, a meeting of the board of directors of D.R. Horton was held. At the meeting, Messrs. Horton and Beckwitt reviewed the proposed Schuler transaction with the board. Mr. Beckwitt also reviewed the then current state of diligence regarding the Schuler operations and financial condition. It was the consensus of the board that diligence and discussion of the terms of the transaction should continue. D.R. Horton counsel subsequently prepared and sent to Schuler, its bankers and its counsel an initial draft of the merger agreement.

On September 4, 2001, Messrs. Beckwitt, Schuler and Rosenfeld, together with representatives of Banc of America Securities and UBS Warburg and counsel for D.R. Horton and Schuler, met in Los Angeles to discuss the initial draft of the merger agreement and other terms of D.R. Horton's proposal. The Schuler representatives asked that D.R. Horton consider adding a cash election feature as part of the merger consideration. The participants discussed Schuler's right to terminate in the event of a significant decline in D.R. Horton's stock price, other Schuler termination rights, the treatment of outstanding stock options, break-up fees, the proposed lock-up periods for insiders, the proposed voting agreements and a request for the termination of indemnification obligations under the Schuler/ Western Pacific Housing reorganization agreement. The participants agreed that Schuler should have a termination right if the D.R. Horton average stock price used to calculate the stock portion of the merger consideration declined to \$17.25 per share. The participants also discussed treatment of Schuler employees in the transaction.

During the remainder of the week of September 3, 2001, the parties conducted financial, operational and legal due diligence. On September 7 and 8, 2001, Messrs. Horton, Tomnitz and Beckwitt met in Arlington, Texas with Messrs. Schuler, Rosenfeld and Manchester and representatives of Banc of America Securities and UBS Warburg. The participants discussed operating results and plans, including projected results, corporate structure, employment arrangements and severance and other matters of diligence.

On September 10, 2001, the Schuler board of directors met to review the status of the ongoing merger discussions with D.R. Horton. Representatives of UBS Warburg and legal counsel to Schuler were present at the meeting to provide an update and to answer questions. Prior to the meeting, a descriptive analysis of the transaction and the draft merger agreement had been distributed to the directors. The board discussed with its advisors various elements of the proposed transaction, including the consideration, the proposed cash/ stock election mechanism, the size of the proposed break-up fee and the cultural fit of the two companies.

During the weeks of September 10, 17 and 24, 2001, the diligence of the parties continued. On September 12, 2001, legal counsel for Schuler submitted requested changes to the draft merger agreement. However, discussions ceased following the terrorist attacks in New York and Washington, D.C. on September 11, 2001 and the resulting turmoil and market volatility. On September 19, 2001, D.R. Horton



**Table of Contents**

and Schuler agreed to the extension of the exclusivity period from September 24 to October 9, 2001, to allow each company to assess the effects of the September 11 events on their businesses and the proposed merger.

On September 19, 2001, following the telephonic conversation with Mr. Beckwitt, during which they agreed to extend D.R. Horton's exclusivity period, Messrs. Schuler and Rosenfeld convened a meeting with Schuler's legal counsel and representatives of UBS Warburg to discuss the impact of the terrorist attacks on the merger proposal as a result of the decline in the stock prices of homebuilders, including D.R. Horton and Schuler following the September 11 events.

During the weeks of September 24 and October 1, 2001, Messrs. Horton, Tomnitz and Beckwitt reviewed the proposed transaction in the light of the events of September 11 and their aftermath. They consulted with representatives of Banc of America Securities concerning a revised proposal.

On October 4, 2001, Mr. Beckwitt had telephone conversations with Mr. Schuler and representatives of UBS Warburg concerning restructuring the proposed transaction. He advised them that D.R. Horton would require the merger consideration to be adjusted in light of the September 11 events. During these conversations the participants discussed changes in business and market conditions after September 11. Mr. Beckwitt proposed a reduction in the aggregate merger consideration and an increase in the stock component of the merger consideration. He proposed a combination of 25% in cash and 75% in stock valued at between \$14.88 and \$17.11 per share through a collar mechanism based on the average price of D.R. Horton common stock. The cash component was \$4.00 per share, and the exchange ratio was .558 shares of D.R. Horton common stock at its midpoint, for D.R. Horton average stock prices of from \$19.50 to \$23.50. The proposal included a termination right for Schuler at a D.R. Horton stock price below \$15.00.

On October 5, 2001, representatives of UBS Warburg telephoned Mr. Beckwitt and made a counterproposal. They proposed an increase in the merger consideration from D.R. Horton's revised proposal by increasing the cash component to \$4.70 per share. They also proposed an adjustment to the upper range of the collar to provide more value to Schuler stockholders in the event of an increase in D.R. Horton's average stock price and a termination right if D.R. Horton's average stock price were below \$16.00.

On October 9, 2001, Messrs. Horton and Beckwitt spoke by telephone first with a representative of UBS Warburg, and then with Messrs. Schuler and Rosenfeld, about the Schuler counterproposal. Messrs. Horton and Beckwitt proposed a cash component of \$4.09 and an exchange ratio, with a midpoint at .570, and collar as described in THE MERGER AGREEMENT Merger Consideration. They also accepted the request for a Schuler termination right at a D.R. Horton stock price below \$16.00. As of that date, the proposal reflected a valuation of \$16.41 per share, representing a 33% premium over the then last sales price of the Schuler Class A common stock. After discussion, Messrs. Schuler and Rosenfeld advised that they would be willing to recommend the revised proposal to the Schuler board.

On October 9, 2001, the exclusivity agreement between D.R. Horton and Schuler expired. On October 10, 2001, D.R. Horton counsel distributed a revised draft of the merger agreement. The draft included a cash election feature for the merger consideration in response to a request from Schuler representatives.

Beginning on October 12 through October 22, 2001, representatives of D.R. Horton and Schuler and their counsel and financial advisors negotiated various provisions of the merger agreement and related documentation, including the size of the break-up fee, the circumstances under which Schuler would be permitted to discuss superior proposals from third parties and the terms of the proposed voting agreements. During this period the parties continued their diligence. On October 15, 2001, Messrs. Tomnitz, Beckwitt, Schuler and Rosenfeld met in Los Angeles to discuss management structure, Mr. Schuler's employment contract, Mr. Rosenfeld's consulting agreement, Mr. Manchester's employment contract, and severance arrangements. On October 16, 2001, Mr. Beckwitt, representatives of Banc of America Securities and UBS

**Table of Contents**

Warburg and others met in Los Angeles to update diligence reviews. On October 17, 2001, Mr. Beckwitt spoke with Mr. Manchester to discuss his employment arrangements.

On October 18, 2001, the board of directors of D.R. Horton met. At the meeting, Messrs. Horton and Beckwitt reviewed the state of the due diligence investigation, the financing required for the transaction and the revised terms of the transaction. At the meeting, Mr. Tomnitz also reported on the recent operating results of D.R. Horton and its financial position. Mr. Horton advised that diligence was nearing completion and that final approval would require the report of Banc of America Securities, its fairness opinion and completion of a definitive merger agreement. The board decided to meet again on October 22, 2001 to consider the transaction further.

On October 19, 2001, in a telephone conversation, Mr. Beckwitt and representatives of UBS Warburg agreed on a break-up fee and limited expense reimbursements in connection with specified terminations of the merger agreement. From October 19 through 22, 2001, representatives of and counsel for D.R. Horton and Schuler negotiated the outstanding issues concerning the merger agreement and the related documents, including the terms of the voting agreements, the employment agreements, the non-competition covenants, and the termination of the Schuler/Western Pacific Housing reorganization agreement.

On October 22, 2001, the Schuler board of directors held a special meeting at which management of Schuler, together with Schuler's financial and legal advisors, reviewed the terms and conditions of the proposed merger. Representatives of UBS Warburg made a detailed financial presentation and rendered its oral opinion, subsequently confirmed in writing, to the effect that, based on and subject to the matters described in its written opinion, as of the date of the opinion the merger consideration to be received by the stockholders of Schuler in the merger transaction with D.R. Horton is fair from a financial point of view. Legal counsel to Schuler reviewed with the board the terms and conditions of the merger agreement and the legal duties and responsibilities of the Schuler board of directors in connection with the merger. The board was also advised of the interests of certain directors and executive officers in the transaction that were in addition to the interests of other stockholders. The board of directors, after extended discussion, unanimously determined that the merger agreement was fair to and in the best interests of Schuler and its stockholders and recommended that the stockholders of Schuler vote in favor of approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.

On October 22, 2001, the D.R. Horton board of directors met to consider the proposed merger. Messrs. Horton and Beckwitt, together with other senior management, D.R. Horton's legal advisors and its financial advisors made presentations and reviewed the matters set forth under Recommendations of the D.R. Horton Board of Directors; D.R. Horton's Reasons for the Merger. Counsel reviewed the terms of the merger agreement with the directors. Representatives of Banc of America Securities made an oral presentation to the D.R. Horton board of its financial analyses described under Opinion of D.R. Horton's Financial Advisor and rendered its oral opinion, confirmed by subsequent written opinion dated October 22, 2001, that, as of such date, the consideration to be paid by D.R. Horton in the merger was fair from a financial point of view to D.R. Horton. D.R. Horton's advisors and management answered director questions with regard to the presentations and the terms of the transaction. After discussion and consideration, the D.R. Horton board voted unanimously to approve the merger and the merger agreement and to recommend adoption of the merger agreement to the D.R. Horton stockholders.

On the morning of October 23, 2001, prior to the opening of the markets, D.R. Horton and Schuler completed execution of the merger agreement, the voting agreements and related documents and publicly announced that they had entered into a definitive agreement to effect the merger.

**Recommendation of the Schuler Board of Directors; Schuler's Reasons for the Merger**

At its meeting on October 22, 2001, the Schuler board of directors unanimously determined that the terms of the merger agreement are advisable, fair to and in the best interests of Schuler and its stockholders and recommended that the stockholders of Schuler vote for approval and adoption of the merger agreement. During the course of its deliberations, the Schuler board of directors considered, with

**Table of Contents**

the assistance of management and its financial and legal advisors, a number of factors. The following discussion of the factors considered by the Schuler board of directors in making its decision includes all material factors considered by the Schuler board of directors.

Among the factors the Schuler board of directors considered in deciding to approve the merger are the following:

historical information regarding the respective businesses, prospects, financial performances and conditions, operations, management and competitive positions of D.R. Horton and Schuler;

current information with respect to Schuler common stock and D.R. Horton common stock, including financial market conditions and historical market prices, volatility and trading;

Schuler's business, operations, financial condition and prospects if it were to remain independent, and the prospects of gaining additional flexibility to obtain capital to facilitate the growth of its business through a merger with D.R. Horton;

the board's analysis of the current state of the homebuilding industry generally, which has experienced increased consolidation and competition;

the merger consideration to be received by Schuler stockholders in the merger represented a significant premium over the market price of Schuler stock before the merger announcement;

the terms and conditions of the merger agreement, including the parties' representations, warranties and covenants, termination provisions and the conditions to their respective obligations;

the terms of the merger agreement regarding the right of Schuler to consider and negotiate an alternative transaction, as well as the possible effects of the provisions regarding termination fees;

the structure of the merger, which would permit Schuler stockholders to exchange their shares of Schuler common stock for D.R. Horton common stock in a transaction that is intended to be tax-free for United States federal income tax purposes, except to the extent of any cash received;

the fact that the market prices of some of Schuler's peer public homebuilders' stock have greater earnings per share multiples, due in part to greater market capitalization and trading volume;

the fact that Schuler stockholders will be able to participate in any future growth of Schuler through their ownership of D.R. Horton common stock, while those Schuler stockholders who do not wish to own D.R. Horton common stock will have the opportunity to elect to receive cash, subject to an aggregate limit on the amount of cash payable to Schuler stockholders, or to sell D.R. Horton common stock received in the merger in the ensuing months, subject to the volume and manner-of-sale restrictions applicable to some stockholders under the federal securities laws;

the presentation and oral opinion of UBS Warburg, which was later confirmed in writing;

the fact that Schuler can terminate the merger agreement without penalty (but subject to D.R. Horton's right to increase the merger consideration to not less than \$14.25 per share of Schuler common stock) if the average closing price of D.R. Horton common stock for the 15 trading days ending on, and including, the third trading day prior to the Schuler stockholder meeting is less than \$16.00;

the fact that James K. Schuler will be appointed to the D.R. Horton board of directors;

the directors' fiduciary duties under Delaware law to Schuler's stockholders;

the directors' assessment of Schuler's other strategic alternatives to enhance stockholder value and whether the merger was more attractive than such alternatives;

the percentage of the total outstanding shares of D.R. Horton common stock that former Schuler stockholders will own following the merger based on the stock component of the base merger consideration;



**Table of Contents**

whether the combination with D.R. Horton presents opportunities to create greater economies of scale, by combining management and human resources, market position and purchasing power; and

the significant product and geographic diversification of the combined companies.

The Schuler board of directors also considered a number of potentially negative factors relating to the merger, including:

the risk that the potential benefits sought in the merger might not be fully realized;

the fact that Schuler will no longer be an independent company;

the risks associated with the fluctuations in the price of Schuler common stock and D.R. Horton common stock prior to the closing of the merger and the effect that such fluctuations might have on the number of shares of D.R. Horton common stock that Schuler stockholders will receive in the merger;

the challenges of integrating the management teams, strategies, cultures and organizations of the two companies;

the fact that Eugene S. Rosenfeld and possibly other members of senior management would not continue with Schuler after consummation of the merger;

the impact of the merger on Schuler's employees, customers, communities and suppliers and how such impact might affect stockholder value of the combined company;

the possible distraction of management from day-to-day operations; and

other applicable risks described in the section captioned Risk Factors.

The members of the Schuler board of directors believed that these risks were outweighed by the potential benefits of the merger.

The above discussion is not exhaustive of all factors considered by the Schuler board of directors. Each member of the Schuler board of directors may have considered different factors and may have assigned different relative weights to the factors considered. In addition, the Schuler board of directors did not quantify or reach any specific conclusion with respect to each of the factors considered, or any aspect of any particular factor. Instead, the Schuler board of directors conducted an overall analysis of the factors described above.

**Based on the considerations described above, the Schuler board of directors has unanimously determined that the merger agreement is advisable, fair to and in the best interests of Schuler and its stockholders and recommends that Schuler stockholders vote FOR approval and adoption of the merger agreement and the transactions contemplated by the merger agreement.**

**Recommendations of the D.R. Horton Board of Directors; D.R. Horton's Reasons for the Merger**

The D.R. Horton board of directors believes the merger of Schuler and D.R. Horton on the terms contained in the merger agreement is advisable and is in the best interests of D.R. Horton and its stockholders. Accordingly, at its meeting on October 22, 2001, D.R. Horton's board of directors unanimously approved the transaction and recommended that holders of D.R. Horton common stock vote to approve and adopt the merger agreement and the transactions contemplated by the merger agreement and the issuance of D.R. Horton common stock in connection with the merger.

D.R. Horton believes the merger will:

strengthen D.R. Horton's current market position while expanding its geographic presence and product offerings in key markets in the Western part of the United States;

reduce D.R. Horton's cost of goods sold as a result of increased volume and purchasing power;

eliminate redundant costs associated with maintaining two public companies;



**Table of Contents**

expand mortgage and title services in new and existing markets due to increased home sales volumes;

expand product offerings to maximize inventory turns in common markets; and

reduce borrowing costs associated with Schuler's business, due to D.R. Horton's lower cost of capital.

Based on a review of public filings made with the SEC, D.R. Horton believes a combined D.R. Horton and Schuler would have been the nation's second largest homebuilder for the latest 12 months ended September 30, 2001 based on the number of homes closed. On a combined pro forma basis, D.R. Horton and Schuler would have reported revenues of \$6.0 billion and delivered 26,625 homes for the year ended September 30, 2001, and would have the largest backlog of homes under contract in the industry.

In deciding to approve the acquisition of Schuler, the D.R. Horton directors considered the items described above and a number of other factors, including:

the size and market position of the combined company;

the resulting expansion of D.R. Horton's homebuilding business in current markets and into new growth markets, including achieving the leading market positions in Southern California, Denver and Portland;

the addition of an experienced management team with local market expertise;

the addition of strong land positions in several markets;

the conservative operating strategy of Schuler and its corporate culture that is similar to D.R. Horton's;

Schuler's proven record of profitability;

the structure of the transaction, including the balance of cash and equity consideration and the expected accretive effect on earnings;

the terms and conditions of the merger agreement; and

the presentations and advice of its senior management, advisors and legal counsel, as discussed below.

The D.R. Horton board also considered potentially negative factors relating to the merger, including:

the increased financial leverage of the combined company;

the challenges of integrating the management, operations and cultures of the companies;

the risk that operational savings from synergies may not be achieved; and

the uncertainty of current general economic conditions.

The above discussion is not intended to be exhaustive of the factors considered by the D.R. Horton board but includes all material factors considered. Each member of the D.R. Horton board of directors may have considered different factors, and the D.R. Horton board of directors evaluated these factors and did not quantify or otherwise assign relative weights to factors considered. In addition, the D.R. Horton board of directors did not reach any specific conclusion with respect to each of the factors considered or any aspect of any particular factor. Instead, the D.R. Horton board of directors conducted an overall analysis of the factors described above.

**Based on the considerations described above, the D.R. Horton board of directors has determined that the merger is advisable and is in the best interests of D.R. Horton and its stockholders, has unanimously approved the merger and the issuance of D.R. Horton common stock in connection with the**





**Table of Contents**

merger and recommends that D.R. Horton's stockholders vote FOR the approval and adoption of the merger agreement and the transactions contemplated by the merger agreement and the share issuance.

**Exchanged Information**

In connection with their diligence of each other D.R. Horton and Schuler exchanged internal financial projections of future economic performance that were prepared by their respective managements. The information was provided by the companies to their respective financial advisors, and the information was used by their financial advisors in the financial analyses they presented to the D.R. Horton and Schuler boards of directors. Following are summaries of the D.R. Horton and Schuler internal financial projections that were shared by D.R. Horton and Schuler and presented to the D.R. Horton and Schuler boards of directors by their financial advisors.

	D.R. Horton exchanged internal projections for the fiscal year ended September 30,		D.R. Horton exchanged internal projections for the year ended December 31,	
	2002	2003	2001	2002
	(In millions)		(In millions, except per share data)	
Revenues	\$ 5,099.4	\$ 5,767.4	\$ 4,549.5	\$ 5,367.0
EBITDA	682.0	769.0	596.4	709.9
Net income	311.1	362.4	274.3	328.7
Diluted earnings per share	3.96	4.60	3.54	4.18

D.R. Horton calculated EBITDA as the sum of income before income taxes, interest amortized to cost of sales, interest expense, depreciation and amortization.

	Schuler exchanged internal projections for the fiscal year ended March 31,		Schuler exchanged internal projections for the year ended December 31,	
	2002	2003	2001	2002
	(In millions)		(In millions)	
Revenues	\$ 1,720.0	\$ 1,958.7	\$ 1,593.6	\$ 1,873.4
EBITDA	248.7	281.7	247.7	270.7
Net income	105.0	127.4	100.0	120.2
Diluted earnings per share	2.52	3.11	2.37	2.93

Schuler calculated EBITDA as the sum of income before income taxes, interest amortized to cost of sales, interest expense, depreciation, amortization, lenders' profit participation, minority interest in income of consolidated joint ventures and subsidiary, inventory impairment losses, and other non-cash charges.

Neither D.R. Horton nor Schuler as a matter of course make public any estimates as to their respective future operating performance or earnings. These financial projections were provided as a part of the companies' diligence and their respective ongoing dialogues with their financial advisors for purposes of their analyses, and they were not prepared with a view toward public disclosure. The D.R. Horton and Schuler financial projections depend on future performance and numerous other factors, including those set forth under the heading "Risk Factors" and elsewhere in the periodic reports D.R. Horton and Schuler file with the SEC, and in this Joint Proxy Statement/Prospectus. Achievement of these projections is dependent on, among other things, the strength of new home markets, general economic conditions, fluctuations in interest rates, changes in costs of materials, supplies and labor and general competitive conditions. D.R. Horton and Schuler disclaim any duty to update these projections and make no representations as to whether such projections will be achieved or otherwise. Neither the D.R. Horton nor the Schuler projections addressed the opportunities or costs of the merger.



**Table of Contents**

**Opinion of Schuler's Financial Advisor**

On October 22, 2001, at a meeting of Schuler's board of directors held to evaluate the terms of the proposed merger, UBS Warburg LLC delivered to the board an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to the effect that, as of that date and based upon and subject to various assumptions, matters considered and limitations described in the opinion, the merger consideration calculated pursuant to the merger agreement, consisting as of that date of (x) \$4.09 in cash and (y) 0.570 shares of D.R. Horton common stock per share of Schuler common stock, to be received by holders of Schuler's common stock in the merger is fair, from a financial point of view. The stock component of the merger consideration is subject to adjustment pursuant to a formula in the merger agreement.

**The full text of UBS Warburg LLC's opinion describes, among other things, the assumptions made, procedures followed, matters considered and limitations on the review undertaken by UBS Warburg LLC. This opinion is attached as Annex II to this Joint Proxy Statement/ Prospectus and is incorporated into this Joint Proxy Statement/ Prospectus by reference. Holders of Schuler common stock are encouraged to read this opinion carefully in its entirety. References to the UBS Warburg LLC opinion in this Joint Proxy Statement/ Prospectus and the summary of UBS Warburg LLC's opinion described below are qualified in their entirety by reference to the full text of its opinion.**

In arriving at its opinion, UBS Warburg LLC has, among other things:

reviewed certain publicly available business and historical financial information relating to Schuler and D.R. Horton;

reviewed certain internal financial information and other data relating to the business and financial prospects of Schuler, including estimates and financial forecasts prepared by the management of Schuler and not publicly available;

reviewed certain internal financial information and other data relating to the business and financial prospects of D.R. Horton, including estimates and financial forecasts prepared by the management of Schuler and D.R. Horton and not publicly available;

conducted discussions with members of the senior management of Schuler and D.R. Horton;

reviewed publicly available financial and stock market data with respect to certain other companies in lines of business UBS Warburg LLC believes to be generally comparable to those of D.R. Horton and Schuler;

compared the financial terms of the merger with the publicly available financial terms of certain other transactions which UBS Warburg LLC believes to be generally relevant;

considered certain pro forma effects of the merger on D.R. Horton's financial statements prepared by the managements of Schuler and D.R. Horton;

reviewed the final draft of the merger agreement; and

conducted other financial studies, analyses and investigations, and considered other information, as UBS Warburg LLC deemed necessary or appropriate.

In connection with UBS Warburg LLC's review, at the direction of Schuler, UBS Warburg LLC has not assumed any responsibility for independent verification of any of the information reviewed by UBS Warburg LLC for the purpose of its opinion and has, with Schuler's consent, relied on its being complete and accurate in all material respects. In addition, at Schuler's direction, UBS Warburg LLC has not made any independent evaluation or appraisal of any of the assets or liabilities, contingent or otherwise, of Schuler or D.R. Horton, nor has UBS Warburg LLC been furnished with any evaluation or appraisal.

With respect to the financial forecasts, estimates, and pro forma effects, UBS Warburg LLC has assumed, at Schuler's direction, that they have been reasonably prepared on a basis reflecting the best currently available estimates and judgments of the management of each company as to the future

**Table of Contents**

performance of their respective companies. UBS Warburg LLC has also assumed, with Schuler's consent, that the transaction will qualify as a tax-free reorganization for U.S. federal income tax purposes. UBS Warburg LLC also has assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any material adverse effect on Schuler, D.R. Horton or the merger. The UBS Warburg LLC opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to it as of, the date of its opinion.

The UBS Warburg LLC opinion did not address Schuler's underlying business decision to effect the merger and did not constitute a recommendation to any Schuler stockholder as to how such stockholder should vote with respect to the merger. UBS Warburg LLC was not asked to, and it did not, offer any opinion as to the material terms of the merger agreement or the form of the merger.

In rendering its opinion, UBS Warburg LLC assumed, with Schuler's consent, that the final executed form of the merger agreement does not differ in any material respect from the draft that UBS Warburg LLC examined, and that Schuler and D.R. Horton will comply with all the material terms of the merger agreement. UBS Warburg LLC expressed no opinion as to what the value of D.R. Horton common stock will be when issued pursuant to the merger or the price at which D.R. Horton common stock will trade or otherwise be transferable subsequent to the merger. Except as described above, Schuler imposed no other instructions or limitations on UBS Warburg LLC with respect to investigations made or procedures followed by UBS Warburg LLC in rendering its opinion.

In connection with rendering its opinion to the Schuler board of directors, UBS Warburg LLC performed a variety of financial and comparative analyses, which are summarized below. The following summary is not a complete description of all of the analyses performed and factors considered by UBS Warburg LLC in connection with its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the analyses of selected publicly traded companies and selected transactions summarized below, no company or transaction used as a comparison is either identical or directly comparable to Schuler, D.R. Horton or the merger. These analyses necessarily involve complex merger considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

UBS Warburg LLC believes that its analyses and the summary below must be considered as a whole and that selecting portions of its analysis and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying UBS Warburg LLC's analyses and opinion. None of the analyses performed by UBS Warburg LLC was assigned greater significance by UBS Warburg LLC than any other. UBS Warburg LLC arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole. UBS Warburg LLC did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis.

The estimates of Schuler's and D.R. Horton's future performance provided by the managements of Schuler and D.R. Horton in or underlying UBS Warburg LLC's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, UBS Warburg LLC considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of Schuler and D.R. Horton. Estimates of the financial value of companies do not necessarily purport to be appraisals or reflect the prices at which companies actually may be sold.

The merger consideration provided for in the merger was determined through negotiation between Schuler and D.R. Horton, and the decision by Schuler to enter into the merger was solely that of the Schuler board of directors. UBS Warburg LLC's opinion and financial analyses were only one of many factors considered by the Schuler board of directors in its evaluation of the merger and should not be viewed as determinative of the views of the Schuler board of directors or management with respect to the merger or the merger consideration.

**Table of Contents**

The following is a brief summary of the material financial analyses performed by UBS Warburg LLC and reviewed with the Schuler board of directors in connection with its opinion dated October 22, 2001. **The financial analyses summarized below include information presented in tabular format. In order to fully understand UBS Warburg LLC's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of UBS Warburg LLC's financial analyses.**

**Historical Stock Trading Analysis**

To provide contextual and comparative market data, UBS Warburg LLC examined the history of the trading prices for the shares of Schuler common stock in relation to a homebuilder index consisting of Beazer Homes USA, Inc., Centex Corporation, Lennar Corporation, M.D.C. Holdings, Inc., Pulte Homes, Inc., The Ryland Group, Inc., Standard Pacific Corporation and Toll Brothers, Inc. The trading performance of Schuler common stock, on an indexed basis, based on closing prices, out-performed the index defined above since January 1, 2001. UBS Warburg LLC noted that over the last twelve months, Schuler common stock had a high of \$17.06, a low of \$7.75, and a 120-day average price of \$13.73.

**Comparable Public Company Analysis**

Using publicly available information, UBS Warburg LLC compared selected financial data of Schuler with corresponding data of selected companies, the securities of which are publicly traded and which are engaged in businesses that UBS Warburg LLC believed to be generally comparable in some respects to those of Schuler. The comparable companies were as follows: Beazer Homes USA, Inc., Centex Corporation, Crossman Communities, Inc., D.R. Horton, Hovnanian Enterprises, Inc., KB Home, Lennar Corporation, M.D.C. Holdings, Inc., Meritage Corporation, M/I Schottenstein Homes, Inc., NVR, Inc., Pulte Homes, Inc. (pro forma for its acquisition of Del Webb by summing individual company results), The Ryland Group, Inc., Standard Pacific Corporation and Toll Brothers, Inc. UBS Warburg LLC determined the total market value of equity, which is defined as shares outstanding multiplied by the share price as of October 19, 2001, and derived an enterprise value, which is defined as total market value of equity plus the book value of debt, preferred stock and minority interests less cash and cash equivalents, for each of the comparable companies.

UBS Warburg LLC calculated a range of market values of equity as a multiple of last twelve months ended June 30, 2001 net income, projected calendar year 2001 net income, projected calendar year 2002 net income and book value as of June 30, 2001. In addition, UBS Warburg LLC calculated a range of enterprise values as a multiple of last twelve months ended June 30, 2001 revenues, earnings before interest, taxes, depreciation and amortization and earnings before interest and taxes and as a multiple of net assets as of June 30, 2001. The table below sets forth the median results of the analysis and the results for Schuler based on the value of the merger consideration as of October 19, 2001.

	Implied Equity Value as a Multiple of				Implied Enterprise Value as a Multiple of			
	LTM Net Income	CY 2001 Net Income	CY 2002 Net Income	Book Value	LTM Revenues	LTM EBITDA	LTM EBIT	Net Assets
Comparable Companies Median	6.1x	5.4x	5.3x	1.20x	0.6x	4.9x	5.2x	1.11x
Schuler	7.8x	7.0x	6.4x	1.58x	0.8x	5.2x	5.4x	1.20x

**Precedent Transaction Analysis**

Using publicly available information, UBS Warburg LLC reviewed the implied transaction multiples paid in eight merger and acquisition transactions occurring in the past five years in the homebuilding industry. These transactions were selected because UBS Warburg LLC believed the target companies were engaged in businesses that were generally comparable in some respects to those of Schuler. For the

**Table of Contents**

comparable acquired companies, UBS Warburg LLC reviewed implied multiples for the total merger consideration offered for equity to the last twelve months net income of such companies and reviewed implied multiples for the total merger consideration offered for equity to the book value of such companies. UBS Warburg LLC also reviewed implied multiples for the enterprise value of the transactions, meaning the total merger consideration offered for equity plus the book value of debt, preferred stock and minority interests less cash and cash equivalents, to the last twelve months revenues of such companies. UBS Warburg LLC reviewed implied multiples for the enterprise value of the transactions to the last twelve months earnings before interest, taxes, depreciation and amortization of such companies. Further, UBS Warburg LLC reviewed implied multiples for the enterprise value of the transactions to the last twelve months earnings before interest and taxes of such companies. The table below sets forth the median results for the comparable transactions and the results for Schuler based on the value of the merger consideration as of October 19, 2001.

	Implied Equity Value as a Multiple of		Implied Enterprise Value as a Multiple of		
	LTM Net Income	Book Value	LTM Revenues	LTM EBITDA	LTM EBIT
Comparable Transactions Median	7.4x	1.3x	0.8x	6.3x	7.0x
Schuler	7.8x	1.6x	0.8x	5.2x	5.4x

**Premiums Paid Analysis**

UBS Warburg LLC, using as a sample 165 select all stock and cash and stock transactions announced since January 2000, analyzed the premiums paid to the price of the target one day, 30 days and 60 days prior to the announcement of the transactions. Using this information, UBS Warburg LLC determined the median premiums paid one day prior to announcement to be 28.5% for the all stock transactions and 29.2% for the cash and stock transactions. The median premiums paid 30 days prior to announcement were determined to be 40.7% for the all stock transactions and 36.1% for the cash and stock transactions. The median premiums paid 60 days prior to announcement were determined to be 40.6% for the all stock transactions and 36.9% for the cash and stock transactions. Further, UBS Warburg LLC reviewed six selected business combinations occurring in the past five years in the homebuilding industry. Using this information, UBS Warburg LLC determined the mean premiums paid one day prior to the announcement of such transactions to be 29.4%. The mean premiums paid 30 days and 60 days prior to the announcement of such transactions were determined to be 32.3% and 52.3%, respectively. Based on the value of the merger consideration as of October 19, 2001 (equal to \$16.10 using the closing price for D.R. Horton common stock on that date), the premiums to Schuler's common stock price one day, 30 days and 60 days prior to announcement were 46.8%, 29.8% and 16.7%, respectively. The 30-day and 60-day periods used in calculating the premiums to Schuler's common stock price coincided with the events of September 11, 2001. The decline in Schuler's common stock price following September 11, 2001 resulted in a downward trend in the Schuler premiums analysis that may not have otherwise occurred.

No company, transaction or business used in the analyses described under Precedent Transaction Analysis, Comparable Public Company Analysis and Premiums Paid Analysis is identical to Schuler or the transactions contemplated by the merger agreement. Accordingly, an evaluation of the results of the analyses necessarily involves complex considerations and judgments concerning the differences in financial and operating characteristics and other factors that could affect the transaction or the public trading price or other values of Schuler or companies or businesses to which it is being compared. Mathematical analysis, such as determining the average or median, is not in itself a meaningful method of using comparable acquisition or comparable company data.

**Discounted Cash Flow Analysis**

UBS Warburg LLC performed a discounted cash flow analysis of Schuler to estimate the present value of the unlevered, after-tax free cash flows that Schuler could generate for fiscal years September 30,

## **Table of Contents**

2002 through 2006, based on internal estimates of Schuler's management. In performing its discounted cash flow analysis, UBS Warburg LLC considered various assumptions and applied valuation parameters that it deemed appropriate. UBS Warburg LLC calculated a range of estimated terminal values by applying selected multiples ranging from 4.00x to 5.00x to Schuler's projected fiscal year 2006 earnings before interest, taxes, depreciation and amortization. The present value of the cash flows and terminal values were then calculated using selected discount rates ranging from 13.0% to 16.0%. The various ranges for discount rates and terminal value multiples were chosen by UBS Warburg LLC based upon theoretical analyses of cost of capital ranges that could be applicable based on comparisons to the precedent transactions previously described and the consideration of the uncertainty and volatility of economic and stock market conditions existing at the time of the analyses. The use of alternative ranges for discount rates and terminal value multiples would alter the results of the discounted cash flow analysis. Based on the analysis above, UBS Warburg LLC arrived at an implied equity value per share valuation range of \$13.70 to \$22.46 per share, as compared to the value of the merger consideration as of October 19, 2001 (equal to \$16.10 using the closing price for D.R. Horton common stock on that date).

In addition to the analyses described above, UBS Warburg LLC performed such other valuation analyses as it deemed appropriate.

### ***Miscellaneous***

Pursuant to an engagement letter dated August 29, 2001, Schuler engaged UBS Warburg LLC to act as its financial advisor in connection with a sale of Schuler or other similar transaction. Pursuant to this letter, Schuler agreed to pay UBS Warburg LLC a fee in an amount customary for similar transactions. In addition, Schuler has agreed to reimburse UBS Warburg LLC for its reasonable expenses, including reasonable fees and disbursements of its counsel, and to indemnify UBS Warburg LLC and related parties against liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement.

Schuler selected UBS Warburg LLC as its exclusive financial advisor in connection with the merger because UBS Warburg LLC is an internationally recognized investment banking firm with substantial experience in similar transactions. UBS Warburg LLC is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

In the past, UBS Warburg LLC and its predecessors have provided investment banking services to Schuler and D.R. Horton and received customary compensation for the rendering of such services. In the ordinary course of business, UBS Warburg LLC, its successors and affiliates may trade securities of Schuler or D.R. Horton for their own accounts and, accordingly, may at any time hold a long or short position in those securities.

### **Opinion of D.R. Horton's Financial Advisor**

In August 2001, the D.R. Horton board of directors retained Banc of America Securities to act as its financial advisor in connection with the possible acquisition of, or a possible business combination involving, Schuler. Banc of America Securities is an internationally recognized investment banking firm and regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. D.R. Horton selected Banc of America Securities to act as its financial advisor on the basis of Banc of America Securities' experience in transactions similar to the merger and its familiarity with D.R. Horton and Schuler and their businesses.

Banc of America Securities has delivered to the D.R. Horton board of directors its opinion, dated October 22, 2001, to the effect that, as of that date and based on and subject to the matters described in the opinion, the consideration to be paid by D.R. Horton in the proposed merger was fair, from a financial point of view, to D.R. Horton.

**Table of Contents**

We have attached the full text of Banc of America Securities' written opinion to the D.R. Horton board of directors as Annex III, which is incorporated in its entirety into this Joint Proxy Statement/ Prospectus by reference. The opinion sets forth the assumptions made, procedures followed, other matters considered and limits of the review undertaken. You should read this opinion carefully and in its entirety in connection with this Joint Proxy Statement/ Prospectus. However, we also have included the following summary of Banc of America Securities' opinion, which is qualified in its entirety by reference to the full text of the opinion.

Banc of America Securities' opinion is addressed to the D.R. Horton board of directors. It does not constitute a recommendation to D.R. Horton stockholders on how to vote with respect to any matters relating to the proposed merger. The opinion addresses only the financial fairness to D.R. Horton of the consideration to be paid in the merger. The opinion does not address the relative merits of the merger or any alternatives to the merger, the underlying decision of the D.R. Horton board of directors to proceed with or effect the merger or any other aspect of the merger. In furnishing its opinion, Banc of America Securities does not admit that it is an expert within the meaning of the term "expert" as used in the Securities Act of 1933, nor does Banc of America Securities admit that its opinion constitutes a report or valuation within the meaning of the Securities Act of 1933. Statements to this effect are included in Banc of America Securities' opinion.

In arriving at its opinion, Banc of America Securities:

reviewed certain publicly available financial statements and other business and financial information of Schuler and D.R. Horton, respectively;

reviewed certain internal financial statements and other financial and operating data concerning Schuler and D.R. Horton, respectively;

analyzed certain financial forecasts prepared by the managements of Schuler and D.R. Horton, respectively;

discussed the past and current operations, financial condition and prospects of Schuler with senior executives of Schuler and discussed the past and current operations, financial condition and prospects of D.R. Horton with senior executives of D.R. Horton;

reviewed information and discussed with senior executives of D.R. Horton and Schuler information relating to certain strategic, financial and operational benefits anticipated from the merger;

reviewed the pro forma impact of the merger on D.R. Horton's earnings per share, cash flow, consolidated capitalization and financial ratios;

reviewed the reported prices and trading activity for Schuler common stock and the common stock of D.R. Horton;

compared the financial performance of Schuler and the prices and trading activity of Schuler common stock with that of certain other publicly traded companies Banc of America Securities deemed relevant;

compared certain financial terms of the merger to financial terms, to the extent publicly available, of certain other business combination transactions Banc of America Securities deemed relevant;

participated in discussions and negotiations among representatives of Schuler and D.R. Horton and their financial and legal advisors;

reviewed the merger agreement and certain related documents; and

performed such other analyses and considered such other factors as Banc of America Securities deemed appropriate.

Banc of America Securities did not assume any responsibility to independently verify the financial and other information, including the information listed above, that it reviewed for purposes of its opinion.



**Table of Contents**

Instead, with the consent of D.R. Horton, Banc of America Securities relied on that information as being accurate and complete in all material respects. Banc of America Securities also made the following assumptions at the direction, or with the consent, of D.R. Horton or Schuler, as the case may be, without independent verification or investigation:

with respect to the financial forecasts, including information relating to certain strategic, financial and operational benefits anticipated from the merger, that they have been reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the future financial performance of D.R. Horton and Schuler; and

that the merger will be consummated in accordance with the terms set forth in the merger agreement including, amongst other things, that it would be treated as a tax-free reorganization or exchange or both under the Internal Revenue Code.

Banc of America Securities did not make or receive any independent valuation or appraisal of the assets or liabilities, contingent or otherwise, of D.R. Horton or Schuler. Moreover, the Banc of America Securities opinion did not constitute a recommendation to the D.R. Horton board of directors of the amount of the base consideration to be paid by D.R. Horton.

D.R. Horton imposed no other instructions or limitations on Banc of America Securities with respect to the investigations made or the procedures followed by it in rendering its opinion. Banc of America Securities' opinion was based on economic, market and other conditions in effect on, and the information made available to it as of, the date of the opinion. Although subsequent developments may affect the opinion of Banc of America Securities, Banc of America Securities does not have any obligation to update, revise or reaffirm its opinion.

Banc of America Securities' opinion and related financial presentation to the D.R. Horton board of directors was only one of many factors taken into consideration by the D.R. Horton board of directors in making its determination to approve, and to recommend that D.R. Horton stockholders approve, the merger and the merger agreement. Banc of America Securities did not express any opinion as to whether any alternative transaction might be more favorable to D.R. Horton.

The following description is merely a summary of the analyses and examinations that Banc of America Securities considered to be material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Banc of America Securities. The preparation of a fairness opinion is not readily susceptible to partial analysis or summary description. Banc of America Securities believes that its analyses and the summary below must be considered as a whole. Banc of America Securities further believes that selecting portions of its analyses and factors considered or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, would create an incomplete view of the process underlying its analyses and opinion presented to the D.R. Horton board of directors. Banc of America Securities did not assign any specific weight to any of the analyses described below. The fact that any specific analysis has been referred to in the summary below is not meant to indicate that such analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described below should not be interpreted as Banc of America Securities' view of the actual value of either D.R. Horton or Schuler.

In performing its analyses, Banc of America Securities considered and made assumptions about industry performance, general business and economic conditions and other matters, many of which are beyond the control of D.R. Horton and Schuler. No company or transaction used in the analyses as a comparison is identical to D.R. Horton, Schuler or the merger. Accordingly, an analysis of the following results is not mathematical. Rather, it involves complex consideration and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value or purchase price of the companies to which D.R. Horton, Schuler and the merger are being compared. The analyses performed by Banc of America Securities are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those

**Table of Contents**

suggested by the analyses. The analyses were prepared solely as part of Banc of America Securities' analysis of the financial fairness to D.R. Horton of the consideration to be paid in the merger and were provided to the D.R. Horton board of directors in connection with the delivery of Banc of America Securities' opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future.

Pursuant to the terms of an engagement letter dated August 30, 2001, D.R. Horton has paid to Banc of America Securities \$1 million for the fairness opinion described below. In addition, D.R. Horton has agreed to pay Banc of America Securities a fee for providing financial services to D.R. Horton that is customary in transactions of this nature, a substantial portion of which is contingent upon the consummation of the merger, against which will be credited the \$1 million fairness opinion fee already described and any out-of-pocket expenses previously reimbursed. In addition, D.R. Horton has agreed to indemnify Banc of America Securities and certain related parties against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

In the past, Banc of America Securities or its affiliates have provided financial advisory and financing services for D.R. Horton and Schuler and have received fees for the rendering of these services. Banc of America Securities and its affiliates are engaged in a broad range of securities activities and financial services. Bank of America, N.A. is lead agent on Schuler's unsecured revolving credit facility. Bank of America, N.A. is lead agent on D.R. Horton's unsecured revolving credit facility. Bank of America, N.A. may provide additional credit to D.R. Horton to consummate the merger. In the ordinary course of their businesses, Banc of America Securities and its affiliates may actively trade the debt and equity securities of Schuler and D.R. Horton for their own account or for the accounts of customers, and, accordingly, Banc of America Securities and its affiliates may at any time hold long or short positions in such securities.

***Financial Analyses***

The following is a summary of the material financial analyses presented by Banc of America Securities to the D.R. Horton board of directors in connection with Banc of America Securities' opinion, dated October 22, 2001, addressed to the D.R. Horton board of directors. **The financial analyses summarized below include information presented in tabular format. In order to understand more fully Banc of America Securities' financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Banc of America Securities' financial analyses.**

**Table of Contents****Consideration To Be Paid By D.R. Horton**

The following table summarizes the consideration to be offered by D.R. Horton under the terms of the merger agreement for each share of Schuler Class A and Class B common stock:

Average Closing Price of D.R. Horton Common Stock	D.R. Horton Common Stock Issued for Each Schuler Share	Total Amount of Base Merger Consideration for Each Share of Schuler Common Stock Consisting of \$4.09 in Cash and Shares of D.R. Horton Common Stock at the Average Closing Price
\$27.51 or higher	0.487 shares	\$17.49 or higher
\$23.51 to \$27.50	Fraction of a share equal to the quotient obtained by dividing \$13.395 by the average closing price of D.R. Horton common stock	\$17.49
\$19.50 to \$23.50	0.570 shares	\$15.21 to \$17.49
\$17.51 to \$19.49	Fraction of a share equal to the quotient obtained by dividing \$11.115 by the average closing price of D.R. Horton common stock	\$15.21
\$16.00 to \$17.50	0.635 shares	\$14.25 to \$15.20
Less than \$16.00	Schuler termination right subject to D.R. Horton option to increase stock and/or cash component of the consideration	\$14.25

At the close of trading on October 19, 2001, which is the last trading day prior to Banc of America Securities' delivery of the opinion, the stock price of Schuler was \$10.97. Based upon D.R. Horton's stock price of \$21.07 at the close of trading on October 19, 2001, and using a 0.570 exchange ratio and \$4.09 in cash, the value per share of the consideration to be paid to shareholders of Schuler on October 19, 2001 was \$16.10.

**Analysis Of Selected Publicly Traded Companies**

Using publicly available information, Banc of America Securities reviewed the market values and trading multiples of Schuler and the following nine selected publicly held companies in the homebuilding industry. Companies within this industry with an aggregate value of \$2.0 billion or less are referred to below as small cap companies, and companies with an aggregate value of greater than \$2.0 billion are referred to below as large cap companies:

Small Cap Companies	Large Cap Companies
Beazer Homes USA, Inc.	D.R. Horton
Hovnanian Enterprises, Inc.	KB Home
M.D.C. Holdings, Inc.	Lennar Corporation
The Ryland Group, Inc.	Pulte Corporation
Standard Pacific Corp.	

To calculate the trading multiples for the selected companies Banc of America Securities used publicly available information concerning historical and projected financial performance, including published earnings estimates reported by Thomson Financial's First Call. First Call is a data service that monitors and publishes compilations of earnings estimates by selected research analysts regarding companies of interest to institutional investors. Banc of America Securities used management estimates and an average of research analyst estimates to derive earnings estimates for D.R. Horton, First Call earnings estimates were used for the small cap companies and earnings estimates from the most recently published Banc of America Securities research reports were used for the large cap companies.

**Table of Contents**

All multiples were based on closing stock prices on October 19, 2001. Banc of America Securities compared equity market values as multiples of latest twelve months and estimated calendar year 2001 and 2002 net income and latest available book value. Banc of America Securities also reviewed the latest twelve months aggregate value (calculated as equity value, plus debt, minority interest and preferred stock, less cash and cash equivalents) as a multiple of earnings before interest, tax, depreciation and amortization ( EBITDA ) of the selected publicly traded companies. Banc of America Securities then applied a range of selected multiples derived from the selected publicly traded companies to corresponding financial data, management estimates and an average of research analyst estimates, of Schuler in order to derive an implied per share equity reference range:

*Based on Research Projections*

	Multiple Range		Equity Value Range Per Share	
	Low	High	Low	High
Earnings per share ( EPS )				
Last twelve months ( LTM )	5.0x	6.0x	\$ 10.10	\$ 12.12
2001 estimate	4.8x	5.8x	\$ 10.70	\$ 12.93
2002 estimate	4.5x	5.5x	\$ 9.09	\$ 11.11
LTM EBITDA	4.0x	5.0x	\$ 9.35	\$ 15.00
Book value (6/30/01)	1.0x	1.5x	\$ 10.10	\$ 15.15
Implied Per Share Equity Reference Range for Schuler Based on Research Projections				\$10.00 - \$15.00

*Based on Internal Projections*

	Multiple Range		Equity Value Range Per Share	
	Low	High	Low	High
EPS				
LTM	5.0x	6.0x	\$ 10.10	\$ 12.12
2001 estimate	4.8x	5.8x	\$ 11.38	\$ 13.75
2002 estimate	4.5x	5.5x	\$ 13.19	\$ 16.12
LTM EBITDA	4.0x	5.0x	\$ 9.35	\$ 15.00
Book value (6/30/01)	1.0x	1.5x	\$ 10.10	\$ 15.15
Implied Per Share Equity Reference Range for Schuler Based on Internal Projections				\$11.00 - \$15.50

*Analysis Of Selected Acquisitions*

Banc of America Securities reviewed the financial terms, to the extent publicly available, of the following five completed merger and acquisition transactions since 1997 involving companies in the homebuilding industry:

Announcement Date	Acquiror	Target
May 1, 2001	Pulte Corporation	Del Webb Corp.
September 12, 2000	Schuler	Western Pacific
February 17, 2000	Lennar Corporation	U.S. Home Corp.
October 20, 1998	KB Home	Lewis Homes Corp.
June 11, 1997	Lennar Corporation	Pacific Greystone

All multiples were based on publicly available information at the time of the announcement of the relevant transaction. Banc of America Securities compared the aggregate values of these selected

**Table of Contents**

acquisitions as multiples of last twelve months EBITDA, and the equity market values as multiples of last twelve months net income and latest available book value. Banc of America Securities then applied a range of selected multiples derived from the selected acquisitions to corresponding financial data of Schuler in order to derive an implied per share equity reference range:

	Multiple Range		Equity Value Range Per Share	
	Low	High	Low	High
LTM EPS	6.8x	8.5x	\$ 13.74	\$ 17.17
LTM EBITDA	5.6x	8.3x	\$ 18.38	\$ 33.63
Book value (6/30/01)	0.8x	1.7x	\$ 8.54	\$ 16.79
Implied Per Share Equity Reference Range for Schuler			\$ 14.00	- \$ 20.00

**Analysis Of Selected Acquisition Premiums Paid**

Banc of America Securities reviewed the purchase prices and implied premiums payable in 127 selected transactions from a wide range of industries that occurred since September 1, 1998 with disclosed aggregate values of between \$1.0-\$2.0 billion. Banc of America Securities also included in the analysis the following four homebuilding transactions with disclosed aggregate values over \$300 million occurring since January 1, 1997:

Announcement Date	Acquiror	Target
May 1, 2001	Pulte Corporation	Del Webb Corp.
October 12, 2000	Technical Olympic, S.A.	Engle Homes, Inc.
February 17, 2000	Lennar Corporation	U.S. Home Corp.
December 12, 1997	D.R. Horton	Continental Homes

For each of the selected acquisitions, Banc of America Securities reviewed, among other things, the premium implied in each acquisition based on the target company's average stock price for the one day, one-week and one-month periods prior to public announcement of the transaction. Banc of America Securities then applied a range of selected premiums derived from the selected acquisitions to the average stock prices of Schuler common stock for corresponding periods prior to October 22, 2001, which is the last trading day prior to Banc of America Securities' delivery of the opinion. This analysis indicated the following implied per share equity reference range for Schuler:

	One Day Prior		One Week Prior		One Month Prior	
	Average	Median	Average	Median	Average	Median
Analysis of selected acquisition premiums						
Selected homebuilding transactions since 1/1/97	27.1%	24.1%	28.8%	26.3%	31.4%	30.1%
Selected transactions since 9/01/98	36.7%	28.6%	44.0%	36.8%	51.3%	41.3%
Implied value per Schuler share at current stock price						
Selected homebuilding transactions since 1/1/97	\$ 13.94	\$ 13.61	\$ 15.59	\$ 15.28	\$ 15.12	\$ 14.97
Selected transactions since 9/01/98	\$ 14.99	\$ 14.10	\$ 17.42	\$ 16.56	\$ 17.40	\$ 16.25
Implied Per Share Equity Reference Range for Schuler					\$ 14.00	- \$ 17.50

**Discounted Cash Flow Analysis**

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

Banc of America Securities conducted two discounted cash flow analyses, one based on research and the other based on internal Schuler projections. The research case used Banc of America Securities

**Table of Contents**

research projections for the three months ending March 31, 2002 and fiscal year ending March 31, 2003 and estimated cash flows generated in fiscal year 2004 through fiscal year 2007 using revenue and expense growth assumptions for Schuler that are generally consistent with the assumptions used in the research projections. For the internal case, Banc of America Securities utilized internal cash flow projections prepared by Schuler through fiscal year 2006 and extrapolated fiscal year 2007. The extrapolation of fiscal year 2007 was calculated by applying the 2006 growth rates and margins to the 2006 internal projections. Banc of America Securities discounted the cash flows from the fourth quarter of fiscal year 2002 through fiscal year 2007 and assumed a sale of Schuler at the end of fiscal year 2007. To simulate a sale, Banc of America Securities calculated a terminal value range for Schuler by applying a range of multiples of 5.0x to 6.0x to estimated fiscal year 2007 EBITDA. The multiple range was based on trailing twelve month EBITDA multiples reviewed in the analysis of selected acquisitions previously described. Banc of America Securities then calculated the net present value of the terminal value range and the estimated cash flow for the company from 2002 through 2007, utilizing a discount rate range of 12.0% to 14.0%. The discount rate range was a determined rate based on Schuler's implied weighted average cost of capital of 10.8% (16.6% cost of equity). Banc of America Securities used a discount rate range that was higher than the weighted average cost of capital due to, among other factors, the uncertainty of current and future economic conditions and historically low interest rates. Banc of America Securities utilized the trading characteristics of the common stock of the selected publicly traded companies to derive weighted average cost of capital. To arrive at the range of implied equity values, net debt (short term debt and long term debt less cash and cash equivalents) was subtracted from the implied aggregate value ranges. Although Banc of America utilized assumptions and variables it deemed to be most appropriate in conducting its analysis, the utilization of other variables and assumptions could result in a different valuation and conclusion. This analysis yielded the following implied value per share ranges for the research and internal cases:

*Based on Research Projections*

Discount Rate	12.0%			13.0%			14.0%		
Terminal EBITDA multiple	5.0x	5.5x	6.0x	5.0x	5.5x	6.0x	5.0x	5.5x	6.0x
Implied value per share	\$19.41	\$21.43	\$23.45	\$18.22	\$20.15	\$22.08	\$17.10	\$18.94	\$20.78
Implied Per Share Equity Reference Range for Schuler Based on Research Projections							\$18.00		\$22.00

*Based on Internal Projections*

Discount Rate	12.0%			13.0%			14.0%		
Terminal EBITDA multiple	5.0x	5.5x	6.0x	5.0x	5.5x	6.0x	5.0x	5.5x	6.0x
Implied value per share	\$23.00	\$25.76	\$28.52	\$21.51	\$24.15	\$26.78	\$20.10	\$22.62	\$25.13
Implied Per Share Equity Reference Range for Schuler Based on Internal Projections							\$21.00		\$26.00

*Pro Forma Merger Analysis*

Banc of America Securities analyzed the potential pro forma financial effect of the merger on D.R. Horton's estimated earnings per share for calendar years 2001 and 2002 based both on internal estimates of the managements of D.R. Horton and Schuler and on Banc of America Securities research, both before and after giving effect to potential cost savings and other synergies anticipated by the managements of D.R. Horton and Schuler to result from the merger. This analysis indicated that the proposed merger would be accretive to D.R. Horton earnings per share before giving full effect to potential cost savings and other synergies anticipated by the management of D.R. Horton and Schuler. The actual results achieved by D.R. Horton may vary from projected results and the variations may be material.



**Table of Contents**

The following table is the summary of Banc of America Securities' base case results, assuming no synergies from the merger:

	<b>D.R. Horton Stock Price/Schuler Implied Purchase Price</b>		
	<b>\$19.00</b> <b>\$15.21</b>	<b>\$21.07</b> <b>\$16.10</b>	<b>\$24.00</b> <b>\$17.49</b>
<b>Schuler Research Projections:</b>			
Calendar Year 2001 Accretion	\$0.10	\$0.12	\$0.14
Calendar Year 2001 Accretion	2.9%	3.5%	4.0%
Calendar Year 2002 Accretion	\$0.07	\$0.10	\$0.11
Calendar Year 2002 Accretion	2.0%	2.6%	3.1%
<b>Schuler Internal Projections:</b>			
Calendar Year 2001 Accretion	\$0.14	\$0.17	\$0.18
Calendar Year 2001 Accretion	4.1%	4.7%	5.2%
Calendar Year 2002 Accretion	\$0.13	\$0.16	\$0.18
Calendar Year 2002 Accretion	3.2%	3.8%	4.3%

**Accounting Treatment**

The merger will be treated as a purchase for financial accounting purposes.

**Interests of Certain Persons in the Merger****Schuler**

In considering the recommendation of the Schuler board of directors that Schuler stockholders vote in favor of the merger agreement and the transactions contemplated by the merger agreement, Schuler stockholders should be aware that some Schuler directors and executive officers may have interests in the merger that are in addition to the interests of Schuler stockholders generally. The Schuler board of directors was aware of, and considered, these interests in approving the merger agreement and the transactions contemplated by the merger agreement.

*Indemnification of Officers and Directors.* The merger agreement provides that the right of indemnification for acts and omissions occurring before the closing of the merger and existing in favor of the directors and officers of Schuler as provided in the Schuler Certificate of Incorporation and By-Laws will survive the closing of the merger.

*Directors and Officers Insurance.* The merger agreement requires D.R. Horton to keep in effect, for at least six years, directors' and officers' liability insurance policies (through the continuation or endorsement of Schuler's existing policy or the purchase of a tail-end rider permitted by such policy) having the same coverage and containing terms and conditions no less advantageous to the persons covered by the policies currently in effect. D.R. Horton will not, however, be required to pay more than 200% of the annual premium paid relating to the year in which the merger agreement was executed. If it is not able to maintain the required insurance for that amount, it is required to purchase as much coverage as it can obtain for that amount.

*The D.R. Horton Board of Directors.* D.R. Horton has agreed, effective as of the closing of the merger, to use its best efforts to appoint James K. Schuler to the D.R. Horton board.

*Stock Options.* Pursuant to Schuler's equity-based compensation plans and the merger agreement, all of Schuler's outstanding stock options held by Schuler employees will be replaced by comparable options to acquire shares of D.R. Horton common stock, as adjusted to reflect the merger consideration, with the exception of Craig Manchester, whose options will become fully vested and exercisable. The immediate vesting of the stock options was negotiated by Mr. Manchester in exchange for certain concessions agreed to by him in connection with the termination of his existing employment agreement at the effective time of the merger. Except to the extent otherwise agreed to by D.R. Horton and Schuler, all restrictions or



**Table of Contents**

limitations on transfer and vesting with respect to the stock options, to the extent that such restrictions or limitations shall not have already lapsed, shall remain in full force and effect with respect to the D.R. Horton stock options replacing the Schuler stock options. If a former Schuler employee is involuntarily terminated, other than for cause, death or disability, by D.R. Horton within six months after the merger, the replacement options held by the terminated employee will immediately vest and become fully exercisable.

Options held by non-employee directors of Schuler will accelerate and be fully vested and exercisable immediately prior to the merger. To the extent the options are not exercised, they will terminate upon effectiveness of the merger.

*Employment Agreements.* D.R. Horton has entered into employment agreements with James K. Schuler and Craig Manchester that will become effective upon consummation of the merger. In addition, upon consummation of the merger, the current employment agreements of Mr. Schuler and Mr. Manchester will terminate without any further obligation on the part of D.R. Horton or Messrs. Schuler or Manchester. Mr. Schuler's agreement will have a term ending on March 31, 2005. Mr. Schuler will become a Senior Vice President of D.R. Horton, and the President of D.R. Horton's Schuler Homes region. In addition, D.R. Horton has agreed to use its best efforts to appoint Mr. Schuler to the D.R. Horton board. Mr. Schuler's annual base salary will be \$300,000. For Schuler's fiscal year ending on March 31, 2002, Mr. Schuler will be entitled to a bonus of 1% of the earnings before taxes attributable to the operations of Schuler as historically conducted consistent with past practice immediately prior to the effectiveness of the merger. For the periods commencing on April 1, 2002 and ending on March 31, 2003, and for each 12-month period thereafter, provided Mr. Schuler is employed during those periods, Mr. Schuler would be entitled to a bonus of .75% of the pre-tax income for each 12-month period attributable to D.R. Horton's Schuler Homes region. Mr. Schuler is also eligible to participate in benefit plans and programs, other than incentive bonus plans, generally available to similarly situated officers of D.R. Horton. Either Mr. Schuler or D.R. Horton may terminate Mr. Schuler's employment for any reason after the first anniversary of the effective date of the merger. In connection with the merger, Mr. Schuler has agreed not to compete with D.R. Horton for one year after the effective date of the merger. Mr. Schuler has also agreed that, so long as he remains a director of D.R. Horton, he will continue to hold, individually or through a trust of his designation, at least 25% of the D.R. Horton common stock that he and his affiliates receive in connection with the merger.

Mr. Schuler's employment agreement with D.R. Horton will supersede and replace his current employment agreement with Schuler. Among other things, Mr. Schuler's current employment agreement with Schuler provides for a base minimum annual salary of \$650,000. If Mr. Schuler's current employment agreement with Schuler were terminated without cause or in connection with a change of control for which he does not vote to approve, under certain circumstances he may be entitled to a payment of \$5.0 million, the portion of his annual bonus he would have been paid but for the termination and immediate vesting of any long-term incentive rights, including stock options (in addition to accrued but unpaid salary). If Mr. Schuler's current employment agreement with Schuler were terminated at the request of the majority vote of Schuler's board of directors not in connection with a change of control, or without cause by Schuler not in connection with a change in control, under certain circumstances Mr. Schuler may be entitled to 1% of 90% of Schuler's consolidated annual earnings before taxes for the year in which he is terminated, 1% of 80% of Schuler's consolidated annual earnings before taxes for the following year, and immediate vesting of any long-term incentive rights, including stock options (in addition to accrued but unpaid salary). In addition, if Mr. Schuler's employment were terminated at the request of a majority of the board of directors not in connection with a change of control, under certain circumstances, he may also be entitled to his base salary for a period of three years following termination.

D.R. Horton has also entered into an employment agreement with Craig Manchester. Mr. Manchester's agreement with D.R. Horton will have a term ending on March 31, 2003. Mr. Manchester will become a Vice President of D.R. Horton, and the chief operating officer of D.R. Horton's Schuler Homes Region. Mr. Manchester's annual base salary will be \$350,000. For Schuler's fiscal year ending on March 31, 2002, Mr. Manchester shall receive a bonus of 1.25% of the

**Table of Contents**

earnings before taxes attributable to the operations of Schuler as historically conducted. For the period commencing on April 1, 2002 and ending on March 31, 2003, Mr. Manchester will receive a bonus of \$1,150,000, payable in four equal installments of \$287,500 following the completion of each calendar quarter. In addition, upon the effectiveness of the merger, all of Mr. Manchester's options to purchase D.R. Horton common stock granted in replacement of options to purchase Schuler common stock shall vest and become exercisable. The balance of the base annual salary and bonus that would have been payable through the end of the term of employment will be payable to Mr. Manchester within 15 days of termination of Mr. Manchester's employment for any reason other than cause. Mr. Manchester is also eligible to participate in benefit plans and programs, other than incentive bonus plans, generally available to similarly situated officers of D.R. Horton. In connection with the merger, Mr. Manchester has agreed not to compete with D.R. Horton for one year after the effective date of the merger.

Mr. Manchester's agreement with D.R. Horton will supersede and replace his current employment agreement with Schuler. Among other things, Mr. Manchester's current employment agreement with Schuler provides for a minimum annual salary of \$350,000 and an annual bonus equal to 1.25% of Schuler's consolidated annual earnings before taxes. If Mr. Manchester's current employment agreement with Schuler were terminated under certain circumstances, including a change in control, he would be entitled to monthly payment of his base salary for two years following the date of termination and a portion of his annual bonus earned in the year in which his employment terminated. In addition, if his employment agreement with Schuler were terminated without cause during the initial term or in connection with a change in control or other specified circumstances, he would be entitled to payment in a lump sum equal to 90% of his projected annual bonus for the year in which the termination occurs and 80% of his projected annual bonus for the following year, monthly payments of his base salary for a period of two years and immediate vesting of any long-term incentive rights including stock options.

*Termination and Release of Residual Liabilities Under the Western Pacific Reorganization Agreement.* In April 2001, Schuler acquired the businesses comprising Western Pacific Housing under the terms of a reorganization agreement dated as of September 12, 2000. Under the Western Pacific reorganization agreement, Schuler and the partners of the entities comprising Western Pacific agreed, for a period of time, to indemnify each other with respect to, among other things, liabilities arising out of or related to inaccuracies of the representations and warranties made by such parties in the reorganization agreement. The merger agreement provides that, prior to and to be effective upon the consummation of the merger, Schuler and the parties to the Western Pacific reorganization agreement will enter into an agreement terminating the Western Pacific reorganization agreement and releasing the parties and their affiliates from any claims arising out of or relating to the reorganization agreement or the related stockholders agreement. Several of the directors of Schuler are affiliates of the parties to the Western Pacific reorganization agreement that, upon consummation of the merger, will be released from any liabilities associated with the Western Pacific reorganization agreement. Further, in the merger agreement, D.R. Horton agreed, for a ten year period, to cause, among others, the directors of Schuler and its subsidiaries who are currently named as insureds or additional insureds under existing Schuler insurance policies covering construction defect litigation claims to be named as insureds or additional insureds under all D.R. Horton policies covering construction defect litigation claims. As of the date of this Joint Proxy Statement/ Prospectus, neither Schuler nor D.R. Horton have knowledge of any claims arising out of or relating to the Western Pacific reorganization agreement or the related stockholders agreement or of any construction defect litigation claims against any of the directors of Schuler.

***D.R. Horton***

In considering the recommendation of the D.R. Horton board of directors that D.R. Horton stockholders vote in favor of the merger agreement and the transactions contemplated by the merger agreement, D.R. Horton stockholders should be aware that Richard Beckwitt, a D.R. Horton director, may have an interest in the merger that is in addition to the interests of D.R. Horton stockholders generally. Mr. Beckwitt has advised D.R. Horton in connection with the merger and, under advisory arrangements with an affiliate, receives payments from D.R. Horton for advising and assisting D.R. Horton in its

## **Table of Contents**

acquisitions. The arrangements and the amounts D.R. Horton has paid and is paying under these arrangements are described in more detail below on page 108 of this Joint Proxy Statement/ Prospectus in the section entitled Additional Information about D.R. Horton Transactions with Management. The D.R. Horton board of directors was aware of, and considered, Mr. Beckwitt's interest under such arrangements in approving the merger agreement and the transactions contemplated by the merger agreement.

### **Appraisal Rights**

A holder of record of Schuler common stock may elect to exercise appraisal rights under Section 262 of the Delaware General Corporation Law. Under Section 262, where a proposed merger is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders entitled to appraisal rights that these appraisal rights are available and include in such notice a copy of Section 262. This Joint Proxy Statement/ Prospectus will constitute this notice to the holders of Schuler common stock, and the applicable statutory provisions of the Delaware General Corporation Law are attached to this Joint Proxy Statement/ Prospectus as Annex IV. Any stockholder who wishes to exercise such appraisal rights or who wishes to preserve the right to do so should review carefully the following discussion and Annex IV to this Joint Proxy Statement/ Prospectus. **Failure to comply with the procedures specified in Section 262 timely and properly will result in the loss of appraisal rights.**

The following discussion is not a complete statement of the law pertaining to appraisal rights under the Delaware General Corporation Law, and is qualified in its entirety by the full text of Section 262. All references in Section 262 and in this summary to a stockholder are to the record holder of the shares of common stock as to which appraisal rights are asserted. **A person having a beneficial interest in shares of common stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow properly the steps summarized below and in a timely manner to perfect appraisal rights.**

To exercise appraisal rights, the Schuler stockholder must deliver a written demand for appraisal of the stockholder's shares to Schuler prior to the vote on the merger. The written demand must identify the stockholder of record and state the stockholder's intention to demand appraisal of his shares. All demands should be delivered to Schuler Homes, Inc., Attention: Corporate Secretary.

Only a person who is the holder of record of shares of Schuler common stock on the date the person makes a written demand for appraisal and who continuously holds those shares through the effective time of the merger may seek appraisal. The demand for appraisal must be executed by the holder of record or by an agent acting on the holder's behalf. If Schuler common stock is owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, the demand should be made in that capacity, and if Schuler common stock is owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be made by or for all owners of record. If a demand for appraisal is executed by an agent for the holder of record, the agent must identify the record owner and expressly disclose in the demand that the agent is acting as agent for the record owner.

A record holder such as a broker who holds shares of Schuler common stock as a nominee for beneficial owners, some of whom desire to demand appraisal, must exercise appraisal rights on behalf of those beneficial owners with respect to the shares held for them. In that case, the written demand for appraisal should set forth the number of shares of Schuler common stock to which it relates. Unless a demand for appraisal specifies a number of shares, the demand will be presumed to cover all shares of Schuler common stock held in the name of the record owner.

**Beneficial owners who are not record owners and who want to exercise appraisal rights should instruct the record owner to comply with the statutory requirements for exercise of appraisal rights before the date of the Schuler special meeting of stockholders.**

**Table of Contents**

Within 10 days after the effective time of the merger, the surviving corporation is required to send notice of the effectiveness of the merger to each stockholder who prior to the effective time of the merger complies with the requirements of Section 262.

Within 120 days after the effective time of the merger, but not after that date, the surviving corporation or any stockholder who has complied with the requirements of Section 262 may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares of D.R. Horton common stock held by all stockholders seeking appraisal. A dissenting stockholder must serve a copy of the petition on the surviving corporation. If no petition is filed by either the surviving corporation or a dissenting stockholder within the 120-day period, the dissenting stockholders' right to appraisal will cease. Stockholders seeking to exercise appraisal rights should not assume that the surviving corporation will file a petition with respect to the appraisal of the fair value of their shares, or that it will initiate any negotiations with respect to the fair value of those shares. The surviving corporation is under no obligation, and has no present intention, to do so. Accordingly, Schuler stockholders who wish to seek appraisal of their shares should initiate all necessary action with respect to the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262.

Within 120 days after the effective time of the merger, any stockholder who has complied with subsections (a) and (d) of Section 262 is entitled, upon written request, to receive from the surviving corporation a statement setting forth the aggregate number of shares of Schuler common stock not voted in favor of the merger with respect to which demands for appraisal have been received by Schuler and the aggregate number of holders of those shares. The statement must be mailed within 10 days after the written request has been received by the surviving corporation or within 10 days after expiration of the time for delivery of demands for appraisal under subsection (d) of Section 262, whichever is later.

A stockholder who timely files a petition for appraisal with the Delaware Court of Chancery must serve a copy upon the surviving corporation. The surviving corporation must then within 20 days file with the Delaware Register in Chancery a duly verified list containing the names and addresses of all stockholders who have demanded appraisal of their shares and who have not reached agreements as to the value of their shares. After notice to stockholders as may be ordered by the Delaware Court of Chancery, the Delaware Court of Chancery is empowered to conduct a hearing on the petition to determine which stockholders are entitled to appraisal rights. The Delaware Court of Chancery may require stockholders who have demanded an appraisal for their shares and who hold stock represented by the certificates to submit their certificates to the Register in Chancery for notation on the certificates of the pendency of the appraisal proceedings, and if any stockholder fails to comply with the requirement, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

If a petition for an appraisal is filed in a timely manner, at the hearing on the petition, the Delaware Court of Chancery will determine which stockholders are entitled to appraisal rights and will appraise the shares of Schuler common stock owned by those stockholders, determining the fair value of those shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid, upon the amount determined to be the fair value. In determining fair value, the court is to take into account all relevant factors. The Delaware Supreme Court has stated that proof of value by any techniques or methods that are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the appraisal proceedings. The Delaware Supreme Court also held that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered. In addition, Delaware courts have decided that the statutory appraisal remedy, depending on factual circumstances, may or may not be a dissenter's exclusive remedy.

Schuler stockholders considering seeking appraisal should consider that the fair value of their shares determined under Section 262 could be more than, the same as, or less than, the value of the consideration provided for in the merger agreement without the exercise of appraisal rights, and that investment banking opinions as to fairness from a financial point of view are not necessarily opinions as to fair value as determined under Section 262. The cost of the appraisal proceeding may be determined by

## **Table of Contents**

the Court of Chancery and assessed against the parties, as the Court deems equitable in the circumstances. Upon application of a dissenting stockholder, the court may order that all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding (including, without limitation, reasonable attorneys' fees and the fees and expenses of experts) be charged proportionately against the value of all shares of Schuler common stock entitled to appraisal. In the absence of such a determination or assessment, each party bears its own expenses.

Any Schuler stockholder who has properly demanded appraisal in compliance with Section 262 will not, after the effective time of the merger, be entitled to receive payment of dividends or other distributions on the Schuler common stock, except for dividends or distributions payable to stockholders of record at a date prior to the effective time of the merger.

A stockholder may withdraw a demand for appraisal and accept the merger consideration at any time within 60 days after the effective time of the merger by delivery to the surviving corporation a written withdrawal of the stockholder's demand for appraisal, or thereafter may withdraw such a demand with the written approval of the surviving corporation. If an appraisal proceeding is properly instituted, the proceeding may not be dismissed as to any stockholder without the approval of the Delaware Court of Chancery, and any such approval may be conditioned on the Court of Chancery's deeming the terms to be just. If, after the effective time of the merger, a holder of Schuler common stock who had demanded appraisal for the holder's shares fails to perfect or loses his right to appraisal, those shares will be treated under the merger agreement as if they had been converted as of the effective time of the merger into the base merger consideration.

**In view of the complexity of these provisions of Delaware law, any Schuler stockholder who is considering exercising appraisal rights should consult a lawyer.**

## **New York Stock Exchange and Nasdaq National Market Listing**

D.R. Horton common stock is listed on the New York Stock Exchange and Schuler Class A common stock is listed on the Nasdaq National Market. As a result of the merger, Schuler Class A common stock will be delisted from the Nasdaq National Market and will no longer have an active trading market. It is expected, and is a condition to the consummation of the merger, that the D.R. Horton common stock that will be issued to Schuler stockholders in the merger will be listed on the New York Stock Exchange.

## **Debt Financing**

D.R. Horton believes that the cash portion of the merger consideration and the Schuler indebtedness that may need to be refinanced (as described below) can be funded through existing cash and its existing or available borrowing capacity. At September 30, 2001, D.R. Horton had cash of \$232 million and \$746.8 million of availability under its revolving line of credit.

In connection with the merger, D.R. Horton will be required to refinance the indebtedness under Schuler's revolving credit facility, under which \$47.1 million principal amount is outstanding as of September 30, 2001. In addition, the holders of \$500 million principal amount of Schuler's outstanding senior and senior subordinated notes will have the right to cause D.R. Horton to repurchase their notes at 101% of the principal amount thereof.

The indentures of the senior and senior subordinated notes of both D.R. Horton and Schuler contain covenants which limit cash dividends and other restricted payments. Pursuant to the most restrictive of the requirements applicable to it, D.R. Horton had approximately \$392.5 million available for the payment of dividends and other restricted payments at September 30, 2001. Had the merger taken place on September 30, 2001, D.R. Horton would have had \$53.0 million available for the payment of dividends and other restricted payments at September 30, 2001, pursuant to the most restrictive requirements in the indentures of the Schuler senior and senior subordinated notes to be assumed by D.R. Horton in the merger.

**Table of Contents**

The D.R. Horton revolving credit facility matures in April 2002, and D.R. Horton is negotiating with its banks concerning a new facility. D.R. Horton believes that the amount of the new facility will be \$810 million, including \$125 million for letters of credit. D.R. Horton believes that the initial interest rate for outstanding borrowings under the new facility will be 1.625% over LIBOR. D.R. Horton believes that it can also obtain access to bridge or other financing should it be required to finance the repurchase of any of the outstanding Schuler debt.



## **Table of Contents**

### **THE MERGER AGREEMENT**

This section is a summary of the material terms of the merger agreement, a copy of which is attached as Annex I to this Joint Proxy Statement/ Prospectus and is incorporated into this Joint Proxy Statement/ Prospectus by reference. The following description is qualified in its entirety by reference to the merger agreement.

#### **General**

The merger agreement provides the legal framework for D.R. Horton's acquisition of Schuler through the merger of Schuler into D.R. Horton. It covers, among other things:

the effective time and effects of the merger;

what Schuler stockholders will receive;

the treatment of outstanding Schuler options;

representations and warranties of the parties;

agreements as to what the parties must do and not do prior to the effective time of the merger;

conditions that must be fulfilled before each party is obligated to complete the merger; and

the circumstances under which the merger agreement may be terminated and the effect of termination.

The following sections briefly summarize each of the above categories.

#### **Effective Time**

The merger will become effective when a certificate of merger is filed with the Secretary of State of Delaware. This is expected to occur within two business days after satisfaction or waiver of the conditions to the obligations of the parties specified in the merger agreement, but that day may be changed by mutual agreement of the parties. It is likely the last substantive condition to be fulfilled will be obtaining the votes at the stockholder meetings that are the subject of this Joint Proxy Statement/ Prospectus. Therefore, it is likely that the latest time at which the merger will be effective will be within two business days after the day on which the D.R. Horton and Schuler stockholders meetings are held. At the effective time of the merger, Schuler will be merged into D.R. Horton, and the separate corporate existence of Schuler will cease. D.R. Horton will be the surviving corporation in the merger.

#### **Corporation Organization and Governance**

After the merger, the certificate of incorporation of D.R. Horton, as in effect immediately prior to the effective time of the merger, will become the certificate of incorporation of the surviving corporation, and the bylaws of D.R. Horton, as in effect immediately prior to the effective time of the merger, will become the bylaws of the surviving corporation.

The directors and officers of D.R. Horton will, upon completion of the merger, become the directors and officers of the surviving corporation, in each case until their respective successors are duly elected or appointed and qualified. In addition, James K. Schuler will become a Senior Vice President of D.R. Horton, and President of D.R. Horton's Schuler Homes region. Mr. Craig Manchester will become a Vice President of D.R. Horton and the Chief Operating Officer of D.R. Horton's Schuler Homes region.

The merger agreement requires D.R. Horton to use its best efforts to cause the appointment or nomination and election of Mr. Schuler as a director of D.R. Horton at the effective time.

Edgar Filing: HORTON D R INC /DE/ - Form S-4/A

After the merger, each share of Schuler common stock held in the treasury of Schuler and each share of Schuler common stock owned by D.R. Horton or any direct or indirect wholly-owned subsidiary of Schuler or D.R. Horton immediately prior to the effective time of the merger will cease to be outstanding,

**Table of Contents**

and those shares will not be converted to a right to receive the merger consideration. Each share of D.R. Horton common stock issued and outstanding immediately prior to the effective time will continue to be issued and outstanding common stock of the surviving corporation, and each certificate representing shares of D.R. Horton common stock will continue to represent the same number of shares of common stock of the surviving corporation.

**Merger Consideration**

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if the merger is completed, each share of Schuler Class A common stock and Class B common stock outstanding immediately prior to the effective time of the merger will be canceled and converted into the right to receive the merger consideration. The base merger consideration for each share of Schuler common stock will consist of a combination of \$4.09 in cash and a fraction of a share of D.R. Horton common stock, determined as set forth below. Alternatively, a Schuler stockholder may elect to receive the merger consideration in the form of all cash or all D.R. Horton common stock, but that election will be subject to proration. A Schuler stockholder cannot make an election for less than all of his or her shares.

Both the total cash portion of the merger consideration and the total number of shares of D.R. Horton common stock to be issued as merger consideration will be fixed. The total amount of cash that D.R. Horton will pay as part of the merger consideration is equal to the product of \$4.09 multiplied by the number of shares of Schuler common stock outstanding, other than dissenting shares, immediately prior to the effective time of the merger, unless D.R. Horton elects to increase the cash portion of the merger consideration if the average closing price for D.R. Horton common stock were to fall below \$16.00. If D.R. Horton elects to increase the cash portion of the merger consideration, the total amount of cash that D.R. Horton would pay as part of the merger consideration would equal the product of \$4.09 plus the increased per share cash amount multiplied by the number of shares of Schuler common stock outstanding, other than dissenting shares, immediately prior to the effective time of the merger. The total number of shares of D.R. Horton common stock issued as merger consideration will be determined in the manner set forth below as if each stockholder had elected to receive the base merger consideration.

The base merger consideration for each share of Schuler common stock will consist of \$4.09 in cash and the following number of shares of D.R. Horton common stock, based on the average closing price of D.R. Horton common stock as reported for NYSE composite transactions for the 15 trading days ending on, and including, the third trading day prior to the Schuler stockholder meeting:

Average Closing Price of D.R. Horton Common Stock	D.R. Horton Common Stock Issued for Each Schuler Share	Total Amount of Base Merger Consideration for Each Share of Schuler Common Stock Consisting of \$4.09 in Cash and Shares of D.R. Horton Common Stock at the Average Closing Price
\$27.51 or higher	0.487 shares	\$17.49 or higher
\$23.51 to \$27.50	Fraction of a share equal to the quotient obtained by dividing \$13.395 by the average closing price of D.R. Horton common stock	\$17.49
\$19.50 to \$23.50	0.570 shares	\$15.21 to \$17.49
\$17.51 to \$19.49	Fraction of a share equal to the quotient obtained by dividing \$11.115 by the average closing price of D.R. Horton common stock	\$15.21
\$16.00 to \$17.50	0.635 shares	\$14.25 to \$15.20

If the average closing price of D.R. Horton common stock determined as set forth above is less than \$16.00, the total amount of the merger consideration per share of Schuler common stock would be less than \$14.25. However, in that event, Schuler can terminate the merger agreement, unless D.R. Horton makes an election to increase the cash portion of the merger consideration or the stock portion of the

**Table of Contents**

merger consideration, or both, so that the amount of the base merger consideration for each share of Schuler common stock equals at least \$14.25, consisting of cash and shares of D.R. Horton common stock at the average closing price. Schuler is unable to determine currently whether it would exercise its right to terminate the merger agreement in that event. Schuler believes that any decision to terminate the merger agreement should be based on the facts and circumstances existing at the time the decision is required, including then current market conditions in the homebuilding industry in general, and with respect to D.R. Horton and Schuler in particular. If the total amount of the merger consideration falls below \$14.25, Schuler will announce whether it will exercise its right to terminate the merger agreement in the press release announcing the determination of the merger consideration. Schuler does not currently intend to resolicit proxies if it does not exercise its right to terminate. However, because the announcement will be made not later than the opening of business on the second trading day prior to the Schuler stockholder meeting, Schuler stockholders may then submit or revoke their proxies in accordance with the procedures described in the section entitled Proxies, including transmission by facsimile.

Subject to the adjustments, elections and limitations described in this Joint Proxy Statement/ Prospectus, if a Schuler stockholder makes an election to receive all cash, each share of Schuler common stock held by the stockholder will be converted into the right to receive cash in an amount equal to the base merger consideration. Subject to such adjustments, elections and limitations, if a Schuler stockholder makes an election to receive all D.R. Horton common stock, each share of the stockholder's Schuler common stock will be converted into the right to receive the number of shares of D.R. Horton common stock, valued using the average closing price described above, equal to the base merger consideration.

Elections to receive all cash or all D.R. Horton common stock will be subject to proration, since both the total amount of cash and the total number of shares of D.R. Horton common stock will be fixed based on the number of shares of Schuler common stock outstanding immediately prior to the merger. For example, if a Schuler stockholder elects to receive the merger consideration as all cash, and either there have not been enough elections by other stockholders for all D.R. Horton common stock, or some of the Schuler stockholders have dissented from the merger, or both, the Schuler stockholder electing all cash would receive a prorated combination of cash and D.R. Horton common stock. The cash portion would consist of an amount of cash per share equal to the total cash portion of the merger consideration less the cash paid to stockholders receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares of Schuler common stock for which an all cash election has been made. In that example, the remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above, so that the total prorated combination of cash and D.R. Horton common stock per share of Schuler common stock equals the amount of the base merger consideration. Notwithstanding the proration procedure, the amount of cash that a Schuler stockholder electing all cash will receive will not be less than \$4.09 per share of Schuler common stock.

In another example, if a Schuler stockholder elects to receive all stock, and not enough Schuler stockholders have elected to receive all cash, the stockholder electing to receive all stock would receive for each share of Schuler common stock cash equal to the total cash portion of the merger consideration minus the aggregate amount of cash payable with respect to the shares for which an all cash election has been made and the shares receiving the base merger consideration and the cash allocated to dissenting stockholders, divided by the number of shares for which an all stock election has been made. The remaining portion of the merger consideration would be paid in shares of D.R. Horton common stock valued using the average closing price described above so that the total amount of cash and prorated stock would equal the amount of the base merger consideration.

Notwithstanding the foregoing, except when D.R. Horton has made an election to adjust the base merger consideration up to \$14.25 to avoid termination of the merger agreement, if more than 50% of the total value of the merger consideration for all the outstanding shares of Schuler common stock would be cash, the cash which a holder of a share of Schuler common stock will receive will be reduced on a pro rata basis with all other such holders to the amount such that 50% of the total value of the merger consideration will be cash, treating all stockholders who give Schuler a timely and proper notice of intention to exercise appraisal rights as receiving cash merger consideration and treating for this purpose

## **Table of Contents**

the D.R. Horton common stock received as having a value per share equal to the closing price of D.R. Horton common stock for NYSE composite transactions on the closing date. The holders of Schuler common stock will receive in exchange for such reduction in cash an amount of additional shares of D.R. Horton common stock obtained by dividing the amount of such reduction in cash by the closing price of D.R. Horton common stock on the closing date.

No fractional shares of D.R. Horton common stock will be issued as merger consideration. Instead, any fractional share that would be issued will be converted into cash (without interest) equal to the per share closing price of D.R. Horton common stock as reported for NYSE composite transactions on the date of the merger multiplied by the fraction of a share that would otherwise be issued.

Each share of Schuler common stock that is issued and outstanding immediately prior to the effective time of the merger and that is held by a holder who has properly perfected his or her rights to dissent from the merger and demanded to be paid the fair value of his or her shares in accordance with Delaware law will not be converted into or exchangeable for cash or shares of D.R. Horton common stock. Instead, the dissenting holder will be entitled to any rights granted by Delaware law, and the surviving corporation will make any payments to the dissenting holders in accordance with Delaware law. If a holder fails to perfect or otherwise effectively waives, withdraws or loses the right to dissent and receive payment under Delaware law, or a court of competent jurisdiction determines that the holder is not entitled to relief under Delaware law, then the right of the holder to be paid the fair value of the dissenting shares will cease to exist and each share of Schuler common stock held by that holder will be deemed to have been converted into the same combination of cash, without interest, and shares of D.R. Horton common stock as a holder of the same number of shares of Schuler common stock receiving the base merger consideration.

## **Election Procedure**

The exchange agent, American Stock Transfer & Trust Company, will mail separately from this Joint Proxy Statement/ Prospectus an election form, including a letter of transmittal, to holders of record of Schuler's common stock as of the record date for the Schuler special meeting. **Schuler stockholders who want to receive the base merger consideration of cash and D.R. Horton common stock do not need to make an election.** A Schuler stockholder may not make an election for less than all of his or her shares. If shares of Schuler common stock are held in street name through a broker, the broker will mail the election form to the beneficial owner with this Joint Proxy Statement/ Prospectus, together with a letter of instructions for making an election. Beneficial owners should read the election form together with this Joint Proxy Statement/ Prospectus.

Schuler stockholders who become stockholders following the record date of the Schuler special meeting may contact American Stock Transfer & Trust Company by calling toll-free at (800) 937-5449, to receive an election form and letter of transmittal.

For an election to be effective, the election form must be properly completed, and the electing Schuler stockholder must send the form, together with all of the stockholder's certificates, duly endorsed in blank or otherwise in a form which is acceptable for transfer on the books of Schuler or by appropriate guarantee of delivery as described in the election form, to American Stock Transfer & Trust Company, the exchange agent, at one of the addresses provided in the election form. The exchange agent must receive the completed election form and stock certificates by 5:00 p.m., New York City Time, on February 20, 2002.

Schuler stockholders can revoke their election prior to 5:00 p.m., New York City Time, on February 20, 2002 by sending written notice executed by the Schuler stockholder to the exchange agent in accordance with the instructions on the election form, or by transmitting an executed notice of revocation by facsimile prior to the deadline for revocation to the following telephone number: (718) 259-1144. If an election is properly revoked, the exchange agent will treat the subject shares as shares for which no election has been made, unless the Schuler stockholder subsequently submits another properly completed election form prior to the deadline for submission. Stock certificates submitted with a form of election will be automatically returned if the merger agreement is terminated.

## **Table of Contents**

D.R. Horton will determine, or delegate to the exchange agent to determine, whether election forms have been properly completed, signed and submitted or revoked and may disregard immaterial defects in election forms. If D.R. Horton or the exchange agent determines that an election was not properly made, the election will have no force and effect and will be deemed to be a non-election. The decision of D.R. Horton or the exchange agent in all these matters will be conclusive and binding. Neither D.R. Horton nor the exchange agent will be under any obligation to notify any Schuler stockholder of any defect in his or her election form submitted to the exchange agent. D.R. Horton will also make, or delegate to the exchange agent to make, all computations regarding proration of the kind of merger consideration to be received by holders of shares of Schuler common stock. D.R. Horton's or the exchange agent's computations of the prorations will be conclusive and binding on the Schuler stockholders.

## **Schuler Stock Options**

D.R. Horton will replace each outstanding option to purchase Schuler common stock granted under Schuler's Amended and Restated 2000 Stock Incentive Plan or Amended and Restated 1992 Stock Option Plan, other than options granted to non-employee directors of Schuler, with a comparable option to purchase D.R. Horton common stock. The terms and conditions of the replacement options will be comparable to the Schuler options they are replacing, except that if the holder of a replacement D.R. Horton option is involuntarily terminated as an employee of D.R. Horton or any subsidiary, other than for cause, death or disability, within six months after the effective time of the merger, the D.R. Horton option will immediately vest and become exercisable in full. In addition, one Schuler executive's options will become fully vested and exercisable at the effective time of the merger. Each D.R. Horton replacement option will be exercisable for a number of shares of D.R. Horton common stock equal to the number of shares of Schuler common stock subject to the corresponding Schuler option, multiplied by an exchange ratio, with an exercise price per share equal to its exercise price per Schuler share, divided by the exchange ratio. The exchange ratio in both cases will equal the value of the base merger consideration per share of Schuler common stock divided by the average closing price of D.R. Horton common stock. Options granted to non-employee directors of Schuler will accelerate and become fully vested and exercisable, and subsequently terminate, upon consummation of the merger. If non-employee directors of Schuler exercise their options, they will receive the base merger consideration for the shares of Schuler common stock received upon exercise of the options.

## **Representations and Warranties**

The merger agreement contains, subject to specified exceptions and qualifications, representations and warranties by D.R. Horton and Schuler which are customary in transactions of this type, including representations and warranties with regard to the following:

due organization, good standing and corporate power to operate their respective businesses;

ownership of subsidiaries, due organization and good standing of such subsidiaries, necessary entity power to operate the respective businesses of such subsidiaries and other equity investments in other entities in excess of \$100,000;

capital structure and authorized, reserved and issued capital stock, stock options and similar securities;

corporate authority to enter into the merger agreement and to consummate the merger;

the absence of conflicts or violations of the charter, bylaws, other agreements, judgments or applicable laws resulting from the merger agreement or the merger;

required governmental filings and consents;

compliance with applicable laws or other agreements;

possession of and compliance with all necessary government permits;

**Table of Contents**

the filing of required documents with the SEC and the accuracy of information contained in such documents;

the accuracy of information contained in financial statements;

the absence of material changes or events;

the absence of undisclosed liabilities;

the absence of material litigation;

employee benefit plan matters and the absence of material liabilities under and compliance with employee benefit plans and other compensation arrangements;

the absence of material labor disputes;

real property and real estate matters, including title in owned real property and rights to acquire real property;

tax matters;

possession of and compliance with all necessary environmental permits and the absence of material environmental liabilities;

insurance matters;