MARKET VECTORS ETF TRUST
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FORM N-1A

Registration Statement Under the Securities Act of 1933	x
Pre-Effective Amendment No.	o
Post Effective Amendment No. 994	x
and/or	
Registration Statement Under the Investment Company Act of 1940	x
Amendment No. 998	x

MARKET VECTORS ETF TRUST
(Exact Name of Registrant as Specified in its Charter)

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Registrant s Telephone Number
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Approximate Date of Proposed Public Offering: **As soon as practicable after the effective date of this registration statement.**

IT IS PROPOSED THAT THIS FILING WILL BECOME EFFECTIVE (CHECK APPROPRIATE BOX)

x Immediately upon filing pursuant to paragraph (b)
o On [date] pursuant to paragraph (b)
o 60 days after filing pursuant to paragraph (a)(1)
o On [date] pursuant to paragraph (a)(1)
o 75 days after filing pursuant to paragraph (a)(2)
o On [date] pursuant to paragraph (a)(2) of rule 485

[LOGO]

February 5, 2013

Treasury-Hedged High Yield Bond ETF (THHY)

Principal U.S. Listing Exchange for the Fund: NYSE Arca, Inc.

The U.S. Securities and Exchange Commission (SEC) has not approved or disapproved these securities or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offense.

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SUMMARY INFORMATION

MARKET VECTORS TREASURY-HEDGED HIGH YIELD BOND ETF

Investment Objective

Market Vectors Treasury-Hedged High Yield Bond ETF (the Fund) seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors® U.S. Treasury-Hedged High Yield Bond Index (the Index).

Fund Fees and Expenses

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund (Shares).

Shareholder Fees (fees paid directly from your investment)	None
Annual Fund Operating Expenses	
(expenses that you pay each year as a percentage of the value of your investment)	
Management Fee	0.45%
Other Expenses[(a)]	0.11%
Interest on Securities Sold Short & Cost to Borrow	0.95%
Total Annual Fund Operating Expenses[(b)]	1.51%
Fee Waivers and Expense Reimbursement[(b)]	0.06%
Total Annual Fund Operating Expenses After Fee Waiver and Expense Reimbursement[(b)]	1.45%

(a) Other expenses are based on estimated amounts for the current fiscal year.

(b) Van Eck Associates Corporation (the Adviser) has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.50% of the Fund s average daily net assets per year until at least September 1, 2014. During such time, the expense limitation is expected to continue until the Fund s Board of Trustees acts to discontinue all or a portion of such expense limitation.

Expense Example

This example is intended to help you compare the cost of investing in the Fund with the cost of investing in other funds. This example does not take into account brokerage commissions that you pay when purchasing or selling Shares of the Fund.

The example assumes that you invest $10,000 in the Fund for the time periods indicated and then redeem all of your Shares at the end of those periods. The example also assumes that your investment has a 5% annual return and that the Fund s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

YEAR	EXPENSES
1	$148
3	$471

Portfolio Turnover

The Fund will pay transaction costs, such as commissions, when it purchases and sells securities (or turns over its portfolio). A higher portfolio turnover will cause the Fund to incur additional transaction costs and may result in higher taxes when Fund Shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, may affect the Fund s performance. Because the Fund is newly organized, no portfolio turnover figures are available.

Principal Investment Strategies

The Fund normally invests at least 80% of its total assets in securities that comprise the Fund s benchmark index. The Index, which is the Fund s benchmark index, was designed to provide exposure to below investment grade corporate bonds, denominated in U.S. dollars, and, through the use of Treasury notes, to hedge against rising interest rates. The Index seeks to hedge interest rate sensitivity by holding short positions in Treasury notes. The Long Portfolio of the Index includes corporate bonds that must have a below investment grade rating (based on ratings from Moody s Investors Service, Inc. (Moody s), Standard & Poor s Rating Services (S&P) and/or Fitch International Rating Agency (Fitch)). The Index includes bonds, including callable bonds, issued by issuers incorporated in the United States. The Short Portfolio of the Index holds four equally-weighted short positions in the current five-year U.S. Treasury note issued each of the last four quarter ends. The Short Portfolio and Long Portfolio of the Index are rebalanced on a monthly basis to where the dollar amount of the short exposure is equivalent to the dollar amount of the Long Portfolio s high yield bond positions. The Short Portfolio is reconstituted on a quarterly basis where the U.S. Treasury note closest to maturity is closed and the most recently issued five-year U.S. Treasury note is sold short. As of the date of this Prospectus, the Index included 686 below investment grade bonds of 373 issuers, and approximately 29% of the Index is comprised of Rule 144A securities. The Fund s 80% investment policy is non-fundamental and may be changed without shareholder approval upon 60 days prior written notice to shareholders.

The Fund, using a passive or indexing investment approach, attempts to approximate the investment performance of the Index. The Adviser expects that, over time, the correlation between the Fund s performance before fees and expenses and that of the Index will be 95% or better. A figure of 100% would indicate perfect correlation. Because of the practical difficulties and expense of purchasing all of the securities in the Long Portfolio of the Index and selling short all of the short positions in Treasury notes in the Short Portfolio of the Index to the same extent as the Index, the Fund does not purchase all or otherwise transact in all of the securities in the Index. Instead, the Adviser utilizes a sampling methodology in seeking to achieve the Fund s objective. As such, the Fund may purchase a subset of the bonds or short a subset of Treasury notes represented in the Index in an effort to gain exposure to a portfolio of bonds and short positions in Treasury notes with generally the same risk and return characteristics of the Index.

The Fund may concentrate its investments in a particular industry or group of industries to the extent that the Index concentrates in an industry or group of industries. As of the date of this Prospectus, the Index is concentrated in the industrials sector.

Principal Risks of Investing in the Fund

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund s Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank

and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund.

High Yield Securities Risk. Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of certain securities. The illiquidity of the market may also, at certain times, adversely affect the Fund s ability to arrive at a fair value for certain junk bonds. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund s net asset value (NAV).

Credit Risk. Bonds are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt. Bonds are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a bond may be downgraded after purchase, which may adversely affect the value of the security.

Interest Rate Risk. Bonds are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a bond resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most bonds go down. When the general level of interest rates goes down, the prices of most bonds go up.

Short Sales Risk. Short sales are transactions in which the Fund sells a security that it does not own. The Fund may incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the security sold short. The Fund may also pay transaction costs and borrowing fees in connection with short sales.

Hedging Risk. The Index is designed to hedge against the price sensitivity of the below investment grade corporate bonds included in the Index to increases in interest rates. The Fund s Short Portfolio does not reduce credit risk. The Fund s Short Portfolio will not eliminate interest rate risk, and the value of the Fund s shares may decline if interest rates increase. The Fund s Short Portfolio will also result in foregone losses if interest rates decline. A risk of hedging is the imperfect correlation between price movement of securities sold and the price movement of the Fund s investments. In addition, there may be significant differences between the below-investment grade corporate bond market and Treasury markets that could result in the Fund s short positions performing ineffectively, exacerbating losses or causing greater tracking error. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for securities, including technical influences and differences between the bonds being hedged and the securities available for trading.

Restricted Securities Risk. Rule 144A securities are restricted securities. They may be less liquid than other investments because, at times, such securities cannot be readily sold and the Fund might be unable to dispose of such securities promptly or at reasonable prices. A restricted security that was liquid at the time of purchase may subsequently become illiquid.

Market Risk. The prices of the securities in the Fund are subject to the risks associated with investing in bonds, including general economic conditions and sudden and unpredictable drops in value. An investment in the Fund may lose money.

Call Risk. The Fund may invest in callable bonds, and the issuers of such bonds may call or repay these securities with higher coupon or interest rates before the security s maturity date. If interest rates are falling, the Fund may have to reinvest the unanticipated proceeds at lower interest rates, resulting in a decline in the Fund s income.

Risk of Investing in the Industrials Sector. The industrials sector includes companies engaged in the manufacture and distribution of capital goods, such as those used in defense, construction and engineering, companies that manufacture and distribute electrical equipment and industrial machinery and those that provide commercial and transportation services and supplies. Because as currently constituted the Index is expected to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance may depend on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates. The success of these companies is affected by supply and demand both for their specific product or service and for industrial sector products in general. The products of manufacturing companies may face product obsolescence due to rapid technological developments and frequent new product introduction. In addition, the industrials sector may also be adversely affected by changes or trends in commodity prices, which may be influenced or characterized by unpredictable factors.

Sampling Risk. The Fund s use of a representative sampling approach will result in its holding (or selling short) a smaller number of securities than are in (or sold short by) the Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Long Portfolio of the Index, or a greater increase in NAV than would be the case if the Fund sold short all of the Treasury notes included in the Short Portfolio of the Index. Conversely, a positive development relating to an issuer of securities in the Long Portfolio of the Index that is not held by the Fund could cause the Fund to underperform the Index, or outperform the Index in the case of a short position in the Short Portfolio of the Index that is not held short by the Fund. To the extent the assets in the Fund are smaller, these risks will be greater.

Index Tracking Risk. The Fund s return may not match the return of the Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund s securities holdings to reflect changes in the composition of the Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units (defined herein). In addition, the Fund s use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Index as would be the case if the Fund purchased all of the securities in the Long Portfolio of the Index in the proportions represented in the Index or shorted all of the securities in the Short Portfolio of the Index to the same extent as the Index. The Fund is expected to value certain of its investments based on fair value prices. To the extent the Fund calculates its NAV based on fair value prices and the value of the Index is based on securities closing prices on local foreign markets (*i.e.*, the value of the Index is not based on fair value prices), the Fund s ability to track the Index may be adversely affected. Because the Fund bears the costs and risks associated with buying, selling and selling short securities while such costs and risks are not factored into the return of the Index, the Fund s return may deviate significantly from the return of the Index.

Replication Management Risk. An investment in the Fund involves risks similar to those of investing in any bond fund, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. However, because the Fund is not actively managed, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security s issuer was in financial trouble. Therefore, the Fund s performance could be lower than mutual funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

Premium/Discount Risk. Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

Risk of Cash Transactions. Unlike most other exchange-traded funds (ETFs), the Fund expects to effect a portion of its creations and redemptions for cash. As such, investments in Shares may be less tax-efficient than an investment in a conventional ETF.

Non-Diversified Risk. The Fund is classified as a non-diversified investment company under the Investment Company Act of 1940, as amended (1940 Act). Therefore, the Fund may invest a relatively high percentage of its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund s NAV and may make the Fund more volatile than more diversified funds.

Concentration Risk. The Fund s assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent the Index concentrates in a particular sector or sectors or industry or group of industries. Based on the current composition of the Index, it is expected that the Fund s assets will be concentrated in the industrials sector and that the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund s assets were invested in a wider variety of sectors or industries.

Performance

The Fund has not yet commenced operations and therefore does not have a performance history. Once available, the Fund s performance information will be accessible on the Fund s website at www.marketvectorsetfs.com.

Portfolio Management

Investment Adviser. Van Eck Associates Corporation.

Portfolio Managers. The following individuals are primarily and jointly responsible for the day-to-day management of the Fund s portfolio:

Name	Title with Adviser	Date Began Managing the Fund
Michael F. Mazier	Portfolio Manager	February 2013
Francis G. Rodilosso	Portfolio Manager	February 2013

Purchase and Sale of Fund Shares

The Fund issues and redeems Shares at NAV only in a large specified number of Shares, each called a Creation Unit, or multiples thereof. A Creation Unit consists of 200,000 Shares.

Individual Shares of the Fund may only be purchased and sold in secondary market transactions through brokers. Shares of the Fund are expected to be approved for listing, subject to notice of issuance, on NYSE Arca, Inc. (NYSE Arca) and because Shares will trade at market prices rather than NAV, Shares of the Fund may trade at a price greater than or less than NAV.

Tax Information

The Fund s distributions are taxable and will generally be taxed as ordinary income or capital gains.

ADDITIONAL INFORMATION ABOUT THE FUND S INVESTMENT STRATEGIES AND RISKS

Principal Investment Strategies

The Fund uses a sampling approach in seeking to achieve its investment objective. Sampling means that the Adviser uses quantitative analysis to select a representative sample of securities that the Adviser believes collectively have an investment profile similar to the Index. The Adviser seeks to invest in corporate bonds that are expected to have, in the aggregate, investment characteristics, fundamental characteristics (such as return variability, duration, maturity or credit ratings and yield) and liquidity measures similar to those of the Index, and the Adviser seeks to short Treasury notes that are expected to have, in the aggregate, fundamental characteristics (such as duration, maturity or credit ratings and yield) similar to those of the Index. The quantity of holdings in the Fund will be based on a number of factors, including asset size of the Fund. The Adviser generally expects the Fund to hold, sell or sell short less than the total number of securities held or sold in or sold short by the Index, but reserves the right to hold, sell or sell short as many securities as it believes necessary to achieve the Fund s investment objective. In addition, from time to time, securities are added to or removed from the Index. The Fund may sell securities that are represented in the Index, or purchase securities that are not yet represented in the Index, in anticipation of their removal from or addition to the Index. Further, the Adviser may choose to underweight or overweight securities, purchase or sell securities not in the Index, or utilize various combinations of other available investment techniques, in seeking to track the Index.

Additional Investment Strategies

The Fund may invest in securities not included in the Index, money market instruments, including repurchase agreements or other funds which invest exclusively in money market instruments, convertible securities, structured notes (notes on which the amount of principal repayment and interest payments are based on the movement of one or more specified factors, such as the movement of a particular stock or stock index) and certain derivatives. Convertible securities and depositary receipts may be used by the Fund in seeking performance that corresponds to the Index, and in managing cash flows, and may count towards compliance with the Fund s 80% policy. The Fund will not invest in money market instruments as part of a temporary defensive strategy to protect against potential stock market declines. The Fund may also invest, to the extent permitted by the 1940 Act, in other affiliated and unaffiliated funds, such as open-end or closed-end management investment companies, including other ETFs.

An authorized participant (i.e., a person eligible to place orders with the Distributor (defined below) to create or redeem Creation Units of the Fund) that is not a qualified institutional buyer, as such term is defined under Rule 144A of the Securities Act of 1933, as amended (Securities Act), will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

Borrowing Money

The Fund may borrow money from a bank up to a limit of one-third of the market value of its assets. To the extent that the Fund borrows money, it will be leveraged; at such times, the Fund will appreciate or depreciate in value more rapidly than the Index.

Fundamental and Non-Fundamental Policies

The Fund s investment objective and each of its other investment policies are non-fundamental policies that may be changed by the Board of Trustees without shareholder approval, except as noted in this Prospectus or the Statement of Additional Information (SAI) under the section entitled Investment Policies and Restrictions Investment Restrictions.

Lending Portfolio Securities

The Fund may lend its portfolio securities to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions and for other purposes. In connection with such loans, the Fund receives liquid collateral equal to at least 102% of the value of the portfolio securities being loaned. This collateral is marked-to-market on a daily basis. Although the Fund will receive collateral in connection with all loans of its securities holdings, the Fund would be exposed to a risk of loss should a borrower fail to return the borrowed securities (e.g., the Fund would have to buy replacement securities and the loaned securities may have appreciated beyond the value of the collateral held by the Fund) or become insolvent. The Fund may pay fees to the party arranging the loan of securities. In addition, the Fund will bear the risk of loss of any cash collateral that it invests.

Risks of Investing in the Fund

The following section provides additional information regarding certain of the principal risks identified under Principal Risks of Investing in the Fund in the Fund s Summary Information section along with additional risk information.

Investors in the Fund should be willing to accept a high degree of volatility in the price of the Fund s Shares and the possibility of significant losses. An investment in the Fund involves a substantial degree of risk. An investment in the Fund is not a deposit with a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Therefore, you should consider carefully the following risks before investing in the Fund.

High Yield Securities Risk. Securities rated below investment grade are commonly referred to as high yield securities or junk bonds. Junk bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. The prices of junk bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than higher rated securities. During an economic downturn or substantial period of rising interest rates, junk bond issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals or to obtain additional financing. In the event of a default, the Fund may incur additional expenses to seek recovery. The secondary market for securities that are junk bonds may be less liquid than the markets for higher quality securities and, as such, may have an adverse effect on the market prices of certain securities. The illiquidity of the market may also, at certain times, adversely affect the Fund s ability to arrive at a fair value for certain junk bonds. The illiquidity of the market also could make it difficult for the Fund to sell certain securities in connection with a rebalancing of the Index. In addition, periods of economic uncertainty and change may result in an increased volatility of market prices of high yield securities and a corresponding volatility in the Fund s NAV.

Credit Risk. Debt securities, such as bonds, are subject to credit risk. Credit risk refers to the possibility that the issuer of a security will be unable and/or unwilling to make timely interest payments and/or repay the principal on its debt. Debt securities are subject to varying degrees of credit risk which may be reflected in credit ratings. There is a possibility that the credit rating of a debt security may be downgraded after purchase or the perception of an issuer s credit worthiness may decline, which may adversely affect the value of the security.

Interest Rate Risk. Debt securities, such as bonds, are also subject to interest rate risk. Interest rate risk refers to fluctuations in the value of a debt security resulting from changes in the general level of interest rates. When the general level of interest rates goes up, the prices of most debt securities go down. When the general level of interest rates goes down, the prices of most debt securities go up.

Short Sales Risk. Short sales are transactions in which the Fund sells a security that it does not own. The Fund may incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the security sold short. The Fund may also pay transaction costs and borrowing fees in connection with short sales, and is required to pay the lender of the Treasury notes any interest payments received thereon during the pendency of the short sale. Until the Fund replaces a borrowed security, it is required to maintain collateral in the form of cash or liquid assets with its prime broker to cover the Fund s short position. The Fund will also be required to deposit similar assets to meet collateral requirements with its custodian in a segregated account for the benefit of the prime broker. If the Fund s prime broker fails to make or take delivery of a security as part of a short sale transaction, to make a cash settlement payment or to otherwise honor the terms of its contractual arrangements with the Fund, the settlement of the short sale transaction may be delayed and the Fund may lose money. This may also impair the Fund s ability to track the Index or meet redemption requests. Cash held as collateral in the segregated account earns interest based on current market practices. Generally, assets held in a segregated account cannot be sold unless they are replaced with other liquid assets. The Fund s ability to access the pledged collateral may also be impaired in the event the broker becomes bankrupt or otherwise fails to comply with the terms of the contract. In such instances the Fund may not be able to substitute or sell the pledged collateral and may experience significant delays in obtaining any recovery in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in these circumstances. Additionally, the Fund must maintain sufficient liquid assets (less any additional collateral pledged to the broker), marked-to-market daily, to cover the short sale obligations. This may limit the Fund s ability to track the Index, as well as its ability to meet redemption requests or other current obligations. Short sales are subject to special tax rules that will impact the character of gains and losses realized and affect the timing of income recognition.

Hedging Risk. The Index is designed to hedge against the price sensitivity of the below investment grade corporate bonds included in the Long Portfolio of the Index to increases in interest rates. The Fund s Short Portfolio does not reduce credit risk. The Fund s Short Portfolio will not eliminate interest rate risk, and the value of the Fund s shares may decline if interest rates increase. The Fund s Short Portfolio will also result in foregone losses if interest rates decline. A risk of hedging is the imperfect correlation between price movement of the securities sold and the price movement of the Fund s investments. In addition, there may be significant differences between the below-investment grade corporate bond market and Treasury markets that could result in the Fund s short positions performing ineffectively, exacerbating losses or causing greater tracking error. The degree of imperfection of correlation depends on circumstances such as variations in speculative market demand for securities, including technical influences and differences between the bonds being hedged and the securities available for trading.

Restricted Securities Risk. Rule 144A securities are restricted securities. Restricted securities are securities that are not registered under the Securities Act. They may be less liquid and more difficult to value than other investments because such securities may not be readily marketable. The Fund may not be able to sell a restricted security promptly or at a reasonable price. Although there may be a substantial institutional market for these securities, it is not possible to predict exactly how the market for such securities will develop. A restricted security that was liquid at the time of purchase may subsequently become illiquid and its value may decline as a result. Restricted securities that are deemed illiquid will count towards the Fund s 15% limitation on illiquid securities. In addition, transaction costs may be higher for restricted securities than for more liquid securities. The Fund may have to bear the expense of registering restricted securities for resale and the risk of substantial delays in effecting the registration.

Market Risk. The prices of securities in the Fund are subject to risks associated with investing in fixed income securities, including general economic conditions and sudden and unpredictable drops in value. Overall securities values could decline generally or underperform other investments. An investment in the Fund could lose money.

Call Risk. The Fund may invest in callable bonds. If interest rates fall, it is possible that issuers of callable securities with high interest coupons will call (or prepay) their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, the Fund is likely to have to replace such called security with a lower yielding security. If that were to happen, it would decrease the Fund s net investment income.

Risk of Investing in the Industrials Sector. The industrials sector includes companies engaged in the manufacture and distribution of capital goods, such as those used in defense, construction and engineering, companies that manufacture and distribute electrical equipment and industrial machinery and those that provide commercial and transportation services and supplies. Because as currently constituted the Index is expected to be concentrated in the industrials sector, the Fund will be sensitive to changes in, and its performance may depend on, the overall condition of the industrials sector. Companies in the industrials sector may be adversely affected by changes in government regulation, world events and economic conditions. In addition, companies in the industrials sector may be adversely affected by environmental damages, product liability claims and exchange rates. The success of these companies is affected by supply and demand both for their specific product or service and for industrial sector products in general. The products of manufacturing companies may face product obsolescence due to rapid technological developments and frequent new product introduction. In addition, the industrials sector may also be adversely affected by changes or trends in commodity prices, which may be influenced or characterized by unpredictable factors.

Sampling Risk. The Fund s use of a representative sampling approach will result in its holding (or selling short) a smaller number of securities than are in (or sold short by) the Index. As a result, an adverse development respecting an issuer of securities held by the Fund could result in a greater decline in NAV than would be the case if the Fund held all of the securities in the Long Portfolio of the Index, or a greater increase in NAV than would be the case if the Fund sold short all of the Treasury notes included in the Short Portfolio of the Index in the case of an adverse development affecting the U.S. government. Conversely, a positive development relating to an issuer of securities in the Long Portfolio of the Index that is not held by the Fund could cause the Fund to underperform the Index, or outperform the Index in the case of a short position in the Short Portfolio of the Index that is not sold short by the Fund. To the extent the assets in the Fund are smaller, these risks will be greater.

Index Tracking Risk. The Fund s return may not match the return of the Index for a number of reasons. For example, the Fund incurs a number of operating expenses not applicable to the Index and incurs costs associated with buying and selling securities, especially when rebalancing the Fund s securities holdings to reflect changes in the composition of the Index and raising cash to meet redemptions or deploying cash in connection with newly created Creation Units. In addition, the Fund s use of a representative sampling approach may cause the Fund s returns to not be as well correlated with the return of the Index as would be the case if the Fund purchased all of the securities in the Long Portfolio of the Index in the proportions represented in the Index or sold short all of the securities in the Short Portfolio of the Index to the same extent as the Index and can be expected to result in greater tracking error than if the Fund used a replication indexing strategy. The Fund s return may also deviate significantly from the return of the Index because the Fund bears the costs and risks associated with buying, selling and selling short securities while such costs and risks are not factored into the return of the Index. The Fund may not be fully invested at times either as a result of cash flows into the Fund or reserves of cash held by the Fund to meet redemptions and pay expenses. In addition, the Fund may not be able to invest in certain securities included in the Index, or invest in them in the exact proportions in which they are represented in the Index, due to legal restrictions or limitations or a lack of liquidity in markets in which such securities trade. Moreover, the Fund may be delayed in purchasing or selling securities included in the Index.

To the extent the Fund calculates its NAV based on fair value prices or prices that differ from those used in calculating the Index, the Fund s ability to track the Index may be adversely affected. The need to comply with the tax diversification and other requirements of the U.S. Internal Revenue Code of 1986, as amended (the Internal Revenue Code), may also impact the Fund s ability to replicate the performance of the Index. In addition, if the Fund utilizes depositary receipts and other derivative instruments, its return may not correlate as well with the returns of the Index as would be the case if the Fund purchased all the securities in the Index directly.

Replication Management Risk. Unlike many investment companies, the Fund is not actively managed. Therefore, unless a specific security is removed from the Index, the Fund generally would not sell a security because the security s issuer is in financial trouble. If a specific security is removed from the Index, the Fund may be forced to sell such security at an inopportune time or for prices other than at current market values. An investment in the Fund involves risks similar to those of investing in any fund of fixed income securities traded on an exchange, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in security prices. The Fund s Index may not contain the appropriate or a diversified mix of securities for any particular economic cycle. The timing of changes in the securities of the Fund s portfolio in seeking to replicate the Index could have a negative effect on the Fund. Unlike with an actively managed fund, the Adviser does not use techniques or defensive strategies designed to lessen the effects of market volatility or to reduce the impact of periods of market decline. This means that, based on market and economic conditions, the Fund s performance could be lower than other types of mutual funds that may actively shift their portfolio assets to take advantage of market opportunities or to lessen the impact of a market decline or a decline in the value of one or more issuers.

Premium/Discount Risk. Disruptions to creations and redemptions, the existence of extreme market volatility or potential lack of an active trading market for Shares may result in Shares trading at a significant premium or discount to NAV. The NAV of the Shares will fluctuate with changes in the market value of the Fund s securities holdings. The market prices of Shares will fluctuate in accordance with changes in NAV and supply and demand on NYSE Arca. The Adviser cannot predict whether Shares will trade below, at or above their NAV. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for Shares will be closely related to, but not identical to, the same forces influencing the prices of the securities of the Index trading individually or in the aggregate at any point in time. If a shareholder purchases Shares at a time when the market price is at a premium to the NAV or sells Shares at a time when the market price is at a discount to the NAV, the shareholder may sustain losses.

Risk of Cash Transactions. Unlike most other ETFs, the Fund expects to effect a portion of its creations and redemptions for cash. As a result, an investment in the Fund may be less tax-efficient than an investment in a more conventional ETF. Other ETFs generally are able to make in-kind redemptions and avoid realizing gains in connection with transactions designed to raise cash to meet redemption requests. Because the Fund currently intends to effect a portion of redemptions for cash, rather than in-kind distributions, it may be required to sell portfolio securities in order to obtain the cash needed to distribute redemption proceeds, which involves transaction costs. If the Fund recognizes gain on these sales, this generally will cause the Fund to recognize gain it might not otherwise have recognized if it were to distribute portfolio securities in-kind, or to recognize such gain sooner than would otherwise be required. The Fund generally intends to distribute these gains to shareholders to avoid being taxed on these gains at the Fund level and otherwise comply with the special tax rules that apply to it. This strategy may cause shareholders to be subject to tax on gains they would not otherwise be subject to, or at an earlier date than, if they had made an investment in a different ETF.

In addition, cash transactions may have to be carried out over several days if the securities market is relatively illiquid and may involve considerable brokerage fees and taxes. These brokerage fees and taxes, which will be higher than if the Fund sold and redeemed its shares principally in-kind, will be passed on to purchasers and redeemers of Creation Units in the form of creation and redemption transaction fees. See Creation and Redemption of Creation Units in the Fund s SAI. Certain countries may also impose higher local tax rates on transactions involving certain companies. In addition, these factors may result in wider spreads between the bid and the offered prices of the Fund s Shares than for more conventional ETFs.

Non-Diversified Risk. The Fund is a separate investment portfolio of Market Vectors ETF Trust (the Trust), which is an open-end investment company registered under the 1940 Act. The Fund is classified as a non-diversified investment company under the 1940 Act. As a result, the Fund is subject to the risk that it will be more volatile than a diversified fund because the Fund may invest its assets in a smaller number of issuers or may invest a larger proportion of its assets in obligations of a single issuer. As a result, the gains and losses on a single investment may have a greater impact on the Fund s NAV and may make the Fund more volatile than more diversified funds.

Concentration Risk. The Fund s assets may be concentrated in a particular sector or sectors or industry or group of industries to the extent that the Index concentrates in a particular sector or sectors or industry or group of industries. The securities of many or all of the companies in the same sector or industry may decline in value due to developments adversely affecting such sector or industry. Based on the current composition of the Index, it is expected that the Fund s assets will be concentrated in the industrials sector and that the Fund will be subject to the risk that economic, political or other conditions that have a negative effect on that sector will negatively impact the Fund to a greater extent than if the Fund s assets were invested in a wider variety of sectors or industries.

Additional Risks

Risk of Investing in Derivatives. Derivatives are financial instruments whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate, or index. The Fund s use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if the Fund invested directly in the underlying securities.

Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or, in the case of over-the-counter derivatives, as a result of the counterparty s credit quality and the risk that a derivative transaction may not have the effect the Adviser anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can create investment leverage, may be highly volatile, and the Fund could lose more than the amount it invests. The use of derivatives may increase the amount and affect the timing and character of taxes payable by shareholders of the Fund.

Many derivative transactions are entered into over-the-counter (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of the Fund s counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, the Fund s contractual remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the Fund s rights as a creditor (e.g., the Fund may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for the Fund s derivative positions at any time.

Leverage Risk. To the extent that the Fund borrows money or utilizes certain derivatives, it will be leveraged. Leveraging generally exaggerates the effect on NAV of any increase or decrease in the market value of the Fund s portfolio securities.

Zero-Coupon and Payment-in-Kind Securities Risk. Zero-coupon securities are securities that are sold at a discount to par value and on which interest payments are not made during the life of the security. Upon maturity, the holder is entitled to receive the par value of the security. Payment-in-kind securities are securities that have interest payable by delivery of additional securities. Upon maturity, the holder is entitled to receive the aggregate par value of the securities. The Fund accrues income with respect to zero-coupon and payment-in-kind securities prior to the receipt of cash payments. Even though periodic interest payments are not made on such securities, tax rules require the Fund to distribute accrued income, which may require the Fund to liquidate securities at unfavorable prices or borrow money in order to make these distributions.

Absence of Prior Active Market. The Fund is a newly organized series of an investment company and thus has no operating history. While the Fund s Shares are expected to be listed on NYSE Arca, there can be no assurance that active trading markets for the Shares will develop or be maintained. Van Eck Securities Corporation, the distributor of the Shares (the Distributor), does not maintain a secondary market in the Shares.

Trading Issues. Trading in Shares on NYSE Arca may be halted due to market conditions or for reasons that, in the view of NYSE Arca, make trading in Shares inadvisable. In addition, trading in Shares on NYSE Arca is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Arca s circuit breaker rules. There can be no assurance that the requirements of NYSE Arca necessary to maintain the listing of the Fund will continue to be met or will remain unchanged.

PORTFOLIO HOLDINGS

A description of the Fund s policies and procedures with respect to the disclosure of the Fund s portfolio securities is available in the Fund s SAI.

MANAGEMENT OF THE FUND

Board of Trustees. The Board of Trustees of the Trust has responsibility for the general oversight of the management of the Fund, including general supervision of the Adviser and other service providers, but is not involved in the day-to-day management of the Trust. A list of the Trustees and the Trust officers, and their present positions and principal occupations, is provided in the Fund s SAI.

Investment Adviser. Under the terms of an Investment Management Agreement between the Trust and Van Eck Associates Corporation with respect to the Fund (the Investment Management Agreement), Van Eck Associates Corporation serves as the adviser to the Fund and, subject to the supervision of the Board of Trustees, will be responsible for the day-to-day investment management of the Fund. As of December 31, 2012, the Adviser managed approximately $36.6 billion in assets. The Adviser has been an investment adviser since 1955 and also acts as adviser or sub-adviser to other mutual funds, exchange-traded funds, other pooled investment vehicles and separate accounts. The Adviser s principal business address is 335 Madison Avenue, 19th Floor, New York, New York 10017. A discussion regarding the Board of Trustees approval of the Investment Management Agreement will be available in the Trust s annual report for the year ended April 30, 2013.

For the services provided to the Fund under the Investment Management Agreement, the Fund will pay the Adviser monthly fees based on a percentage of the Fund s average daily net assets at the annual rate of 0.45%. From time to time, the Adviser may waive all or a portion of its fee. Until at least September 1, 2014, the Adviser has agreed to waive fees and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.50% of its average daily net assets per year. Offering costs excluded from the expense cap are: (a) legal fees pertaining to the Fund s Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares of the Fund to be listed on an exchange.

The Fund is responsible for all of its expenses, including the investment advisory fees, costs of transfer agency, custody, legal, audit and other services, interest, taxes, any distribution fees or expenses, offering fees or expenses and extraordinary expenses.

Manager of Managers Structure. The Adviser and the Trust may rely on an exemptive order (the Order) from the SEC that permits the Adviser to enter into investment sub-advisory agreements with unaffiliated sub-advisers without obtaining shareholder approval. The Adviser, subject to the review and approval of the Board of Trustees, may select sub-advisers for the Fund and supervise, monitor and evaluate the performance of each sub-adviser.

The Order also permits the Adviser, subject to the approval of the Board of Trustees, to replace sub-advisers and amend investment sub-advisory agreements, including applicable fee arrangements, without shareholder approval whenever the Adviser and the Board of Trustees believe such action will benefit the Fund and its shareholders. The Adviser thus would have the responsibility (subject to the oversight of the Board of Trustees) to recommend the hiring and replacement of sub-advisers as well as the discretion to terminate any sub-adviser and reallocate the Fund s assets for management among any other sub-adviser(s) and itself. This means that the Adviser would be able to reduce the sub-advisory fees and retain a larger portion of the management fee, or increase the sub-advisory fees and retain a smaller portion of the management fee. The Adviser would compensate each sub-adviser out of its management fee.

Administrator, Custodian and Transfer Agent. Van Eck Associates Corporation is the administrator for the Fund (the Administrator), and The Bank of New York Mellon is the custodian of the Fund s assets and provides transfer agency and fund accounting services to the Fund. The Administrator is responsible for certain clerical, recordkeeping and/or bookkeeping services which are provided pursuant to the Investment Management Agreement.

Distributor. Van Eck Securities Corporation is the distributor of the Shares. The Distributor will not distribute Shares in less than Creation Units, and does not maintain a secondary market in the Shares. The Shares are expected to be traded in the secondary market.

PORTFOLIO MANAGERS

The portfolio managers who currently share joint responsibility for the day-to-day management of the Fund s portfolio are Michael F. Mazier and Francis G. Rodilosso. Mr. Mazier has been employed by the Adviser since August 2007 as a senior fixed income strategist and portfolio manager. Prior to joining the Adviser, Mr. Mazier served as a bond analyst in the Fixed Income Research Department of Morgan Stanley. He was also Vice President at Merrill Lynch Global Research Department, where he covered closed-end funds. Mr. Mazier graduated from Syracuse University in 1983 with a Bachelor of Science majoring in Electrical Engineering; graduated from Villanova University in 1986 with a Master of Science in Computer Engineering; and graduated from Columbia Business School in 1990 with a Master of Business Administration. Mr. Mazier serves as the portfolio manager of other funds of the Trust. Mr. Mazier also serves as a portfolio manager for certain other investment companies advised by the Adviser. Mr. Rodilosso has been employed by the Adviser as a portfolio manager since March 2012. Mr. Rodilosso graduated from Princeton University in 1990 with a Bachelor of Arts and from the Wharton School of Business in 1993 with a Masters of Business Administration. Prior to joining the Adviser, Mr. Rodilosso was Managing Director, Global Emerging Markets at The Seaport Group (January 2010 to March 2012), Founding Partner of Soundbrook Capital, LLC (June 2008 to December 2009) and Managing Director, Portfolio Manager and Head of Risk Management at Greylock Capital Management (2001 to 2008). Because the Fund is new, Messrs. Mazier and Rodilosso will be serving as the portfolio managers of the Fund since its inception. See the

Fund s SAI for additional information about the portfolio managers compensation, other accounts managed by the portfolio managers and their respective ownership of Shares.

SHAREHOLDER INFORMATION

Determination of NAV

The NAV per Share for the Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees, including the management fee, are accrued daily and taken into account for purposes of determining NAV. The NAV of the Fund is determined each business day as of the close of trading (ordinarily 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE). Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The values of the Fund s portfolio securities are based on the securities closing prices on their local principal markets, where available. In the absence of a last reported sales price, or if no sales were reported, and for other assets for which market quotes are not readily available, values may be based on quotes obtained from a quotation reporting system, established market makers or by an outside independent pricing service. Short positions may be valued based on ask prices obtained from such sources in the absence of a last reported sales price for the shorted security. Fixed income securities are normally valued on the basis of quotes from brokers or dealers, established market makers or an outside independent pricing service using data reflecting the earlier closing of the principal markets for those securities. Prices obtained by an outside independent pricing service may use information provided by market makers or estimates of market values obtained from yield data related to investments or securities with similar characteristics and may use a computerized grid matrix of securities and its evaluations in determining what it believes is the fair value of the portfolio securities. Short-term investments having a maturity of 60 days or less are valued at amortized cost. If a market quotation for a security is not readily available or the Adviser believes it does not otherwise accurately reflect the market value of the security at the time the Fund calculates its NAV, the security will be fair valued by the Adviser in accordance with the Trust s valuation policies and procedures approved by the Board of Trustees. The Fund may also use fair value pricing in a variety of circumstances, including but not limited to, situations where the value of a security in the Fund s portfolio has been materially affected by events occurring after the close of the market on which the security is principally traded (such as a corporate action or other news that may materially affect the price of a security) or trading in a security has been suspended or halted. In addition, the Fund currently expects that it will fair value certain of the foreign securities held by the Fund each day the Fund calculates its NAV, except those securities principally traded on exchanges that close at the same time the Fund calculates its NAV. Accordingly, the Fund s NAV is expected to reflect certain portfolio securities fair values rather than their market prices at the time the exchanges on which they principally trade close. Fair value pricing involves subjective judgments and it is possible that a fair value determination for a security is materially different than the value that could be realized upon the sale of the security. In addition, fair value pricing could result in a difference between the prices used to calculate the Fund s NAV and the prices used by the Index. This may adversely affect the Fund s ability to track the Index. With respect to securities traded in foreign markets, the value of the Fund s portfolio securities may change on days when you will not be able to purchase or sell your Shares.

Buying and Selling Exchange-Traded Shares

The Shares of the Fund are expected to be approved for listing on NYSE Arca, subject to notice of issuance. If you buy or sell Shares in the secondary market, you will incur customary brokerage commissions and charges and may pay some or all of the spread between the bid and the offered price in the secondary market on each leg of a round trip (purchase and sale) transaction. In times of severe market disruption or low trading volume in the Fund s Shares, this spread can increase significantly. It is anticipated that the Shares will trade in the secondary market at prices that may differ to varying degrees from the NAV of the Shares. During periods of disruptions to creations and redemptions or the existence of extreme market volatility, the market prices of Shares are more likely to differ significantly from the Shares NAV.

The Depository Trust Company (DTC) serves as securities depository for the Shares. (The Shares may be held only in book-entry form; stock certificates will not be issued.) DTC, or its nominee, is the record or registered owner of all outstanding Shares. Beneficial ownership of Shares will be shown on the records of DTC or its participants (described below). Beneficial owners of Shares are not entitled to have Shares registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and are not considered the registered holder thereof. Accordingly, to exercise any rights of a holder of Shares, each beneficial owner must rely on the procedures of: (i) DTC; (ii) DTC Participants, i.e., securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC; and (iii) Indirect Participants, i.e., brokers, dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly, through which such beneficial owner holds its interests. The Trust understands that under existing industry practice, in the event the Trust requests any action of holders of Shares, or a beneficial owner desires to take any action that DTC, as the record owner of all outstanding Shares, is entitled to take, DTC would authorize the DTC Participants to take such action and that the DTC Participants would authorize the Indirect Participants and beneficial owners acting through such DTC Participants to take such action and would otherwise act upon the instructions of beneficial owners owning through them. As described above, the Trust recognizes DTC or its nominee as the owner of all Shares for all purposes. For more information, see the section entitled Book Entry Only System in the Fund s SAI.

The NYSE Arca is open for trading Monday through Friday and is closed on weekends and the following holidays: New Year s Day, Martin Luther King, Jr. Day, Presidents Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Because non-U.S. exchanges may be open on days when the Fund does not price its Shares, the value of the securities in the Fund s portfolio may change on days when shareholders will not be able to purchase or sell the Fund s Shares.

Market Timing and Related Matters. The Fund imposes no restrictions on the frequency of purchases and redemptions. The Board of Trustees considered the nature of the Fund (i.e., a fund whose shares are expected to trade intra-day), that the Adviser monitors the trading activity of authorized participants for patterns of abusive trading, that the Fund reserves the right to reject orders that may be disruptive to the management of or otherwise not in the Fund s best interests, and that the Fund may fair value certain of its securities. Given this structure, the Board of Trustees determined that it is not necessary to impose restrictions on the frequency of purchases and redemptions for the Fund at the present time.

Distributions

Net Investment Income and Capital Gains. As a shareholder of the Fund, you are entitled to your share of the Fund s distributions of net investment income and net realized capital gains on its investments. The Fund pays out substantially all of its net earnings to its shareholders as distributions.

The Fund typically earns income from interest on debt securities. These amounts, net of expenses, are typically passed along to Fund shareholders as dividends from net investment income. The Fund realizes capital gains or losses whenever it sells securities. Net realized capital gains are distributed to shareholders as capital gain distributions. Distributions from the Fund s net investment income, including any net short-term capital gains, if any, are taxable to you as ordinary income. Any long-term capital gains distributions you receive from the Fund are taxable as long-term capital gains.

Net investment income, if any, is typically distributed to shareholders at least monthly while net realized capital gains, if any, are typically distributed to shareholders at least annually. Dividends may be declared and paid more frequently to improve index tracking or to comply with the distribution requirements of the Internal Revenue Code. In addition, the Fund may determine to distribute at least annually amounts representing the full dividend yield net of expenses on the underlying investment securities, as if the Fund owned the underlying investment securities for the entire dividend period in which case some portion of each distribution may result in a return of capital, which, for tax purposes, is treated as a return on your investment in Shares. You will be notified regarding the portion of the distribution which represents a return of capital.

Distributions in cash may be reinvested automatically in additional Shares of the Fund only if the broker through which you purchased Shares makes such option available.

Tax Information

As with any investment, you should consider how your Fund investment will be taxed. The tax information in this Prospectus is provided as general information. You should consult your own tax professional about the tax consequences of an investment in the Fund, including the possible application of foreign, state and local taxes. Unless your investment in the Fund is through a tax-exempt entity or tax-deferred retirement account, such as a 401(k) plan, you need to be aware of the possible tax consequences when: (i) the Fund makes distributions, (ii) you sell Shares in the secondary market or (iii) you create or redeem Creation Units.

Taxes on Distributions. As noted above, the Fund expects to distribute net investment income, if any, at least monthly, and any net realized long-term or short-term capital gains, if any, annually. The Fund may also pay a special distribution at any time to comply with U.S. federal tax requirements.

In general, your distributions are subject to U.S. federal income tax when they are paid, whether you take them in cash or reinvest them in the Fund. Distributions from the Fund s net investment income, including any net short-term capital gains, if any, are taxable to you as ordinary income. Whether distributions of capital gains represent long-term or short-term capital gains is determined by how long the Fund owned the investments that generated them, rather than how long you have owned your Shares. Distributions of net short-term capital gains in excess of net long term capital losses, if any, are generally taxable as ordinary income. Distributions of net long-term capital gains in excess of net short-term capital losses, if any, that are properly reported as capital gain dividends are generally taxable as long-term capital gains. After 2012, long-term capital gains of non-corporate shareholders are generally taxable at a maximum rate of 15% or 20%, depending on whether the shareholders income exceeds certain threshold amounts. Absent further legislation, the maximum tax rate on long-term capital gains of non-corporate shareholders will generally return to 20% for taxable years beginning after December 31,

2012. The Fund does not expect that any of its distributions will be qualified dividends eligible for lower tax rates or for the corporate dividends received deduction.

Distributions in excess of the Fund s current and accumulated earnings and profits are treated as a tax-free return of your investment to the extent of your basis in the Shares, and generally as capital gain thereafter. A return of capital, which for tax purposes is treated as a return of your investment, reduces your basis in Shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition of Shares. A distribution will reduce the Fund s NAV per Share and may be taxable to you as ordinary income or capital gain even though, from an economic standpoint, the distribution may constitute a return of capital.

Dividends, interest and gains from non-U.S. investments of the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the United States may, in some cases, reduce or eliminate such taxes.

If more than 50% of the Fund s total assets at the end of its taxable year consist of foreign securities, the Fund may elect to pass through to its investors certain foreign income taxes paid by the Fund, with the result that each investor will (i) include in gross income, as an additional dividend, even though not actually received, the investor s pro rata share of the Fund s foreign income taxes, and (ii) either deduct (in calculating U.S. taxable income) or credit (in calculating U.S. federal income), subject to certain limitations, the investor s pro rata share of the Fund s foreign income taxes.

Backup Withholding. The Fund may be required to withhold a percentage of your distributions and proceeds if you have not provided a taxpayer identification number or social security number or otherwise established a basis for exemption from backup withholding. The backup withholding rate for individuals is currently 28%. This is not an additional tax and may be refunded, or credited against your U.S. federal income tax liability, provided certain required information is furnished to the Internal Revenue Service.

Taxes on the Sale or Cash Redemption of Exchange Listed Shares. Currently, any capital gain or loss realized upon a sale of Shares is generally treated as long term capital gain or loss if the Shares have been held for more than one year and as a short -term capital gain or loss if held for one year or less. However, any capital loss on a sale of Shares held for six months or less is treated as long-term capital loss to the extent that capital gain dividends were paid with respect to such Shares. The ability to deduct capital losses may be limited. To the extent that a shareholder s Shares are redeemed for cash, this is normally treated as a sale for tax purposes.

Taxes on Creations and Redemptions of Creation Units. A person who exchanges securities for Creation Units generally will recognize a gain or loss. The gain or loss will be equal to the difference between the market value of the Creation Units at the time of exchange and the sum of the exchanger s aggregate basis in the securities surrendered and the amount of any cash paid for such Creation Units. A person who exchanges Creation Units for securities will generally recognize a gain or loss equal to the difference between the exchanger s basis in the Creation Units and the sum of the aggregate market value of the securities received. The Internal Revenue Service, however, may assert that a loss realized upon an exchange of primarily securities for Creation Units cannot be deducted currently under the rules governing wash sales, or on the basis that there has been no significant change in economic position. Persons exchanging securities for Creation Units or redeeming Creation Units should consult their own tax adviser with respect to whether wash sale rules apply and when a loss might be deductible and the tax treatment of any creation or redemption transaction.

Under current U.S. federal income tax laws, any capital gain or loss realized upon a redemption (or creation) of Creation Units is generally treated as long-term capital gain or loss if the Shares (or securities surrendered) have been held for more than one year and as a short-term capital gain or loss if the Shares (or securities surrendered) have been held for one year or less.

If you create or redeem Creation Units, you will be sent a confirmation statement showing how many Shares you created or sold and at what price.

Medicare Tax. For taxable years beginning after December 31, 2012, an additional 3.8% Medicare tax will be imposed on certain net investment income (including ordinary dividends and capital gain distributions received from the Fund and net gains from redemptions or other taxable dispositions of Fund Shares) of U.S. individuals, estates and trusts to the extent that such person s modified adjusted gross income (in the case of an individual) or adjusted gross income (in the case of an estate or trust) exceeds certain threshold amounts.

Non-U.S. Shareholders. If you are not a citizen or resident alien of the United States or if you are a non-U.S. entity, the Fund s ordinary income dividends (which include distributions of net short-term capital gains) will generally be subject to a 30% U.S. withholding tax, unless a lower treaty rate applies or unless such income is effectively connected with a U.S. trade or business.

Effective January 1, 2014, the Fund will be required to withhold U.S. tax (at a 30% rate) on payments of dividends and (effective January 1, 2017) redemption proceeds made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive new reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts. Shareholders may be requested to provide additional information to the Fund to enable the Fund to determine whether withholding is required. The foregoing discussion summarizes some of the consequences under current U.S. federal income tax law of an investment in the Fund. It is not a substitute for personal tax advice. Consult your own tax advisor about the potential tax consequences of an investment in the Fund under all applicable tax laws.

Non-U.S. shareholders are advised to consult their tax advisors with respect to the particular tax consequences to them of an investment in the Fund, including the possible applicability of the U.S. estate tax.

The foregoing discussion summarizes some of the consequences under current U.S. federal income tax law of an investment in the Fund. It is not a substitute for personal tax advice. Consult your own tax advisor about the potential tax consequences of an investment in the Fund under all applicable tax laws.

INDEX PROVIDER

The Index is published by Market Vectors Index Solutions GmbH (the Index Provider), which is a wholly owned subsidiary of the Adviser. The Index Provider does not sponsor, endorse, or promote the Fund and bears no liability with respect to the Fund or any security.

MARKET VECTORS U.S. TREASURY-HEDGED HIGH YIELD BOND INDEX

The Index was designed to provide exposure to below investment grade corporate bonds, denominated in U.S. dollars, and, through the use of Treasury notes, to hedge against rising interest rates.

The Index is comprised of a Long Portfolio and a Short Portfolio. The Long Portfolio of the Index includes qualifying corporate bonds that must have a below investment grade (IG) rating (based on ratings from Moody s, S&P and/or Fitch); a bond is eligible if it has either 2 or 3 high-yield (HY) ratings, 1 HY and 1 IG rating or 1 HY and no IG rating. The Index includes bonds, including callable bonds, issued by issuers incorporated in the United States. As of the date of this Prospectus, approximately 29% of the Index is comprised of Rule 144A securities. As of the date of this Prospectus, the Index consisted of approximately 686 below investment grade bonds of 373 issuers.

Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $500 million. Original issue zero coupon bonds, Rule 144A securities, both with and without registration rights, and payment-in-kind securities, including toggle notes, qualify for inclusion in the Index. Payment-in-kind securities pay distributions or interest in the form of additional securities. Toggle notes are a type of payment-in-kind bond where the issuer has the option to defer an interest payment by agreeing to pay an increased coupon in the future. Callable perpetual securities qualify provided they are at least one year from the first call date. A callable perpetual security is a type of bond that has no maturity date but may be redeemed by the issuer at certain times. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Excluded from the Index are Eurodollar bonds (U.S. dollar-denominated bonds not issued in the U.S. domestic market), taxable and tax-exempt U.S. municipal, warrant-bearing and defaulted securities.

Long Portfolio Index constituents are modified market capitalization-weighted and issuers are capped at 3% and the excess weight shall be redistributed proportionately across the other Long Portfolio constituents. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during each month are retained in the Index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in either the Long Portfolio or the Short Portfolio of the Index.

The Short Portfolio of the Index includes four equally-weighted short positions in the current five-year U.S. Treasury note issued as of the four most recent reconstitution dates.

The Long Portfolio and Short Portfolio of the Index are rebalanced as of the close of business on the last trading day of each month to where the absolute dollar amount of the short exposure is equivalent to the dollar amount of the Long Portfolio s high-yield bond positions, based on information available up to and including the third business day before the last business day of the month. Issues that meet the qualifying criteria are included in the Index for the following month. Issues that no longer meet the criteria during the course of the month remain in the Index until the next month-end rebalancing at which point they are removed from the Index. The Short Portfolio of the Index is reconstituted on a quarterly basis where the Treasury note closest to maturity is closed and the most recently issued five-year Treasury note is sold short (*i.e.*, the Index position is negative with respect to such Treasury note).

LICENSE AGREEMENT AND DISCLAIMERS

The Adviser has entered into a licensing agreement with the Index Provider to use the Index. The Index Provider is a wholly owned subsidiary of the Adviser. The Adviser has also granted the Index Provider a license to use the phrase Market Vectors in connection with the Index. The Fund is entitled to use the Index pursuant to a sub-licensing arrangement with the Adviser.

The Shares of the Fund are not sponsored, endorsed, sold or promoted by the Index Provider. The Index Provider makes no representation or warranty, express or implied, to the owners of the Shares of the Fund or any member of the public regarding the advisability of investing in securities generally or in the Shares of the Fund particularly or the ability of the Index to track the performance of the securities markets. The Index is determined and composed by the Index Provider without regard to the Adviser or the Shares of the Fund. The Index Provider has no obligation to take the needs of the Adviser or the owners of the Shares of the Fund into consideration in determining or composing the Index. The Index Provider is not responsible for and has not participated in the determination of the timing of, prices at, or quantities of the Shares of the Fund to be issued or in the determination or calculation of the equation by which the Shares of the Fund are to be converted into cash. The Index Provider has no obligation or liability in connection with the administration, marketing or trading of the Shares of the Fund.

THE INDEX PROVIDER DOES NOT GUARANTEE THE ACCURACY AND/OR THE COMPLETENESS OF THE INDEX OR ANY DATA INCLUDED THEREIN AND THE INDEX PROVIDER SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, OR INTERRUPTIONS THEREIN. THE INDEX PROVIDER MAKES NO WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY THE ADVISER, OWNERS OF THE SHARES OF THE FUND, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE INDEX OR ANY DATA INCLUDED THEREIN. THE INDEX PROVIDER MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDEX OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT SHALL THE INDEX PROVIDER HAVE ANY LIABILITY FOR ANY SPECIAL, PUNITIVE, INDIRECT, OR CONSEQUENTIAL DAMAGES (INCLUDING LOST PROFITS), EVEN IF NOTIFIED OF THE POSSIBILITY OF SUCH DAMAGES.

The Index is the exclusive property of the Index Provider, which has contracted with Interactive Data Pricing and Reference Data, Inc. (the Calculation Agent) to maintain and calculate the Index. The Calculation Agent uses its best efforts to ensure that the Index is calculated correctly. Irrespective of its obligations towards the Index Provider, the Calculation Agent has no obligation to point out errors in the Index to third parties.

FINANCIAL HIGHLIGHTS

The Fund has not yet commenced operations as of the date of this Prospectus and therefore it does not have a financial history.

PREMIUM/DISCOUNT INFORMATION

The Fund has not yet commenced operations and, therefore, does not have information about the differences between the Fund s daily market price on NYSE Arca and its NAV. Information regarding how often the Shares of the Fund traded on NYSE Arca at a price above (i.e., at a premium) or below (i.e., at a discount) the NAV of the Fund during the past four calendar quarters, as applicable, can be found at www.marketvectorsetfs.com.

GENERAL INFORMATION

Continuous Offering

The method by which Creation Units are created and traded may raise certain issues under applicable securities laws. Because new Creation Units are issued and sold by the Trust on an ongoing basis, a distribution, as such term is used in the Securities Act, may occur at any point. Broker dealers and other persons are cautioned that some activities on their part may, depending on the circumstances, result in their being deemed participants in a distribution in a manner which could render them statutory underwriters and subject them to the prospectus delivery and liability provisions of the Securities Act.

For example, a broker dealer firm or its client may be deemed a statutory underwriter if it takes Creation Units after placing an order with the Distributor, breaks them down into constituent Shares, and sells such Shares directly to customers, or if it chooses to couple the creation of a supply of new Shares with an active selling effort involving solicitation of secondary market demand for Shares. A determination of whether one is an underwriter for purposes of the Securities Act must take into account all the facts and circumstances pertaining to the activities of the broker dealer or its client in the particular case, and the examples mentioned above should not be considered a complete description of all the activities that could lead to a categorization as an underwriter.

Broker dealers who are not underwriters but are participating in a distribution (as contrasted to ordinary secondary trading transactions), and thus dealing with Shares that are part of an unsold allotment within the meaning of Section 4(3)(C) of the Securities Act, would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. This is because the prospectus delivery exemption in Section 4(3) of the Securities Act is not available in respect of such transactions as a result of Section 24(d) of the 1940 Act. As a result, broker dealer firms should note that dealers who are not underwriters but are participating in a distribution (as contrasted with ordinary secondary market transactions) and thus dealing with the Shares that are part of an overallotment within the meaning of Section 4(3)(A) of the Securities Act would be unable to take advantage of the prospectus delivery exemption provided by Section 4(3) of the Securities Act. Firms that incur a prospectus delivery obligation with respect to Shares are reminded that, under Rule 153 of the Securities Act, a prospectus delivery obligation under Section 5(b)(2) of the Securities Act owed to an exchange member in connection with a sale on NYSE Arca is satisfied by the fact that the prospectus is available at NYSE Arca upon request. The prospectus delivery mechanism provided in Rule 153 is only available with respect to transactions on an exchange.

Other Information

The Trust was organized as a Delaware statutory trust on March 15, 2001. Its Declaration of Trust currently permits the Trust to issue an unlimited number of Shares of beneficial interest. If shareholders are required to vote on any matters, each Share outstanding would be entitled to one vote. Annual meetings of shareholders will not be held except as required by the 1940 Act and other applicable law. See the Fund s SAI for more information concerning the Trust s form of organization. Section 12(d)(1) of the 1940 Act restricts investments by investment companies in the securities of other investment companies, including Shares of the Fund. Registered investment companies are permitted to invest in the Fund beyond the limits set forth in Section 12(d)(1) subject to certain terms and conditions set forth in an SEC exemptive order issued to the Trust, including that such investment companies enter into an agreement with the Fund.

Dechert LLP serves as counsel to the Trust, including the Fund. Ernst & Young LLP serves as the Trust s independent registered public accounting firm and will audit the Fund s financial statements annually.

Additional Information

This Prospectus does not contain all the information included in the Registration Statement filed with the SEC with respect to the Fund s Shares. Information about the Fund can be reviewed and copied at the SEC s Public Reference Room and information on the operation of the Public Reference Room may be obtained by calling the SEC at 1.202.551.8090. The Fund s Registration Statement, including this Prospectus, the Fund s SAI and the exhibits may be examined at the offices of the SEC (100 F Street, NE, Washington, DC 20549) or on the EDGAR database at the SEC s website (http://www.sec.gov), and copies may be obtained, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, DC 20549-1520. These documents and other information concerning the Trust also may be inspected at the offices of NYSE Arca (20 Broad Street, New York, New York 10005).

The SAI for the Fund, which has been filed with the SEC, provides more information about the Fund. The SAI for the Fund is incorporated herein by reference and is legally part of this Prospectus. Additional information about the Fund s investments will be available in the Fund s annual and semi-annual reports to shareholders. In the Fund s annual report, when available, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund s performance during its last fiscal year. The SAI and the Fund s annual and semi-annual reports may be obtained without charge by writing to the Fund at Van Eck Securities Corporation, the Fund s distributor, at 335 Madison Avenue, New York, New York 10017 or by calling the distributor at the following number: Investor Information: 1.888.MKT.VCTR (658-8287).

Shareholder inquiries may be directed to the Fund in writing to 335 Madison Avenue, 19th Floor, New York, New York 10017 or by calling 1.888.MKT.VCTR (658-8287).

The Fund s SAI will be available at www.marketvectorsetfs.com.

(Investment Company Act file no. 811-10325)

For more detailed information about the Fund, see the SAI dated February 5, 2013, which is incorporated by reference into this Prospectus. Additional information about the Fund s investments will be available in the Fund s annual and semi-annual reports to shareholders. In the Fund s annual report, when available, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund s performance during its last fiscal year.

Call Van Eck at 888.MKT.VCTR to request, free of charge, the annual or semi-annual reports, when available, the SAI, or other information about the Fund or to make shareholder inquiries. You may also obtain the SAI or the Fund s annual or semi-annual reports, when available, by visiting the Van Eck website at www.marketvectorsetfs.com.

Information about the Fund (including the SAI) can also be reviewed and copied at the SEC Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 202.551.8090.

Reports and other information about the Fund are available on the EDGAR Database on the SEC s internet site at http://www.sec.gov. In addition, copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, Washington, DC 20549-0102.

Transfer Agent: The Bank of New York Mellon
SEC Registration Number: 333-123257
1940 Act Registration Number: 811-10325

888.MKT.VCTR
vaneck.com

MARKET VECTORS ETF TRUST

STATEMENT OF ADDITIONAL INFORMATION

Dated February 5, 2013

This Statement of Additional Information (SAI) is not a prospectus. It should be read in conjunction with the Prospectus dated February 5, 2013 (the Prospectus) for the Market Vectors ETF Trust (the Trust), relating to the series of the Trust listed below, as it may be revised from time to time.

Fund	**Principal U.S. Listing Exchange**	**Ticker**
Market Vectors Treasury-Hedged High Yield Bond ETF	NYSE Arca, Inc.	THHY

A copy of the Prospectus may be obtained without charge by writing to the Trust or the Distributor. The Trust s address is 335 Madison Avenue, 19th Floor, New York, New York 10017. Capitalized terms used herein that are not defined have the same meaning as in the Prospectus, unless otherwise noted.

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GENERAL DESCRIPTION OF THE TRUST

The Trust is an open-end management investment company. The Trust currently consists of 61 investment portfolios. This SAI relates to one investment portfolio, Market Vectors Treasury-Hedged High Yield Bond ETF (the Fund). The Fund is classified as a non-diversified management investment company under the Investment Company Act of 1940, as amended (1940 Act), and, as a result, is not required to meet certain diversification requirements under the 1940 Act. The Trust was organized as a Delaware statutory trust on March 15, 2001. The shares of the Fund are referred to herein as Shares.

The Fund will offer and issue Shares at their net asset value (NAV) only in aggregations of a specified number of Shares (each, a Creation Unit). Similarly, Shares will be redeemable by the Fund only in Creation Units. Creation Units of the Fund will be issued and redeemed principally for cash. The Shares are expected to be approved for listing, subject to notice of issuance, on NYSE Arca, Inc. (NYSE Arca or the Exchange), and will trade in the secondary market at market prices that may differ from the Shares NAV. A Creation Unit consists of 200,000 Shares. The Trust reserves the right to permit or require a cash option for creations and redemptions of Shares (subject to applicable legal requirements) to the extent such Shares are not created and redeemed in cash.

INVESTMENT POLICIES AND RESTRICTIONS

Short Sales

The Fund may engage in short selling to the extent permitted by the 1940 Act and rules and interpretations thereunder. When the Fund makes a short sale, it borrows the security sold short and delivers it to the broker-dealer through which it made the short sale. The Fund may have to pay a fee to borrow particular securities and is often obligated to turn over any payments received on such borrowed securities to the lender of the securities.

The Fund secures its obligation to replace the borrowed security by depositing collateral with the broker-dealer, usually in cash, U.S. Government securities or other liquid securities similar to those borrowed. With respect to uncovered short positions, the Fund is required to deposit similar collateral with its custodian, if necessary, to the extent that the value of both collateral deposits in the aggregate is at all times equal to at least 150% of the current market value of the securities sold short (100% of the current market value if a security is held in the account that is convertible or exchangeable into the security sold short within 90 days without restriction other than the payment of money). Depending on arrangements made with the broker-dealer from which the Fund borrowed the security, regarding payment received by the Fund on such security, the Fund may not receive any payments (including interest) on its collateral deposited with such broker-dealer.

Because making short sales in securities that it does not own exposes the Fund to the risks associated with those securities, such short sales involve speculative exposure risk. The Fund will incur a loss as a result of a short sale if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund will realize a gain on a short sale if the security declines in price between those dates. There can be no assurance that the Fund will be able to close out a short sale position at any particular time or at an acceptable price.

The Fund may also make short sales against the box without being subject to such limitations. In a short sale against-the-box, at the time of the sale, the Fund owns or has the immediate and unconditional right to acquire the identical security at no additional cost. If the Fund makes a short sale against the box, the Fund would not immediately deliver the securities sold and would not receive the proceeds from the sale. The seller is said to have a short position in the securities sold until it delivers the securities sold, at which time it receives the proceeds of the sale. To secure its obligation to deliver securities sold short, the Fund will deposit in escrow in a separate account with the custodian an equal amount of the securities sold short or securities convertible into or exchangeable for such securities. The Fund can close out its short position by purchasing and delivering an equal amount of the securities sold short, rather than by delivering securities already held by the Fund because the Fund might want to continue to receive interest and dividend payments on securities in its portfolio that are convertible into the securities sold short.

Repurchase Agreements

The Fund may invest in repurchase agreements with commercial banks, brokers or dealers to generate income from its excess cash balances and to invest securities lending cash collateral. A repurchase agreement is an agreement under which the Fund acquires a money market instrument (generally a security issued by the U.S. Government or an agency thereof, a banker s acceptance or a certificate of deposit) from a seller, subject to resale to the seller at an agreed upon price and date (normally, the next business day). A repurchase agreement may be considered a loan collateralized by securities. The resale price reflects an agreed upon interest rate effective for the period the instrument is held by the Fund and is unrelated to the interest rate on the underlying instrument.

In these repurchase agreement transactions, the securities acquired by the Fund (including accrued interest earned thereon) must have a total value at least equal to the value of the repurchase agreement and are held by the Trust s custodian bank until repurchased. In addition, the Trust s Board of Trustees (Board or Trustees) has established guidelines and standards for review of the creditworthiness of any bank, broker or dealer counterparty to a repurchase agreement with the Fund. No more than an aggregate of 15% of the Fund s net assets will be invested in repurchase agreements having maturities longer than seven days.

The use of repurchase agreements involves certain risks. For example, if the other party to the agreement defaults on its obligation to repurchase the underlying security at a time when the value of the security has declined, the Fund may incur a loss upon disposition of the security. If the other party to the agreement becomes insolvent and subject to liquidation or reorganization under the Bankruptcy Code or other laws, a court may determine that the underlying security is collateral not within the control of the Fund and, therefore, the Fund may incur delays in disposing of the security and/or may not be able to substantiate its interest in the underlying security and may be deemed an unsecured creditor of the other party to the agreement.

Futures Contracts and Options

Futures contracts generally provide for the future sale by one party and purchase by another party of a specified instrument, index or commodity at a specified future time and at a specified price. Bond index futures contracts are settled daily with a payment by one party to the other of a cash amount based on the difference between the level of the bond index specified in the contract from one day to the next. Futures contracts are standardized as to maturity date and underlying instrument and are traded on futures exchanges. The Fund may use futures contracts and options on futures contracts based on other indexes or combinations of indexes that Van Eck Associates Corporation (the Adviser) believes to be representative of the Fund s benchmark index (the Index).

An option is a contract that provides the holder the right to buy or sell shares at a fixed price, within a specified period of time. An American call option gives the option holder the right to buy the underlying security from the option writer at the option exercise price at any time prior to the expiration of the option. A European call option gives the option holder the right to buy the underlying security from the option writer only on the option expiration date. An American put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price at any time prior to the expiration of the option. A European put option gives the option holder the right to sell the underlying security to the option writer at the option exercise price only on the option expiration date.

Although futures contracts (other than cash settled futures contracts including most bond index futures contracts) by their terms call for actual delivery or acceptance of the underlying instrument or commodity, in most cases the contracts are closed out before the maturity date without the making or taking of delivery. Closing out an open futures position is done by taking an opposite position (buying a contract which has previously been sold or selling a contract previously purchased) in an identical contract to terminate the position. Brokerage commissions are incurred when a futures contract position is opened or closed.

Futures traders are required to make a good faith margin deposit in cash or government securities with a broker or custodian to initiate and maintain open positions in futures contracts. A margin deposit is intended to assure completion of the contract (delivery or acceptance of the underlying instrument or commodity or payment of the cash settlement amount) if it is not terminated prior to the specified delivery date. Brokers may establish deposit requirements which are higher than the exchange minimums. Futures contracts are customarily purchased and sold on margin deposits which may range upward from less than 5% of the value of the contract being traded.

After a futures contract position is opened, the value of the contract is marked-to-market daily. If the futures contract price changes to the extent that the margin on deposit does not satisfy margin requirements, payment of additional variation margin will be required.

Conversely, a change in the contract value may reduce the required margin, resulting in a repayment of excess margin to the contract holder. Variation margin payments are made to and from the futures broker for as long as the contract remains open. The Fund expects to earn interest income on its margin deposits.

The Fund may use futures contracts and options thereon, together with positions in cash and money market instruments, to simulate full investment in the Index. Under such circumstances, the Adviser may seek to utilize other instruments that it believes to be correlated to the Index components or a subset of the components. Liquid futures contracts may not be currently available for the Index.

Positions in futures contracts and options may be closed out only on an exchange that provides a secondary market therefor. However, there can be no assurance that a liquid secondary market will exist for any particular futures contract or option at any specific time. Thus, it may not be possible to close a futures or options position. In the event of adverse price movements, the Fund would continue to be required to make daily cash payments to maintain its required margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to make delivery of the instruments underlying futures contracts it has sold.

The Fund will seek to minimize the risk that it will be unable to close out a futures or options contract by only entering into futures and options for which there appears to be a liquid secondary market.

The risk of loss in trading futures contracts or uncovered call options in some strategies (*e.g.*, selling uncovered bond index futures contracts) is potentially unlimited. The Fund does not plan to use futures and options contracts in this way. The risk of a futures position may still be large as traditionally measured due to the low margin deposits required. In many cases, a relatively small price movement in a futures contract may result in immediate and substantial loss or gain to the investor relative to the size of a required margin deposit.

Utilization of futures transactions by the Fund involves the risk of imperfect or even negative correlation to the Index if the index underlying the futures contracts differs from the Index. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in the futures contract or option.

Certain financial futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day s settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses.

Except as otherwise specified in the Prospectus or this SAI, there are no limitations on the extent to which the Fund may engage in transactions involving futures and options thereon. The Fund will take steps to prevent its futures positions from leveraging its securities holdings. When the Fund has a long futures position, it will maintain with its custodian bank, cash or liquid securities having a value equal to the notional value of the contract (less any margin deposited in connection with the position). When the Fund has a short futures position, as part of a complex bond replication strategy the Fund will maintain with its custodian bank assets substantially identical to those underlying the contract or cash and liquid securities (or a combination of the foregoing) having a value equal to the net obligation of the Fund under the contract (less the value of any margin deposits in connection with the position).

Swaps

Over-the-counter swap agreements are contracts between parties in which one party agrees to make payments to the other party based on the change in market value or level of a specified index or asset. In return, the other party agrees to make payments to the first party based on the return of a different specified index or asset. Although over-the-counter swap agreements entail the risk that a party will default on its payment obligations thereunder, the Fund seeks to reduce this risk by entering into agreements that involve payments no less frequently than quarterly. The net amount of the excess, if any, of the Fund s obligations over its entitlements with respect to each swap is accrued on a daily basis and an amount of cash or highly liquid securities having an aggregate value at least equal to the accrued excess is maintained in an account at the Trust s custodian bank.

The use of such swap agreements involves certain risks. For example, if the counterparty, under a swap agreement, defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, the Fund may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and related regulatory developments ultimately will require the clearing and exchange-trading of many over-the-counter derivative instruments that the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) recently defined as swaps. Mandatory exchange-trading and clearing will occur on a phased-in basis based on the type of market participant and CFTC approval of contracts for central clearing. The Adviser will continue to monitor these developments, particularly to the extent regulatory changes affect a Fund s ability to enter into swap agreements.

Warrants and Subscription Rights

Warrants are equity securities in the form of options issued by a corporation which give the holder the right, but not the obligation, to purchase stock, usually at a price that is higher than the market price at the time the warrant is issued. A purchaser takes the risk that the warrant may expire worthless because the market price of the common stock fails to rise above the price set by the warrant.

Currency Forwards

A currency forward transaction is a contract to buy or sell a specified quantity of currency at a specified date in the future at a specified price which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract. Currency forward contracts may be used to increase or reduce exposure to currency price movements.

The use of currency forward transactions involves certain risks. For example, if the counterparty under the contract defaults on its obligation to make payments due from it as a result of its bankruptcy or otherwise, the Fund may lose such payments altogether or collect only a portion thereof, which collection could involve costs or delays.

Convertible Securities

A convertible security is a bond, debenture, note, preferred stock, right, warrant or other security that may be converted into or exchanged for a prescribed amount of common stock or other security of the same or a different issuer or into cash within a particular period of time at a specified price or formula. A convertible security generally entitles the holder to receive interest paid or accrued on debt securities or the dividend paid on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Before conversion, convertible securities generally have characteristics similar to both debt and equity securities. The value of convertible securities tends to decline as interest rates rise and, because of the conversion feature, tends to vary with fluctuations in the market value of the underlying securities. Convertible securities ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities generally rank senior to common stock in a corporation s capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities although the market prices of convertible securities may be affected by any dividend changes or other changes in the underlying securities.

Structured Notes

A structured note is a derivative security for which the amount of principal repayment and/or interest payments is based on the movement of one or more factors. These factors include, but are not limited to, currency exchange rates, interest rates (such as the prime lending rate or LIBOR), referenced bonds and stock indices. Some of these factors may or may not correlate to the total rate of return on one or more underlying instruments referenced in such notes. Investments in structured notes involve risks including interest rate risk, credit risk and market risk. Depending on the factor(s) used and the use of multipliers or deflators, changes in interest rates and movement of such factor(s) may cause significant price fluctuations. Structured notes may be less liquid than other types of securities and more volatile than the reference factor underlying the note.

Participation Notes

Participation notes (P-Notes) are issued by banks or broker-dealers and are designed to offer a return linked to the performance of a particular underlying equity security or market. P-Notes can have the characteristics or take the form of various instruments, including, but not limited to, certificates or warrants. The holder of a P-Note that is linked to a particular underlying security is entitled to receive any dividends paid in connection with the underlying security. However, the holder of a P-Note generally does not receive voting rights as it would if it directly owned the underlying security. P-Notes constitute direct, general and unsecured contractual obligations of the banks or broker-dealers that issue them, which therefore subject the Fund to counterparty risk, as discussed below. Investments in P-Notes involve certain risks in addition to those associated with a direct investment in the underlying foreign securities or foreign securities markets whose return they seek to replicate. For instance, there can be no assurance that the trading price of a P-Note will equal the value of the underlying foreign security or foreign securities market that it seeks to replicate. As the purchaser of a P-Note, the Fund is relying on the creditworthiness of the counterparty issuing the P-Note and has no rights under a P-Note against the issuer of the underlying security. Therefore, if such counterparty were to become insolvent, the Fund would lose its investment. The risk that the Fund may lose its investments due to the insolvency of a single counterparty may be amplified to the extent the Fund purchases P-Notes issued by one issuer or a small number of issuers. P-Notes also include transaction costs in addition to those applicable to a direct investment in securities. In addition, the Fund s use of P-Notes may cause the Fund s performance to deviate from the performance of the portion of the Index to which the Fund is gaining exposure through the use of P-Notes.

Due to liquidity and transfer restrictions, the secondary markets on which P-Notes are traded may be less liquid than the markets for other securities, which may lead to the absence of readily available market quotations for securities in the Fund s portfolio and may cause the value of the P-Notes to decline. The ability of the Fund to value its securities becomes more difficult and the Adviser s judgment in the application of fair value procedures may play a greater role in the valuation of the Fund s securities due to reduced availability of reliable objective pricing data. Consequently, while such determinations will be made in good faith, it may nevertheless be more difficult for the Fund to accurately assign a daily value to such securities.

Future Developments

The Fund may take advantage of opportunities in the area of options, futures contracts, options on futures contracts, options on the Fund, warrants, swaps and any other investments which are not presently contemplated for use or which are not currently available, but which may be developed, to the extent such investments are considered suitable for the Fund by the Adviser.

Investment Restrictions

The Trust has adopted the following investment restrictions as fundamental policies with respect to the Fund. These restrictions cannot be changed without the approval of the holders of a majority of the Fund s outstanding voting securities. For purposes of the 1940 Act, a majority of the outstanding voting securities of the Fund means the vote, at an annual or a special meeting of the security holders of the Trust, of the lesser of (1) 67% or more of the voting securities of the Fund present at such meeting, if the holders of more than 50% of the outstanding voting securities of the Fund are present or represented by proxy, or (2) more than 50% of the outstanding voting securities of the Fund. Under these restrictions:

1. The Fund may not make loans, except that the Fund may (i) lend portfolio securities, (ii) enter into repurchase agreements, (iii) purchase all or a portion of an issue of debt securities, bank loan or participation interests, bank certificates of deposit, bankers acceptances, debentures or other securities, whether or not the purchase is made upon the original issuance of the securities and (iv) participate in an interfund lending program with other registered investment companies;

2. The Fund may not borrow money, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

3. The Fund may not issue senior securities, except as permitted under the 1940 Act, and as interpreted or modified by regulation from time to time;

4. The Fund may not purchase or sell real estate, except that the Fund may (i) invest in securities of issuers that invest in real estate or interests therein; (ii) invest in mortgage-related securities and other securities that are secured by real estate or interests therein; and (iii) hold and sell real estate acquired by the Fund as a result of the ownership of securities;

5. The Fund may not engage in the business of underwriting securities issued by others, except to the extent that the Fund may be considered an underwriter within the meaning of the Securities Act of 1933, as amended (the Securities Act), in the disposition of restricted securities or in connection with its investments in other investment companies;

6. The Fund may not purchase or sell commodities, unless acquired as a result of owning securities or other instruments, but it may purchase, sell or enter into financial options and futures, forward and spot currency contracts, swap transactions and other financial contracts or derivative instruments and may invest in securities or other instruments backed by commodities; and

7. The Fund may not purchase any security if, as a result of that purchase, 25% or more of its total assets would be invested in securities of issuers having their principal business activities in the same industry except that the Fund may invest 25% or more of the value of its total assets in securities of issuers in any one industry or group of industries if the index that the Fund replicates concentrates in an industry or group of industries. This limit does not apply to securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

In addition to the investment restrictions adopted as fundamental policies as set forth above, the Fund observes the following restrictions, which may be changed by the Board without a shareholder vote. The Fund will not:

1. Invest in securities which are illiquid securities, including repurchase agreements maturing in more than seven days and options traded over-the-counter, if the result is that more than 15% of the Fund s net assets would be invested in such securities.

2. Purchase any security on margin, except for such short-term loans as are necessary for clearance of securities transactions. The deposit or payment by the Fund or initial or variation margin in connection with futures contracts or related options thereon is not considered the purchase of a security on margin.

3. Participate in a joint or joint-and-several basis in any trading account in securities, although transactions for the Fund and any other account under common or affiliated management may be combined or allocated between the Fund and such account.

4. Purchase securities of open-end or closed-end investment companies except in compliance with the 1940 Act, although the Fund may not acquire any securities of registered open-end investment companies or registered unit investment trusts in reliance on Sections 12(d)(1)(F) or 12(d)(1)(G) of the 1940 Act.

If a percentage limitation is adhered to at the time of investment or contract, a later increase or decrease in percentage resulting from any change in value or total or net assets will not result in a violation of such restriction, except that the percentage limitations with respect to the borrowing of money and illiquid securities will be continuously complied with. An illiquid security is generally considered to be a security that cannot be sold or disposed of in the ordinary course of business within seven days at the approximate price used by the Fund in determining its NAV.

The Fund may invest in securities not included in the Index, money market instruments or funds which reinvest exclusively in money market instruments, in bonds that are in the relevant market but not the Index, and/or in combinations of certain bond index futures contracts, options on such futures contracts, bond options, bond index options, options on the Shares, and bond index swaps and swaptions, each with a view towards providing the Fund with exposure to the securities in the Index. These investments may be made to invest uncommitted cash balances or, in limited circumstances, to assist in meeting shareholder redemptions of Creation Units. The Fund will not invest in money market instruments as part of a temporary defensive strategy to protect against potential bond market declines.

SPECIAL CONSIDERATIONS AND RISKS

A discussion of the risks associated with an investment in the Fund is contained in the Prospectus under the headings Summary Information Principal Risks of Investing in the Fund and Additional Information About the Fund s Investment Strategies and Risks Risks of Investing in the Fund. The discussion below supplements, and should be read in conjunction with, such sections of the Prospectus.

General

Investment in the Fund should be made with an understanding that the value of the Fund s portfolio securities may fluctuate in accordance with changes in the financial condition of the issuers of the portfolio securities, the value of securities generally and other factors.

An investment in the Fund should also be made with an understanding of the risks inherent in an investment in fixed income securities. An issuer may have the right to redeem or call a bond before maturity, in which case the investor may have to reinvest the proceeds at lower market rates. Most bonds bear interest income at a coupon rate that is fixed for the life of the bond. The value of a fixed rate bond usually rises when market interest rates fall, and falls when market interest rates rise. Accordingly, a fixed rate bond s yield (income as a percent of the bond s current value) may differ from its coupon rate as its value rises or falls. Other types of bonds bear income at an interest rate that is adjusted periodically. Because of their adjustable interest rates, the values of floating-rate or variable-rate bonds generally fluctuate less in response to market interest rate movements than the value of similar fixed rate bonds. The Fund may treat some of these bonds as having a shorter maturity for purposes of calculating the weighted average maturity of its investment portfolio. Generally, prices of higher quality issues tend to fluctuate more with changes in market interest rates than prices of lower quality issues and prices of longer maturity issues tend to fluctuate more than prices of shorter maturity issues. Bonds may be senior or subordinated obligations. Senior obligations generally have the first claim on a corporation s earnings and assets and, in the event of liquidation, are paid before subordinated obligations. Bonds may be unsecured (backed only by the issuer s general creditworthiness) or secured (also backed by specified collateral).

The Fund is not actively managed by traditional methods, and therefore the adverse financial condition of any one issuer will not result in the elimination of its securities from the securities held by the Fund unless the securities of such issuer are removed from the Index.

An investment in the Fund should also be made with an understanding that the Fund will not be able to replicate exactly the performance of the Index because the total return generated by the securities will be reduced by transaction costs incurred in adjusting the actual balance of the securities and other Fund expenses, whereas such transaction costs and expenses are not included in the calculation of the Index. In addition, the Fund s use of a representative sampling approach may cause the Fund to not be as well correlated with the return of the Index as would be the case if the Fund purchased all of the securities in the Index in the proportions represented in the Index. The risk of non-correlation may be higher than other exchange-traded funds which utilize a sampling approach to the extent that the Fund invests a portion of its assets in securities that have economic characteristics that are substantially identical to the securities comprising the Index, but which are not included in the Index. It is also possible that for periods of time, the Fund may not fully replicate the performance of the Index due to the temporary unavailability of certain Index securities in the secondary market or due to other extraordinary circumstances. Such events are unlikely to continue for an extended period of time because the Fund is required to correct such imbalances by means of adjusting the composition of the securities. It is also possible that the composition of the Fund may not exactly replicate the composition of the Index if the Fund has to adjust its portfolio holdings in order to continue to qualify as a regulated investment company under the U.S. Internal Revenue Code of 1986, as amended (the Internal Revenue Code).

Regulatory developments affecting the exchange-traded and OTC derivatives markets may impair the Fund’s ability to manage or hedge its investment portfolio through the use of derivatives. The Dodd-Frank Act and the rules promulgated thereunder may limit the ability of the Fund to enter into one or more exchange-traded or OTC derivatives transactions.

The Fund has filed a notice of eligibility with the National Futures Association claiming an exclusion from the definition of the term “commodity pool operator” (“CPO”) under the Commodity Exchange Act (“CEA”). Therefore, neither the Fund nor the Adviser (with respect to the Fund) is subject to registration or regulation as a commodity pool or CPO under the CEA.

The Fund’s use of derivatives may also be limited by the requirements of the Code, for qualification as a regulated investment company for U.S. federal income tax purposes.

U.S. Federal Tax Treatment of Futures Contracts

The Fund may be required for federal income tax purposes to mark-to-market and recognize as income for each taxable year their net unrealized gains and losses on certain futures contracts as of the end of the year as well as those actually realized during the year. Gain or loss from futures contracts on broad-based indexes required to be marked-to-market will be 60% long-term and 40% short-term capital gain or loss. Application of this rule may alter the timing and character of distributions to shareholders. The Fund may be required to defer the recognition of losses on futures contracts to the extent of any unrecognized gains on related positions held by the Fund.

In order for the Fund to continue to qualify for U.S. federal income tax treatment as a regulated investment company, at least 90% of its gross income for a taxable year must be derived from qualifying income, *i.e.*, dividends, interest, income derived from loans of securities, gains from the sale of securities or of foreign currencies or other income derived with respect to the Fund s business of investing in securities. It is anticipated that any net gain realized from the closing out of futures contracts will be considered gain from the sale of securities and therefore will be qualifying income for purposes of the 90% requirement.

The Fund distributes to shareholders annually any net capital gains which have been recognized for U.S. federal income tax purposes (including unrealized gains at the end of the Fund s fiscal year) on futures transactions. Such distributions are combined with distributions of capital gains realized on the Fund s other investments and shareholders are advised on the nature of the distributions.

EXCHANGE LISTING AND TRADING

A discussion of exchange listing and trading matters associated with an investment in the Fund is contained in the Prospectus under the headings Summary Information Principal Risks of Investing in the Fund, Additional Information About the Fund s Investment Strategies and Risks Risks of Investing in the Fund, Shareholder Information Determination of NAV and Shareholder Information Buying and Selling Exchange-Traded Shares. The discussion below supplements, and should be read in conjunction with, such sections of the Prospectus.

The Shares are expected to be approved for listing on NYSE Arca, subject to notice of issuance, and will trade in the secondary market at prices that may differ to some degree from their NAV. The Exchange may but is not required to remove the Shares from listing if: (1) following the initial twelve-month period beginning upon the commencement of trading of the Fund, there are fewer than 50 beneficial holders of the Shares for 30 or more consecutive trading days, (2) the value of the Index or portfolio of securities on which the Fund is based is no longer calculated or available or (3) such other event shall occur or condition exists that, in the opinion of the Exchange, makes further dealings on the Exchange inadvisable. In addition, the Exchange will remove the Shares from listing and trading upon termination of the Trust. There can be no assurance that the requirements of the Exchange necessary to maintain the listing of Shares will continue to be met.

As in the case of other securities traded on the Exchange, brokers commissions on transactions will be based on negotiated commission rates at customary levels.

In order to provide investors with a basis to gauge whether the market price of the Shares on the Exchange is approximately consistent with the current value of the assets of the Fund on a per Share basis, an updated Intra-Day Optimized Portfolio Value is disseminated intra-day through the facilities of the Consolidated Tape Association s Network B Intra-Day Optimized Portfolio Values are disseminated every 15 seconds during regular Exchange trading hours based on the most recently reported prices of Fund Securities. The Fund is not involved in or responsible for the calculation or dissemination of the Intra-Day Optimized Portfolio Value and makes no warranty as to the accuracy of the Intra-Day Optimized Portfolio Value.

The Intra-Day Optimized Portfolio Value has a net other assets value component, which is summed and divided by the total estimated Fund Shares outstanding, including Shares expected to be issued by the Fund on that day, to arrive at an Intra-Day Optimized Portfolio Value. The net other assets value component consists of estimates of all other assets and liabilities of the Fund including, among others, current day estimates of interest income and expense accruals.

BOARD OF TRUSTEES OF THE TRUST

Trustees and Officers of the Trust

The Board of the Trust consists of five Trustees, four of whom are not interested persons (as defined in the 1940 Act), of the Trust (the Independent Trustees). Mr. David H. Chow, an Independent Trustee, serves as Chairman of the Board. The Board is responsible for overseeing the management and operations of the Trust, including general supervision of the duties performed by the Adviser and other service providers to the Trust. The Adviser is responsible for the day-to-day administration and business affairs of the Trust.

The Board believes that each Trustee s experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees lead to the conclusion that the Board possesses the requisite skills and attributes to carry out its oversight responsibilities with respect to the Trust. The Board believes that the Trustees ability to review, critically evaluate, question and discuss information provided to them, to interact effectively with the Adviser, other service providers, counsel and independent auditors, and to exercise effective business judgment in the performance of their duties, support this conclusion. The Board also has considered the following experience, qualifications, attributes and/or skills, among others, of its members in reaching its conclusion: such person s character and integrity; length of service as a board member of the Trust; such person s willingness to serve and willingness and ability to commit the time necessary to perform the duties of a Trustee; and as to each Trustee other than Mr. van Eck, his status as not being an interested person (as defined in the 1940 Act) of the Trust. In addition, the following specific experience, qualifications, attributes and/or skills apply as to each Trustee: Mr. Chow, significant business and financial experience, particularly in the investment management industry, experience with trading and markets through his involvement with the Pacific Stock Exchange, and service as a chief executive officer, board member, partner or executive officer of various businesses and non-profit organizations; Mr. Short, business and financial experience, particularly in the investment management industry, and service as a president, board member or executive officer of various businesses; Mr. Sidebottom, business and financial experience, particularly in the investment management industry, and service as partner and/or executive officer of various businesses; Mr. Stamberger, business and financial experience and service as the president and chief executive officer of SmartBrief Inc., a media company; and Mr. van Eck, business and financial experience, particularly in the investment management industry, and service as a president, executive officer and/or board member of various businesses, including the Adviser, Van Eck Securities Corporation, and Van Eck Absolute Return Advisers Corporation. References to the experience, qualifications, attributes and skills of Trustees are pursuant to requirements of the SEC, do not constitute holding out of the Board or any Trustee as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

The Trustees of the Trust, their addresses, positions with the Trust, ages, term of office and length of time served, principal occupations during the past five years, the number of portfolios in the Fund Complex overseen by each Trustee and other directorships, if any, held by the Trustees, are set forth below.

Independent Trustees

Name, Address[1] and Age	**Position(s) Held with the Trust**	**Term of Office[2] and Length of Time Served**	**Principal Occupation(s) During Past Five Years**	**Number of Portfolios in Fund Complex[3] Overseen**	**Other Directorships Held By Trustee During Past Five Years**
David H. Chow, 55*	Chairman Trustee	Since 2008 Since 2006	Founder and CEO, DanCourt Management LLC (financial/strategy consulting firm and Registered Investment Adviser), March 1999 to present.	61	Director, Forward Management LLC and Audit Committee Chairman; Trustee, Berea

Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex[3] Overseen	Other Directorships Held By Trustee During Past Five Years
					College of Kentucky and Vice-Chairman of the Investment Committee; Member of the Governing Council of the Independent Directors Council; Secretary and Board Member of the CFA Society of Stamford.
R. Alastair Short, 59*	Trustee	Since 2006	President, Apex Capital Corporation (personal investment vehicle), January 1988 to present; Vice Chairman, W.P. Stewart & Co., Inc. (asset management firm), September 2007 to September 2008; and Managing Director, The GlenRock Group, LLC (private equity investment firm), May 2004 to September 2007.	71	Chairman and Independent Director, EULAV Asset Management, January 2011 to present; Independent Director, Tremont offshore funds, June 2009 to present; Director, Kenyon Review.
Peter J. Sidebottom, 50*	Trustee	Since 2012	Partner, Bain & Company (management consulting firm), April 2012 to present; Executive Vice President and Senior Operating Committee Member, TD Ameritrade (on-line brokerage firm), February 2009 to January 2012; Executive Vice President, Wachovia Corporation (financial services firm), December 2004 to February 2009.	61	Board Member, Special Olympics, New Jersey, November 2011 to present; Director, The Charlotte Research Institute, December 2000 to present; Board Member, Social Capital Institute, University of North Carolina Charlotte, November 2004 to January 2012.

Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex[3] Overseen	Other Directorships Held By Trustee During Past Five Years
Richard D. Stamberger, 53*	Trustee	Since 2006	President and CEO, SmartBrief, Inc. (media company).	71	None.

1 The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.
2 Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.
3 The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.
* Member of the Audit Committee.
Member of the Nominating and Corporate Governance Committee.

Interested Trustee

Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex[3] Overseen	Other Directorships Held By Trustee During Past Five Years
Jan F. van Eck, 49[4]	Trustee, President and Chief Executive Officer	Trustee (Since 2006); President and Chief Executive Officer (Since 2009)	Director, President and Owner of the Adviser, Van Eck Associates Corporation; Director and President, Van Eck Securities Corporation (VESC); Director and President, Van Eck Absolute Return Advisers Corp. (VEARA).	61	Director, National Committee on US-China Relations.

1 The address for each Trustee and officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.
2 Each Trustee serves until resignation, death, retirement or removal. Officers are elected yearly by the Trustees.
3 The Fund Complex consists of the Van Eck Funds, Van Eck VIP Trust and the Trust.
4 Interested person of the Trust within the meaning of the 1940 Act. Mr. van Eck is an officer of the Adviser.

Officer Information

The Officers of the Trust, their addresses, positions with the Trust, ages and principal occupations during the past five years are set forth below.

Officer s Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During The Past Five Years
Russell G. Brennan, 48	Assistant Vice President and Assistant Treasurer	Since 2008	Assistant Vice President and Assistant Treasurer of the Adviser (since 2008); Manager (Portfolio Administration) of the Adviser, September 2005 to October 2008; Officer of other investment companies advised by the Adviser.

Officer s Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During The Past Five Years
Charles T. Cameron, 52	Vice President	Since 2006	Director of Trading (since 1995) and Portfolio Manager (since 1997) for the Adviser; Officer of other investment companies advised by the Adviser.
Simon Chen, 41	Assistant Vice President	Since 2012	Greater China Director of the Adviser (since January 2012); General Manager, SinoMarkets Ltd. (June 2007 December 2011).
John J. Crimmins, 55	Vice President, Treasurer, Chief Financial Officer and Principal Accounting Officer	Vice President, Chief Financial Officer and Principal Accounting Officer (Since 2012); Treasurer (Since 2009)	Vice President of Portfolio Administration of the Adviser, June 2009 to present; Vice President of VESC and VEARA, June 2009 to present; Chief Financial, Operating and Compliance Officer, Kern Capital Management LLC, September 1997 to February 2009; Officer of other investment companies advised by the Adviser.
Eduardo Escario, 37	Vice President	Since 2012	Regional Director, Business Development/Sales for Southern Europe and South America of the Adviser (since July 2008); Regional Director (Spain, Portugal, South America and Africa) of Dow Jones Indexes and STOXX Ltd. (May 2001 July 2008).
Lars Hamich, 44	Vice President	Since 2012	Managing Director and Chief Executive Officer of Van Eck Global (Europe) GmbH (since 2009); Chief Executive Officer of Market Vectors Index Solutions GmbH (MVIS) (since June 2011); Managing Director of STOXX Limited (until 2008).
Wu-Kwan Kit, 31	Assistant Vice President and Assistant Secretary	Since 2011	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (since 2011); Associate, Schulte Roth & Zabel (September 2007 2011); University of Pennsylvania Law School (August 2004 May 2007).
Susan C. Lashley, 58	Vice President	Since 2006	Vice President of the Adviser and VESC; Officer of other investment companies advised by the Adviser.
Thomas K. Lynch, 56	Chief Compliance Officer	Since 2007	Chief Compliance Officer of the Adviser and VEARA (since December 2006) and of VESC (since August 2008); Vice President of the Adviser, VEARA and VESC; Treasurer (April 2005 December 2006); Officer of other investment companies advised by the Adviser.
Laura I. Martínez, 32	Assistant Vice President and Assistant Secretary	Since 2008	Assistant Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (since 2008); Associate, Davis Polk & Wardwell (October 2005 June 2008); Officer of other investment companies advised by the Adviser.

Officer s Name, Address[1] and Age	Position(s) Held with the Trust	Term of Office[2] and Length of Time Served	Principal Occupation(s) During The Past Five Years
Joseph J. McBrien, 64	Senior Vice President, Secretary and Chief Legal Officer	Since 2006	Senior Vice President, General Counsel and Secretary of the Adviser, VESC and VEARA (since December 2005); Director of VESC and VEARA (since October 2010); Officer of other investment companies advised by the Adviser.
Ferat Oeztuerk, 29	Assistant Vice President	Since 2012	Sales Associate, Van Eck Global (Europe) GmbH (since November 2011); Account Manager, Vodafone Global Enterprise Limited (January 2011 to October 2011).
Jonathan R. Simon, 38	Vice President and Assistant Secretary	Since 2006	Vice President, Associate General Counsel and Assistant Secretary of the Adviser, VESC and VEARA (since 2006); Officer of other investment companies advised by the Adviser.
Bruce J. Smith, 57	Senior Vice President	Since 2006	Senior Vice President, Chief Financial Officer, Treasurer and Controller of the Adviser, VESC and VEARA (since 1997); Director of the Adviser, VESC and VEARA (since October 2010); Officer of other investment companies advised by the Adviser.

1 The address for each Officer is 335 Madison Avenue, 19th Floor, New York, New York 10017.
2 Officers are elected yearly by the Trustees.

The Board has an Audit Committee consisting of four Trustees who are Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Audit Committee and Messrs. Chow, Short and Stamberger have been designated as an audit committee financial expert as defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934, as amended (the Exchange Act). Mr. Short is the Chairman of the Audit Committee. The Audit Committee has the responsibility, among other things, to: (i) oversee the accounting and financial reporting processes of the Trust and its internal control over financial reporting; (ii) oversee the quality and integrity of the Trust s financial statements and the independent audit thereof; (iii) oversee or, as appropriate, assist the Board s oversight of the Trust s compliance with legal and regulatory requirements that relate to the Trust s accounting and financial reporting, internal control over financial reporting and independent audit; (iv) approve prior to appointment the engagement of the Trust s independent registered public accounting firm and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Trust s independent registered public accounting firm; and (v) act as a liaison between the Trust s independent registered public accounting firm and the full Board.

The Board also has a Nominating and Corporate Governance Committee consisting of four Independent Trustees. Messrs. Chow, Short, Sidebottom and Stamberger currently serve as members of the Nominating and Corporate Governance Committee. Mr. Stamberger is the Chairman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has the responsibility, among other things, to: (i) evaluate, as necessary, the composition of the Board, its committees and sub-committees and make such recommendations to the Board as deemed appropriate by the Committee; (ii) review and define Independent Trustee qualifications; (iii) review the qualifications of individuals serving as Trustees on the Board and its committees; (iv) evaluate, recommend and nominate qualified individuals for election or appointment as members of the Board and recommend the appointment of members and chairs of each Board committee and subcommittee; and (v) review and assess, from time to time, the performance of the committees and subcommittees of the Board and report the results to the Board.

The Board has determined that its leadership structure is appropriate given the business and nature of the Trust. In connection with its determination, the Board considered that the Chairman of the Board is an Independent Trustee. The Chairman of the Board can play an important role in setting the agenda of the Board and also serves as a key point person for dealings between management and the other Independent Trustees. The Independent Trustees believe that the Chairman s independence facilitates meaningful dialogue between the Adviser and the Independent Trustees. The Board also considered that the Chairman of each Board committee is an Independent Trustee, which yields similar benefits with respect to the functions and activities of the various Board committees. The Independent Trustees also regularly meet outside the presence of management and are advised by independent legal counsel. The Board has determined that its committees help ensure that the Trust has effective and independent governance and oversight. The Board also believes that its leadership structure facilitates the orderly and efficient flow of information to the Independent Trustees from management of the Trust, including the Adviser. The Board reviews its structure on an annual basis.

As an integral part of its responsibility for oversight of the Trust in the interests of shareholders, the Board, as a general matter, oversees risk management of the Trust s investment programs and business affairs. The function of the Board with respect to risk management is one of oversight and not active involvement in, or coordination of, day-to-day risk management activities for the Trust. The Board recognizes that not all risks that may affect the Trust can be identified, that it may not be practical or cost-effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment-related risks) to achieve the Trust s goals, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. Moreover, reports received by the Trustees that may relate to risk management matters are typically summaries of the relevant information.

The Board exercises oversight of the risk management process primarily through the Audit Committee, and through oversight by the Board itself. The Trust faces a number of risks, such as investment-related and compliance risks. The Adviser s personnel seek to identify and address risks, *i.e.*, events or circumstances that could have material adverse effects on the business, operations, shareholder services, investment performance or reputation of the Trust. Under the overall supervision of the Board or the applicable Committee of the Board, the Trust, the Adviser, and the affiliates of the Adviser employ a variety of processes, procedures and controls to identify such possible events or circumstances, to lessen the probability of their occurrence and/or to mitigate the effects of such events or circumstances if they do occur. Different processes, procedures and controls are employed with respect to different types of risks. Various personnel, including the Trust s Chief Compliance Officer, as well as various personnel of the Adviser and other service providers such as the Trust s independent accountants, may report to the Audit Committee and/or to the Board with respect to various aspects of risk management, as well as events and circumstances that have arisen and responses thereto.

The officers and Trustees of the Trust, in the aggregate, own less than 1% of the Shares.

For each Trustee, the dollar range of equity securities beneficially owned (including ownership through the Trust s Deferred Compensation Plan) by the Trustee in the Trust and in all registered investment companies advised by the Adviser (Family of Investment Companies) that are overseen by the Trustee is shown below.

Name of Trustee	**Dollar Range of Equity Securities in Market Vectors Treasury-Hedged High Yield Bond ETF (As of December 31, 2012)**	**Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen By Trustee In Family of Investment Companies (As of December 31, 2012)**
David H. Chow	None	Over $100,000
R. Alastair Short	None	Over $100,000
Peter J. Sidebottom	None	None
Richard D. Stamberger	None	Over $100,000
Jan F. van Eck	None	Over $100,000

As to each Independent Trustee and his immediate family members, no person owned beneficially or of record securities in an investment manager or principal underwriter of the Fund, or a person (other than a registered investment company) directly or indirectly controlling, controlled by or under common control with the investment manager or principal underwriter of the Fund.

Remuneration of Trustees

The Trust pays each Independent Trustee an annual retainer of $80,000, a per meeting fee of $15,000 for scheduled quarterly meetings of the Board and each special meeting of the Board and a per meeting fee of $7,500 for telephonic meetings. The Trust pays the Chairman of the Board an annual retainer of $45,500, the Chairman of the Audit Committee an annual retainer of $19,500 and the Chairman of the Governance Committee an annual retainer of $13,000. The Trust also reimburses each Trustee for travel and other out-of-pocket expenses incurred in attending such meetings. No pension or retirement benefits are accrued as part of Trustee compensation.

The table below shows the compensation that is contemplated to be paid to the Trustees by the Trust for the calendar year ended December 31, 2013. Annual Trustee fees may be reviewed periodically and changed by the Trust s Board.

Name of Trustee	Aggregate Compensation From the Trust	Deferred Compensation From the Trust	Pension or Retirement Benefits Accrued as Part of the Trust s Expenses(2)	Estimated Annual Benefits Upon Retirement	Total Compensation From the Trust and the Fund Complex(1) Paid to Trustee(2)
David H. Chow	$ 193,000	$ 193,000	N/A	N/A	$ 193,000
Peter J. Sidebottom	$ 147,500	$ 0	N/A	N/A	$ 147,500
R. Alastair Short	$ 167,000	$ 0	N/A	N/A	$ 167,000
Richard D. Stamberger	$ 160,500	$ 80,250	N/A	N/A	$ 270,500
Jan F. van Eck(3)	$ 0	$ 0	N/A	N/A	$ 0

(1) The Fund Complex consists of Van Eck Funds, Van Eck VIP Trust and the Trust.
(2) Because the funds of the Fund Complex have different fiscal year ends, the amounts shown are presented on a calendar year basis.
(3) Interested person under the 1940 Act.

PORTFOLIO HOLDINGS DISCLOSURE

The Fund s portfolio holdings are publicly disseminated each day the Fund is open for business through financial reporting and news services, including publicly accessible Internet web sites. In addition, a basket composition file, which includes the security names and share quantities to deliver in exchange for Creation Units, together with estimates and actual cash components, is publicly disseminated daily prior to the opening of the Exchange via the National Securities Clearing Corporation (the NSCC), a clearing agency that is registered with the SEC. The basket represents one Creation Unit of the Fund. The Trust, Adviser, Custodian and Distributor will not disseminate non-public information concerning the Trust.

QUARTERLY PORTFOLIO SCHEDULE

The Trust is required to disclose, after its first and third fiscal quarters, the complete schedule of the Fund s portfolio holdings with the SEC on Form N-Q. Form N-Q for the Fund will be available on the SEC s website at http://www.sec.gov. The Fund s Form N-Q may also be reviewed and copied at the SEC s Public Reference Room in Washington, D.C. and information on the operation of the Public Reference Room may be obtained by calling 202.551.8090. The Fund s Form N-Q will be available through the Fund s website, at www.vaneck.com or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017.

CODE OF ETHICS

The Fund, the Adviser and the Distributor have each adopted a Code of Ethics pursuant to Rule 17j-1 under the 1940 Act, designed to monitor personal securities transactions by their personnel (the Personnel). The Code of Ethics requires that all trading in securities that are being purchased or sold, or are being considered for purchase or sale, by the Fund must be approved in advance by the Head of Trading, the Director of Research and the Chief Compliance Officer of the Adviser. Approval will be granted if the security has not been purchased or sold or recommended for purchase or sale for the Fund on the day that the Personnel of the Adviser requests pre-clearance, or otherwise if it is determined that the personal trading activity will not have a negative or appreciable impact on the price or market of the security, or is of such a nature that it does not present the dangers or potential for abuses that are likely to result in harm or detriment to the Fund. At the end of each calendar quarter, all Personnel must file a report of all transactions entered into during the quarter. These reports are reviewed by a senior officer of the Adviser.

Generally, all Personnel must obtain approval prior to conducting any transaction in securities. Independent Trustees, however, are not required to obtain prior approval of personal securities transactions. Personnel may purchase securities in an initial public offering or private placement, *provided* that he or she obtains preclearance of the purchase and makes certain representations.

PROXY VOTING POLICIES AND PROCEDURES

The Fund s proxy voting record will be available upon request and on the SEC s website at http://www.sec.gov. Proxies for the Fund s portfolio securities are voted in accordance with the Adviser s proxy voting policies and procedures, which are set forth in Appendix A to this SAI.

The Trust is required to disclose annually the Fund s complete proxy voting record on Form N-PX covering the period July 1 through June 30 and file it with the SEC no later than August 31. Form N-PX for the Fund will be available through the Fund s website, at www.vaneck.com, or by writing to 335 Madison Avenue, 19th Floor, New York, New York 10017. The Fund s Form N-PX will also be available on the SEC s website at www.sec.gov.

MANAGEMENT

The following information supplements and should be read in conjunction with the section in the Prospectus entitled Management of the Fund.

Investment Adviser

Van Eck Associates Corporation acts as investment adviser to the Trust and, subject to the general supervision of the Board, is responsible for the day-to-day investment management of the Fund. The Adviser is a private company with headquarters in New York and manages other mutual funds and separate accounts.

The Adviser serves as investment adviser to the Fund pursuant to an investment management agreement between the Trust and the Adviser (the Investment Management Agreement). Under the Investment Management Agreement, the Adviser, subject to the supervision of the Board and in conformity with the stated investment policies of the Fund, manages the investment of the Fund s assets. The Adviser is responsible for placing purchase and sale orders and providing continuous supervision of the investment portfolio of the Fund.

Pursuant to the Investment Management Agreement, the Trust has agreed to indemnify the Adviser for certain liabilities, including certain liabilities arising under the federal securities laws, unless such loss or liability results from willful misfeasance, bad faith or gross negligence in the performance of its duties or the reckless disregard of its obligations and duties.

Compensation. As compensation for its services under the Investment Management Agreement, the Adviser will be paid a monthly fee based on a percentage of the Fund s average daily net assets at the annual rate of 0.45%. Until at least September 1, 2014, the Adviser has agreed to waive and/or pay Fund expenses to the extent necessary to prevent the operating expenses of the Fund (excluding acquired fund fees and expenses, interest expense, offering costs, trading expenses, taxes and extraordinary expenses) from exceeding 0.50% of its average daily net assets per year. From time to time, the Adviser may waive all or a portion of its fees. Offering costs excluded from the expense cap are: (a) legal fees pertaining to the Fund s Shares offered for sale; (b) SEC and state registration fees; and (c) initial fees paid for Shares to be listed on an exchange.

Term. The Investment Management Agreement is subject to annual approval by (1) the Board or (2) a vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund, *provided* that in either event such continuance also is approved by a majority of the Board who are not interested persons (as defined in the 1940 Act) of the Trust by a vote cast in person at a meeting called for the purpose of voting on such approval. The Investment Management Agreement is terminable without penalty, on 60 days notice, by the Board or by a vote of the holders of a majority (as defined in the 1940 Act) of the Fund s outstanding voting securities. The Investment Management Agreement is also terminable upon 60 days notice by the Adviser and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

The Administrator

Van Eck Associates Corporation also serves as administrator for the Trust pursuant to the Investment Management Agreement. Under the Investment Management Agreement, the Adviser is obligated on a continuous basis to provide such administrative services as the Board of the Trust reasonably deems necessary for the proper administration of the Trust and the Fund. The Adviser will generally assist in all aspects of the Trust s and the Fund s operations; supply and maintain office facilities, statistical and research data, data processing services, clerical, bookkeeping and record keeping services (including without limitation the maintenance of such books and records as are required under the 1940 Act and the rules thereunder, except as maintained by other agents), internal auditing, executive and administrative services, and stationery and office supplies; prepare reports to shareholders or investors; prepare and file tax returns; supply financial information and supporting data for reports to and filings with the SEC and various state Blue Sky authorities; supply supporting documentation for meetings of the Board; provide monitoring reports and assistance regarding compliance with the Declaration of Trust, by-laws, investment objectives and policies and with federal and state securities laws; arrange for appropriate insurance coverage;

calculate NAVs, net income and realized capital gains or losses; and negotiate arrangements with, and supervise and coordinate the activities of, agents and others to supply services.

Custodian and Transfer Agent

The Bank of New York Mellon (The Bank of New York), located at 101 Barclay Street, New York, New York, 10286, serves as custodian for the Fund pursuant to a Custodian Agreement. As Custodian, The Bank of New York holds the Fund s assets. The Bank of New York serves as the Fund s transfer agent pursuant to a Transfer Agency Agreement. The Bank of New York may be reimbursed by the Fund for its out-of-pocket expenses. In addition, The Bank of New York provides various accounting services to the Fund pursuant to a fund accounting agreement.

The Distributor

Van Eck Securities Corporation (the Distributor) is the principal underwriter and distributor of Shares. Its principal address is 335 Madison Avenue, New York, New York 10017 and investor information can be obtained by calling 1-888-MKT-VCTR. The Distributor has entered into an agreement with the Trust which will continue from its effective date unless terminated by either party upon 60 days prior written notice to the other party by the Trust and the Adviser, or by the Distributor, or until termination of the Trust or the Fund offering its Shares, and which is renewable annually thereafter (the Distribution Agreement), pursuant to which it distributes Shares. Shares will be continuously offered for sale by the Trust through the Distributor only in Creation Units, as described below under Creation and Redemption of Creation Units Procedures for Creation of Creation Units. Shares in less than Creation Units are not distributed by the Distributor. The Distributor will deliver a prospectus to persons purchasing Shares in Creation Units and will maintain records of both orders placed with it and confirmations of acceptance furnished by it. The Distributor is a broker-dealer registered under the Exchange Act and a member of the Financial Industry Regulatory Authority (FINRA). The Distributor has no role in determining the investment policies of the Trust or which securities are to be purchased or sold by the Trust.

The Distributor may also enter into sales and investor services agreements with broker-dealers or other persons that are Participating Parties and DTC Participants (as defined below) to provide distribution assistance, including broker-dealer and shareholder support and educational and promotional services but must pay such broker-dealers or other persons, out of its own assets.

The Distribution Agreement provides that it may be terminated at any time, without the payment of any penalty: (i) by vote of a majority of the Independent Trustees or (ii) by vote of a majority (as defined in the 1940 Act) of the outstanding voting securities of the Fund, on at least 60 days written notice to the Distributor. The Distribution Agreement is also terminable upon 60 days notice by the Distributor and will terminate automatically in the event of its assignment (as defined in the 1940 Act).

Affiliated Index Provider

The Index is published by MVIS (the Index Provider), which is a wholly-owned subsidiary of the Adviser. In order to minimize any potential for conflicts caused by the fact that the Adviser or its affiliates act as the Index Provider to the Fund, the Adviser has retained an unaffiliated third party to calculate the Index, Interactive Data Pricing and Reference Data, Inc. (the Calculation Agent). The Calculation Agent, using the rules-based methodology, will calculate, maintain and disseminate the Index on a daily basis. The Adviser will monitor the results produced by the Calculation Agent to help ensure that the Index is being calculated in accordance with the rules-based methodology. In addition, the Adviser and the Index Provider have established policies and procedures designed to prevent non-public information about pending changes to the Index from being used or disseminated in an improper manner. Furthermore, the Adviser and the Index Provider have established policies and procedures designed to prevent improper use and dissemination of non-public information about the Fund s portfolio strategies and to prevent the Fund s portfolio managers from having any influence on the construction of the Index methodology.

Other Accounts Managed by the Portfolio Managers

As of the date indicated below, Messrs. Mazier and Rodilosso managed the following other accounts:

		Other Accounts Managed (As of December 31, 2012)		Accounts with respect to which the advisory fee is based on the performance of the account	
Name of Portfolio Manager	Category of Account	Number of Accounts in Category	Total Assets in Accounts in Category	Number of Accounts in Category	Total Assets in Accounts in Category
Michael F. Mazier	Registered investment companies	13	$3,708.73 million	0	0
	Other pooled investment vehicles	0	0	0	0
	Other accounts	0	0	0	0
Francis G. Rodilosso	Registered investment companies	7	$1,476.96 million	0	0
	Other pooled investment vehicles	0	0	0	0
	Other accounts	0	0	0	0

Although the funds in the Trust that are managed by Messrs. Mazier and Rodilosso may have different investment strategies, each has an investment objective of seeking to replicate, before fees and expenses, its respective underlying index. The Adviser does not believe that management of the various accounts presents a material conflict of interest for Messrs. Mazier and Rodilosso or the Adviser.

Portfolio Manager Compensation

The portfolio managers are paid a fixed base salary and a bonus. The bonus is based upon the quality of investment analysis and the management of the funds. The quality of management of the funds includes issues of replication, rebalancing, portfolio monitoring and efficient operation, among other factors. Portfolio managers who oversee accounts with significantly different fee structures are generally compensated by discretionary bonus rather than a set formula to help reduce potential conflicts of interest. At times, the Adviser and its affiliates manage accounts with incentive fees.

Portfolio Manager Share Ownership

As of the date of this SAI, Messrs. Mazier and Rodilosso did not beneficially own any Shares.

BROKERAGE TRANSACTIONS

When selecting brokers and dealers to handle the purchase and sale of portfolio securities, the Adviser looks for prompt execution of the order at a favorable price. Generally, the Adviser works with recognized dealers in these securities, except when a better price and execution of the order can be obtained elsewhere. The Fund will not deal with affiliates in principal transactions unless permitted by exemptive order or applicable rule or regulation. The Adviser owes a duty to its clients to seek best execution on trades effected. Since the investment objective of the Fund is investment performance that corresponds to that of the Index, the Adviser does not intend to select brokers and dealers for the purpose of receiving research services in addition to a favorable price and prompt execution either from that broker or an unaffiliated third party.

The Adviser assumes general supervision over placing orders on behalf of the Trust for the purchase or sale of portfolio securities. If purchases or sales of portfolio securities of the Trust and one or more other investment companies or clients supervised by the Adviser are considered at or about the same time, transactions in such securities are allocated among the several investment companies and clients in a manner deemed equitable to all by the Adviser. In some cases, this procedure could have a detrimental effect on the price or volume of the security so far as the Trust is concerned. However, in other cases, it is possible that the ability to participate in volume transactions and to negotiate lower brokerage commissions will be beneficial to the Trust. The primary consideration is best execution.

Portfolio turnover may vary from year to year, as well as within a year. High turnover rates are likely to result in comparatively greater brokerage expenses and taxable distributions. The overall reasonableness of brokerage commissions is evaluated by the Adviser based upon its knowledge of available information as to the general level of commissions paid by other institutional investors for comparable services.

BOOK ENTRY ONLY SYSTEM

The following information supplements and should be read in conjunction with the section in the Prospectus entitled Shareholder Information Buying and Selling Exchange-Traded Shares.

The Depository Trust Company (DTC) acts as securities depositary for the Shares. Shares are represented by securities registered in the name of DTC or its nominee and deposited with, or on behalf of, DTC. Certificates will not be issued for Shares.

DTC, a limited-purpose trust company, was created to hold securities of its participants (the DTC Participants) and to facilitate the clearance and settlement of securities transactions among the DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. More specifically, DTC is owned by a number of its DTC Participants and by the New York Stock Exchange (NYSE) and FINRA. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the Indirect Participants).

Beneficial ownership of Shares is limited to DTC Participants, Indirect Participants and persons holding interests through DTC Participants and Indirect Participants. Ownership of beneficial interests in Shares (owners of such beneficial interests are referred to herein as Beneficial Owners) is shown on, and the transfer of ownership is effected only through, records maintained by DTC (with respect to DTC Participants) and on the records of DTC Participants (with respect to Indirect Participants and Beneficial Owners that are not DTC Participants). Beneficial Owners will receive from or through the DTC Participant a written confirmation relating to their purchase of Shares.

Conveyance of all notices, statements and other communications to Beneficial Owners is effected as follows. Pursuant to the Depositary Agreement between the Trust and DTC, DTC is required to make available to the Trust upon request and for a fee to be charged to the Trust a listing of the Shares holdings of each DTC Participant. The Trust shall inquire of each such DTC Participant as to the number of Beneficial Owners holding Shares, directly or indirectly, through such DTC Participant. The Trust shall provide each such DTC Participant with copies of such notice, statement or other communication, in such form, number and at such place as such DTC Participant may reasonably request, in order that such notice, statement or communication may be transmitted by such DTC Participant, directly or indirectly, to such Beneficial Owners. In addition, the Trust shall pay to each such DTC Participant a fair and reasonable amount as reimbursement for the expenses attendant to such transmittal, all subject to applicable statutory and regulatory requirements.

Share distributions shall be made to DTC or its nominee, Cede & Co., as the registered holder of all Shares. DTC or its nominee, upon receipt of any such distributions, shall credit immediately DTC Participants accounts with payments in amounts proportionate to their respective beneficial interests in Shares as shown on the records of DTC or its nominee. Payments by DTC Participants to Indirect Participants and Beneficial Owners of Shares held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers in bearer form or registered in a street name, and will be the responsibility of such DTC Participants.

The Trust has no responsibility or liability for any aspects of the records relating to or notices to Beneficial Owners, or payments made on account of beneficial ownership interests in such Shares, or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and the DTC Participants or the relationship between such DTC Participants and the Indirect Participants and Beneficial Owners owning through such DTC Participants.

DTC may determine to discontinue providing its service with respect to the Shares at any time by giving reasonable notice to the Trust and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, the Trust shall take action either to find a replacement for DTC to perform its functions at a comparable cost or, if such a replacement is unavailable, to issue and deliver printed certificates representing ownership of Shares, unless the Trust makes other arrangements with respect thereto satisfactory to the Exchange.

CREATION AND REDEMPTION OF CREATION UNITS

General

The Fund will issue and sell Shares only in Creation Units on a continuous basis through the Distributor, without an initial sales load, at their NAV next determined after receipt, on any Business Day (as defined herein), of an order in proper form. An Authorized Participant (defined below) that is not a qualified institutional buyer, as such term is defined under Rule 144A of the Securities Act of 1933, will not be able to receive, as part of a redemption, restricted securities eligible for resale under Rule 144A.

A Business Day with respect to the Fund is any day on which the NYSE is open for business. As of the date of the Prospectus, the NYSE observes the following holidays: New Year s Day, Martin Luther King, Jr. Day, President s Day (Washington s Birthday), Good Friday, Memorial Day (observed), Independence Day, Labor Day, Thanksgiving Day and Christmas Day.

Fund Deposit

The consideration for a purchase of Creation Units generally consists of cash and/or the in-kind deposit of a designated portfolio of fixed income securities (the Deposit Securities) that comprise the Index and an amount of cash computed as described below (the Cash Component). The Cash Component together with the Deposit Securities, as applicable, are referred to as the Fund Deposit, which represents the minimum initial and subsequent investment amount for Shares. The specified Deposit Securities generally will correspond, *pro rata*, to the extent practicable, to the component securities of the Fund s portfolio. The Cash Component represents the difference between the NAV of a Creation Unit and the market value of Deposit Securities and may include a Dividend Equivalent Payment. The Dividend Equivalent Payment enables the Fund to make a complete distribution of dividends on the next dividend payment date, and is an amount equal, on a per Creation Unit basis, to the dividends on all the securities held by the Fund (Fund Securities) with ex-dividend dates within the accumulation period for such distribution (the Accumulation Period), net of expenses and liabilities for such period, as if all of the Fund Securities had been held by the Trust for the entire Accumulation Period. The Accumulation Period begins on the ex-dividend date for the Fund and ends on the next ex-dividend date.

The Administrator, through the NSCC, makes available on each Business Day, immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time), the list of the names and the required principal amounts of each Deposit Security to be included in the current Fund Deposit (based on information at the end of the previous Business Day) as well as the Cash Component for the Fund. Such Fund Deposit is applicable, subject to any adjustments as described below, in order to effect creations of Creation Units of the Fund until such time as the next-announced Fund Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for the Fund Deposit for the Fund changes as rebalancing adjustments and corporate action events are reflected from time to time by the Adviser with a view to the investment objective of the Fund. The composition of the Deposit Securities may also change in response to adjustments to the weighting or composition of the securities constituting the Index. In addition, the Trust reserves the right to accept a basket of securities or cash that differs from Deposit Securities or to permit or require the substitution of an amount of cash (*i.e.*, a cash in lieu amount) to be added to the Cash Component to replace any Deposit Security which may, among other reasons, not be available in sufficient quantity for delivery, not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention or which may not be eligible for transfer through the Clearing Process (described below), or which may not be eligible for trading by a Participating Party (defined below). In light of the foregoing, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase the Deposit Securities represented by the cash in lieu amount in the secondary market (Market Purchases). In such cases where the Trust makes Market Purchases because a Deposit Security may not be permitted to be re-registered in the name of the Trust as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities were purchased by the Trust and the cash in lieu amount (which amount, at the Adviser s discretion, may be capped), applicable registration fees and taxes. Brokerage commissions incurred in connection with the Trust s acquisition of Deposit Securities will be at the expense of the Fund and will affect the value of all

Shares; but the Adviser may adjust the transaction fee to the extent the composition of the Deposit Securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. The adjustments described above will reflect changes, known to the Adviser on the date of announcement to be in effect by the time of delivery of the Fund Deposit, in the composition of the Index or resulting from stock splits and other corporate actions.

Pursuant to a patent pending process, and subject to the receipt of appropriate regulatory relief, the Fund may in the future divide the daily list of Deposit Securities into different categories, based on various risk and return characteristics that may include (but not be limited to): (1) credit rating; (2) sector (e.g., revenue, pre-refunded or insured bonds); (3) issuer (or state of issuer); (4) call date; (5) maturity; and (6) coupon yield. With respect to each category, an Authorized Participant (as defined below) would be required, pursuant to rules established by the Fund, to contribute one bond from each category in-kind as a Deposit Security in the Fund Deposit. There is no assurance that such relief will be granted.

In addition to the list of names and numbers of securities constituting the current Deposit Securities of a Fund Deposit, the Administrator, through the NSCC, also makes available (i) on each Business Day, the Dividend Equivalent Payment, if any, and the estimated Cash Component effective through and including the previous Business Day, per outstanding Shares, and (ii) on a continuous basis throughout the day, the Indicative Per Share Portfolio Value.

Procedures for Creation of Creation Units

To be eligible to place orders with the Distributor to create Creation Units of the Fund, an entity or person either must be (1) a Participating Party, *i.e.*, a broker-dealer or other participant in the Clearing Process through the Continuous Net Settlement System of the NSCC; or (2) a DTC Participant (see Book Entry Only System); and, in either case, must have executed an agreement with the Distributor and the Transfer Agent (as it may be amended from time to time in accordance with its terms) (Participant Agreement) (discussed below). A Participating Party and DTC Participant are collectively referred to as an Authorized Participant. All Creation Units of the Fund, however created, will be entered on the records of the Depository in the name of Cede & Co. for the account of a DTC Participant.

All orders to create Creation Units must be placed in multiples of 200,000 Shares (*i.e.*, a Creation Unit). All orders to create Creation Units, whether through the Clearing Process or outside the Clearing Process, must be received by the Distributor no later than the closing time of the regular trading session on NYSE Arca (Closing Time) (ordinarily 4:00 p.m. Eastern time) on the date such order is placed in order for creation of Creation Units to be effected based on the NAV of the Fund as determined on such date. A Custom Order may be placed by an Authorized Participant in the event that the Trust permits or requires the substitution of an amount of cash to be added to the Cash Component to replace any Deposit Security which may not be available in sufficient quantity for delivery or which may not be eligible for trading by such Authorized Participant or the investor for which it is acting, or other relevant reason. The Business Day on which a creation order (or order to redeem as discussed below) is placed is herein referred to as the Transmittal Date. Orders must be transmitted by telephone or other transmission method acceptable to the Distributor pursuant to procedures set forth in the Participant Agreement, as described below (see Placement of Creation Orders Using Clearing Process). Severe economic or market disruptions or changes, or telephone or other communication failure, may impede the ability to reach the Distributor, a Participating Party or a DTC Participant.

Creation Units may be created in advance of the receipt by the Trust of all or a portion of the Fund Deposit. In such cases, the Authorized Participant will remain liable for the full deposit of the missing portion(s) of the Fund Deposit and will be required to post collateral with the Trust consisting of cash at least equal to a percentage of the marked-to-market value of such missing portion(s) that is specified in the Participant Agreement. The Trust may use such collateral to buy the missing portion(s) of the Fund Deposit at any time and will subject such Authorized Participant to liability for any shortfall between the cost to the Trust of purchasing such securities and the value of such collateral. The Trust will have no liability for any such shortfall. The Trust will return any unused portion of the collateral to the Authorized Participant once the entire Fund Deposit has been properly received by the Distributor and deposited into the Trust.

Orders to create Creation Units of the Fund shall be placed with a Participating Party or DTC Participant, as applicable, in the form required by such Participating Party or DTC Participant. Investors should be aware that their particular broker may not have executed a Participant Agreement, and that, therefore, orders to create Creation Units of the Fund may have to be placed by the investor s broker through a Participating Party or a DTC Participant who has executed a Participant Agreement. At any given time there may be only a limited number of broker-dealers that have executed a Participant Agreement. Those placing orders to create Creation Units of the Fund through the Clearing Process should afford sufficient time to permit proper submission of the order to the Distributor prior to the Closing Time on the Transmittal Date.

Orders for creation that are effected outside the Clearing Process are likely to require transmittal by the DTC Participant earlier on the Transmittal Date than orders effected using the Clearing Process. Those persons placing orders outside the Clearing Process should ascertain the deadlines applicable to DTC and the Federal Reserve Bank wire system by contacting the operations department of the broker or depository institution effectuating such transfer of Deposit Securities and Cash Component.

Orders to create Creation Units of the Fund may be placed through the Clearing Process utilizing procedures applicable to domestic funds for domestic securities (Domestic Funds) (see Placement of Creation Orders Using Clearing Process) or outside the Clearing Process utilizing the procedures applicable to either Domestic Funds or foreign funds for foreign securities (Foreign Funds) (see Placement of Creation Orders Outside Clearing Process Domestic Funds and Placement of Creation Orders Outside Clearing Process Foreign Funds). In the event that the Fund includes both domestic and foreign securities, the time for submitting orders is as stated in the Placement of Creation Orders Outside Clearing Process Foreign Funds and Placement of Redemption Orders Outside Clearing Process Foreign Funds sections below shall operate.

Placement of Creation Orders Using Clearing Process

Fund Deposits must be delivered through a DTC Participant that has executed a Participant Agreement with the Distributor and with the Trust. A DTC Participant who wishes to place an order creating Creation Units of the Fund need not be a Participating Party, but such orders must state that the creation of Creation Units will be effected through a transfer of securities and cash. The Fund Deposit transfer must be ordered by the DTC Participant in a timely fashion so as to ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Trust by no later than 4:00 p.m. Eastern time, on the Settlement Date. The Settlement Date for the Fund is generally the third Business Day following the Transmittal Date. All questions as to the number of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Trust, whose determination shall be final and binding. The cash equal to the Cash Component must be transferred directly to the Distributor through the Federal Reserve wire system in a timely manner so as to be received by the Distributor no later than 4:00 p.m. Eastern time, on the next Business Day immediately following the Transmittal Date. An order to create Creation Units of the Fund is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date; and (ii) all other procedures set forth in the Participant Agreement are properly followed. Upon written notice to the Distributor, such cancelled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the current NAV of the Fund. The delivery of Creation Units so created will occur no later than the third (3rd) Business Day following the day on which the creation order is deemed received by the Distributor.

Placement of Creation Orders Outside Clearing Process Domestic Funds

Fund Deposits created outside the Clearing Process must be delivered through a DTC Participant that has executed a Participant Agreement. A DTC Participant who wishes to place an order creating Creation Units of the Fund to be effected outside the Clearing Process need not be a Participating Party, but such orders must state that the DTC Participant is not using the Clearing Process and that the creation of Creation Units will instead be effected through a transfer of securities and cash. The Fund Deposit transfer must be ordered by the DTC Participant in a timely fashion so as to ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Trust by no later than 11:00 a.m. Eastern time, of the next Business Day immediately following the Transmittal Date. All questions as to the number of Deposit Securities to be delivered, and the validity, form and eligibility (including time of receipt) for the deposit of any tendered securities, will be determined by the Trust, whose determination shall be final and binding. The cash equal to the Cash Component must be transferred directly to the Distributor through the Federal Reserve wire system in a timely manner so as to be received by the Distributor no later than 2:00 p.m. Eastern time, on the next Business Day immediately following the Transmittal Date. An order to create Creation Units of the Fund outside the Clearing Process is deemed received by the Distributor on the Transmittal Date if (i) such order is received by the Distributor not later than the Closing Time on such Transmittal Date; and (ii) all other procedures set forth in the Participant Agreement are properly followed. However, if the Distributor does not receive both the requisite Deposit Securities and the Cash Component in a timely fashion on the next Business Day immediately following the Transmittal Date, such order will be cancelled. Upon written notice to the Distributor, such cancelled order may be resubmitted the following Business Day using a Fund Deposit as newly constituted to reflect the current NAV of the Fund. The delivery of Creation Units so created will occur no later than the third (3rd) Business Day following the day on which the creation order is deemed received by the Distributor.

Additional transaction fees may be imposed with respect to transactions effected outside the Clearing Process (through a DTC participant) and in circumstances in which any cash can be used in lieu of Deposit Securities to create Creation Units. (See Creation Transaction Fee section below.)

Placement of Creation Orders Outside Clearing Process Foreign Funds

The Distributor will inform the Transfer Agent, the Adviser and the Custodian upon receipt of a Creation Order. The Custodian will then provide such information to the appropriate subcustodian. The Custodian will cause the subcustodian of the Fund to maintain an account into which the Deposit Securities (or the cash value of all or part of such securities, in the case of a permitted or required cash purchase or cash in lieu amount) will be delivered. Deposit Securities must be delivered to an account maintained at the applicable local custodian. The Trust must also receive, on or before the contractual settlement date, immediately available or same day funds estimated by the Custodian to be sufficient to pay the Cash Component next determined after receipt in proper form of the purchase order, together with the creation transaction fee described below.

Once the Transfer Agent has accepted a creation order, the Transfer Agent will confirm the issuance of a Creation Unit of the Fund against receipt of payment, at such NAV as will have been calculated after receipt in proper form of such order. The Transfer Agent will then transmit a confirmation of acceptance of such order.

Creation Units will not be issued until the transfer of good title to the Trust of the Deposit Securities and the payment of the Cash Component have been completed. When the subcustodian has confirmed to the Custodian that the required Deposit Securities (or the cash value thereof) have been delivered to the account of the relevant subcustodian, the Distributor and the Adviser will be notified of such delivery and the Transfer Agent will issue and cause the delivery of the Creation Units.

Acceptance of Creation Orders

The Trust reserves the absolute right to reject a creation order transmitted to it by the Distributor if, for any reason, (a) the order is not in proper form; (b) the creator or creators, upon obtaining the Shares, would own 80% or more of the currently outstanding Shares; (c) the Deposit Securities delivered are not as specified by the Administrator, as described above; (d) the acceptance of the Deposit Securities would have certain adverse tax consequences to the Fund; (e) the acceptance of the Fund Deposit would, in the opinion of counsel, be unlawful; (f) the acceptance of the Fund Deposit would otherwise, in the discretion of the Trust or the Adviser, have an adverse effect on the Trust or the rights of beneficial owners; or (g) in the event that circumstances outside the control of the Trust, the Distributor and the Adviser make it for all practical purposes impossible to process creation orders. Examples of such circumstances include, without limitation, acts of God or public service or utility problems such as earthquakes, fires, floods, extreme weather conditions and power outages resulting in telephone, telecopy and computer failures; wars; civil or military disturbances, including acts of civil or military authority or governmental actions; terrorism; sabotage; epidemics; riots; labor disputes; market conditions or activities causing trading halts; systems failures involving computer or other information systems affecting the Trust, the Adviser, the Distributor, DTC, the NSCC or any other participant in the creation process, and similar extraordinary events. The Transfer Agent will notify a prospective creator of its rejection of the order of such person. The Trust, the Custodian, any subcustodian and the Distributor are under no duty, however, to give notification of any defects or irregularities in the delivery of Fund Deposits nor shall either of them incur any liability for the failure to give any such notification.

All questions as to the number of shares of each security in the Deposit Securities and the validity, form, eligibility and acceptance for deposit of any securities to be delivered shall be determined by the Trust, and the Trust s determination shall be final and binding.

Creation Transaction Fee

A fixed creation transaction fee of $500 payable to the Custodian is imposed on each creation transaction regardless of the number of Creation Units purchased in the transaction. An additional 1% charge will be imposed for cash creations affecting both long and short positions held by the Fund. In addition, a variable charge for cash creations or for creations outside the Clearing Process currently of up to four times the basic creation transaction fee may be imposed. In the case of cash creations or where the Trust permits or requires a creator to substitute cash in lieu of depositing a portion of the Deposit Securities, the creator may be assessed an additional variable charge to compensate the Fund for the costs associated with purchasing the applicable securities. (See Fund Deposit section above.) As a result, in order to seek to replicate the in-kind creation order process, the Trust expects to purchase, in the secondary market or otherwise gain exposure to, the portfolio securities that could have been delivered as a result of an in-kind creation order pursuant to local law or market convention, or for other reasons (Market Purchases). In such cases where the Trust makes Market Purchases, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities and/or financial instruments were purchased by the Trust and the cash in lieu amount (which amount, at the Adviser s discretion, may be capped), applicable registration fees, brokerage commissions, fees and expenses incurred in connection with short sale transactions and certain taxes. The Adviser may adjust the transaction fee to the extent the composition of the creation securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. Creators of Creation Units are responsible for the costs of transferring the securities constituting the Deposit Securities to the account of the Trust.

Redemption of Creation Units

Shares may be redeemed only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Distributor, only on a Business Day and only through a Participating Party or DTC Participant who has executed a Participant Agreement. **The Trust will not redeem Shares in amounts less than Creation Units**. Beneficial Owners also may sell Shares in the secondary market, but must accumulate enough Shares to constitute a Creation Unit in order to have such Shares redeemed by the Trust. There can be no assurance, however, that there will be sufficient liquidity in the public trading market at any time to permit assembly of a Creation Unit. Investors should expect to incur brokerage and other costs in connection with assembling a sufficient number of Shares to constitute a redeemable Creation Unit. See the section entitled Summary Information Principal Risks of Investing in the Fund and Additional Information About the Fund s Investment Strategies and Risks Risks of Investing in the Fund in the Prospectus.

The Administrator, through NSCC, makes available immediately prior to the opening of business on the Exchange (currently 9:30 a.m. Eastern time) on each day that the Exchange is open for business, the Fund Securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form (as defined below) on that day. The Fund Securities generally will correspond, *pro rata*, to the extent practicable, to the component securities of the Fund s portfolio. If the Trust determines, based on information available to the Trust when a redemption request is submitted by an Authorized Participant, that (i) the short interest of the Fund in the marketplace is greater than or equal to 100% and (ii) the orders in the aggregate from all Authorized Participants redeeming Fund Shares on a Business Day represent 25% or more of the outstanding Shares, such Authorized Participant will be required to verify to the Trust the accuracy of its representations that are deemed to have been made by submitting a request for redemption. If, after receiving notice of the verification requirement, the Authorized Participant does not verify the accuracy of its representations that are deemed to have been made by submitting a request for redemption in accordance with this requirement, its redemption request will be considered not to have been received in proper form.

As with respect to the purchase of Creation Units, pursuant to a patent pending process, the Fund may, in the future, subject to the receipt of appropriate regulatory relief, divide the daily list of Fund Securities into different categories, based on similar criteria set forth above regarding the division of the Fund s Deposit Securities into categories. In determining the Fund Securities and the order in which they are listed within each category, the Adviser would seek to construct a redemption basket that will reflect the general characteristics of the Fund s portfolio. Upon each request for a redemption of Creation Units, the Custodian, acting on behalf of the Adviser, would allocate the first bond on the list from each category (as of the time such redemption request is received by the Transfer Agent) to such redeemer to receive in-kind. There is no assurance that such relief will be granted.

Unless cash redemptions are permitted or required for the Fund, the redemption proceeds for a Creation Unit generally consist of Fund Securities as announced by the Administrator on the Business Day of the request for redemption, plus cash in an amount equal to the difference between the NAV of the Shares being redeemed, as next determined after a receipt of a request in proper form, and the value of the Fund Securities, less the redemption transaction fee and variable fees described below. Should the Fund Securities have a value greater than the NAV of the Shares being redeemed, a compensating cash payment to the Trust equal to the differential plus the applicable redemption transaction fee will be required to be arranged for by or on behalf of the redeeming shareholder. The Fund reserves the right to honor a redemption request by delivering a basket of securities or cash that differs from the Fund Securities.

Redemption Transaction Fee

The basic redemption transaction fee of $500 is the same no matter how many Creation Units are being redeemed pursuant to any one redemption request. An additional charge up to four times the redemption transaction fee will be charged with respect to cash redemptions or redemptions outside of the Clearing Process. An additional variable charge for cash redemptions or partial cash redemptions (when cash redemptions are permitted or required for the Fund) may also be imposed to compensate the Fund for the costs associated with selling the applicable securities. As a result, in order to seek to replicate the in-kind redemption order process, the Trust expects to sell, in the secondary market, the portfolio securities or settle any financial instruments that may not be permitted to be re-registered in the name of the Participating Party as a result of an in-kind redemption order pursuant to local law or market convention, or for other reasons (Market Sales). In such cases where the Trust makes Market Sales, the Authorized Participant will reimburse the Trust for, among other things, any difference between the market value at which the securities and/or financial instruments were sold or settled by the Trust and the cash in lieu amount (which amount, at the Adviser s discretion, may be capped), applicable registration fees, brokerage commissions and certain taxes (Transaction Costs). The Adviser may adjust the transaction fee to the extent the composition of the redemption securities changes or cash in lieu is added to the Cash Component to protect ongoing shareholders. In no event will fees charged by the Fund in connection with a redemption exceed 2% of the value of each Creation Unit. Investors who use the services of a broker or other such intermediary may be charged a fee for such services. To the extent the Fund cannot recoup the amount of Transaction Costs incurred in connection with a redemption from the redeeming shareholder because of the 2% cap or otherwise, those Transaction Costs will be borne by the Fund s remaining shareholders and negatively affect the Fund s performance.

Placement of Redemption Orders Using Clearing Process

Orders to redeem Creation Units of the Fund must be delivered through a DTC Participant that has executed the Participant Agreement with the Distributor and with the Trust. A DTC Participant who wishes to place an order for redemption of Creation Units of the Fund to be effected need not be a Participating Party, but such orders must state that redemption of Creation Units of the Fund will instead be effected through transfer of Creation Units of the Fund directly through DTC. An order to redeem Creation Units of the Fund is deemed received by the Administrator on the Transmittal Date if (i) such order is received by the Administrator not later than 4:00 p.m. Eastern time on such Transmittal Date; (ii) such order is preceded or accompanied by the requisite number of Shares of Creation Units specified in such order, which delivery must be made through DTC to the Administrator no later than 11:00 a.m. Eastern time, on such Transmittal Date (the DTC Cut-Off-Time); and (iii) all other procedures set forth in the Participant Agreement are properly followed.

After the Administrator has deemed an order for redemption received, the Administrator will initiate procedures to transfer the requisite Fund Securities (or contracts to purchase such Fund Securities) which are expected to be delivered within three Business Days and the cash redemption payment to the redeeming Beneficial Owner by the third Business Day following the Transmittal Date on which such redemption order is deemed received by the Administrator.

Placement of Redemption Orders Outside Clearing Process Domestic Funds

Orders to redeem Creation Units of the Fund outside the Clearing Process must be delivered through a DTC Participant that has executed the Participant Agreement. A DTC Participant who wishes to place an order for redemption of Creation Units of the Fund to be effected outside the Clearing Process need not be a Participating Party, but such orders must state that the DTC Participant is not using the Clearing Process and that redemption of Creation Units of the Fund will instead be effected through transfer of Creation Units of the Fund directly through DTC. An order to redeem Creation Units of the Fund outside the Clearing Process is deemed received by the Administrator on the Transmittal Date if (i) such order is received by the Administrator not later than 4:00 p.m. Eastern time on such Transmittal Date; (ii) such order is preceded or accompanied by the requisite number of Shares of Creation Units specified in such order, which delivery must be made through DTC to the Administrator no later than 11:00 a.m. Eastern time, on such Transmittal Date (the DTC Cut-Off-Time); and (iii) all other procedures set forth in the Participant Agreement are properly followed.

After the Administrator has deemed an order for redemption outside the Clearing Process received, the Administrator will initiate procedures to transfer the requisite Fund Securities (or contracts to purchase such Fund Securities) which are expected to be delivered within three Business Days and the cash redemption payment to the redeeming Beneficial Owner by the third Business Day following the Transmittal Date on which such redemption order is deemed received by the Administrator. An additional variable redemption transaction fee of up to four times the basic transaction fee is applicable to redemptions outside the Clearing Process.

Placement of Redemption Orders Outside Clearing Process Foreign Funds

Arrangements satisfactory to the Trust must be in place for the Participating Party to transfer the Creation Units through DTC on or before the settlement date. Redemptions of Shares for Fund Securities will be subject to compliance with applicable U.S. federal and state securities laws and the Fund (whether or not it otherwise permits or requires cash redemptions) reserves the right to redeem Creation Units for cash to the extent that the Fund could not lawfully deliver specific Fund Securities upon redemptions or could not do so without first registering the Deposit Securities under such laws.

In connection with taking delivery of Shares for Fund Securities upon redemption of Creation Units, a redeeming shareholder or entity acting on behalf of a redeeming shareholder must maintain appropriate custody arrangements with a qualified broker-dealer, bank or other custody providers in each jurisdiction in which any of the Fund Securities are customarily traded, to which account such Fund Securities will be delivered. If neither the redeeming shareholder nor the entity acting on behalf of a redeeming shareholder has appropriate arrangements to take delivery of the Fund Securities in the applicable foreign jurisdiction and it is not possible to make other such arrangements, or if it is not possible to effect deliveries of the Fund Securities in such jurisdictions, the Trust may, in its discretion, exercise its option to redeem such Shares in cash, and the redeeming shareholder will be required to receive its redemption proceeds in cash.

Deliveries of redemption proceeds generally will be made within three business days. Due to the schedule of holidays in certain countries or for other reasons, however, the delivery of redemption proceeds may take longer than three business days after the day on which the redemption request is received in proper form. In such cases, the local market settlement procedures will not commence until the end of the local holiday periods.

The holidays applicable to Foreign Funds are listed below. The proclamation of new holidays, the treatment by market participants of certain days as informal holidays (*e.g.*, days on which no or limited securities transactions occur, as a result of substantially shortened trading hours), the elimination of existing holidays or changes in local securities delivery practices, could affect the information set forth herein at some time in the future. The dates in calendar year 2013 in which the regular holidays affect the relevant securities markets are as follows (the following holiday schedule is subject to potential changes in the securities market):

2013

ARGENTINA

January 1	May 1	November 6
March 28	June 17	December 24
March 29	July 9	December 25
April 1	August 19	December 31

AUSTRALIA

January 1	March 29	May 20	August 14	December 25
January 28	April 1	June 3	September 30	December 26
March 4	April 25	June 10	October 7	
March 11	May 6	August 5	November 5	

AUSTRIA

January 1	May 9	November 1	December 31
March 29	May 20	December 24	
April 1	May 30	December 25	
May 1	August 15	December 26	

AZERBAIJAN

January 1	April 1	June 26	November 12
January 20	May 9	August 8	November 17
March 8	May 28	October 15	December 31
March 21	June 15	October 18	

BARBADOS

January 1	April 28	August 5
January 21	May 1	November 30
March 29	May 20	December 25
April 1	August 1	

BAHAMAS

January 1	June 7	December 25
March 29	July 10	December 26
April 1	August 5	
May 20	October 12	

BELGIUM

January 1	May 9	November 1
March 29	May 10	November 11
April 1	May 20	December 25
May 1	August 15	December 26

BELIZE

January 1	March 30	September 21	December 26
March 9	April 1	October 12	
March 11	May 1	November 19	
May 29	September 10	December 25	

BERMUDA

January 1	August 1	December 25
March 29	August 2	December 26
May 24	September 2	
June 17	November 11	

BRAZIL

January 1	March 29	November 15	December 31
January 25	May 1	November 20	
February 11	May 30	December 24	
February 12	July 9	December 25	

BRITISH VIRGIN ISLANDS

January 1	April 1	August 5	December 31
March 4	May 20	October 21	

March 11	June 8	December 25	
March 29	July 1	December 26	

CANADA

January 1	May 20	September 2	December 26

January 2	June 24	October 14
February 18	July 1	November 11
March 29	August 5	December 25

CAYMAN ISLANDS

January 1	April 1	November 11
January 21	May 20	December 25
February 13	June 10	December 26
March 29	July 1	

CHILE

January 1	May 27	November 1	December 25
March 29	August 15	December 25	December 26
May 1	September 18	December 31	
May 21	September 19		

CHINA

January 1	February 13	May 3	September 30	October 14
January 21	February 14	May 6	October 1	November 11
February 7	February 15	May 7	October 2	November 28
February 8	February 18	May 27	October 3	December 25
February 11	May 1	July 4	October 4	
February 12	May 2	September 2	October 7	

COLOMBIA

January 1	March 29	June 10	October 14	December 31
January 7	May 1	July 1	November 4	
March 25	May 13	August 7	November 11	
March 28	June 3	August 19	December 25	

COSTA RICA

January 1	July 25	October 12	December 31
March 31	August 2	December 25	
April 11	August 15		
May 1	September 15		

CZECH REPUBLIC

January 1	July 5	December 26
April 1	October 28	December 31
May 1	December 24	
May 8	December 25	

DENMARK

January 1	April 26	December 24
March 28	May 9	December 25
March 29	May 20	December 26
April 1	June 5	December 31

DOMINICAN REPUBLIC

January 1	February 27	August 16
January 6	March 29	September 24
January 21	May 1	November 6
January 26	May 30	December 25

ECUADOR

January 1	August 10	December 25
March 29	October 9	December 31
May 1	November 2	
May 24	November 3	

EGYPT

January 1	May 1	July 23	October 6	November 4
January 7	May 5	August 7	October 14	November 5
January 24	May 6	August 8	October 15	
April 25	July 1	August 11	October 16	

EL SALVADOR

January 1	May 1	October 12
March 28	August 3	November 2
March 29	August 4	December 25
March 30	September 15	December 31

FINLAND

January 1	May 9	December 25		
March 29	June 21	December 26		
April 1	December 6	December 31		
May 1	December 24			

FRANCE

January 1	May 8	November 11		
March 29	May 9	December 25		
April 1	August 15	December 26		
May 1	November 1			

GEORGIA

January 1	March 8	May 9	November 23	
January 7	April 9	May 26		
January 19	May 5	August 28		
March 3	May 6	October 14		

GERMANY

January 1	May 1	August 15	December 25	
February 11	May 9	October 3	December 26	
March 29	May 20	November 1	December 31	
April 1	May 30	December 24		

GREECE

January 1	April 1	June 24	December 26	
March 18	May 1	August 15		
March 25	May 3	October 28		
March 29	May 6	December 25		

GUATEMALA

January 1	May 1	October 20	December 31	
March 28	June 30	November 1		
March 29	August 15	December 24		
March 30	September 15	December 25		

HONG KONG

January 1	April 1	June 12	October 14	December 31
February 11	April 4	July 1	December 24	
February 12	May 1	September 20	December 25	
March 29	May 17	October 1	December 26	

HUNGARY

January 1	May 20	November 1		
March 15	August 19	December 24		
April 1	August 20	December 25		
May 1	October 23	December 26		

INDIA

January 25	April 19	July 1	September 30	November 15
January 26	April 20	August 9	October 2	December 25
March 27	April 23	August 10	October 16	
March 29	May 1	August 15	November 4	
April 1	May 25	August 22	November 5	
April 11	June 29	September 9	November 14	

INDONESIA

January 1	May 9	August 13	December 25	
January 25	June 7	October 15	December 26	
March 12	August 7	November 4	December 30	
March 29	August 8	November 5	December 31	
April 11	August 12	December 24		

March 15	August 19	December 24
April 1	August 20	December 25
May 1	October 23	December 26

IRELAND

January 1	May 1	October 28	December 27
March 18	May 6	December 24	
March 29	June 3	December 25	
April 1	August 5	December 26	

ISRAEL

February 24	April 14	September 4	September 18
March 25	April 15	September 5	September 19
March 26	May 14	September 6	September 25
March 31	May 15	September 13	September 26
April 1	July 16		

ITALY

January 1	May 1	December 25
March 29	August 15	December 26
April 1	November 1	December 31
April 25	December 24	

JAPAN

January 1	February 11	May 6	October 14
January 2	March 20	July 15	November 4
January 3	April 29	September 6	December 23
January 14	May 3	September 23	December 31

JERSEY

January 1	August 26
March 29	December 25
May 6	December 26
May 27	

JAMAICA

January 1	May 23	December 25
February 13	August 1	December 26
March 29	August 5	
April 1	October 21	

LUXEMBOURG

January 1	May 9	December 24
March 29	May 20	December 25
April 1	August 15	December 26
May 1	November 1	

MALAYSIA

January 1	May 1	June 1	October 15
January 24	May 24	August 7	November 4
February 1	May 25	August 8	November 5
February 11	May 30	August 9	December 25
February 12	May 31	August 31	

MEXICO

January 1	March 21	September 16	December 25
February 4	March 28	November 18	
February 5	March 29	November 20	
March 18	May 1	December 12	

MONGOLIA

January 1	June 1
February 11	July 11
March 8	November 26

MOROCCO

January 1	May 1	August 14	October 17
January 11	July 30	August 20	November 5
January 24	August 8	August 21	November 6
January 25	August 9	October 16	November 18

NETHERLANDS

January 1	April 30	May 20
March 29	May 1	December 25
April 1	May 9	December 26

NEW ZEALAND

January 1	February 6	June 3
January 2	March 29	October 28
January 21	April 1	December 25
January 28	April 25	December 26

NIGERIA

January 1	May 27	October 1
January 24	May 29	October 15
February 4	June 12	December 25
March 29	August 8	December 26

NORWAY

January 1	May 1	December 24
March 28	May 9	December 25
March 29	May 17	December 26
April 1	May 20	December 31

OMAN

January 1	August 8
January 24	October 15
June 5	November 4
July 23	November 18

PAKISTAN

January 24	October 15
March 23	November 9
August 8	November 13
August 14	December 25

PANAMA

January 1	August 15	December 2
January 9	November 3	December 8
March 29	November 5	December 25
May 1	November 10	

PERU

January 1	July 29	December 24
March 28	August 30	December 25
March 29	October 8	December 31
May 1	November 1	

PHILIPPINES

January 1	April 8	August 8	December 24
February 25	May 1	August 9	December 25
March 28	May 13	August 21	December 30
March 29	June 12	November 1	December 31

POLAND

January 1	May 3	November 11
March 29	May 30	December 25
April 1	August 15	December 26
May 1	November 1	

PORTUGAL

January 1	April 25	June 13	December 25
February 12	May 1	August 15	December 26
March 29	May 30	November 1	
April 1	June 10	December 24	

RUSSIA

January 1	January 8	May 9	December 25
January 2	January 9	May 10	December 26
January 3	February 25	June 12	
January 4	March 8	November 4	
January 7	May 1		

SAUDI ARABIA

August 8
September 23
October 15

SINGAPORE

January 1	May 1	August 9	December 25
February 11	May 24	October 15	
February 12	May 25	November 2	
March 29	August 8	November 4	

SEYCHELLES

January 1	May 30	August 15
March 29	June 5	November 1
April 1	June 18	December 8
May 1	June 29	December 25

SOUTH AFRICA

January 1	May 1	December 16	December 24
March 21	June 17	December 25	December 25
March 29	August 9	December 26	December 26
April 1	September 24		

SOUTH KOREA

January 1	May 1	August 15	October 3
February 11	May 17	September 18	December 25
March 1	June 6	September 19	December 31
April 5	July 17	September 20	

SPAIN

January 1	March 29	May 15	December 25
January 7	April 1	August 15	December 26
March 19	May 1	November 1	
March 28	May 2	December 6	

SRI LANKA

January 1	March 10	May 25	September 19	December 17
January 14	March 27	June 23	October 15	December 25
January 24	March 29	July 22	October 18	
February 4	April 25	August 8	November 3	
February 25	May 1	August 21	November 17	

SWEDEN

January 1	May 9	December 25
March 29	June 6	December 26
April 1	June 21	December 31
May 1	December 24	

SWITZERLAND

January 1	May 1	August 15	December 26
January 2	May 9	September 5	December 31
March 19	May 20	November 1	

March 29	May 30	December 24
April 1	August 1	December 25

TAIWAN

January 1	February 12	April 4	October 10
February 7	February 13	May 1	
February 8	February 14	June 12	
February 11	February 28	September 19	

THAILAND

January 1	April 16	July 1	December 5
February 25	May 1	July 23	December 10
April 8	May 6	August 12	December 31
April 15	May 27	October 23	

TRINIDAD AND TOBAGO

January 1	May 30	August 31	December 26
March 29	June 19	September 24	
March 30	August 1	November 3	
April 1	August 8	December 25	

TURKEY

January 1	August 9	October 16	October 29
April 23	August 30	October 17	
August 7	October 14	October 18	
August 8	October 15	October 28	

UKRAINE

January 1	May 5	August 24
January 7	May 9	
March 8	June 23	
May 1	June 28	

UNITED ARAB EMIRATES

January 1	October 15
January 24	November 4
June 5	December 2
August 8	

UNITED KINGDOM

January 1	May 6	December 25
March 29	May 27	December 26
April 1	August 26	

URUGUAY

January 1	March 29	June 19	November 2
January 6	April 19	July 18	December 25
February 11	May1	August 25	
March 28	Mau 18	October 14	

VENEZUELA

January 1	April 1	July 24
February 11	May 1	October 12
March 28	June 24	December 25
March 29	July 5	

VIETNAM

January 1	April 30
February 10	May 1
April 19	September 2

The longest redemption cycle for Foreign Funds is a function of the longest redemption cycle among the countries whose securities comprise the Fund. In the calendar year 2013, the dates of regular holidays affecting the following securities markets present the worst-case (longest) redemption cycle for Foreign Funds as follows:

SETTLEMENT PERIODS GREATER THAN SEVEN DAYS FOR YEAR 2013

	Beginning of Settlement Period	End of Settlement Period	Number of Days in Settlement Period
Argentina	03/25/13	04/02/13	8
	03/26/13	04/03/13	8
	03/27/13	04/04/13	8
China	02/04/13	02/19/13	15
	02/05/13	02/20/13	15
	02/06/13	02/21/13	15
	04/26/13	05/08/13	12
	04/29/13	05/09/13	10
	04/30/13	05/10/13	10
	09/25/13	10/08/13	13
	09/26/13	10/09/13	13
	09/27/13	10/10/13	13
Czech Republic	12/19/13	12/27/13	8
	12/20/13	12/30/13	10
	12/23/13	01/02/14	10
Denmark	03/25/13	04/02/13	8
	03/26/13	04/03/13	8
	03/27/13	04/04/13	8
	12/19/13	12/27/13	8
	12/20/13	12/30/13	10
	12/23/13	01/02/14	10
Egypt	10/08/13	10/17/13	9
	10/09/13	10/18/13	9
	10/10/13	10/21/13	11
	10/29/13	11/06/13	8
	10/30/13	11/07/13	8
	10/31/13	11/08/13	8
Finland	12/19/13	12/27/13	8
	12/20/13	12/30/13	10
	12/21/13	01/02/14	10
Germany	12/19/13	12/27/13	8
	12/20/13	12/30/13	10

	(In millions)			
Loss reserves related to:				
Other mortgage loans	$	2.2	$	3.2
Real estate owned	0.1		0.2	
Loan repurchase and settlement obligations – known and expected	24.3		25.9	
	$	26.6	$	29.3

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Other mortgage loans and real estate owned and the related loss reserves are included in financial services other assets, while loan repurchase obligations are included in financial services accounts payable and other liabilities in the accompanying consolidated balance sheets.

Loan Commitments and Related Derivatives

The Company is party to interest rate lock commitments (IRLCs), which are extended to borrowers who have applied for loan funding and meet defined credit and underwriting criteria. At June 30, 2014, the notional amount of IRLCs, which are accounted for as derivative instruments recorded at fair value, totaled $395.4 million.

The Company manages interest rate risk related to its IRLCs through the use of best-efforts whole loan delivery commitments and hedging instruments. These instruments are considered derivatives in an economic hedge and are accounted for at fair value with gains and losses recognized in financial services revenues in the consolidated statements of operations. As of June 30, 2014, the Company had a notional amount of approximately $28.0 million of best-efforts whole loan delivery commitments and a notional amount of $327.4 million of hedging instruments related to IRLCs not yet committed to purchasers.

NOTE G – INCOME TAXES

The Company’s income tax expense for the three and nine months ended June 30, 2014 was $58.7 million and $196.1 million, respectively, compared to $59.1 million and $131.9 million in the same periods of fiscal 2013. The effective tax rate was 34.2% and 34.8% for the three and nine months ended June 30, 2014, respectively, compared to 28.8% and 29.0% in the same periods of fiscal 2013. The effective tax rates for the three and nine months ended June 30, 2014 include a tax benefit for the domestic production activities deduction that is offset by a similar amount of expense for state income taxes. The Company’s tax benefit for the domestic production activities deduction was limited in fiscal 2013 because of utilization of a net operating loss (NOL) carryforward. The low effective tax rates during the 2013 periods were primarily due to a $9.3 million reduction in unrecognized tax benefits during the third quarter, while the nine-month period also included the effect of an $18.7 million reduction in the Company's valuation allowance on its deferred tax assets during the second quarter.

At June 30, 2014 and September 30, 2013, the Company had deferred tax assets, net of deferred tax liabilities, of $616.3 million and $617.6 million, respectively, partially offset by valuation allowances of $33.7 million and $31.0 million, respectively. The valuation allowance for both periods relates to the Company’s state deferred tax assets for NOL carryforwards. The Company believes it is more likely than not that a portion of its state NOL carryforwards will not be realized because some state NOL carryforward periods are too brief to realize the related deferred tax assets.

When assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods. The Company records a valuation allowance when it determines it is more likely than not that a portion of the deferred tax assets will not be realized. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of the Company's deferred tax assets.

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NOTE H – EARNINGS PER SHARE

The following table sets forth the numerators and denominators used in the computation of basic and diluted earnings per share. Options to purchase 9.1 million and 1.9 million shares of common stock were excluded from the computation of diluted earnings per share for the fiscal 2014 and 2013 periods, respectively, because the exercise price of the options was greater than the average market price of the common shares and, therefore, their effect would have been antidilutive.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
	(In millions)			
Numerator:				
Net income	$113.1	$146.0	$367.3	$323.2
Effect of dilutive securities:				
Interest and amortization of issuance costs associated with convertible senior notes, net of tax	2.8	6.0	16.5	17.5
Numerator for diluted earnings per share after assumed conversions	$115.9	$152.0	$383.8	$340.7
Denominator:				
Denominator for basic earnings per share — weighted average common shares	349.7	322.6	332.4	321.8
Effect of dilutive securities:				
Employee stock awards	3.2	4.4	3.1	4.6
Convertible senior notes	14.9	38.6	30.7	38.6
Denominator for diluted earnings per share — adjusted weighted average common shares	367.8	365.6	366.2	365.0

NOTE I – STOCKHOLDERS’ EQUITY

The Company has an automatically effective universal shelf registration statement, filed with the SEC in September 2012, registering debt and equity securities that it may issue from time to time in amounts to be determined.

During April and May of 2014, the Company's outstanding 2% convertible senior notes were converted into 38.6 million shares of the Company's common stock. The conversion rate was 77.18004 shares of the Company's common stock per $1,000 principal amount of senior notes, which was equivalent to a conversion price of approximately $12.96 per share of common stock.

Effective August 1, 2013, the Board of Directors authorized the repurchase of up to $100 million of the Company’s common stock effective through July 31, 2014. All of the $100 million authorization was remaining at June 30, 2014, and no common stock has been repurchased subsequent to June 30, 2014. On July 22, 2014, the Board of Directors authorized the repurchase of up to $100 million of the Company's common stock, which replaced the previous authorization and is effective through July 31, 2015.

During the three months ended June 30, 2014, the Board of Directors approved a quarterly cash dividend of $0.0375 per common share, which was paid on May 27, 2014 to stockholders of record on May 15, 2014. In July 2014, the Board of Directors approved a quarterly cash dividend of $0.0625 per common share, payable on August 18, 2014 to stockholders of record on August 8, 2014. During fiscal 2013, total cash dividends were $0.1875 per common share, all of which were approved and paid during the first quarter.

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NOTE J – EMPLOYEE BENEFIT PLANS

Stock Options

On March 6, 2014, the Compensation Committee of the Board of Directors approved and granted stock options to executive officers, other officers and employees of the Company. The stock option grants were made to approximately 500 recipients, who collectively may purchase approximately 3.8 million shares of the Company's common stock at an exercise price of $23.86 per share, the closing market price of the Company's common stock on the date of grant. These options generally vest over a five-year period.

Restricted Stock Unit Agreement

In November 2013, the Compensation Committee of the Company's Board of Directors approved and granted awards of 350,000 performance based units (Performance Units) to the Chairman of the Board and the Chief Executive Officer of the Company that will vest at the end of a three-year performance period ending September 30, 2016. The number of units that ultimately vest depends on the Company's relative position as compared to its peers at the end of the three-year period in achieving certain performance criteria and can range from 0% to 200% of the number of units granted. The performance criteria are based on total shareholder return, return on investment, SG&A expense containment and gross profit. The earned awards will have a value equal to the number of earned units multiplied by the closing price of the Company's common stock at the end of the performance period and may be paid in cash, equity or a combination of both. The Compensation Committee has the discretion to reduce the final payout on the Performance Units from the amount earned. The Performance Units have no dividend or voting rights during the performance period. These awards are accounted for as liability awards and compensation expense for these awards is recognized over the vesting period. The liability for these awards of $3.2 million at June 30, 2014 was based on the Company's performance against the peer group, the elapsed portion of the performance period and the Company's stock price at June 30, 2014. Compensation expense related to this grant was $1.3 million and $3.2 million for the three and nine months ended June 30, 2014, respectively.

NOTE K – COMMITMENTS AND CONTINGENCIES

Warranty Claims

The Company typically provides its homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems, and a one-year limited warranty on other construction components. The Company’s warranty liability is based upon historical warranty cost experience in each market in which it operates, and is adjusted as appropriate to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built.

Changes in the Company’s warranty liability during the three and nine months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30,	Nine Months Ended June 30,

	2014	2013	2014	2013
	(In millions)			
Warranty liability, beginning of period	$57.3	$57.3	$56.9	$56.8
Warranties issued	9.2	7.2	23.9	18.8
Changes in liability for pre-existing warranties	3.3	0.7	5.4	5.9
Settlements made	(8.5)	(8.0)	(24.9)	(24.3)
Warranty liability, end of period	$61.3	$57.2	$61.3	$57.2

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Legal Claims and Insurance

The Company is named as a defendant in various claims, complaints and other legal actions in the ordinary course of business. At any point in time, the Company is managing several hundred individual claims related to construction defect matters, personal injury claims, employment matters, land development issues and contract disputes. The Company has established reserves for these contingencies based on the estimated costs of pending claims and the estimated costs of anticipated future claims related to previously closed homes. The estimated liabilities for these contingencies were $457.6 million and $482.0 million at June 30, 2014 and September 30, 2013, respectively, and are included in homebuilding accrued expenses and other liabilities in the consolidated balance sheets. At both June 30, 2014 and September 30, 2013, approximately 99% of these reserves related to construction defect matters. Expenses related to the Company's legal contingencies were $15.5 million and $13.3 million in the nine months ended June 30, 2014 and 2013, respectively.

The Company's reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. As of June 30, 2014, no individual existing claim was material to the Company's financial statements, and the majority of the Company's total construction defect reserves consisted of the estimated exposure to future claims on previously closed homes. The Company has closed a significant number of homes during recent years, and as a result the Company may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which the Company operates. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where the Company operates are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and the Company believes they may continue to fluctuate over the next several years. Housing market conditions have been volatile across most of the Company's markets over the past ten years, and the Company believes such conditions can affect the frequency and cost of construction defect claims. The Company closed a significant number of homes during its peak operating years from 2003 to 2007. If the ultimate resolution of construction defect claims resulting from closings in the Company's peak operating years varies from current expectations, it could significantly change the Company's estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed the Company's current estimates, they will have a significant negative impact on its future earnings and liquidity.

The Company's reserves for legal claims decreased from $482.0 million at September 30, 2013 to $457.6 million at June 30, 2014 primarily due to payments made for legal claims during the period, net of reimbursements received from subcontractors, and a decrease in the reserves caused by a decrease in the estimated cost to resolve future claims. These decreases were partially offset by an increase in reserves for homes closed during the current year that are subject to possible future construction defect claims. Changes in the Company's legal claims reserves during the nine months ended June 30, 2014 and 2013 were as follows:

	Nine Months Ended June 30,	
	2014	2013
	(In millions)	
Reserves for legal claims, beginning of period	$482.0	$544.9
Decrease in reserves	(5.7)	(13.9)
Payments	(18.7)	(22.7)
Reserves for legal claims, end of period	$457.6	$508.3

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The Company estimates and records receivables under applicable insurance policies related to its estimated contingencies for known claims and anticipated future construction defect claims on previously closed homes and other legal claims and lawsuits incurred in the ordinary course of business when recovery is probable. Additionally, the Company may have the ability to recover a portion of its losses from its subcontractors and their insurance carriers when the Company has been named as an additional insured on their insurance policies. The Company's receivables related to its estimates of insurance recoveries from estimated losses from pending legal claims and anticipated future claims related to previously closed homes totaled $135.8 million, $162.1 million and $192.8 million at June 30, 2014, September 30, 2013 and June 30, 2013, respectively, and are included in homebuilding other assets in the consolidated balance sheets. The decrease in these receivables corresponds to the decrease in the reserve for legal claims.

The estimation of losses related to these reserves and the related estimates of recoveries from insurance policies are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to the Company's markets and the types of products built, claim frequency, claim settlement costs and patterns, insurance industry practices and legal interpretations, among others. Due to the high degree of judgment required in establishing reserves for these contingencies, actual future costs and recoveries from insurance could differ significantly from current estimated amounts, and it is not possible for the Company to make a reasonable estimate of the possible loss or range of loss in excess of its reserves.

Land and Lot Option Purchase Contracts

The Company enters into land and lot option purchase contracts to acquire land or lots for the construction of homes. At June 30, 2014, the Company had total deposits of $47.0 million, consisting of cash deposits of $41.1 million and promissory notes, letters of credit and surety bonds of $5.9 million, to purchase land and lots with a total remaining purchase price of approximately $1.9 billion. A limited number of the land and lot option purchase contracts at June 30, 2014, representing $14.2 million of remaining purchase price, were subject to specific performance clauses which may require the Company to purchase the land or lots upon the land sellers meeting their contractual obligations. The majority of land and lots under contract are currently expected to be purchased within three years.

Other Commitments

At June 30, 2014, the Company had outstanding surety bonds of $829.4 million and letters of credit of $77.9 million to secure performance under various contracts. Of the total letters of credit, $68.0 million were issued under the Company's revolving credit facility, some of which were cash collateralized. The remaining $9.9 million of letters of credit were issued under secured letter of credit agreements requiring the Company to deposit cash as collateral with the issuing banks. At June 30, 2014 and September 30, 2013, the amount of cash restricted to collateralize letters of credit under the revolving credit facility and under secured letter of credit agreements totaled $14.3 million and $73.6 million, respectively, and is included in homebuilding restricted cash in the consolidated balance sheets.

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NOTE L – OTHER ASSETS AND ACCRUED EXPENSES AND OTHER LIABILITIES

The Company’s homebuilding other assets at June 30, 2014 and September 30, 2013 were as follows:

	June 30, 2014	September 30, 2013
	(In millions)	
Insurance receivables	$135.8	$162.1
Earnest money and refundable deposits	110.2	98.5
Accounts and notes receivable	29.7	24.1
Prepaid assets	43.9	49.4
Rental properties	50.5	41.3
Debt securities collateralized by residential real estate	20.8	20.3
Other assets	69.5	64.8
	$460.4	$460.5

The Company’s homebuilding accrued expenses and other liabilities at June 30, 2014 and September 30, 2013 were as follows:

	June 30, 2014	September 30, 2013
	(In millions)	
Reserves for legal claims	$457.6	$482.0
Employee compensation and related liabilities	138.0	130.2
Warranty liability	61.3	56.9
Accrued interest	47.3	34.0
Federal and state income tax liabilities	15.1	29.9
Inventory related accruals	55.5	46.3
Homebuyer deposits	52.6	39.3
Accrued property taxes	18.8	30.0
Other liabilities	33.2	37.4
	$879.4	$886.0

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NOTE M – FAIR VALUE MEASUREMENTS

Fair value measurements are used for the Company's mortgage loans held for sale, debt securities collateralized by residential real estate, IRLCs and other derivative instruments on a recurring basis, and are used for inventories, other mortgage loans and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value may not be recoverable. The fair value hierarchy and its application to the Company’s assets and liabilities is as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market. The Company’s assets and liabilities measured at fair value using Level 2 inputs on a recurring basis are as follows:
mortgage loans held for sale;
IRLCs; and
loan sale commitments and hedging instruments.
- Level 3 – Valuation is typically derived from model-based techniques in which at least one significant input is unobservable and based on the Company’s own estimates about the assumptions that market participants would use to value the asset or liability.

The Company's assets measured at fair value using Level 3 inputs on a recurring basis are as follows:
debt securities collateralized by residential real estate; and
a limited number of mortgage loans held for sale with some degree of impairment affecting their marketability.
The Company’s assets measured at fair value using Level 3 inputs that are typically reported at the lower of carrying value or fair value on a nonrecurring basis are as follows:
inventory held and used;
inventory available for sale;
certain mortgage loans; and
rental properties and other real estate owned.

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The following tables summarize the Company’s assets and liabilities measured at fair value on a recurring basis at June 30, 2014 and September 30, 2013, and the changes in the fair value of the Level 3 assets during the nine months ended June 30, 2014.

	Balance Sheet Location	Fair Value at June 30, 2014 Level 1	Level 2	Level 3	Total
		(In millions)			
Homebuilding:					
Debt securities collateralized by residential real estate (a)	Other assets	$—	$—	$20.8	$20.8
Financial Services:					
Mortgage loans held for sale (b)	Mortgage loans held for sale	—	409.9	9.3	419.2
Derivatives not designated as hedging instruments (c):					
Interest rate lock commitments	Other assets	—	3.5	—	3.5
Forward sales of MBS	Other liabilities	—	(4.6)	—	(4.6)
Best-efforts and mandatory commitments	Other liabilities	—	(0.8)	—	(0.8)

	Balance Sheet Location	Fair Value at September 30, 2013 Level 1	Level 2	Level 3	Total
		(In millions)			
Homebuilding:					
Debt securities collateralized by residential real estate (a)	Other assets	$—	$—	$20.3	$20.3
Financial Services:					
Mortgage loans held for sale (b)	Mortgage loans held for sale	—	389.4	5.7	395.1
Derivatives not designated as hedging instruments (c):					
Interest rate lock commitments	Other assets	—	7.0	—	7.0
Forward sales of MBS	Other liabilities	—	(8.8)	—	(8.8)
Best-efforts and mandatory commitments	Other liabilities	—	(3.1)	—	(3.1)

	Level 3 Assets at Fair Value for the Nine Months Ended June 30, 2014 Balance at September 30, 2013	Net realized and unrealized gains/(losses)	Purchases	Sales and Settlements	Principal Reductions	Net transfers in/(out) of Level 3	Balance at June 30, 2014
	(In millions)						
Debt securities collateralized by residential real estate (a)	$20.3	$ 0.5	$—	$—	$ —	$—	$20.8

Mortgage loans held for sale (b)	5.7	0.7	—	(0.5	) —	3.4	9.3

(a) In October 2012, the Company purchased defaulted debt securities which are secured by residential real estate. These securities, which are included in other assets in the consolidated balance sheets, are classified as available for sale and are reflected at fair value. At June 30, 2014, the fair value of these securities was based on a recent agreement with an outside third party to sell the securities. Unrealized gains or losses on these securities, net of tax, are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets.

(b) Mortgage loans held for sale are reflected at fair value. Interest income earned on mortgage loans held for sale is based on contractual interest rates and included in financial services interest and other income. Mortgage loans held for sale at June 30, 2014 includes $9.3 million of originated loans for which the Company elected the fair value option upon origination and which the Company has not sold into the secondary market, but plans to sell as market conditions permit. The fair value of these mortgage loans held for sale is generally calculated considering the secondary market and adjusted for the value of the underlying collateral, including interest rate risk, liquidity risk and prepayment risk.

(c) Fair value measurements of these derivatives represent changes in fair value and are reflected in the balance sheet. Changes in these fair values during the periods presented are included in financial services revenues in the consolidated statements of operations.

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The following table summarizes the Company's assets measured at fair value on a nonrecurring basis at June 30, 2014 and September 30, 2013:

	Balance Sheet Location	Fair Value at June 30, 2014 Level 3	Fair Value at September 30, 2013 Level 3
		(In millions)	
Homebuilding:			
Inventory held and used (a) (b)	Inventories	$46.6	$0.5
Inventory available for sale (a) (c)	Inventories	8.7	10.8
Financial Services:			
Other mortgage loans (a) (d)	Other assets	18.8	22.6
Real estate owned (a) (d)	Other assets	0.8	0.7

(a) The fair values included in the table above represent only those assets whose carrying values were adjusted to fair value in the respective quarter.
(b) In performing its impairment analysis of communities, discount rates ranging from 12% to 18% were used in the periods presented.
(c) The fair value of inventory available for sale was determined based on recent offers received from outside third parties, comparable sales or actual contracts.
(d) The fair values of other mortgage loans and real estate owned are determined based on the value of the underlying collateral.

For the financial assets and liabilities that the Company does not reflect at fair value, the following tables present both their respective carrying value and fair value at June 30, 2014 and September 30, 2013:

	Carrying Value	Fair Value at June 30, 2014			
		Level 1	Level 2	Level 3	Total
	(In millions)				
Homebuilding:					
Cash and cash equivalents (a)	$538.5	$538.5	$—	$—	$538.5
Restricted cash (a)	20.1	20.1	—	—	20.1
Senior notes (b)	3,138.0	—	3,244.4	—	3,244.4
Financial Services:					
Cash and cash equivalents (a)	36.5	36.5	—	—	36.5
Mortgage repurchase facility (a)	302.9	—	—	302.9	302.9

	Carrying Value	Fair Value at September 30, 2013			
		Level 1	Level 2	Level 3	Total
	(In millions)				
Homebuilding:					
Cash and cash equivalents (a)	$913.3	$913.3	$—	$—	$913.3
Restricted cash (a)	77.8	77.8	—	—	77.8
Senior notes (b)	2,783.3	—	2,811.5	—	2,811.5
Convertible senior notes (b)	478.7	—	762.4	—	762.4

Financial Services:					
Cash and cash equivalents (a)	23.2	23.2	—	—	23.2
Mortgage repurchase facility (a)	238.6	—	—	238.6	238.6

(a) The fair value approximates carrying value due to its short-term nature, short maturity or floating interest rate terms, as applicable.

(b) The fair value is determined based on quoted market prices of recent transactions of the notes, which is classified as Level 2 within the fair value hierarchy.

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June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION

All of the Company's senior notes and the unsecured revolving credit facility are fully and unconditionally guaranteed, on a joint and several basis, by substantially all of the Company's homebuilding subsidiaries (collectively, Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. The Company's subsidiaries engaged in the financial services segment and certain other subsidiaries do not guarantee the Company's senior notes and the unsecured revolving credit facility (collectively, Non-Guarantor Subsidiaries). In lieu of providing separate financial statements for the Guarantor Subsidiaries, consolidating condensed financial statements are presented below. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that they are not material to investors.

The guarantees by a Guarantor Subsidiary will be automatically and unconditionally released and discharged upon: (1) the sale or other disposition of its common stock whereby it is no longer a subsidiary of the Company; (2) the sale or other disposition of all or substantially all of its assets (other than to the Company or another Guarantor); (3) its merger or consolidation with an entity other than the Company or another Guarantor; or (4) depending on the provisions of the applicable indenture, either (a) its proper designation as an unrestricted subsidiary, (b) its ceasing to guarantee any of the Company's publicly traded debt securities, or (c) its ceasing to guarantee any of the Company's obligations under the revolving credit facility.

The Company revised its condensed consolidating statement of cash flows for the nine months ended June 30, 2013 to reflect the change in intercompany advances in the D.R. Horton, Inc. column as an investing activity. Such amount was previously labeled net change in intercompany receivables/payables and classified as a financing activity. The revision resulted in an increase in cash provided by financing activities and an increase in cash used in investing activities in the D.R. Horton, Inc. column in the amount of $714.3 million. This revision had no impact on any financial statements or notes, except for the D.R. Horton, Inc. and Eliminations columns of the condensed consolidating statement of cash flows in this Supplemental Guarantor Information note, and the Company determined the revision was not material. As other prior period financial information is presented, the Company will similarly revise the condensed consolidating statements of cash flows in its future filings.

During the quarter ended March 31, 2014, the Company identified an error with respect to its condensed consolidating statement of cash flows for the three months ended December 31, 2013. The Company will revise the condensed consolidating statement of cash flows when it is presented as comparative information in the Company’s December 31, 2014 quarterly report. The revision will increase net cash used in operating activities in the D.R. Horton, Inc. column by $32.0 million and decrease intercompany advances and net cash used in investing activities in the D.R. Horton, Inc. column by $32.0 million. The revision will also decrease net cash used in operating activities in the Guarantor Subsidiaries column by $32.0 million and decrease intercompany advances and cash provided by financing activities in the Guarantor Subsidiaries column by $32.0 million. The revision described above corrects the classification of the cash flows related to the purchase of the homebuilding operations of Regent Homes. The error, which the Company determined is not material, had no impact on any financial statements or notes, except for the D.R. Horton, Inc., Guarantor Subsidiaries and Eliminations columns of the condensed consolidating statement of cash flows in the Supplemental Guarantor Information note for the quarter ended December 31, 2013. Such amounts have been appropriately reflected in the condensed consolidating statement of cash flows for the nine months ended June 30, 2014.

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June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
June 30, 2014

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	$467.5	$65.1	$ 42.4	$—	$575.0
Restricted cash	18.3	1.8	—	—	20.1
Investments in subsidiaries	2,742.6	—	—	(2,742.6)	—
Inventories	2,624.0	4,740.5	11.1	—	7,375.6
Deferred income taxes	201.6	381.0	—	—	582.6
Property and equipment, net	47.8	49.2	35.9	—	132.9
Other assets	147.9	252.7	115.8	—	516.4
Mortgage loans held for sale	—	—	419.2	—	419.2
Goodwill	—	94.8	—	—	94.8
Intercompany receivables	2,248.6	—	—	(2,248.6)	—
Total Assets	$8,498.3	$5,585.1	$ 624.4	$(4,991.2)	$9,716.6
LIABILITIES & EQUITY					
Accounts payable and other liabilities	$392.6	$776.0	$ 132.8	$—	$1,301.4
Intercompany payables	—	2,219.5	29.1	(2,248.6)	—
Notes payable	3,139.5	2.9	302.9	—	3,445.3
Total Liabilities	3,532.1	2,998.4	464.8	(2,248.6)	4,746.7
Total stockholders' equity	4,966.2	2,586.7	155.9	(2,742.6)	4,966.2
Noncontrolling interests	—	—	3.7	—	3.7
Total Equity	4,966.2	2,586.7	159.6	(2,742.6)	4,969.9
Total Liabilities & Equity	$8,498.3	$5,585.1	$ 624.4	$(4,991.2)	$9,716.6

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
September 30, 2013

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
	(In millions)				
ASSETS					
Cash and cash equivalents	$871.4	$38.4	$ 26.7	$—	$936.5
Restricted cash	76.5	1.2	0.1	—	77.8
Investments in subsidiaries	2,477.7	—	—	(2,477.7)	—
Inventories	2,177.4	4,002.9	17.1	—	6,197.4
Deferred income taxes	201.7	384.9	—	—	586.6
Property and equipment, net	41.0	34.5	31.2	—	106.7
Other assets	167.0	233.4	117.0	—	517.4
Mortgage loans held for sale	—	—	395.1	—	395.1
Goodwill	—	38.9	—	—	38.9
Intercompany receivables	1,697.0	—	—	(1,697.0)	—
Total Assets	$7,709.7	$4,734.2	$ 587.2	$(4,174.7)	$8,856.4
LIABILITIES & EQUITY					
Accounts payable and other liabilities	$383.8	$766.5	$ 135.7	$—	$1,286.0
Intercompany payables	—	1,664.2	32.8	(1,697.0)	—
Notes payable	3,267.4	3.0	238.6	—	3,509.0
Total Liabilities	3,651.2	2,433.7	407.1	(1,697.0)	4,795.0
Total stockholders’ equity	4,058.5	2,300.5	177.2	(2,477.7)	4,058.5
Noncontrolling interests	—	—	2.9	—	2.9
Total Equity	4,058.5	2,300.5	180.1	(2,477.7)	4,061.4
Total Liabilities & Equity	$7,709.7	$4,734.2	$ 587.2	$(4,174.7)	$8,856.4

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended June 30, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Homebuilding:					
Revenues	$653.8	$1,445.5	$ 3.6	$—	$2,102.9
Cost of sales	523.2	1,198.8	3.5	—	1,725.5
Gross profit	130.6	246.7	0.1	—	377.4
Selling, general and administrative expense	102.3	116.0	3.6	—	221.9
Equity in (income) of subsidiaries	(143.2)	—	—	143.2	—
Other (income)	(0.3)	(0.9)	(1.9)	—	(3.1)
Homebuilding pre-tax income (loss)	171.8	131.6	(1.6)	(143.2)	158.6
Financial Services:					
Revenues, net of recourse and reinsurance expense	—	—	44.1	—	44.1
General and administrative expense	—	—	33.8	—	33.8
Interest and other (income)	—	—	(2.9)	—	(2.9)
Financial services pre-tax income	—	—	13.2	—	13.2
Income before income taxes	171.8	131.6	11.6	(143.2)	171.8
Income tax expense	58.7	44.9	4.1	(49.0)	58.7
Net income	$113.1	$86.7	$ 7.5	$(94.2)	$113.1
Comprehensive income	$113.1	$86.7	$ 7.5	$(94.2)	$113.1

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Nine Months Ended June 30, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Homebuilding:					
Revenues	$1,780.0	$3,645.4	$ 9.7	$—	$5,435.1
Cost of sales	1,406.1	2,903.3	9.5	—	4,318.9
Gross profit	373.9	742.1	0.2	—	1,116.2
Selling, general and administrative expense	279.4	306.0	7.8	—	593.2
Equity in (income) of subsidiaries	(467.8)	—	—	467.8	—
Other (income)	(1.1)	(2.8)	(5.3)	—	(9.2)
Homebuilding pre-tax income (loss)	563.4	438.9	(2.3)	(467.8)	532.2
Financial Services:					
Revenues, net of recourse and reinsurance expense	—	—	117.4	—	117.4
General and administrative expense	—	—	93.7	—	93.7
Interest and other (income)	—	—	(7.5)	—	(7.5)
Financial services pre-tax income	—	—	31.2	—	31.2
Income before income taxes	563.4	438.9	28.9	(467.8)	563.4
Income tax expense	196.1	152.8	10.1	(162.9)	196.1
Net income	$367.3	$286.1	$ 18.8	$(304.9)	$367.3
Comprehensive income	$367.3	$286.4	$ 18.8	$(304.9)	$367.6

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended June 30, 2013

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Homebuilding:					
Revenues	$534.1	$1,107.6	$ 2.8	$—	$1,644.5
Cost of sales	412.7	878.4	4.3	—	1,295.4
Gross profit (loss)	121.4	229.2	(1.5)	—	349.1
Selling, general and administrative expense	78.3	87.4	1.8	—	167.5
Equity in (income) of subsidiaries	(161.4)	—	—	161.4	—
Other (income)	(0.6)	(1.5)	(1.7)	—	(3.8)
Homebuilding pre-tax income (loss)	205.1	143.3	(1.6)	(161.4)	185.4
Financial Services:					
Revenues, net of recourse and reinsurance expense	—	—	48.3	—	48.3
General and administrative expense	—	—	31.3	—	31.3
Interest and other (income)	—	—	(2.7)	—	(2.7)
Financial services pre-tax income	—	—	19.7	—	19.7
Income before income taxes	205.1	143.3	18.1	(161.4)	205.1
Income tax expense	59.1	38.7	1.9	(40.6)	59.1
Net income	$146.0	$104.6	$ 16.2	$(120.8)	$146.0
Comprehensive income	$146.0	$106.5	$ 16.2	$(120.8)	$147.9

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Nine Months Ended June 30, 2013

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Homebuilding:					
Revenues	$1,381.7	$2,878.2	$ 8.2	$—	$4,268.1
Cost of sales	1,094.3	2,300.3	12.4	—	3,407.0
Gross profit (loss)	287.4	577.9	(4.2)	—	861.1
Selling, general and administrative expense	217.8	240.7	4.8	—	463.3
Equity in (income) of subsidiaries	(388.6)	—	—	388.6	—
Interest expense	5.1	—	—	—	5.1
Other (income)	(2.0)	(3.8)	(4.5)	—	(10.3)
Homebuilding pre-tax income (loss)	455.1	341.0	(4.5)	(388.6)	403.0
Financial Services:					
Revenues, net of recourse and reinsurance expense	—	—	131.3	—	131.3
General and administrative expense	—	—	84.9	—	84.9
Interest and other (income)	—	—	(5.7)	—	(5.7)
Financial services pre-tax income	—	—	52.1	—	52.1
Income before income taxes	455.1	341.0	47.6	(388.6)	455.1
Income tax expense	131.9	86.3	4.2	(90.5)	131.9
Net income	$323.2	$254.7	$ 43.4	$(298.1)	$323.2
Comprehensive income	$323.0	$256.6	$ 43.4	$(298.1)	$324.9

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$(259.5)	$(281.7)	$ 6.1	$(40.0)	$(575.1)
INVESTING ACTIVITIES					
Purchases of property and equipment	(17.9)	(23.7)	(8.3)	—	(49.9)
Decrease (increase) in restricted cash	58.2	(0.6)	0.1	—	57.7
Net principal increase of other mortgage loans and real estate owned	—	—	(2.8)	—	(2.8)
Intercompany advances	(329.0)	—	—	329.0	—
Payments related to acquisition of a business	(222.7)	—	—	—	(222.7)
Net cash used in investing activities	(511.4)	(24.3)	(11.0)	329.0	(217.7)
FINANCING ACTIVITIES					
Proceeds from notes payable	622.0	—	64.3	—	686.3
Repayment of notes payable	(273.9)	—	—	—	(273.9)
Intercompany advances	—	332.7	(3.7)	(329.0)	—
Proceeds from stock associated with certain employee benefit plans	43.1	—	—	—	43.1
Excess income tax benefit from employee stock awards	1.6	—	—	—	1.6
Cash dividends paid	(25.8)	—	(40.0)	40.0	(25.8)
Net cash provided by financing activities	367.0	332.7	20.6	(289.0)	431.3
(Decrease) increase in cash and cash equivalents	(403.9)	26.7	15.7	—	(361.5)
Cash and cash equivalents at beginning of period	871.4	38.4	26.7	—	936.5
Cash and cash equivalents at end of period	$467.5	$65.1	$ 42.4	$—	$575.0

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)
June 30, 2014

NOTE N – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2013

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$(440.1)	$(688.7)	$ 22.5	$(30.0)	$(1,136.3)
INVESTING ACTIVITIES					
Purchases of property and equipment	(21.7)	(15.4)	(3.5)	—	(40.6)
Purchases of marketable securities	(28.9)	—	—	—	(28.9)
Proceeds from the sale or maturity of marketable securities	325.4	—	—	—	325.4
Increase in restricted cash	(18.5)	(0.8)	—	—	(19.3)
Net principal increase of other mortgage loans and real estate owned	—	—	(1.0)	—	(1.0)
Purchase of debt securities collateralized by residential real estate	—	(18.6)	—	—	(18.6)
Principal payments received on debt securities collateralized by residential real estate	—	1.4	—	—	1.4
Intercompany advances	(714.3)	—	—	714.3	—
Payments related to acquisition of a business	(9.4)	—	—	—	(9.4)
Net cash used in investing activities	(467.4)	(33.4)	(4.5)	714.3	209.0
FINANCING ACTIVITIES					
Proceeds from notes payable	860.1	—	31.9	—	892.0
Repayment of notes payable	(342.1)	—	—	—	(342.1)
Intercompany advances	—	724.2	(9.9)	(714.3)	—
Proceeds from stock associated with certain employee benefit plans	27.9	—	—	—	27.9
Cash dividends paid	(60.2)	—	(30.0)	30.0	(60.2)
Net cash provided by (used in) financing activities	485.7	724.2	(8.0)	(684.3)	517.6
(Decrease) increase in cash and cash equivalents	(421.8)	2.1	10.0	—	(409.7)
Cash and cash equivalents at beginning of period	968.9	56.3	22.5	—	1,047.7
	$547.1	$58.4	$ 32.5	$—	$638.0

Cash and cash equivalents at end of period

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report and with our annual report on Form 10-K for the fiscal year ended September 30, 2013. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those described in the "Forward-Looking Statements" section following this discussion.

BUSINESS

We are the largest homebuilding company by volume in the United States. We construct and sell homes through our operating divisions in 79 markets in 27 states, under the names of D.R. Horton, America's Builder, Emerald Homes, Breland Homes, Regent Homes, Express Homes and Crown Communities. Our homebuilding operations primarily include the construction and sale of single-family homes with sales prices generally ranging from $100,000 to $1,000,000, with an average closing price of $269,300 during the nine months ended June 30, 2014. Approximately 90% and 91% of home sales revenues were generated from the sale of single-family detached homes in the nine months ended June 30, 2014 and 2013, respectively. The remainder of home sales revenues were generated from the sale of attached homes, such as town homes, duplexes, triplexes and condominiums, which share common walls and roofs.

Through our financial services operations, we provide mortgage financing and title agency services to homebuyers in many of our homebuilding markets. DHI Mortgage, our 100% owned subsidiary, provides mortgage financing services primarily to our homebuilding customers and generally sells the mortgages it originates and the related servicing rights to third-party purchasers. DHI Mortgage originates loans in accordance with purchaser guidelines and sells substantially all of its mortgage production shortly after origination. Our subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services, primarily to our homebuilding customers.

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We conduct our homebuilding operations in the geographic regions, states and markets listed below, and we conduct our mortgage and title operations in many of these markets. Our homebuilding operating divisions are aggregated into six reporting segments, also referred to as reporting regions, which comprise the markets below. Our financial statements contain additional information regarding segment performance.

State	Reporting Region/Market	State	Reporting Region/Market
	East Region		South Central Region
Delaware	Central Delaware	Louisiana	Baton Rouge
Georgia	Savannah		Lafayette
Maryland	Baltimore	New Mexico	Las Cruces
	Suburban Washington, D.C.	Oklahoma	Oklahoma City
New Jersey	North New Jersey	Texas	Austin
	South New Jersey		Dallas
North Carolina	Charlotte		El Paso
	Fayetteville		Fort Worth
	Greensboro/Winston-Salem		Houston
	Jacksonville		Killeen/Temple/Waco
	Raleigh/Durham		Midland/Odessa
	Wilmington		Rio Grande Valley
Pennsylvania	Philadelphia		San Antonio
South Carolina	Charleston		
	Columbia		Southwest Region
	Greenville/Spartanburg	Arizona	Phoenix
	Hilton Head		Tucson
	Myrtle Beach	New Mexico	Albuquerque
Virginia	Northern Virginia		
			West Region
	Midwest Region	California	Bay Area
Colorado	Colorado Springs		Central Valley
	Denver		Imperial Valley
	Fort Collins		Los Angeles County
Illinois	Chicago		Riverside County
Indiana	Northern Indiana		Sacramento
Minnesota	Minneapolis/St. Paul		San Bernardino County
			San Diego County
	Southeast Region		Ventura County
Alabama	Birmingham	Hawaii	Hawaii
	Huntsville		Maui
	Mobile		Oahu
	Montgomery	Nevada	Las Vegas
	Tuscaloosa		Reno
Florida	Fort Myers/Naples	Oregon	Portland
	Jacksonville	Utah	Salt Lake City
	Lakeland	Washington	Seattle/Tacoma
	Melbourne/Vero Beach		Vancouver
	Miami/West Palm Beach		
	Orlando		
	Pensacola/Panama City		
	Tampa/Sarasota		

	Volusia County
Georgia	Atlanta
	Augusta
	Middle Georgia
Mississippi	Gulf Coast
	Hattiesburg
Tennessee	Nashville

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OVERVIEW

During fiscal 2013 and for the first half of fiscal 2014, new home prices increased significantly in many of our markets as housing demand increased and the supply of homes for sale was low. The increases in new home prices have recently begun to moderate, while overall demand is relatively stable across most of our operating markets. We continue to see varying levels of strength in new home demand and home prices across our markets, with demand in each market generally reflecting the relative strength of each market's economy, as measured by job growth, household incomes, household formations and consumer confidence.

Our position as the largest and most geographically diverse builder in the United States provides a strong platform for us to compete for new home sales. Over the past three years, we have significantly increased our investments in land, lot and home inventories in most of our markets, while maintaining a strong balance sheet and liquidity position. In fiscal 2013, we introduced our Emerald Homes brand to expand our product offerings to include more move-up and luxury homes. In fiscal 2014, we have introduced our Express Homes brand to offer more affordable homes for entry-level buyers, who we believe are currently under-served in the new home market. Both of these new offerings are being introduced across our operating markets over the next year, which will significantly broaden our product diversity.

During the third quarter of fiscal 2014, the number and value of our net sales orders increased 25% and 32%, respectively, compared to the prior year quarter, and the number of homes closed and home sales revenues increased 19% and 28%, respectively, compared to the prior year quarter. We have generated pre-tax income of $171.8 million and $563.4 million during the current quarter and fiscal year-to-date periods. We believe our business is well-positioned for the future and we are focused on operating each of our communities by effectively managing our product offerings, home prices, incentives, sales pace, profit margins and inventory levels in a manner that will optimize the returns on our inventory investments.

We believe that housing demand in our individual operating markets is tied closely to each market's economy; therefore, we expect that housing market conditions will vary across our markets. The U.S. economy appears to be slowly improving, which we expect will allow slow to moderate overall growth in housing demand, concentrated in markets where job growth is occurring. The pace and sustainability of new home demand and our future results could be negatively affected by weakening economic conditions, decreases in the level of employment and housing demand, decreased home affordability, significant increases in mortgage interest rates or tightening of mortgage lending standards.

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STRATEGY

Demand for new homes has been relatively stable across most of our operating markets recently, with varying levels of strength in demand and home prices across our individual markets based on local economic conditions. We have used our liquidity and balance sheet flexibility to provide the capital to increase our investments in housing and land inventory, expand our product offerings, geographically expand our operations and opportunistically pursue business acquisitions. Our operating strategy is focused on leveraging our strong financial and competitive position to generate strong profitability, improve cash flows and increase our returns on invested capital. Our operating strategy includes the following initiatives:

- Maintaining a strong cash balance and overall liquidity position.
- Allocating and actively managing our inventory investments across our operating markets to diversify our geographic risk and optimize returns.
- Offering new home communities that appeal to a broad range of entry level, move up and luxury homebuyers based on consumer demand in each market.
- Modifying product offerings, sales pace, home prices and sales incentives as necessary in each of our markets to meet consumer demand, align with finished lot supply and construction activity and optimize returns on inventory investments and cash flows.
- Entering into option purchase contracts to control land and finished lots, where possible, which mitigates many of the risks of land ownership.
- Investing in land, land development and opportunistic acquisitions of homebuilding companies in desirable markets, while controlling the level of land and lots we own in each of our markets relative to the local new home demand.
- Managing our inventory of homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand, monitoring the number and aging of unsold homes and aggressively marketing unsold, completed homes in inventory.
- Controlling the cost of goods purchased from both vendors and subcontractors.
- Improving the efficiency of our land development, construction, sales and other key operational activities.
- Controlling our SG&A expense infrastructure to match production levels.

Our operating strategy has produced positive results in recent years and the first three quarters of fiscal 2014. However, we cannot provide any assurances that the initiatives listed above will continue to be successful, and we may need to adjust components of our strategy to meet future market conditions. We expect that our operating strategy will allow us to increase our profitability while maintaining a strong balance sheet and liquidity position during the remainder of fiscal 2014.

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KEY RESULTS

Key financial results as of and for the three months ended June 30, 2014, as compared to the same period of 2013, were as follows:

Homebuilding Operations:

- Homebuilding revenues increased 28% to $2.1 billion.
- Homes closed increased 19% to 7,676 homes, and the average closing price of those homes increased 8% to $272,300.
- Net sales orders increased 25% to 8,551 homes, and the value of net sales orders increased 32% to $2.4 billion.
- Sales order backlog increased 15% to 11,365 homes, and the value of sales order backlog increased 26% to $3.3 billion.
- Home sales gross margins decreased 70 basis points to 20.7%.
- Inventory and land option charges were $56.8 million, compared to $0.8 million.
- Homebuilding SG&A expenses increased as a percentage of homebuilding revenues by 40 basis points to 10.6%.
- Homebuilding pre-tax income decreased 14% to $158.6 million, compared to $185.4 million.
- Homebuilding cash totaled $538.5 million, compared to $913.3 million and $607.8 million at September 30, 2013 and June 30, 2013, respectively.
- Homebuilding inventories totaled $7.4 billion, compared to $6.2 billion and $5.9 billion at September 30, 2013 and June 30, 2013, respectively.
- Homes in inventory totaled 20,500, compared to 17,000 and 17,500 at September 30, 2013 and June 30, 2013, respectively.
- Owned and controlled lots totaled 178,500, compared to 180,900 and 189,800 at September 30, 2013 and June 30, 2013, respectively.
- Homebuilding debt was $3.1 billion, compared to $3.3 billion and $2.9 billion at September 30, 2013 and June 30, 2013, respectively.
- Gross homebuilding debt to total capital was 38.7%, decreasing from 44.6% and 42.3% at September 30, 2013 and June 30, 2013, respectively. Net homebuilding debt to total capital was 34.4%, decreasing from 36.7% and 36.6% at September 30, 2013 and June 30, 2013, respectively.

Financial Services Operations:

- Total financial services revenues, net of recourse and reinsurance expenses, decreased 9% to $44.1 million.
- Financial services pre-tax income decreased 33% to $13.2 million.

Consolidated Results:

- Consolidated pre-tax income decreased 16% to $171.8 million, compared to $205.1 million.
- Net income decreased 23% to $113.1 million, compared to $146.0 million.
- Diluted earnings per share decreased 24% to $0.32, compared to $0.42.
- Total equity was $5.0 billion, compared to $4.1 billion and $3.9 billion at September 30, 2013 and June 30, 2013, respectively.

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Key financial results as of and for the nine months ended June 30, 2014, as compared to the same period of 2013, were as follows:

Homebuilding Operations:
- Homebuilding revenues increased 27% to $5.4 billion.
- Homes closed increased 16% to 20,058 homes, and the average closing price of those homes increased 10% to $269,300.
- Net sales orders increased 13% to 22,574 homes, and the value of net sales orders increased 23% to $6.3 billion.
- Home sales gross margins increased 140 basis points to 21.7%.
- Inventory and land option charges were $63.9 million, compared to $4.0 million.
- Homebuilding SG&A expenses as a percentage of homebuilding revenues were 10.9% in both periods.
- Homebuilding pre-tax income increased 32% to $532.2 million, compared to $403.0 million.
- Net cash used in operating activities was $575.1 million, compared to $1.1 billion.

Financial Services Operations:
- Total financial services revenues, net of recourse and reinsurance expenses, decreased 11% to $117.4 million.
- Financial services pre-tax income decreased 40% to $31.2 million.

Consolidated Results:
- Consolidated pre-tax income increased 24% to $563.4 million, compared to $455.1 million.
- Net income increased 14% to $367.3 million, compared to $323.2 million.
- Diluted earnings per share increased 13% to $1.05, compared to $0.93.

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RESULTS OF OPERATIONS - HOMEBUILDING

The following tables and related discussion set forth key operating and financial data for our homebuilding operations by reporting segment as of and for the three and nine months ended June 30, 2014 and 2013.

Net Sales Orders (1)

	Three Months Ended June 30,								
	Net Homes Sold			Value (In millions)			Average Selling Price		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
East	1,051	715	47 %	$291.2	$198.7	47 %	$277,100	$277,900	— %
Midwest	411	472	(13)%	150.7	161.7	(7)%	366,700	342,600	7 %
Southeast	2,508	1,929	30 %	636.6	467.9	36 %	253,800	242,600	5 %
South Central	2,777	2,181	27 %	613.8	468.7	31 %	221,000	214,900	3 %
Southwest	334	428	(22)%	74.1	87.6	(15)%	221,900	204,700	8 %
West	1,470	1,097	34 %	639.3	444.0	44 %	434,900	404,700	7 %
	8,551	6,822	25 %	$2,405.7	$1,828.6	32 %	$281,300	$268,000	5 %

	Nine Months Ended June 30,								
	Net Homes Sold			Value (In millions)			Average Selling Price		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
East	2,783	2,062	35 %	$773.2	$561.3	38 %	$277,800	$272,200	2 %
Midwest	1,058	1,201	(12)%	389.1	403.2	(3)%	367,800	335,700	10 %
Southeast	6,487	5,838	11 %	1,638.0	1,363.8	20 %	252,500	233,600	8 %
South Central	7,513	6,356	18 %	1,654.4	1,313.4	26 %	220,200	206,600	7 %
Southwest	1,007	1,154	(13)%	219.5	236.0	(7)%	218,000	204,500	7 %
West	3,726	3,349	11 %	1,624.6	1,261.2	29 %	436,000	376,600	16 %
	22,574	19,960	13 %	$6,298.8	$5,138.9	23 %	$279,000	$257,500	8 %

Sales Order Cancellations

	Three Months Ended June 30,					
	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2014	2013	2014	2013	2014	2013
East	348	228	$91.4	$61.3	25 %	24 %
Midwest	91	80	33.5	25.4	18 %	14 %
Southeast	912	666	218.3	147.9	27 %	26 %
South Central	825	827	181.1	164.0	23 %	27 %
Southwest	150	200	30.3	37.6	31 %	32 %
West	345	179	152.3	64.5	19 %	14 %
	2,671	2,180	$706.9	$500.7	24 %	24 %

	Nine Months Ended June 30,					
	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2014	2013	2014	2013	2014	2013
East	764	548	$196.9	$137.7	22 %	21 %
Midwest	184	176	67.4	55.2	15 %	13 %
Southeast	2,019	1,654	472.9	351.4	24 %	22 %
South Central	2,191	1,997	472.4	384.9	23 %	24 %
Southwest	402	513	80.2	98.7	29 %	31 %
West	760	588	330.0	200.2	17 %	15 %

6,320	5,476	$1,619.8	$1,228.1	22	%	22	%

(1) Net sales orders represent the number and dollar value of new sales contracts executed with customers (gross sales orders), net of cancelled sales orders.
(2) Cancellation rate represents the number of cancelled sales orders divided by gross sales orders.

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Net Sales Orders

The value of net sales orders increased 32%, to $2,405.7 million (8,551 homes) for the three months ended June 30, 2014, from $1,828.6 million (6,822 homes) for the same period of 2013. The value of net sales orders increased 23%, to $6,298.8 million (22,574 homes) for the nine months ended June 30, 2014, from $5,138.9 million (19,960 homes) for the same period of 2013. The increases in sales order value resulted from increases in both volume and average selling price as we have expanded our operations and increased our market share in many of our markets over the past year.

The number of net sales orders increased 25% and 13% and the average price of our net sales orders increased 5% to $281,300 and 8% to $279,000 during the three and nine months ended June 30, 2014, respectively, compared to the prior year periods. The largest percentage increase in net sales orders occurred in our East region, reflecting the positive impact of our recent acquisitions of the homebuilding operations of Regent Homes and Crown Communities, which contributed 206 and 438 net sales orders to the East region during the three and nine months ended June 30, 2014, respectively. Crown Communities also contributed 216 net sales orders to the Southeast region in both the three and nine months ended June 30, 2014. The decreases in net sales orders that occurred in our Midwest and Southwest regions were primarily due to decreases in sales orders in our Minnesota, Chicago, Colorado, Phoenix and Albuquerque markets. We believe our business is well positioned for the future; however, our future sales volumes will depend on the economic strength of each of our operating markets and our ability to successfully implement our operating strategies in each market. We expect our sales volumes will vary significantly across our operating markets.

Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 24% and 22% in the three and nine months ended June 30, 2014, respectively, compared to 24% and 22% in the same periods of 2013.

	Sales Order Backlog As of June 30, Homes in Backlog			Value (In millions)			Average Selling Price		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
East	1,488	1,012	47 %	$425.9	$282.2	51 %	$286,200	$278,900	3 %
Midwest	556	598	(7)%	210.1	200.8	5 %	377,900	335,800	13 %
Southeast	3,502	3,242	8 %	925.8	778.7	19 %	264,400	240,200	10 %
South Central	3,813	3,091	23 %	879.6	663.2	33 %	230,700	214,600	8 %
Southwest	486	674	(28)%	107.7	129.8	(17)%	221,600	192,600	15 %
West	1,520	1,294	17 %	703.5	529.3	33 %	462,800	409,000	13 %
	11,365	9,911	15 %	$3,252.6	$2,584.0	26 %	$286,200	$260,700	10 %

Sales Order Backlog

Sales order backlog represents homes under contract but not yet closed at the end of the period. Many of the contracts in our sales order backlog are subject to contingencies, including mortgage loan approval and buyers selling their existing homes, which can result in cancellations. A portion of the contracts in backlog will not result in closings due to cancellations. The largest percentage increase in our sales order backlog occurred in our East region, reflecting the positive impact of our recent acquisitions of the homebuilding operations of Crown Communities and Regent Homes, which contributed 367 homes to our East region backlog and 336 homes to our Southeast region backlog at June 30, 2014.

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Homes Closed and Home Sales Revenue

	Three Months Ended June 30,								
	Homes Closed			Value (In millions)			Average Selling Price		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
East	911	622	46 %	$244.6	$163.2	50 %	$268,500	$262,400	2 %
Midwest	376	442	(15)%	132.7	147.6	(10)%	352,900	333,900	6 %
Southeast	2,363	1,886	25 %	584.4	425.6	37 %	247,300	225,700	10 %
South Central	2,443	2,047	19 %	528.2	414.5	27 %	216,200	202,500	7 %
Southwest	352	415	(15)%	74.1	86.1	(14)%	210,500	207,500	1 %
West	1,231	1,052	17 %	526.3	393.8	34 %	427,500	374,300	14 %
	7,676	6,464	19 %	$2,090.3	$1,630.8	28 %	$272,300	$252,300	8 %

	Nine Months Ended June 30,								
	Homes Closed			Value (In millions)			Average Selling Price		
	2014	2013	% Change	2014	2013	% Change	2014	2013	% Change
East	2,416	1,713	41 %	$637.9	$449.6	42 %	$264,000	$262,500	1 %
Midwest	958	1,028	(7)%	338.4	329.9	3 %	353,200	320,900	10 %
Southeast	6,100	4,805	27 %	1,496.5	1,050.0	43 %	245,300	218,500	12 %
South Central	6,397	5,497	16 %	1,370.7	1,083.7	26 %	214,300	197,100	9 %
Southwest	996	1,179	(16)%	207.8	241.0	(14)%	208,600	204,400	2 %
West	3,191	3,067	4 %	1,349.8	1,068.6	26 %	423,000	348,400	21 %
	20,058	17,289	16 %	$5,401.1	$4,222.8	28 %	$269,300	$244,200	10 %

Home Sales Revenue

Revenues from home sales increased 28%, to $2,090.3 million (7,676 homes closed) for the three months ended June 30, 2014, from $1,630.8 million (6,464 homes closed) for the comparable period of 2013. Revenues from home sales increased 28%, to $5,401.1 million (20,058 homes closed) for the nine months ended June 30, 2014, from $4,222.8 million (17,289 homes closed) for the comparable period of 2013. During the current year periods, home sales revenues increased in most of our regions due to our increased inventory investments and market share in many of our markets.

The number of homes closed in the three and nine months ended June 30, 2014 increased 19% and 16%, respectively, from the comparable periods of 2013, due to increases in four of our market regions. The most significant percentage increase occurred in our East region, reflecting the positive impact of our recent acquisitions of the homebuilding operations of Regent Homes and Crown Communities, which contributed 161 and 410 closings to the East region during the three and nine months ended June 30, 2014, respectively. Crown Communities also contributed 185 closings to the Southeast region in both the three and nine months ended June 30, 2014. Home closings also increased significantly in our Southeast region where the highest percentage increases occurred in our Jacksonville, Orlando and Atlanta markets, and in our South Central region where the highest percentage increases occurred in our Fort Worth, Dallas and Houston markets. The decrease in home closings in our Southwest region was primarily due to weak demand in the Phoenix and Albuquerque markets compared to a year ago. The decrease in our Midwest region was largely attributable to the Colorado and Chicago markets.

The average selling price of homes closed during the three months ended June 30, 2014 was $272,300, up 8% from the $252,300 average for the same period of 2013. The average selling price of homes closed during the nine months ended June 30, 2014 was $269,300, up 10% from the $244,200 average for the same period of 2013. As demand has begun to stabilize across our markets, we expect increases in our overall average sales prices will continue to moderate in future periods. However, we are focused on managing our product offerings, home prices, incentives, sales pace, profit margins and inventory levels in each community in a manner that will optimize the returns on our inventory investments.

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Homebuilding Operating Margin Analysis

	Percentages of Related Revenues			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Gross profit – Home sales	20.7 %	21.4 %	21.7 %	20.3 %
Gross profit – Land/lot sales and other	15.1 %	4.4 %	19.1 %	14.3 %
Inventory and land option charges	(2.7)%	— %	(1.2)%	(0.1)%
Gross profit – Total homebuilding	17.9 %	21.2 %	20.5 %	20.2 %
Selling, general and administrative expense	10.6 %	10.2 %	10.9 %	10.9 %
Interest expense	— %	— %	— %	0.1 %
Other (income)	(0.1)%	(0.2)%	(0.2)%	(0.2)%
Homebuilding pre-tax income	7.5 %	11.3 %	9.8 %	9.4 %

Home Sales Gross Profit

Gross profit from home sales increased 24%, to $432.3 million in the three months ended June 30, 2014, from $349.3 million in the comparable period of 2013, and decreased 70 basis points to 20.7% as a percentage of home sales revenues. Approximately 60 basis points of the decrease in the home sales gross profit percentage was due to higher costs for warranty and construction defect claims as a percentage of home sales revenue. Approximately 40 basis points of the decrease related to purchase accounting adjustments for the acquisitions of Crown Communities and Regent Homes, which increased the acquired inventories to fair value as of the date of the acquisitions. Partially offsetting these decreases was an increase in the home sales gross profit percentage of approximately 20 basis points resulting from an increase in the average selling price of our homes closed in excess of increases in the average cost of our homes closed. Also, gross profit was increased by 10 basis points due to a decrease in the amortization of capitalized interest and property taxes as a percentage of home sales revenues.

Gross profit from home sales increased 37%, to $1,173.6 million in the nine months ended June 30, 2014, from $858.6 million in the comparable period of 2013, and increased 140 basis points to 21.7% as a percentage of home sales revenues. This gross profit increase was attributable to a 120 basis point increase resulting from the average selling price of our homes increasing by more than the average home cost, a 30 basis point increase resulting from a decrease in the amortization of capitalized interest and property taxes as a percentage of homes sales revenues and a 10 basis point increase resulting from lower costs for warranty and construction defect claims as a percentage of home sales revenue. Partially offsetting these increases was a 20 basis point decrease from purchase accounting adjustments related to the acquisitions of Crown Communities and Regent Homes.

Our gross profit margins during fiscal 2013 and throughout the first half of fiscal 2014 benefited significantly from favorable market conditions that allowed us to increase sales prices across most of our markets, while we limited increases in construction costs. Our gross profit margins also benefited from reduced interest amortized to cost of sales as our average borrowing costs declined. As housing demand stabilizes, we expect any increases in our average sales prices will continue to moderate, while our construction costs will likely increase. Also, we will continue to manage the pricing, incentives and sales pace in each of our communities to optimize the returns on our inventory investments. These factors caused our gross profit margins in the current quarter to decline as compared to the first two quarters of this fiscal year, and they could cause further declines in future periods.

Land Sales and Other Revenues

Land sales and other revenues were $12.6 million and $34.0 million in the three and nine months ended June 30, 2014, respectively, and $13.7 million and $45.3 million in the comparable periods of 2013. Revenues in the three and nine months ended June 30, 2013 included revenue of $3.0 million and $18.2 million, respectively, from a long-term construction project for which we served as the general contractor. Fluctuations in revenues from land sales occur as we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, we occasionally purchase land that includes commercially zoned parcels which we typically sell to commercial developers, and we may also sell residential lots or land parcels to manage our land and lot supply. Land and lot sales occur at unpredictable intervals and varying degrees of profitability. Therefore, the revenues and gross profit from land sales fluctuate from period to period. As of June 30, 2014, we had $18.9 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At June 30, 2014, we reviewed the performance and outlook for all of our land inventories and communities for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. We performed detailed impairment evaluations of communities with a combined carrying value of $284.2 million, and we recorded impairment charges of $54.7 million to reduce the carrying value of impaired communities to their estimated fair value. Of the total impairment charges, $48.8 million occurred in our Midwest region, primarily related to communities in Chicago that were purchased predominantly in 2004 through 2007 and had been previously impaired. In contrast to most of our markets, the Chicago housing market remains very weak with sales absorptions and returns in these communities performing below our expectations given the size of our investments. During the current quarter, we reduced prices and identified land parcels we intend to sell in these communities in an effort to increase sales pace, reduce inventories and improve cash flows and returns. During the nine months ended June 30, 2014, impairment charges totaled $57.0 million. There were no impairment charges recorded in the three and nine months ended June 30, 2013.

As we execute our strategy to allocate and actively manage our inventory investments across our operating markets to optimize returns and cash flows, we may modify our pricing and incentives, construction and development plans or land sale strategies in individual active communities and land held for development, which could result in the affected communities being evaluated for potential impairment. Also, if housing or economic conditions are weak in specific markets in which we operate, or if conditions weaken in the broader economy or homebuilding industry, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges.

During the three months ended June 30, 2014 and 2013, we wrote off $2.1 million and $0.8 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts that are expected to be terminated. During the nine months ended June 30, 2014 and 2013, we wrote off $6.9 million and $4.0 million, respectively, of these deposits and costs. At June 30, 2014, outstanding earnest money deposits associated with our portfolio of land and lot option purchase contracts totaled $47.0 million.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities increased 32% to $221.9 million and 28% to $593.2 million in the three and nine months ended June 30, 2014, respectively, from $167.5 million and $463.3 million in the same periods of 2013. As a percentage of homebuilding revenues, SG&A expense increased 40 basis points to 10.6% in the three months ended June 30, 2014 from 10.2% in the comparable period of 2013, and was consistent at 10.9% in the nine months ended June 30, 2014 and 2013.

The largest component of our homebuilding SG&A expense is employee compensation and related costs, which represented 65% of SG&A costs in both the three and nine months ended June 30, 2014, compared to 66% in the same periods of 2013. These costs increased by 31% to $145.0 million and by 26% to $384.1 million in the three and nine months ended June 30, 2014, respectively, mainly due to an increase in our number of employees and an increase in incentive compensation related to the increase in profitability in many of our divisions in the current year periods as compared to the prior year periods. Our homebuilding operations employed approximately 4,290 and 3,410 employees at June 30, 2014 and 2013, respectively.

Our homebuilding SG&A expense as a percentage of revenues can vary significantly between periods, depending largely on the fluctuations in revenue, profit levels and our stock price. Our awards of performance based units to executive management are accounted for as liability awards and are measured quarterly with changes in value recorded in compensation expense within SG&A. Changes in our stock price and our performance compared to our peer group can cause significant changes in the value of these awards and in our compensation expense. Compensation expense related to these liability awards was $5.3 million and $11.2 million during the three and nine months ended June 30, 2014, respectively, compared to $0.1 million and $7.9 million in the same periods of 2013. We attempt to control our SG&A costs while ensuring that our infrastructure adequately supports our operations; however, we cannot make assurances that we will be able to maintain or improve upon the current SG&A expense as a percentage of revenues.

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Interest Incurred

Comparing the three months ended June 30, 2014 with the same period of 2013, interest incurred increased 2% to $45.1 million due to a 15% increase in our average debt. Comparing the nine months ended June 30, 2014 with the same period of 2013, interest incurred increased 15% to $144.0 million due to a 24% increase in our average debt. Interest incurred in both periods increased by a lower percentage than the increase in our average debt as a result of a decrease in the average interest rate of our debt as compared to the prior year periods.

We capitalize interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. During much of the last few years, our active inventory was lower than our debt level and therefore, a portion of the interest incurred was reflected as interest expense. However, since the third quarter of fiscal 2013, our active inventory has exceeded our debt level, and all interest incurred during those periods was capitalized to inventory. As a result, no interest was expensed during the three and nine months ended June 30, 2014 or during the three months ended June 30, 2013, while $7.1 million of interest was expensed during the nine months ended June 30, 2013. Interest amortized to cost of sales declined to 2.0% of total home and land/lot cost of sales in both the three and nine months ended June 30, 2014, from 2.2% and 2.4%, respectively, in the same periods of 2013 due to the growth in our active inventory relative to our debt balance and a decrease in the average interest rate on our outstanding debt. We do not expect interest amortized to cost of sales as a percentage of total home and land/lot cost of sales to decline as significantly in future periods.

Other Income

Other income, net of other expenses, included in our homebuilding operations was $3.1 million and $9.2 million in the three and nine months ended June 30, 2014, respectively, compared to $3.8 million and $10.3 million in the same periods of 2013. Other income consists of interest income, rental income, income from insurance related activities, income associated with other income-producing assets, and various other types of ancillary income, gains and losses not directly associated with our core homebuilding operations. The activities that result in this ancillary income or loss are not significant, either individually or in the aggregate.

Acquisitions

In October 2013, we acquired the homebuilding operations of Regent Homes, Inc. for $34.5 million in cash. Regent Homes operates in Charlotte, Greensboro and Winston-Salem, North Carolina. The assets acquired included approximately 240 homes in inventory, 300 lots and control of approximately 600 additional lots through option contracts. We also acquired a sales order backlog of 213 homes valued at $31.1 million.

In May 2014, we acquired the homebuilding operations of Crown Communities for $209.6 million in cash, of which $21.4 million was paid subsequent to June 30, 2014. Crown Communities operates in Georgia, South Carolina and eastern Alabama. The assets acquired included approximately 640 homes in inventory, 2,350 lots and control of approximately 3,400 additional lots through option contracts. We also acquired a sales order backlog of 431 homes valued at $113.6 million. Subsequent to the acquisition, Crown Communities closed 254 homes and generated home sales revenues of $65.8 million during the period ended June 30, 2014.

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Homebuilding Results by Reporting Region

	Three Months Ended June 30, 2014			2013		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	$251.3	$13.3	5.3 %	$163.3	$11.4	7.0 %
Midwest	133.1	(37.2)	(27.9)%	147.6	15.6	10.6 %
Southeast	584.4	52.3	8.9 %	425.6	48.5	11.4 %
South Central	533.3	54.0	10.1 %	414.5	44.7	10.8 %
Southwest	74.1	8.2	11.1 %	86.1	7.7	8.9 %
West	526.7	68.0	12.9 %	407.4	57.5	14.1 %
	$2,102.9	$158.6	7.5 %	$1,644.5	$185.4	11.3 %

	Nine Months Ended June 30, 2014			2013		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	$644.6	$39.0	6.1 %	$454.4	$26.9	5.9 %
Midwest	338.8	(18.1)	(5.3)%	329.9	23.5	7.1 %
Southeast	1,503.0	156.0	10.4 %	1,050.3	96.1	9.1 %
South Central	1,384.9	143.0	10.3 %	1,089.1	102.4	9.4 %
Southwest	207.8	19.7	9.5 %	241.0	24.6	10.2 %
West	1,356.0	192.6	14.2 %	1,103.4	129.5	11.7 %
	$5,435.1	$532.2	9.8 %	$4,268.1	$403.0	9.4 %

(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating our corporate office. The amortization of capitalized interest and property taxes is allocated to each segment based on the segment's revenue, while those expenses associated with the corporate office are allocated to each segment based on the segment's inventory balances.

East Region — Homebuilding revenues increased 54% and 42% in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013, primarily due to an increase in the number of homes closed in our Charlotte market which benefited from our acquisition of Regent Homes. The region also benefited from our acquisition of Crown Communities in May 2014, which added 69 homes closed to both current year periods. The region generated pre-tax income of $13.3 million and $39.0 million in the three and nine months ended June 30, 2014, respectively, compared to $11.4 million and $26.9 million for the same periods of 2013, primarily as a result of increases in revenues. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) decreased 260 and 70 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013, largely due to purchase accounting adjustments for the two acquisitions which increased the acquired inventories to fair value as of the date of the acquisitions. As a percentage of homebuilding revenues, SG&A expenses decreased by 190 and 110 basis points in the three and nine months ended June 30, 2014, respectively, compared to the prior year periods, due to the increase in revenues.

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Midwest Region — Homebuilding revenues decreased 10% and increased 3% in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013. The decrease in homebuilding revenues during the three-month period ended June 30, 2014 was primarily due to a decrease in the number of homes closed, particularly in our Denver market. The region generated pre-tax losses of $37.2 million and $18.1 million in the three and nine months ended June 30, 2014, respectively, compared to pre-tax income of $15.6 million and $23.5 million for the same periods of 2013, largely due to $48.8 million of inventory impairments, primarily in our Chicago market. Home sales gross profit percentage increased 40 and 300 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013. Fluctuations in the region's home sales gross profit percentages over these periods were largely due to the timing of settling construction defect claims and the receipt of reimbursements related to construction defect claims, most of which related to our Denver market in the nine-month period. As a percentage of homebuilding revenues, SG&A expenses increased by 210 and 110 basis points in the three and nine months ended June 30, 2014, respectively, compared to the prior year periods, due to revenues decreasing more than SG&A expenses.

Southeast Region — Homebuilding revenues increased 37% and 43% in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013, due to an increase in the number of homes closed as well as an increase in the average selling price in the majority of the region’s markets. The increase in home closings in our Jacksonville, Orlando, Atlanta and South Florida markets contributed most to the overall increase in homebuilding revenues in the region. The region also benefited from our acquisition of Crown Communities in May 2014, which added 185 homes closed to both periods of 2014. The region generated pre-tax income of $52.3 million and $156.0 million in the three and nine months ended June 30, 2014, respectively, compared to $48.5 million and $96.1 million for the same periods of 2013, primarily as a result of increases in revenues. Home sales gross profit percentage decreased 110 basis points and increased 130 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013. The decrease in home sales gross profit percentage in the current quarter was largely due to purchase accounting adjustments related to the Crown Communities acquisition which increased the acquired inventories to fair value as of the date of the acquisitions. As a percentage of homebuilding revenues, SG&A expenses increased by 60 basis points and decreased by 20 basis points in the three and nine months ended June 30, 2014, respectively, compared to the prior year periods, due to increases in employee compensation costs which had a more significant impact in the current quarter.

South Central Region — Homebuilding revenues increased 29% and 27% in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013, due to an increase in the number of homes closed and an increase in the average selling price in the majority of the region’s markets. The increase in home closings in our Fort Worth, Houston and Dallas markets contributed most to the overall increase in homebuilding revenues in the region. The region generated pre-tax income of $54.0 million and $143.0 million in the three and nine months ended June 30, 2014, respectively, compared to $44.7 million and $102.4 million for the same periods of 2013, primarily as a result of increases in revenues. Home sales gross profit percentage decreased 40 basis points and increased 60 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013. As a percentage of homebuilding revenues, SG&A expenses increased by 10 basis points and decreased by 20 basis points in the three and nine months ended June 30, 2014, respectively, compared to the prior year periods.

Southwest Region — Homebuilding revenues decreased 14% in both the three and nine months ended June 30, 2014 from the comparable periods of 2013, primarily due to a decrease in the number of homes closed in our Phoenix market. The region had pre-tax income of $8.2 million and $19.7 million in the three and nine months ended June 30, 2014, respectively, compared to $7.7 million and $24.6 million for the same periods of 2013. Home sales gross profit percentage increased 520 and 210 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013. The increases were largely due to a reimbursement of development costs of approximately $5.2 million received from a municipality as part of a settlement during the three months ended June 30, 2014, which related to a community that was completed in a prior year. As a percentage of homebuilding revenues, SG&A expenses increased by 300 and 280 basis points in the three and nine months ended June 30, 2014, respectively, compared to the prior year periods, due to the decrease in revenues.

West Region — Homebuilding revenues increased 29% and 23% in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013, due to a significant increase in the average selling price of homes closed as well as an increase in the number of homes closed. The increase in home closings and average selling price in our northern California markets contributed most to the overall increase in homebuilding revenues in the region. The region generated pre-tax income of $68.0 million and $192.6 million in the three and nine months ended June 30, 2014, respectively, compared to $57.5 million and $129.5 million for the same periods of 2013, primarily as a result of increases in revenues. Home sales gross profit percentage decreased 80 basis points and increased 280 basis points in the three and nine months ended June 30, 2014, respectively, compared to the same periods of 2013. As a percentage of homebuilding revenues, SG&A expenses increased by 30 basis points in both the three and nine months ended June 30, 2014 compared to the prior year periods.

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INVENTORIES, LAND AND LOT POSITION AND HOMES IN INVENTORY

We routinely enter into land/lot option contracts to purchase land or finished lots at predetermined prices on a defined schedule commensurate with planned development or anticipated new home demand. We also purchase undeveloped land that generally is vested with the rights to begin development or construction work, and we plan and coordinate the development of our land into residential lots for use in our homebuilding business. We significantly increased our investments in land and lot acquisition and land development across all of our market regions in fiscal 2012 and 2013 to expand our operations as market conditions improved. In 2014, we have slowed the growth of our land and lot inventories and have increased our housing inventories to capture an increased share of new home demand and generate returns on our land investments. We manage our inventory of owned land and lots and homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand, monitoring the number and aging of unsold homes and aggressively marketing our unsold, completed homes in inventory.

Our inventories, land and lot position and homes in inventory at June 30, 2014 and September 30, 2013 are summarized as follows:

	As of June 30, 2014				As of September 30, 2013			
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Total Inventory	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Total Inventory
	(In millions)							
East	$398.2	$ 372.8	$ 74.2	$845.2	$293.5	$ 363.6	$ 85.8	$742.9
Midwest	227.6	198.5	13.9	440.0	182.3	208.6	21.3	412.2
Southeast	915.1	807.8	137.4	1,860.3	677.2	679.1	152.2	1,508.5
South Central	754.3	870.9	18.7	1,643.9	610.3	785.0	48.3	1,443.6
Southwest	130.2	129.6	23.1	282.9	124.6	108.4	29.4	262.4
West	854.5	1,105.2	119.7	2,079.4	545.8	997.9	124.5	1,668.2
Corporate and unallocated (1)	102.3	112.7	8.9	223.9	64.3	84.7	10.6	159.6
	$3,382.2	$ 3,597.5	$ 395.9	$7,375.6	$2,498.0	$ 3,227.3	$ 472.1	$6,197.4

	As of June 30, 2014				As of September 30, 2013			
	Land/Lots Owned (2)	Lots Controlled Under Land and Lot Option Purchase Contracts (3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)	Land/Lots Owned (2)	Lots Controlled Under Land and Lot Option Purchase Contracts (3)	Total Land/Lots Owned and Controlled	Homes in Inventory (4)
East	14,100	6,700	20,800	2,600	14,700	5,600	20,300	1,900
Midwest	5,300	1,600	6,900	1,100	5,600	1,900	7,500	1,000
Southeast	36,500	21,200	57,700	6,400	34,200	22,600	56,800	5,400
South Central	38,900	17,100	56,000	6,100	41,000	16,700	57,700	5,300
Southwest	6,400	1,000	7,400	1,100	6,600	1,400	8,000	1,100
West	23,700	6,000	29,700	3,200	24,500	6,100	30,600	2,300
	124,900	53,600	178,500	20,500	126,600	54,300	180,900	17,000

70 %	30 %	100 %	70 %	30 %	100 %

(1) Corporate and unallocated inventory consists primarily of capitalized interest and property taxes.

(2) Land/lots owned include approximately 32,700 and 32,500 owned lots that are fully developed and ready for home construction at June 30, 2014 and September 30, 2013, respectively. Land/lots owned also include land held for development representing 17,000 and 21,700 lots at June 30, 2014 and September 30, 2013, respectively.

(3) The total remaining purchase price of lots controlled through land and lot option purchase contracts at both June 30, 2014 and September 30, 2013 was $1.9 billion, secured with $47.0 million and $42.4 million in earnest money deposits, respectively. Our lots controlled under land and lot option purchase contracts exclude approximately 1,600 and 2,800 lots at June 30, 2014 and September 30, 2013, respectively, representing lots controlled under lot option contracts for which we do not expect to exercise our option to purchase the land or lots, but the underlying contracts have yet to be terminated. We have reserved the deposits related to these contracts.

(4) Homes in inventory include approximately 1,500 and 1,300 model homes at June 30, 2014 and September 30, 2013, respectively. Approximately 10,000 and 9,000 of our homes in inventory were unsold at June 30, 2014 and September 30, 2013, respectively. At June 30, 2014, approximately 3,100 of our unsold homes were completed, of which approximately 600 homes had been completed for more than six months. At September 30, 2013, approximately 3,000 of our unsold homes were completed, of which approximately 600 homes had been completed for more than six months.

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RESULTS OF OPERATIONS – FINANCIAL SERVICES

The following tables set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and nine months ended June 30, 2014 and 2013:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	3,830	3,579	7 %	9,991	9,867	1 %
Number of homes closed by D.R. Horton	7,676	6,464	19 %	20,058	17,289	16 %
DHI Mortgage capture rate	50 %	55 %		50 %	57 %	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	3,854	3,587	7 %	10,042	9,905	1 %
Total number of loans originated or brokered by DHI Mortgage	4,366	4,166	5 %	11,352	11,625	(2)%
Captive business percentage	88 %	86 %		88 %	85 %	
Loans sold by DHI Mortgage to third parties	3,982	4,314	(8)%	11,206	11,586	(3)%

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2014	2013	% Change	2014	2013	% Change
	(In millions)					
Loan origination fees	$5.1	$5.7	(11)%	$14.5	$16.1	(10)%
Sale of servicing rights and gains from sale of mortgage loans	24.9	32.6	(24)%	68.9	87.4	(21)%
Recourse expense	1.7	(0.3)	(667)%	2.1	(0.9)	(333)%
Sale of servicing rights and gains from sale of mortgage loans, net	26.6	32.3	(18)%	71.0	86.5	(18)%
Other revenues	2.8	2.5	12 %	7.3	7.3	— %
Reinsurance expense	—	(0.1)	(100)%	(0.2)	(0.4)	(50)%
Other revenues, net	2.8	2.4	17 %	7.1	6.9	3 %
Total mortgage operations revenues	34.5	40.4	(15)%	92.6	109.5	(15)%
Title policy premiums, net	9.6	7.9	22 %	24.8	21.8	14 %
Total revenues	44.1	48.3	(9)%	117.4	131.3	(11)%
General and administrative expense	33.8	31.3	8 %	93.7	84.9	10 %
Interest and other (income)	(2.9)	(2.7)	7 %	(7.5)	(5.7)	32 %
Financial services pre-tax income	$13.2	$19.7	(33)%	$31.2	$52.1	(40)%

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues (1)			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2014	2013	2014	2013
Recourse and reinsurance expense	(4.0)%	0.8 %	(1.6)%	1.0 %
General and administrative expense	79.7 %	64.3 %	81.1 %	64.0 %
Interest and other (income)	(6.8)%	(5.5)%	(6.5)%	(4.3)%
Financial services pre-tax income	31.1 %	40.5 %	27.0 %	39.3 %

(1) Excludes the effects of recourse and reinsurance charges on financial services revenues.

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Mortgage Loan Activity

The volume of loans originated and brokered by our mortgage operations is related to the number of homes closed by our homebuilding operations. In the three and nine months ended June 30, 2014, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased by 7% and 1%, respectively, while the number of homes closed by our homebuilding operations increased 19% and 16%, respectively. This was due to a decrease in our mortgage capture rate (the percentage of total home closings by our homebuilding operations for which DHI Mortgage handled the homebuyers' financing) to 50% in both the three and nine months ended June 30, 2014 from 55% and 57%, respectively, in the comparable periods of 2013. The decrease in capture rate was due to an increase in home closings in markets not served by DHI Mortgage as well as a more competitive mortgage pricing market as compared to the prior year periods.

Home closings from our homebuilding operations constituted 88% of DHI Mortgage loan originations in both the three and nine months ended June 30, 2014, compared to 86% and 85%, respectively, in the comparable periods of 2013.

The number of loans sold in the three and nine months ended June 30, 2014 decreased 8% and 3%, respectively, from the number sold in the prior year periods. Virtually all of the mortgage loans originated during the nine months ended June 30, 2014 and mortgage loans held for sale on June 30, 2014 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) or Government National Mortgage Association (Ginnie Mae). Approximately 91% of the mortgage loans sold by DHI Mortgage during the nine months ended June 30, 2014 were sold to four major financial institutions, the largest of which represented 31% of the total loans sold.

Financial Services Revenues and Expenses

Revenues from the financial services segment decreased 9% and 11%, to $44.1 million and $117.4 million in the three and nine months ended June 30, 2014, respectively, from $48.3 million and $131.3 million in the comparable periods of 2013. The volume of loans sold decreased 8% and 3% in the three and nine months ended June 30, 2014, respectively, while revenues from the sale of servicing rights and gains from sale of mortgages decreased 24% and 21%, respectively. Loan sale revenue decreased at a higher rate than loan sale volumes due to pricing pressure from increased competition in the origination marketplace. In addition, loan sale execution in the prior year was unusually strong due in part to the lower interest rate environment at the time. Loan origination fees decreased 11% and 10% in the three and nine months ended June 30, 2014, respectively, while the number of loans originated increased 5% and decreased 2% in the same periods.

Credits related to reductions in our estimated future recourse obligations were $1.7 million and $2.1 million in the three and nine months ended June 30, 2014, respectively, compared to charges related to increases in our estimated future recourse obligations of $0.3 million and $0.9 million in the same periods of 2013. Our loss reserve for loan recourse obligations is estimated based upon an analysis of loan repurchase requests received, our actual repurchases and losses through the disposition of such loans or requests, discussions with our mortgage purchasers and analysis of the mortgages we originated. While we believe that we have adequately reserved for losses on known and projected repurchase requests, if actual repurchase volume or actual losses incurred resolving those repurchases differ from our expectations, additional recourse expense or credits may be incurred.

Financial services general and administrative (G&A) expense increased 8% and 10%, to $33.8 million and $93.7 million in the three and nine months ended June 30, 2014, respectively, from the comparable periods of 2013. As a percentage of financial services revenues (excluding the effects of recourse and reinsurance expense), G&A expense was 79.7% and 81.1% in the three and nine months ended June 30, 2014, respectively, compared to 64.3% and 64.0%

in the same periods of 2013 due to an increase in the number of employees in preparation for expected higher volumes of home closings and loan originations and to comply with new regulatory requirements in fiscal 2014. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur, as some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

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RESULTS OF OPERATIONS - CONSOLIDATED

Income before Income Taxes

Pre-tax income for the three and nine months ended June 30, 2014 was $171.8 million and $563.4 million, respectively, compared to $205.1 million and $455.1 million for the same periods of 2013. During the current year periods, our operating results benefited from higher revenues from increased home closings; however, the current quarter was negatively impacted by inventory and land option charges of $56.8 million, compared to $0.8 million during the prior year quarter.

Income Taxes

Our income tax expense for the three and nine months ended June 30, 2014 was $58.7 million and $196.1 million, respectively, compared to $59.1 million and $131.9 million in the same periods of fiscal 2013. Our effective tax rate was 34.2% and 34.8% for the three and nine months ended June 30, 2014, respectively, compared to 28.8% and 29.0% in the same periods of fiscal 2013. The effective tax rates for the three and nine months ended June 30, 2014 include a tax benefit for the domestic production activities deduction that is offset by a similar amount of expense for state income taxes. Our tax benefit for the domestic production activities deduction was limited in fiscal 2013 because of utilization of a net operating loss (NOL) carryforward. The low effective tax rates during the 2013 periods were primarily due to a $9.3 million reduction in unrecognized tax benefits during the third quarter, while the nine-month period also included the effect of an $18.7 million reduction in our valuation allowance on our deferred tax assets during the second quarter.

At June 30, 2014 and September 30, 2013, we had deferred tax assets, net of deferred tax liabilities, of $616.3 million and $617.6 million, respectively, partially offset by valuation allowances of $33.7 million and $31.0 million, respectively. The valuation allowance for both periods relates to our state deferred tax assets for NOL carryforwards. We believe it is more likely than not that a portion of our state NOL carryforwards will not be realized because some state NOL carryforward periods are too brief to realize the related deferred tax assets.

When assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of our deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods. We record a valuation allowance when we determine it is more likely than not that a portion of the deferred tax assets will not be realized. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

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CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under bank credit facilities and the issuance of new debt securities. Our current levels of cash, borrowing capacity and balance sheet leverage provide us with the operational flexibility to adjust to homebuilding market conditions. During the last two years, we have increased our investments in homes, finished lots, land and land development to expand our operations and grow our profitability. We intend to maintain adequate liquidity and balance sheet strength, and we regularly evaluate opportunities to access the capital markets.

At June 30, 2014, our ratio of homebuilding debt to total capital was 38.7%, compared to 44.6% at September 30, 2013 and 42.3% at June 30, 2013. Our ratio of net homebuilding debt to total capital (homebuilding notes payable net of cash divided by homebuilding notes payable net of cash plus total equity) was 34.4% at June 30, 2014, compared to 36.7% at September 30, 2013 and 36.6% at June 30, 2013. The improvement in these ratios is primarily due to the conversion of our 2% convertible senior notes into equity during the current quarter which decreased our homebuilding debt and increased our total capital. We intend to maintain our ratio of net homebuilding debt to total capital within or below a range of 40% to 45% over the long term, but we may choose to operate above this range for short-term periods. Therefore, future net homebuilding debt to total capital ratios may be higher than the current level.

We believe that the ratio of net homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing our capital structure with other homebuilders. Because of its capital function, we include our homebuilding cash as a reduction of our homebuilding debt and total capital. We exclude the debt of our financial services business because it is separately capitalized and its obligation under its repurchase agreement is substantially collateralized and not guaranteed by our parent company or any of our homebuilding entities.

We believe that our existing cash resources, our revolving credit facility and our mortgage repurchase facility provide sufficient liquidity to fund our near-term working capital needs and debt obligations. We regularly assess our projected capital requirements to fund future growth in our business, repay our future debt obligations, and support our other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. We have an automatically effective universal shelf registration statement filed with the Securities and Exchange Commission (SEC) in September 2012, registering debt and equity securities which we may issue from time to time in amounts to be determined. As market conditions permit, we may issue new debt or equity securities through the public capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity.

Homebuilding Capital Resources

Cash and Cash Equivalents — At June 30, 2014, our homebuilding cash and cash equivalents were $538.5 million.

Bank Credit Facility — We have a $725 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $1.0 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit. Letters of credit issued under the facility reduce available borrowing capacity and may total no more than $362.5 million in the aggregate. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is September 7, 2018. At June 30, 2014, there were no borrowings outstanding and $68.0 million of letters of credit issued under the revolving credit facility.

Our revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a minimum level of tangible net worth, a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if our ratio of debt to tangible net worth exceeds a certain level. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. In addition, the credit agreement governing the facility and the indentures governing our senior notes impose restrictions on the creation of secured debt and liens. At June 30, 2014, we were in compliance with all of the covenants, limitations and restrictions of our revolving credit facility and public debt obligations.

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Secured Letter of Credit Agreements — We have secured letter of credit agreements which require us to deposit cash, in an amount approximating the balance of letters of credit outstanding, as collateral with the issuing banks. The amount of cash restricted for letters of credit issued under these agreements totaled $9.9 million and $8.5 million at June 30, 2014 and September 30, 2013, respectively, and is included in homebuilding restricted cash in our consolidated balance sheets.

Public Unsecured Debt — On January 15, 2014, we repaid the remaining $145.9 million principal amount of our 6.125% senior notes which were due on that date. In February 2014, we issued $500 million principal amount of 3.75% senior notes due March 1, 2019, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of financing costs is 3.9%. We have $137.9 million principal amount of our senior notes maturing during the remainder of fiscal 2014.

During April and May of 2014, our outstanding 2% convertible senior notes were converted into 38.6 million shares of our common stock. The conversion rate was 77.18004 shares of our common stock per $1,000 principal amount of senior notes, which was equivalent to a conversion price of approximately $12.96 per share of common stock.

Debt and Equity Repurchase Authorizations — Effective August 1, 2013, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $100 million of our common stock effective through July 31, 2014. The full amount of each of these authorizations was remaining at June 30, 2014. On July 22, 2014, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $100 million of our common stock, which replaced the previous authorizations and are effective through July 31, 2015.

Financial Services Capital Resources

Cash and Cash Equivalents — At June 30, 2014, our financial services cash and cash equivalents were $36.5 million.

Mortgage Repurchase Facility — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that is accounted for as a secured financing. The mortgage repurchase facility provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties against the transfer of funds by the counterparties, thereby becoming purchased loans. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 120 days in accordance with the terms of the mortgage repurchase facility. The total capacity of the facility is $300 million; however, the capacity can be increased up to $400 million subject to the availability of additional commitments. In February 2014, the mortgage repurchase facility was renewed and amended. This renewal and amendment extends the maturity date of the facility to February 27, 2015 and allows for the capacity of the facility to be increased, without requiring additional commitments, from $300 million to $325 million on the last five days of any fiscal quarter and the first twenty-five days of the following fiscal quarter, excluding the quarter ending December 31, 2014.

As of June 30, 2014, $383.3 million of mortgage loans held for sale with a collateral value of $367.2 million were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $64.3 million, DHI Mortgage had an obligation of $302.9 million outstanding under the mortgage repurchase facility at June 30, 2014 at a 2.6% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary’s minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported monthly. At June 30, 2014, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

In the past, our mortgage subsidiary has been able to renew or extend its mortgage credit facility on satisfactory terms prior to its maturity, and obtain temporary additional commitments through amendments to the credit agreement during periods of higher than normal volumes of mortgages held for sale. The liquidity of our financial services business depends upon its continued ability to renew and extend the mortgage repurchase facility or to obtain other additional financing in sufficient capacities.

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Operating Cash Flow Activities

In the nine months ended June 30, 2014, we used $575.1 million of cash in our operating activities, compared to $1.1 billion in the prior year period. Cash used for operations in the prior year period reflected our significant inventory investments as we responded to improved market conditions. We used $759.4 million of cash to increase our construction in progress and finished home inventory, compared to $692.1 million in the prior year period. We used $327.8 million of cash to increase our residential land and lot inventory through purchases of land and finished lots and increased land development activity, compared to $1.0 billion in the prior year period. We have slowed the growth of our land and lot inventories in fiscal 2014 to align with our desired level of owned land and lots, while increasing our homes in inventory to capture an increased share of new home demand.

Investing Cash Flow Activities

In the nine months ended June 30, 2014, net cash used in investing activities was $217.7 million, compared to $209.0 million provided by investing activities in the prior year period. The primary use of cash for investing activities during the current year period was related to acquisitions. We acquired the homebuilding operations of Crown Communities for $209.6 million in cash, of which $21.4 million was paid subsequent to June 30, 2014. We also purchased the homebuilding operations of Regent Homes for $34.5 million. Cash provided by investing activities during the current year period included a $57.7 million decrease in restricted cash due to a reduction in the amount of letters of credit that were cash collateralized at June 30, 2014. The primary source of investing cash flows during the prior year period was the receipt of proceeds from the sale or maturity of marketable securities, which totaled $296.5 million net of purchases. We used $49.9 million and $40.6 million of cash in the nine months ended June 30, 2014 and 2013, respectively, to purchase property and equipment, including model home furniture, office and technology equipment and office buildings to support our operations. Additionally, during the prior year period, we paid $18.6 million to purchase defaulted debt securities collateralized by one residential real estate parcel, and we paid $9.4 million to complete our purchase of the homebuilding operations of Breland Homes, acquired in August 2012.

Financing Cash Flow Activities

We expect the short-term financing needs of our operations will be funded with existing cash, cash generated from profits and borrowings available under our homebuilding and financial services credit facilities. Long-term financing needs for the growth of our operations have historically been funded with the issuance of senior unsecured debt securities through the public capital markets.

During the nine months ended June 30, 2014, net cash provided by financing activities was $431.3 million, consisting primarily of note proceeds, partially offset by repayments of notes payable and payments of cash dividends. Proceeds from notes payable of $686.3 million relate to our issuance of $500 million principal amount of 3.75% senior notes in February 2014, draws of $125.0 million on the revolving credit facility and borrowings of $64.3 million under our mortgage repurchase facility. Note repayments of $273.9 million included our repayment of the $145.9 million principal amount of our 6.125% senior notes at maturity and our repayment of $125.0 million drawn on the revolving credit facility. During the nine months ended June 30, 2013, net cash provided by financing activities was $517.6 million, consisting primarily of note proceeds, partially offset by repayments of notes payable and payments of cash dividends. Proceeds from notes payable of $892.0 million included our issuance of a total of $700 million principal amount of senior notes in February 2013, draws of $165.0 million on the revolving credit facility and borrowings of $31.9 million under our mortgage repurchase facility. Note repayments of $342.1 million included the maturity of the $171.7 million principal amount of our 6.875% senior notes and our repayment of $165.0 million drawn on the revolving credit facility.

During the three months ended June 30, 2014, the Board of Directors approved a quarterly cash dividend of $0.0375 per common share, which was paid on May 27, 2014 to stockholders of record on May 15, 2014. In July 2014, the Board of Directors approved a quarterly cash dividend of $0.0625 per common share, payable on August 18, 2014 to stockholders of record on August 8, 2014. During fiscal 2013, total cash dividends were $0.1875 per common share, all of which were approved and paid during the first quarter. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, future earnings, cash flows, capital requirements, our financial condition and general business conditions.

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CONTRACTUAL CASH OBLIGATIONS, COMMERCIAL COMMITMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

Our primary contractual cash obligations for our homebuilding and financial services segments are payments under our debt agreements and lease payments under operating leases. We expect to fund our contractual obligations in the ordinary course of business through a combination of our existing cash resources, cash flows generated from profits, our homebuilding and financial services credit facilities or other bank financing, and the issuance of new debt or equity securities through the public capital markets as market conditions may permit.

At June 30, 2014, our homebuilding operations had outstanding letters of credit of $77.9 million, of which $14.3 million were cash collateralized, and surety bonds of $829.4 million issued by third parties to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

Our mortgage subsidiary enters into various commitments related to the lending activities of our mortgage operations. Further discussion of these commitments is provided in Item 3 “Quantitative and Qualitative Disclosures About Market Risk” under Part I of this quarterly report on Form 10-Q.

We enter into land and lot option purchase contracts to acquire land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with limited capital investment and substantially reduce the risks associated with land ownership and development. Among our land and lot option purchase contracts at June 30, 2014, there were a limited number of contracts, representing $14.2 million of remaining purchase price, subject to specific performance clauses which may require us to purchase the land or lots upon the land sellers meeting their obligations. Further information about our land option contracts is provided in the “Inventories, Land and Lot Position and Homes in Inventory” section included herein.

CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2013, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, fair value measurements, goodwill, warranty claims, legal claims and insurance, income taxes and stock-based compensation. Since September 30, 2013, there have been no significant changes to those critical accounting policies.

As disclosed in our critical accounting policies in our Form 10-K for the fiscal year ended September 30, 2013, our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims, and the majority of our total construction defect reserves consists of the estimated exposure to future claims on previously closed homes. At both June 30, 2014 and September 30, 2013, we had reserves for approximately 160 pending construction defect claims, and no individual existing claim was material to our financial statements. During the nine months ended June 30, 2014, we established reserves for approximately 40 new construction defect claims and resolved 40 construction defect claims for a total cost of $22.9 million. At both June 30, 2013 and September 30, 2012, we had reserves for approximately 170 pending construction defect claims and no individual existing claim was material to our financial statements. During the nine months ended June 30, 2013, we established reserves for approximately 60 new construction defect claims and resolved 60 construction defect claims for a total cost of $27.9 million.

SEASONALITY

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally have more homes under construction, close more homes and have greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal activity increases our working capital requirements for our homebuilding operations during our third and fourth fiscal quarters and increases our funding requirements for the mortgages we originate in our financial services segment at the end of these quarters. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

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Forward-Looking Statements

Some of the statements contained in this report, as well as in other materials we have filed or will file with the Securities and Exchange Commission, statements made by us in periodic press releases and oral statements we make to analysts, stockholders and the press in the course of presentations about us, may be construed as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s beliefs as well as assumptions made by, and information currently available to, management. These forward-looking statements typically include the words “anticipate,” “believe,” “consider,” “estimate,” “expect,” “forecast,” “g “intend,” “objective,” “plan,” “predict,” “projection,” “seek,” “strategy,” “target,” “will” or other words of similar meaning. Ar the forward-looking statements included in this report and in any other of our reports or public statements may not approximate actual experience, and the expectations derived from them may not be realized, due to risks, uncertainties and other factors. As a result, actual results may differ materially from the expectations or results we discuss in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- potential deterioration in homebuilding industry conditions and the current weak U.S. economy;
- the cyclical nature of the homebuilding industry and changes in economic, real estate and other conditions;
- constriction of the credit markets, which could limit our ability to access capital and increase our costs of capital;
- reductions in the availability of mortgage financing and the liquidity provided by government-sponsored enterprises, the effects of government programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates;
- the risks associated with our land and lot inventory;
- home warranty and construction defect claims;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- reductions in the availability of performance bonds;
- increases in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding operations;
- the effects of governmental regulation on our financial services operations;
- our substantial debt and our ability to comply with related debt covenants, restrictions and limitations;
- competitive conditions within the homebuilding and financial services industries;
- our ability to effect our growth strategies or acquisitions successfully;
- the effects of the loss of key personnel;
- the impact of an inflationary or deflationary environment;
- our ability to realize the full amount of our deferred income tax assets; and
- information technology failures and data security breaches.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in our annual report on Form 10-K for the fiscal year ended September 30, 2013, including the section entitled “Risk Factors,” which is filed with the Securities and Exchange Commission.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt. We monitor our exposure to changes in interest rates and utilize both fixed and variable rate debt. For fixed rate debt, changes in interest rates generally affect the value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not have a significant impact on our cash flows related to our fixed-rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities (MBS), which are referred to as “hedging instruments” in the following discussion. We do not enter into or hold derivatives for trading or speculative purposes.

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in financial services revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in financial services revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the three and nine months ended June 30, 2014 and 2013 was not significant, is recognized in current earnings. At June 30, 2014, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of $539.0 million. Uncommitted IRLCs totaled a notional amount of approximately $367.4 million and uncommitted mortgage loans held for sale totaled a notional amount of approximately $212.5 million at June 30, 2014.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of June 30, 2014. The interest rate for our variable rate debt represents the weighted average interest rate of our mortgage repurchase facility at June 30, 2014. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale which are typically sold within 60 days, its outstanding balance is included as a variable rate maturity in the most current period presented.

	Three Months Ending September 30, 2014	Fiscal Year Ending September 30,							
		2015	2016	2017	2018	2019	Thereafter	Total	Fair Value at June 30, 2014
	($ in millions)								
Debt:									
Fixed rate	$142.3	$157.7	$542.9	$350.0	$400.0	$500.0	$1,050.0	$3,142.9	$3,248.8
Average interest rate	5.9 %	5.4 %	6.4 %	5.0 %	3.8 %	3.9 %	5.1 %	5.0 %	
Variable rate	$302.9	$—	$—	$—	$—	$—	$—	$302.9	$302.9
Average interest rate	2.6 %	— %	— %	— %	— %	— %	— %	2.6 %	

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of June 30, 2014 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the Securities and Exchange Commission under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits and other contingencies in the ordinary course of business. While the outcome of such contingencies cannot be predicted with certainty, we believe that the liabilities arising from these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, to the extent the liability arising from the ultimate resolution of any matter exceeds our estimates reflected in the recorded reserves relating to such matter, we could incur additional charges that could be significant.

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ITEM 6. EXHIBITS

(a) Exhibits.

3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the Company dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992. (1)
3.2	Amended and Restated Bylaws of the Company. (2)
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges. (*)
31.1	Certificate of Chief Executive Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certificate of Chief Financial Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (*)
32.1	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Executive Officer. (*)
32.2	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Financial Officer. (*)
101	The following financial statements from D.R. Horton, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, filed on July 24, 2014, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements.

* Filed herewith.

(1) Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the SEC on February 2, 2006.

(2) Incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated July 30, 2009, filed with the SEC on August 5, 2009.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		D.R. HORTON, INC.
Date: July 24, 2014	By:	/s/ Bill W. Wheat
		Bill W. Wheat, on behalf of D.R. Horton, Inc., as Executive Vice President and Chief Financial Officer (Principal Financial and Principal Accounting Officer)

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