

HORTON D R INC /DE/  
Form 10-Q  
April 24, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended March 31, 2015

OR  
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Transition Period From To  
Commission file number 1-14122

D.R. Horton, Inc.  
(Exact name of registrant as specified in its charter)

Delaware 75-2386963  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

301 Commerce Street, Suite 500, 76102  
Fort Worth, Texas (Zip Code)  
(Address of principal executive offices)

(817) 390-8200  
(Registrant’s telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$.01 par value – 366,625,378 shares as of April 20, 2015

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PART I. FINANCIAL INFORMATION  
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 D.R. HORTON, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS

	March 31, 2015 (In millions) (Unaudited)	September 30, 2014
<b>ASSETS</b>		
Homebuilding:		
Cash and cash equivalents	\$665.8	\$632.5
Restricted cash	10.4	10.0
Inventories:		
Construction in progress and finished homes	3,915.8	3,541.3
Residential land and lots — developed and under development	3,928.3	3,800.0
Land held for development	271.3	332.8
Land held for sale	21.5	26.4
	8,136.9	7,700.5
Deferred income taxes, net of valuation allowance of \$30.9 million and \$31.1 million at March 31, 2015 and September 30, 2014, respectively	547.7	565.0
Property and equipment, net	193.8	190.8
Other assets	442.4	441.1
Goodwill	94.8	94.8
	10,091.8	9,634.7
Financial Services:		
Cash and cash equivalents	31.9	29.3
Mortgage loans held for sale	517.6	476.9
Other assets	71.8	61.6
	621.3	567.8
Total assets	\$10,713.1	\$10,202.5
<b>LIABILITIES</b>		
Homebuilding:		
Accounts payable	\$451.9	\$480.3
Accrued expenses and other liabilities	847.7	875.0
Notes payable	3,548.0	3,323.6
	4,847.6	4,678.9
Financial Services:		
Accounts payable and other liabilities	47.0	44.7
Mortgage repurchase facility	397.5	359.2
	444.5	403.9
Total liabilities	5,292.1	5,082.8
Commitments and contingencies (Note K)		
<b>EQUITY</b>		
Preferred stock, \$.10 par value, 30,000,000 shares authorized, no shares issued	—	—
Common stock, \$.01 par value, 1,000,000,000 shares authorized, 373,741,449 shares issued and 366,541,378 shares outstanding at March 31, 2015 and 371,786,765 shares issued and 364,586,694 shares outstanding at September 30, 2014	3.7	3.7
Additional paid-in capital	2,671.3	2,613.7
Retained earnings	2,875.2	2,630.5

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Treasury stock, 7,200,071 shares at March 31, 2015 and September 30, 2014, at cost	(134.3	) (134.3	)
Accumulated other comprehensive income	2.2	2.2	
Total stockholders' equity	5,418.1	5,115.8	
Noncontrolling interests	2.9	3.9	
Total equity	5,421.0	5,119.7	
Total liabilities and equity	\$10,713.1	\$10,202.5	

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(In millions, except per share data)			
	(Unaudited)			
Homebuilding:				
Revenues:				
Home sales	\$2,318.8	\$1,680.0	\$4,559.4	\$3,310.8
Land/lot sales and other	19.7	16.6	32.1	21.5
	2,338.5	1,696.6	4,591.5	3,332.3
Cost of sales:				
Home sales	1,861.9	1,302.8	3,659.9	2,569.5
Land/lot sales and other	17.6	12.6	28.0	16.9
Inventory and land option charges	12.5	4.4	18.6	7.1
	1,892.0	1,319.8	3,706.5	2,593.5
Gross profit:				
Home sales	456.9	377.2	899.5	741.3
Land/lot sales and other	2.1	4.0	4.1	4.6
Inventory and land option charges	(12.5	) (4.4	) (18.6	) (7.1
	446.5	376.8	885.0	738.8
Selling, general and administrative expense	242.4	187.9	480.4	371.3
Other (income)	(4.5	) (2.8	) (10.1	) (6.1
Homebuilding pre-tax income	208.6	191.7	414.7	373.6
Financial Services:				
Revenues, net of recourse expense	59.5	38.4	109.2	73.3
General and administrative expense	40.7	30.2	78.6	60.0
Interest and other (income)	(2.7	) (2.0	) (5.5	) (4.7
Financial services pre-tax income	21.5	10.2	36.1	18.0
Income before income taxes	230.1	201.9	450.8	391.6
Income tax expense	82.2	70.9	160.4	137.5
Net income	\$147.9	\$131.0	\$290.4	\$254.1
Other comprehensive income, net of income tax:				
Unrealized gain related to debt securities collateralized by residential real estate	—	0.3	—	0.3
Comprehensive income	\$147.9	\$131.3	\$290.4	\$254.4
Basic net income per common share	\$0.40	\$0.40	\$0.79	\$0.79
Net income per common share assuming dilution	\$0.40	\$0.38	\$0.79	\$0.73
Cash dividends declared per common share	\$0.0625	\$0.0375	\$0.125	\$0.0375

See accompanying notes to consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	March 31,	
	2015	2014
	(In millions)	
	(Unaudited)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$290.4	\$254.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	25.4	16.7
Amortization of discounts and fees	2.7	20.8
Stock based compensation expense	22.4	10.8
Excess income tax benefit from employee stock awards	(6.7)	(1.9)
Deferred income taxes	17.4	16.7
Inventory and land option charges	18.6	7.1
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(375.6)	(336.4)
Increase in residential land and lots – developed, under development, held for development and held for sale	(71.2)	(226.8)
(Increase) decrease in other assets	(11.1)	40.2
(Increase) decrease in mortgage loans held for sale	(40.7)	52.6
Decrease in accounts payable, accrued expenses and other liabilities	(40.4)	(119.7)
Net cash used in operating activities	(168.8)	(265.8)
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(24.0)	(32.8)
Increase in restricted cash	(0.4)	(2.0)
Net principal increase of other mortgage loans and real estate owned	(4.9)	(1.7)
Payments related to acquisition of a business	—	(34.5)
Net cash used in investing activities	(29.3)	(71.0)
<b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable	1,350.3	497.0
Repayment of notes payable	(1,098.3)	(163.6)
Proceeds from stock associated with certain employee benefit plans	21.0	29.6
Excess income tax benefit from employee stock awards	6.7	1.9
Cash dividends paid	(45.7)	(12.1)
Net cash provided by financing activities	234.0	352.8
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>35.9</b>	<b>16.0</b>
Cash and cash equivalents at beginning of period	661.8	977.4
Cash and cash equivalents at end of period	\$697.7	\$993.4
Supplemental disclosures of non-cash activities:		
Notes payable issued for inventory	\$8.1	\$—
Stock issued under employee incentive plans	\$8.3	\$5.5



See accompanying notes to consolidated financial statements.

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D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
March 31, 2015

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its 100% owned, majority-owned and controlled subsidiaries (which are collectively referred to as the Company, unless the context otherwise requires). All significant intercompany accounts, transactions and balances have been eliminated in consolidation. The financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments considered necessary for a fair statement have been included. These financial statements do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Reclassifications

Certain reclassifications have been made in the prior year financial statements to conform to classifications used in the current year. Cash balances of the Company's captive insurance subsidiary, which are expected to be used to fund the captive insurance subsidiary's operations and pay future anticipated legal claims, have been correctly presented within homebuilding cash and cash equivalents rather than homebuilding other assets. These balances were \$42.0 million and \$40.9 million at March 31, 2014 and September 30, 2013, respectively. The statement of cash flows for the six months ended March 31, 2014, including the statement of cash flows of the Non-Guarantor Subsidiaries as reflected in Note O, have been revised to reflect this correction. As other prior period financial information is presented in future filings, the Company will similarly revise its financial statements in such filings.

Cash balances of the Company's captive insurance subsidiary, which were \$40.5 million and \$43.3 million at March 31, 2015 and September 30, 2014, respectively, are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2015 or subsequent periods.

Variable Interests

The Company enters into land and lot option purchase contracts to acquire land or lots for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land or lots at a future point in time with predetermined terms. Under the terms of many of the option purchase contracts, the option deposits are not refundable in the event the Company elects to terminate the contract.

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D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2015

Option purchase contracts can result in the creation of a variable interest in the entity holding the land parcel under option. There were no variable interest entities reported in the consolidated balance sheets at March 31, 2015 and September 30, 2014 because the Company determined it did not control the activities that most significantly impact the variable interest entity's economic performance and it did not have an obligation to absorb losses of or the right to receive benefits from the entity. The maximum exposure to losses related to the Company's variable interest entities is limited to the amounts of the Company's related option deposits. At March 31, 2015 and September 30, 2014, the amount of option deposits related to these contracts totaled \$60.4 million and \$55.7 million, respectively, and are included in homebuilding other assets in the consolidated balance sheets.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-04, "Receivables - Troubled Debt Restructurings by Creditors," which was revised in August 2014. ASU 2014-04 applies to all creditors who obtain physical possession of residential real estate property collateralizing a consumer mortgage loan in satisfaction of a receivable. The guidance clarifies when an in substance repossession or foreclosure of the property has occurred and helps determine when a creditor should derecognize a loan receivable and recognize real estate property. ASU 2014-14 applies to creditors that hold government-guaranteed mortgage loans and requires that these loans, including those guaranteed by the Federal Housing Administration (FHA) and Veterans Affairs (VA), be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance expected to be recovered from the guarantor. The guidance in this ASU is effective for the Company beginning October 1, 2015 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which is a comprehensive new revenue recognition model that will replace most existing revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The guidance is expected to be effective for the Company beginning October 1, 2018 and allows for full retrospective or modified retrospective methods of adoption. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In June 2014, the FASB issued ASU 2014-12, "Compensation - Stock Compensation," which states that a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition. The guidance is effective for the Company beginning October 1, 2016 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern," which provides guidance about management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance is intended to reduce the diversity in the timing and content of footnote disclosures. The guidance is effective for the Company beginning with its fiscal year ending September 30, 2017 and is not expected to have any impact on its consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, "Consolidation," which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance is effective for the Company beginning October 1, 2016 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest," which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This new guidance is a change from the current treatment of recording debt issuance costs as an asset representing a deferred charge, and is consistent with the accounting treatment for debt discounts. The guidance, which requires retrospective application, is effective for the Company beginning October 1, 2016, but early adoption is allowed. The Company is currently evaluating this guidance, which will not have a material impact on its consolidated financial position, results of operations or cash flows.

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D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2015

NOTE B – SEGMENT INFORMATION

The Company is a national homebuilder that is primarily engaged in the acquisition and development of land and the construction and sale of residential homes, with operations in 79 markets in 27 states across the United States. The Company designs, builds and sells single-family detached homes on lots it develops and on fully developed lots purchased ready for home construction. To a lesser extent, the Company also builds and sells attached homes, such as town homes, duplexes, triplexes and condominiums. Periodically, the Company sells land and lots to other developers and homebuilders where it has excess land and lot positions. The homebuilding segments generate most of their revenues from the sale of completed homes, and to a lesser extent from the sale of land and lots.

The Company's financial services segment provides mortgage financing and title agency services primarily to the Company's homebuilding customers. The Company sells substantially all of the mortgages it originates and the related servicing rights to third-party purchasers. The financial services segment generates its revenues from originating and selling mortgages and collecting fees for title insurance agency and closing services.

The Company's 38 homebuilding operating divisions and its financial services operation are its operating segments. The homebuilding operating segments are aggregated into six reporting segments and the financial services operating segment is its own reporting segment. The Company's reportable homebuilding segments are: East, Midwest, Southeast, South Central, Southwest and West. These reporting segments have homebuilding operations located in the following states:

East:	Delaware, Georgia (Savannah only), Maryland, New Jersey, North Carolina, Pennsylvania, South Carolina and Virginia
Midwest:	Colorado, Illinois, Indiana and Minnesota
Southeast:	Alabama, Florida, Georgia, Mississippi and Tennessee
South Central:	Louisiana, Oklahoma and Texas
Southwest:	Arizona and New Mexico
West:	California, Hawaii, Nevada, Oregon, Utah and Washington

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

The accounting policies of the reporting segments are described throughout Note A included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2014. Financial information relating to the Company's reporting segments is as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
	(In millions)			
Revenues				
Homebuilding revenues:				
East	\$280.7	\$203.2	\$579.5	\$393.3
Midwest	145.0	99.9	274.9	205.7
Southeast	646.1	471.3	1,265.5	918.7
South Central	628.2	430.4	1,207.9	851.5
Southwest	70.9	63.1	146.3	133.8
West	567.6	428.7	1,117.4	829.3
Homebuilding revenues	2,338.5	1,696.6	4,591.5	3,332.3
Financial services revenues	59.5	38.4	109.2	73.3
Total revenues	\$2,398.0	\$1,735.0	\$4,700.7	\$3,405.6
Inventory Impairments				
East	\$—	\$—	\$—	\$—
Midwest	—	—	—	—
Southeast	7.3	2.1	7.3	2.1
South Central	0.7	—	0.7	—
Southwest	—	—	—	—
West	0.1	0.2	4.0	0.2
Total inventory impairments	\$8.1	\$2.3	\$12.0	\$2.3
Income Before Income Taxes (1)				
Homebuilding pre-tax income:				
East	\$13.0	\$14.2	\$39.4	\$25.7
Midwest	10.2	9.1	15.0	19.1
Southeast	58.7	52.2	116.7	103.7
South Central	65.1	46.6	126.2	89.0
Southwest	1.2	5.5	3.1	11.5
West	60.4	64.1	114.3	124.6
Homebuilding pre-tax income	208.6	191.7	414.7	373.6
Financial services pre-tax income	21.5	10.2	36.1	18.0
Income before income taxes	\$230.1	\$201.9	\$450.8	\$391.6

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 the Company's corporate (1) office. The amortization of capitalized interest and property taxes is allocated to each segment based on the segment's cost of sales, while those expenses associated with the corporate office are allocated to each segment based on the segment's inventory balances.





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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

	March 31, 2015 (In millions)	September 30, 2014
Homebuilding Inventories (1)		
East	\$888.5	\$842.7
Midwest	507.0	477.6
Southeast	2,030.4	1,943.0
South Central	1,927.7	1,742.5
Southwest	290.6	292.9
West	2,240.0	2,169.4
Corporate and unallocated (2)	252.7	232.4
Total homebuilding inventory	\$8,136.9	\$7,700.5

(1) Homebuilding inventories are the only assets included in the measure of homebuilding segment assets used by the Company's chief operating decision makers.

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

#### NOTE C – INVENTORY

At March 31, 2015, the Company reviewed the performance and outlook for all of its land inventories and communities for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. The Company performed detailed impairment evaluations of communities and land inventories with a combined carrying value of \$424.2 million and recorded impairment charges of \$8.1 million during the second quarter to reduce the carrying value of impaired communities to their estimated fair value. The impairment charges were primarily related to a strategic decision to sell a parcel of land in the Southeast region. During the six months ended March 31, 2015, impairment charges totaled \$12.0 million. There were \$2.3 million of impairment charges recorded in the three and six months ended March 31, 2014.

During the three months ended March 31, 2015 and 2014, the Company wrote off \$4.4 million and \$2.1 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts that are expected to be terminated. During the six months ended March 31, 2015 and 2014, the Company wrote off \$6.6 million and \$4.8 million, respectively, of these deposits and costs.

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE D – NOTES PAYABLE

The Company's notes payable at their principal amounts, net of any unamortized discounts, consist of the following:

	March 31, 2015	September 30, 2014
	(In millions)	
Homebuilding:		
Unsecured:		
Revolving credit facility, maturing 2019	\$175.0	\$300.0
5.25% senior notes due 2015, net	—	157.7
5.625% senior notes due 2016, net	170.0	169.9
6.5% senior notes due 2016, net	372.6	372.6
4.75% senior notes due 2017	350.0	350.0
3.625% senior notes due 2018	400.0	400.0
3.75% senior notes due 2019	500.0	500.0
4.0% senior notes due 2020	500.0	—
4.375% senior notes due 2022	350.0	350.0
4.75% senior notes due 2023	300.0	300.0
5.75% senior notes due 2023	400.0	400.0
Other secured notes	30.4	23.4
	\$3,548.0	\$3,323.6
Financial Services:		
Mortgage repurchase facility, maturing 2016	\$397.5	\$359.2

## Homebuilding:

The Company has a \$975 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.25 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to approximately 50% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. 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, 2019. At March 31, 2015, the Company had \$175.0 million of borrowings outstanding at a 1.9% annual interest rate and \$90.3 million of letters of credit issued under the revolving credit facility.

The Company's revolving credit facility imposes restrictions on its 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 the Company's 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 the

senior notes impose restrictions on the creation of secured debt and liens. At March 31, 2015, the Company was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and public debt obligations.

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D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2015

The Company has an automatically effective universal shelf registration statement, filed with the Securities and Exchange Commission (SEC) in September 2012, registering debt and equity securities that the Company may issue from time to time in amounts to be determined. The Company anticipates filing a new universal shelf registration statement that will register debt and equity securities prior to the expiration of its current universal shelf registration statement in September 2015.

In February 2015, the Company issued \$500 million principal amount of 4.0% senior notes due February 15, 2020, with interest payable semi-annually. The notes represent unsecured obligations of the Company. The annual effective interest rate of the senior notes after giving effect to the amortization of financing costs is 4.2%. On February 15, 2015, the Company repaid the remaining \$157.7 million principal amount of its 5.25% senior notes which were due on that date.

Effective August 1, 2014, the Board of Directors authorized the repurchase of up to \$500 million of the Company's debt securities effective through July 31, 2015. All of the \$500 million authorization was remaining at March 31, 2015.

Financial Services:

The Company's 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. In February 2015, the mortgage repurchase facility was amended and its maturity date was extended to February 26, 2016. Additionally, new commitments were obtained from banks which increased the total capacity of the facility to \$400 million. The amendment allows for the capacity of the facility to be increased further, without requiring additional commitments, from \$400 million to \$450 million during the last five days of any fiscal quarter and the first twenty-five days of the following fiscal quarter. Additionally, the capacity of the facility can be increased to \$550 million subject to the availability of additional commitments.

As of March 31, 2015, \$485.6 million of mortgage loans held for sale with a collateral value of \$469.6 million were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling \$72.1 million, DHI Mortgage had an obligation of \$397.5 million outstanding under the mortgage repurchase facility at March 31, 2015 at a 2.4% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company's 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 March 31, 2015, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.



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## NOTE E – CAPITALIZED INTEREST

The Company capitalizes 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 periods in which the Company's active inventory is lower than its debt level, a portion of the interest incurred is immediately reflected as interest expense. Since the third quarter of fiscal 2013, the Company's active inventory has exceeded its debt level, and all interest incurred has been capitalized to inventory.

The following table summarizes the Company's interest costs incurred, capitalized and expensed during the three and six months ended March 31, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2015	2014	2015	2014
	(In millions)			
Capitalized interest, beginning of period	\$205.2	\$161.1	\$198.5	\$137.1
Interest incurred (1)	42.6	49.5	83.0	98.8
Interest expensed:				
Charged to cost of sales	(35.6	) (26.9	) (69.2	) (52.2
Written off with inventory impairments	—	—	(0.1	) —
Capitalized interest, end of period	\$212.2	\$183.7	\$212.2	\$183.7

Interest incurred includes interest incurred on the Company's financial services mortgage repurchase facility of (1) \$1.6 million and \$3.1 million in the three and six months ended March 31, 2015, respectively, and \$0.9 million and \$1.8 million in the same periods of 2014.

## NOTE F – MORTGAGE LOANS

## Mortgage Loans Held for Sale

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. At March 31, 2015, mortgage loans held for sale had an aggregate fair value of \$517.6 million and an aggregate outstanding principal balance of \$502.0 million. At September 30, 2014, mortgage loans held for sale had an aggregate fair value of \$476.9 million and an aggregate outstanding principal balance of \$466.6 million. During the six months ended March 31, 2015 and 2014, mortgage loans originated totaled \$2.2 billion and \$1.6 billion, respectively, and mortgage loans sold totaled \$2.2 billion and \$1.6 billion, respectively. The Company had gains on sales of loans and servicing rights, net of recourse expense (benefit), of \$40.8 million and \$73.6 million during the three and six months ended March 31, 2015, compared to \$23.9 million and \$44.4 million in the same periods of 2014. Net gains on sales of loans and servicing rights are included in financial services revenues in the consolidated statements of operations. Approximately 84% of the mortgage loans sold by DHI Mortgage during the six months ended March 31, 2015 were sold to three major financial entities, none of whom purchased more than 40% of the total loans sold.

To manage the interest rate risk inherent in its mortgage operations, the Company hedges its risk using derivative instruments, generally forward sales of mortgage-backed securities (MBS), which are referred to as “hedging instruments” in the following discussion. The Company does not enter into or hold derivatives for trading or speculative purposes.

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Newly originated loans that have been closed but not committed to third-party purchasers are hedged to mitigate the risk of changes in their fair value. Hedged loans are committed to third-party purchasers typically within three days after origination. The notional amounts of the hedging instruments used to hedge mortgage loans held for sale vary in relationship to the underlying loan amounts, depending on the movements in the value of each hedging instrument relative to the value of the underlying mortgage loans. The fair value change related to the hedging instruments generally offsets the fair value change in the mortgage loans held for sale. The net fair value change, which for the three and six months ended March 31, 2015 and 2014 was not significant, is recognized in financial services revenues in the consolidated statements of operations. At March 31, 2015 and September 30, 2014, the Company's mortgage loans held for sale that were not committed to third-party purchasers totaled \$373.4 million and \$348.6 million, respectively, and the notional amounts of the hedging instruments related to those loans totaled \$373.3 million and \$348.2 million, respectively.

#### Other Mortgage Loans and Loss Reserves

Mortgage loans are sold with limited recourse provisions derived from industry-standard representations and warranties in the relevant agreements. Primarily, these representations and warranties involve the absence of misrepresentations by the borrower or other parties, the appropriate underwriting of the loan and in some cases, a required minimum number of payments to be made by the borrower. The Company generally does not retain any other continuing interest related to mortgage loans sold in the secondary market. Other mortgage loans generally consist of loans repurchased due to these limited recourse obligations. Typically, these loans are impaired and some become real estate owned through the foreclosure process. At March 31, 2015 and September 30, 2014, the Company's total other mortgage loans and real estate owned, before loss reserves, were as follows:

	March 31, 2015	September 30, 2014
	(In millions)	
Other mortgage loans	\$45.3	\$41.0
Real estate owned	0.5	0.7
	\$45.8	\$41.7

The Company has recorded reserves for estimated losses on other mortgage loans, real estate owned and future loan repurchase obligations due to the limited recourse provisions, all of which are recorded as reductions of financial services revenue. The loss reserve for loan repurchase and settlement obligations is estimated based on an analysis of loan repurchase requests received, actual repurchases and losses through the disposition of such loans or requests, discussions with mortgage purchasers and analysis of mortgages originated. The reserve balances at March 31, 2015 and September 30, 2014 were as follows:

	March 31, 2015	September 30, 2014
	(In millions)	
Loss reserves related to:		
Other mortgage loans	\$1.6	\$1.7
Real estate owned	0.1	0.1
Loan repurchase and settlement obligations – known and expected	21.7	24.4
	\$23.4	\$26.2



Other mortgage loans and real estate owned net of 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.

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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 March 31, 2015 and September 30, 2014, the notional amount of IRLCs, which are accounted for as derivative instruments recorded at fair value, totaled \$440.1 million and \$303.2 million, respectively.

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. At March 31, 2015 and September 30, 2014, the notional amount of best-efforts whole loan delivery commitments totaled \$46.0 million and \$28.2 million, respectively, and the notional amount of hedging instruments related to IRLCs not yet committed to purchasers totaled \$351.7 million and \$243.8 million, respectively.

NOTE G – INCOME TAXES

The Company's income tax expense for the three and six months ended March 31, 2015 was \$82.2 million and \$160.4 million, respectively, compared to \$70.9 million and \$137.5 million in the same periods of fiscal 2014. The effective tax rate was 35.7% and 35.6% for the three and six months ended March 31, 2015, respectively, compared to 35.1% in both periods of fiscal 2014. The effective tax rates for all periods include an expense for state income taxes that is partially offset by a tax benefit for the domestic production activities deduction.

At March 31, 2015 and September 30, 2014, the Company had deferred tax assets, net of deferred tax liabilities, of \$578.6 million and \$596.1 million, respectively, partially offset by valuation allowances of \$30.9 million and \$31.1 million, respectively. The valuation allowance for both periods relates to the Company's state deferred tax assets for net operating loss (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 8.7 million and 9.1 million shares of common stock were excluded from the computation of diluted earnings per share for the 2015 and 2014 periods, respectively, because their effect would have been antidilutive.

	Three Months Ended March 31, 2015		Six Months Ended March 31, 2015	
	2014	2014	2015	2014
	(In millions)			
Numerator:				
Net income	\$ 147.9	\$ 131.0	\$ 290.4	\$ 254.1
Effect of dilutive securities:				
Interest and amortization of issuance costs associated with convertible senior notes, net of tax	—	6.9	—	13.7
Numerator for diluted earnings per share after assumed conversions	\$ 147.9	\$ 137.9	\$ 290.4	\$ 267.8
Denominator:				
Denominator for basic earnings per share — weighted average common shares	365.8	324.3	365.4	323.7
Effect of dilutive securities:				
Employee stock awards	3.6	3.4	3.4	3.1
Convertible senior notes	—	38.6	—	38.6
Denominator for diluted earnings per share — adjusted weighted average common shares	369.4	366.3	368.8	365.4
Basic net income per common share	\$ 0.40	\$ 0.40	\$ 0.79	\$ 0.79
Net income per common share assuming dilution	\$ 0.40	\$ 0.38	\$ 0.79	\$ 0.73

## 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. The Company anticipates filing a new universal shelf registration statement that will register debt and equity securities prior to the expiration of its current universal shelf registration statement in September 2015.

Effective August 1, 2014, the Board of Directors authorized the repurchase of up to \$100 million of the Company's common stock effective through July 31, 2015. All of the \$100 million authorization was remaining at March 31, 2015, and no common stock has been repurchased subsequent to March 31, 2015.

During the three months ended March 31, 2015, the Board of Directors approved a quarterly cash dividend of \$0.0625 per common share, which was paid on February 17, 2015 to stockholders of record on February 6, 2015. A quarterly

cash dividend of \$0.0375 per common share was approved and paid during the three months ended March 31, 2014. In April 2015, the Board of Directors approved a quarterly cash dividend of \$0.0625 per common share, payable on May 27, 2015 to stockholders of record on May 15, 2015.

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NOTE J – EMPLOYEE BENEFIT PLANS

Restricted Stock Units

In November 2014, the Compensation Committee of the Company's Board of Directors approved and granted a total of 290,000 performance based restricted stock units (Performance RSUs) to the Chairman of the Board, Chief Executive Officer and Chief Operating Officer of the Company that vest at the end of a three-year performance period ending September 30, 2017. 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 total shareholder return, return on investment, SG&A expense containment and gross profit. Each Performance RSU represents the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. The Performance RSUs have no dividend or voting rights during the performance period. The fair value of these equity awards on the date of grant was \$23.62 per unit. Compensation expense related to this grant was \$0.7 million and \$1.3 million, respectively, for the three and six months ended March 31, 2015, based on the Company's performance against the peer group, the elapsed portion of the performance period and the grant date fair value of the award.

In November 2014, the Compensation Committee also approved and granted an award of 30,000 restricted stock units (RSUs) to the Chief Financial Officer of the Company that vest annually in equal installments over a three-year period ending in November 2017. Each RSU represents the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. The RSUs have no dividend or voting rights during the vesting period. The fair value of this equity award on the date of grant was \$21.88 per unit. Compensation expense related to this grant was \$0.1 million in the six months ended March 31, 2015.

In March 2015, the Compensation Committee of the Board of Directors and the Board of Directors approved and granted awards of approximately 2.0 million RSUs to the executive officers, other key employees and non-management directors of the Company. The RSUs were awarded to approximately 570 recipients and vest annually in equal installments over periods of three to five years. Each RSU represents the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. The RSUs have no dividend or voting rights during the vesting period. RSUs generally result in less dilution to shareholders than stock options, which have been granted to key employees in the past. RSUs also provide an immediate, tangible value to the recipient and better diversification than stock options alone, which promotes the retention of key employees over the multi-year vesting period. The average fair value of these equity awards on the date of grant was \$26.09 per unit. Compensation expense related to this grant was \$3.8 million in the three and six months ended March 31, 2015.

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.

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Changes in the Company's warranty liability during the three and six months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended		Six Months Ended	
	March 31, 2015	2014	March 31, 2015	2014
	(In millions)			
Warranty liability, beginning of period	\$65.9	\$56.7	\$65.7	\$56.9
Warranties issued	10.4	7.4	20.5	14.6
Changes in liability for pre-existing warranties	2.8	1.1	0.6	2.1
Settlements made	(7.5	) (7.9	) (15.2	) (16.3
Warranty liability, end of period	\$71.6	\$57.3	\$71.6	\$57.3

#### 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 \$449.4 million and \$456.9 million at March 31, 2015 and September 30, 2014, respectively, and are included in homebuilding accrued expenses and other liabilities in the consolidated balance sheets. At both March 31, 2015 and September 30, 2014, approximately 99% of these reserves related to construction defect matters. Expenses related to the Company's legal contingencies were \$20.4 million and \$5.4 million in the six months ended March 31, 2015 and 2014, respectively.

The Company's reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. As of March 31, 2015, 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 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.

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The Company's reserves for legal claims decreased from \$456.9 million at September 30, 2014 to \$449.4 million at March 31, 2015 due to payments made for legal claims during the period, net of reimbursements received from subcontractors, partially offset by an increase in the number of closed homes that are subject to possible future construction defect claims. Changes in the Company's legal claims reserves during the six months ended March 31, 2015 and 2014 were as follows:

	Six Months Ended	
	March 31,	
	2015	2014
	(In millions)	
Reserves for legal claims, beginning of period	\$456.9	\$482.0
Increase (decrease) in reserves	20.8	(17.4 )
Payments	(28.3	) (10.4 )
Reserves for legal claims, end of period	\$449.4	\$454.2

The Company estimates and records receivables when recovery is probable under its 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. 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 \$134.1 million, \$138.4 million and \$136.1 million at March 31, 2015, September 30, 2014 and March 31, 2014, respectively, and are included in homebuilding other assets in the consolidated balance sheets.

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 March 31, 2015, the Company had total deposits of \$64.4 million, consisting of cash deposits of \$56.9 million and promissory notes, letters of credit and surety bonds of \$7.5 million, to purchase land and lots with a total remaining purchase price of approximately \$2.0 billion. A limited number of the land and lot option purchase contracts at March 31, 2015, representing \$25.7 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 March 31, 2015, the Company had outstanding surety bonds of \$945.2 million and letters of credit of \$93.4 million to secure performance under various contracts. Of the total letters of credit, \$90.3 million were issued under the Company's revolving credit facility. The remaining \$3.1 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, and the cash restricted for this purpose 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 March 31, 2015 and September 30, 2014 were as follows:

	March 31, 2015	September 30, 2014
	(In millions)	
Insurance receivables	\$134.1	\$138.4
Earnest money and refundable deposits	121.0	113.3
Accounts and notes receivable	43.0	38.6
Prepaid assets	51.5	55.4
Rental properties	48.6	48.7
Debt securities collateralized by residential real estate	20.8	20.8
Other assets	23.4	25.9
	\$442.4	\$441.1

The Company's homebuilding accrued expenses and other liabilities at March 31, 2015 and September 30, 2014 were as follows:

	March 31, 2015	September 30, 2014
	(In millions)	
Reserves for legal claims	\$449.4	\$456.9
Employee compensation and related liabilities	144.2	150.8
Warranty liability	71.6	65.7
Accrued interest	31.0	29.1
Federal and state income tax liabilities	6.6	12.8
Inventory related accruals	29.7	36.1
Homebuyer deposits	54.8	49.5
Accrued property taxes	17.5	29.1
Other liabilities	42.9	45.0
	\$847.7	\$875.0

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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, rental properties 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 other mortgage loans; and

rental properties and 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 March 31, 2015 and September 30, 2014, and the changes in the fair value of the Level 3 assets during the six months ended March 31, 2015.

	Balance Sheet Location	Fair Value at March 31, 2015			
		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	—	504.2	13.4	517.6
Derivatives not designated as hedging instruments (c):					
Interest rate lock commitments	Other assets	—	4.6	—	4.6
Forward sales of MBS	Other liabilities	—	(4.7 )	—	(4.7 )
Best-efforts and mandatory commitments	Other liabilities	—	(0.5 )	—	(0.5 )
		Fair Value at September 30, 2014			
	Balance Sheet Location	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	—	464.9	12.0	476.9
Derivatives not designated as hedging instruments (c):					
Interest rate lock commitments	Other assets	—	2.4	—	2.4
Forward sales of MBS	Other liabilities	—	(1.9 )	—	(1.9 )
Best-efforts and mandatory commitments	Other liabilities	—	(0.1 )	—	(0.1 )

Level 3 Assets at Fair Value for the  
 Six Months Ended March 31, 2015

	Balance at September 30, 2014	Net realized and unrealized gains (losses)	Purchases	Sales and Settlements	Principal Reductions	Net transfers in (out) of Level 3	Balance at March 31, 2015
Debt securities collateralized by residential real estate (a)	\$20.8	\$—	\$—	\$—	\$—	\$—	\$20.8
	12.0	0.4	—	(0.7 )	—	1.7	13.4

Mortgage loans held for sale (b)

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. The fair value of these securities was determined by estimating the future cash flows of the securities and the residential real estate utilizing discount rates of 6% and 18%, respectively.

(a) Unrealized gains or losses on these securities, net of tax, are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. The Company has entered into an agreement to purchase this residential real estate parcel and all additional defaulted debt securities associated with the parcel, in order to develop the property and build and sell homes. In April 2015, the Company completed this purchase transaction for \$19.6 million in cash. The purchase price will be allocated to the land and the debt securities acquired in the third quarter of fiscal 2015.

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 March 31, 2015 includes \$13.4 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, as calculated by reference to quoted prices for similar assets, 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 March 31, 2015 and September 30, 2014:

	Balance Sheet Location	Fair Value at March 31, 2015 Level 3 (In millions)	Fair Value at September 30, 2014 Level 3
Homebuilding:			
Inventory held and used (a) (b)	Inventories	\$21.6	\$19.2
Inventory available for sale (a) (c)	Inventories	1.4	8.2
Financial Services:			
Other mortgage loans (a) (d)	Other assets	14.6	16.0
Real estate owned (a) (d)	Other assets	0.2	0.5

(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 March 31, 2015 and September 30, 2014:

	Carrying Value (In millions)	Fair Value at March 31, 2015			Total
		Level 1	Level 2	Level 3	
Homebuilding:					
Cash and cash equivalents (a)	\$665.8	\$665.8	\$—	\$—	\$665.8
Restricted cash (a)	10.4	10.4	—	—	10.4
Revolving credit facility (a)	175.0	—	—	175.0	175.0
Senior notes (b)	3,342.6	—	3,432.9	—	3,432.9
Other secured notes (a)	30.4	—	—	30.4	30.4
Financial Services:					
Cash and cash equivalents (a)	31.9	31.9	—	—	31.9
Mortgage repurchase facility (a)	397.5	—	—	397.5	397.5

	Carrying Value (In millions)	Fair Value at September 30, 2014			Total
		Level 1	Level 2	Level 3	
Homebuilding:					
Cash and cash equivalents (a)	\$632.5	\$632.5	\$—	\$—	\$632.5
Restricted cash (a)	10.0	10.0	—	—	10.0



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Revolving credit facility (a)	300.0	—	—	300.0	300.0
Senior notes (b)	3,000.2	—	3,033.8	—	3,033.8
Other secured notes (a)	23.4	—	—	23.4	23.4
Financial Services:					
Cash and cash equivalents (a)	29.3	29.3	—	—	29.3
Mortgage repurchase facility (a)	359.2	—	—	359.2	359.2

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(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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D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2015

NOTE N – SUBSEQUENT EVENT

On April 24, 2015, the Company acquired the homebuilding operations of Pacific Ridge Homes for approximately \$72 million in cash. Pacific Ridge Homes operates in Seattle, Washington. The assets acquired included approximately 90 homes in inventory, 350 lots and control of approximately 400 additional lots through option contracts. The Company also acquired a sales order backlog of 41 homes valued at \$18.0 million.

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## D.R. HORTON, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)

March 31, 2015

## NOTE O – 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.

## Consolidating Balance Sheet

March 31, 2015

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$522.1	\$96.0	\$ 79.6	\$—	\$697.7
Restricted cash	7.0	2.3	1.1	—	10.4
Investments in subsidiaries	3,118.5	—	—	(3,118.5)	—
Inventories	2,768.1	5,344.2	24.6	—	8,136.9
Deferred income taxes	178.5	358.5	10.7	—	547.7
Property and equipment, net	56.8	50.0	87.0	—	193.8
Other assets	168.6	246.8	98.8	—	514.2
Mortgage loans held for sale	—	—	517.6	—	517.6
Goodwill	—	94.8	—	—	94.8
Intercompany receivables	2,484.8	—	—	(2,484.8)	—
Total Assets	\$9,304.4	\$6,192.6	\$ 819.4	\$(5,603.3)	\$10,713.1
<b>LIABILITIES &amp; EQUITY</b>					
Accounts payable and other liabilities	\$367.1	\$842.9	\$ 136.6	\$—	\$1,346.6
Intercompany payables	—	2,373.1	111.7	(2,484.8)	—
Notes payable	3,519.2	10.6	415.7	—	3,945.5
Total Liabilities	3,886.3	3,226.6	664.0	(2,484.8)	5,292.1
Total stockholders' equity	5,418.1	2,966.0	152.5	(3,118.5)	5,418.1
Noncontrolling interests	—	—	2.9	—	2.9

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Total Equity	5,418.1	2,966.0	155.4	(3,118.5	) 5,421.0
Total Liabilities & Equity	\$9,304.4	\$6,192.6	\$ 819.4	\$(5,603.3	) \$10,713.1

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet  
 September 30, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>ASSETS</b>					
Cash and cash equivalents	\$497.4	\$89.5	\$74.9	\$—	\$661.8
Restricted cash	6.8	2.1	1.1	—	10.0
Investments in subsidiaries	2,878.2	—	—	(2,878.2)	—
Inventories	2,675.9	5,014.3	10.3	—	7,700.5
Deferred income taxes	189.9	364.4	10.7	—	565.0
Property and equipment, net	51.9	49.1	89.8	—	190.8
Other assets	163.0	250.8	88.9	—	502.7
Mortgage loans held for sale	—	—	476.9	—	476.9
Goodwill	—	94.8	—	—	94.8
Intercompany receivables	2,364.2	—	—	(2,364.2)	—
Total Assets	\$8,827.3	\$5,865.0	\$752.6	\$(5,242.4)	\$10,202.5
<b>LIABILITIES &amp; EQUITY</b>					
Accounts payable and other liabilities	\$409.8	\$853.3	\$136.9	\$—	\$1,400.0
Intercompany payables	—	2,282.2	82.0	(2,364.2)	—
Notes payable	3,301.7	3.4	377.7	—	3,682.8
Total Liabilities	3,711.5	3,138.9	596.6	(2,364.2)	5,082.8
Total stockholders' equity	5,115.8	2,726.1	152.1	(2,878.2)	5,115.8
Noncontrolling interests	—	—	3.9	—	3.9
Total Equity	5,115.8	2,726.1	156.0	(2,878.2)	5,119.7
Total Liabilities & Equity	\$8,827.3	\$5,865.0	\$752.6	\$(5,242.4)	\$10,202.5

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations  
 Three Months Ended March 31, 2015

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Homebuilding:						
Revenues	\$727.0	\$1,611.5	\$—	\$—	\$2,338.5	
Cost of sales	593.7	1,297.8	0.5	—	1,892.0	
Gross profit (loss)	133.3	313.7	(0.5	) —	446.5	
Selling, general and administrative expense	112.4	124.4	5.6	—	242.4	
Equity in (income) of subsidiaries	(208.5	) —	—	208.5	—	
Other (income)	(0.7	) (1.1	) (2.7	) —	(4.5	)
Homebuilding pre-tax income (loss)	230.1	190.4	(3.4	) (208.5	) 208.6	
Financial Services:						
Revenues, net of recourse expense	—	—	59.5	—	59.5	
General and administrative expense	—	—	40.7	—	40.7	
Interest and other (income)	—	—	(2.7	) —	(2.7	)
Financial services pre-tax income	—	—	21.5	—	21.5	
Income before income taxes	230.1	190.4	18.1	(208.5	) 230.1	
Income tax expense	82.2	67.7	6.9	(74.6	) 82.2	
Net income	\$147.9	\$122.7	\$ 11.2	\$(133.9	) \$147.9	
Comprehensive income	\$147.9	\$122.7	\$ 11.2	\$(133.9	) \$147.9	

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations  
 Six Months Ended March 31, 2015

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Homebuilding:						
Revenues	\$1,423.8	\$3,167.7	\$—	\$—	\$4,591.5	
Cost of sales	1,147.7	2,554.9	3.9	—	3,706.5	
Gross profit (loss)	276.1	612.8	(3.9	) —	885.0	
Selling, general and administrative expense	222.6	245.6	12.2	—	480.4	
Equity in (income) of subsidiaries	(396.3	) —	—	396.3	—	
Other (income)	(1.0	) (2.5	) (6.6	) —	(10.1	)
Homebuilding pre-tax income (loss)	450.8	369.7	(9.5	) (396.3	) 414.7	
Financial Services:						
Revenues, net of recourse expense	—	—	109.2	—	109.2	
General and administrative expense	—	—	78.6	—	78.6	
Interest and other (income)	—	—	(5.5	) —	(5.5	)
Financial services pre-tax income	—	—	36.1	—	36.1	
Income before income taxes	450.8	369.7	26.6	(396.3	) 450.8	
Income tax expense	160.4	130.9	10.3	(141.2	) 160.4	
Net income	\$290.4	\$238.8	\$ 16.3	\$(255.1	) \$290.4	
Comprehensive income	\$290.4	\$238.8	\$ 16.3	\$(255.1	) \$290.4	

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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations  
 Three Months Ended March 31, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Homebuilding:					
Revenues	\$574.1	\$1,119.7	\$ 2.8	\$—	\$1,696.6
Cost of sales	453.5	864.0	2.3	—	1,319.8
Gross profit	120.6	255.7	0.5	—	376.8
Selling, general and administrative expense	87.9	97.7	2.3	—	187.9
Equity in (income) of subsidiaries	(169.0	) —	—	169.0	—
Other (income)	(0.2	) (1.1	) (1.5	) —	(2.8
Homebuilding pre-tax income (loss)	201.9	159.1	(0.3	) (169.0	) 191.7
Financial Services:					
Revenues, net of recourse expense	—	—	38.4	—	38.4
General and administrative expense	—	—	30.2	—	30.2
Interest and other (income)	—	—	(2.0	) —	(2.0
Financial services pre-tax income	—	—	10.2	—	10.2
Income before income taxes	201.9	159.1	9.9	(169.0	) 201.9
Income tax expense	70.9	55.9	3.4	(59.3	) 70.9
Net income	\$131.0	\$103.2	\$ 6.5	\$(109.7	) \$131.0
Comprehensive income	\$131.0	\$103.5	\$ 6.5	\$(109.7	) \$131.3



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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations  
 Six Months Ended March 31, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Homebuilding:						
Revenues	\$1,126.2	\$2,200.0	\$ 6.1	\$—	\$3,332.3	
Cost of sales	883.0	1,704.5	6.0	—	2,593.5	
Gross profit	243.2	495.5	0.1	—	738.8	
Selling, general and administrative expense	176.9	190.2	4.2	—	371.3	
Equity in (income) of subsidiaries	(324.6	) —	—	324.6	—	
Other (income)	(0.7	) (2.0	) (3.4	) —	(6.1	)
Homebuilding pre-tax income (loss)	391.6	307.3	(0.7	) (324.6	) 373.6	
Financial Services:						
Revenues, net of recourse expense	—	—	73.3	—	73.3	
General and administrative expense	—	—	60.0	—	60.0	
Interest and other (income)	—	—	(4.7	) —	(4.7	)
Financial services pre-tax income	—	—	18.0	—	18.0	
Income before income taxes	391.6	307.3	17.3	(324.6	) 391.6	
Income tax expense	137.5	107.9	6.0	(113.9	) 137.5	
Net income	\$254.1	\$199.4	\$ 11.3	\$(210.7	) \$254.1	
Comprehensive income	\$254.1	\$199.7	\$ 11.3	\$(210.7	) \$254.4	



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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows  
 Six Months Ended March 31, 2015

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>OPERATING ACTIVITIES</b>					
Net cash used in operating activities	\$(35.5 )	\$(74.0 )	\$(44.3 )	\$(15.0 )	\$(168.8 )
<b>INVESTING ACTIVITIES</b>					
(Purchases of) proceeds from property and equipment	(15.0 )	(11.0 )	2.0	—	(24.0 )
Increase in restricted cash	(0.2 )	(0.2 )	—	—	(0.4 )
Net principal increase of other mortgage loans and real estate owned	—	—	(4.9 )	—	(4.9 )
Intercompany advances	(120.9 )	—	—	120.9	—
Net cash used in investing activities	(136.1 )	(11.2 )	(2.9 )	120.9	(29.3 )
<b>FINANCING ACTIVITIES</b>					
Proceeds from notes payable	1,312.0	—	38.3	—	1,350.3
Repayment of notes payable	(1,097.7 )	(0.3 )	(0.3 )	—	(1,098.3 )
Intercompany advances	—	92.0	28.9	(120.9 )	—
Proceeds from stock associated with certain employee benefit plans	21.0	—	—	—	21.0
Excess income tax benefit from employee stock awards	6.7	—	—	—	6.7
Cash dividends paid	(45.7 )	—	(15.0 )	15.0	(45.7 )
Net cash provided by financing activities	196.3	91.7	51.9	(105.9 )	234.0
Increase in cash and cash equivalents	24.7	6.5	4.7	—	35.9
Cash and cash equivalents at beginning of period	497.4	89.5	74.9	—	661.8
Cash and cash equivalents at end of period	\$522.1	\$96.0	\$79.6	\$—	\$697.7



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D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2015

## NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows  
 Six Months Ended March 31, 2014

	D.R. Horton, Inc. (In millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>OPERATING ACTIVITIES</b>					
Net cash (used in) provided by operating activities	\$(169.9 )	\$(118.9 )	\$ 63.0	\$(40.0 )	\$(265.8 )
<b>INVESTING ACTIVITIES</b>					
Purchases of property and equipment	(12.3 )	(15.1 )	(5.4 )	—	(32.8 )
(Increase) decrease in restricted cash	(2.1 )	—	0.1	—	(2.0 )
Net principal increase of other mortgage loans and real estate owned	—	—	(1.7 )	—	(1.7 )
Intercompany advances	(157.4 )	—	—	157.4	—
Payments related to acquisition of a business	(34.5 )	—	—	—	(34.5 )
Net cash used in investing activities	(206.3 )	(15.1 )	(7.0 )	157.4	(71.0 )
<b>FINANCING ACTIVITIES</b>					
Proceeds from notes payable	497.0	—	—	—	497.0
Repayment of notes payable	(148.8 )	—	(14.8 )	—	(163.6 )
Intercompany advances	—	158.6	(1.2 )	(157.4 )	—
Proceeds from stock associated with certain employee benefit plans	29.6	—	—	—	29.6
Excess income tax benefit from employee stock awards	1.9	—	—	—	1.9
Cash dividends paid	(12.1 )	—	(40.0 )	40.0	(12.1 )
Net cash provided by (used in) financing activities	367.6	158.6	(56.0 )	(117.4 )	352.8
(Decrease) increase in cash and cash equivalents	(8.6 )	24.6	—	—	16.0
Cash and cash equivalents at beginning of period	871.4	38.4	67.6	—	977.4
Cash and cash equivalents at end of period	\$862.8	\$63.0	\$ 67.6	\$—	\$993.4

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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, 2014. 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, Express Homes, Emerald Homes, Breland Homes, Regent 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 \$281,200 during the six months ended March 31, 2015. Approximately 91% of home sales revenues were generated from the sale of single-family detached homes in both the six months ended March 31, 2015 and 2014. 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	Northern Delaware	Louisiana	Baton Rouge
Georgia	Savannah		Lafayette
Maryland	Baltimore	Oklahoma	Oklahoma City
	Suburban Washington, D.C.	Texas	Austin
New Jersey	North New Jersey		Dallas
	South New Jersey		El Paso
North Carolina	Charlotte		Fort Worth
	Fayetteville		Houston
	Greensboro/Winston-Salem		Killeen/Temple/Waco
	Jacksonville		Midland/Odessa
	Raleigh/Durham		New Braunfels/San Marcos
	Wilmington		San Antonio
Pennsylvania	Philadelphia		
South Carolina	Charleston		Southwest Region
	Columbia	Arizona	Phoenix
	Greenville/Spartanburg		Tucson
	Hilton Head	New Mexico	Albuquerque
	Myrtle Beach		
Virginia	Northern Virginia		West Region
		California	Bay Area
	Midwest Region		Central Valley
Colorado	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/Fort Lauderdale		
	Orlando		
	Pensacola/Panama City		
	Port St. Lucie		

	Tampa/Sarasota
	Volusia County
	West Palm Beach
Georgia	Atlanta
	Augusta
	Middle Georgia
Mississippi	Gulf Coast
	Hattiesburg
Tennessee	Nashville



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OVERVIEW

During the second quarter of fiscal 2015, demand for new homes continued to reflect the stable to moderately improved trends we have seen across most of our operating markets over the past year. We also 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 homebuilder in the United States provides a strong platform for us to compete for new home sales. In recent years, we significantly increased our land, lot and home inventories across 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 introduced our Express Homes brand to offer more affordable homes for entry-level buyers, who we believe have been under-served in the new home market in recent years. These new product offerings are expanding across our operating markets, which will further broaden our product diversity.

During the second quarter of fiscal 2015, the number and value of our net sales orders increased 30% and 33%, respectively, compared to the prior year quarter, and the number of homes closed and home sales revenues increased 33% and 38%, respectively. We generated pre-tax income of \$230.1 million during the current quarter, compared to \$201.9 million during the prior year quarter. We believe our business is well-positioned to continue to grow profitably due to our broad geographic operating base and product offerings, our increased inventory position of finished lots, land and homes and our strong balance sheet and liquidity. We are focused on operating each of our communities to optimize the returns on our inventory investments by effectively managing our product offerings, home prices, incentives, sales pace, profit margins and inventory levels.

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 continues to slowly improve, 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 remained relatively stable across most of our operating markets, 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 financial and competitive position to generate strong profitability, improve cash flows and increase our returns on our inventory investments. Our operating strategy includes the following initiatives:

- Maintaining a strong cash balance and overall liquidity position, and controlling our level of debt.
- 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, to mitigate the risk 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 selling, general and administrative (SG&A) expense infrastructure to match production levels.

Our operating strategy has produced positive results in recent years. 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 in fiscal 2015.

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KEY RESULTS

Key financial results as of and for the three months ended March 31, 2015, as compared to the same period of 2014, were as follows:

Homebuilding Operations:

• Homebuilding revenues increased 38% to \$2.3 billion.

• Homes closed increased 33% to 8,243 homes, and the average closing price of those homes increased 4% to \$281,300.

• Net sales orders increased 30% to 11,135 homes, and the value of net sales orders increased 33% to \$3.2 billion.

• Sales order backlog increased 21% to 12,177 homes, and the value of sales order backlog increased 27% to \$3.6 billion.

• Home sales gross margins decreased 280 basis points to 19.7%.

• Inventory and land option charges were \$12.5 million, compared to \$4.4 million.

• Homebuilding SG&A expenses decreased as a percentage of homebuilding revenues by 70 basis points to 10.4%.

• Homebuilding pre-tax income increased 9% to \$208.6 million, compared to \$191.7 million.

• Homebuilding cash totaled \$665.8 million, compared to \$632.5 million and \$972.8 million at September 30, 2014 and March 31, 2014, respectively.

• Homebuilding inventories totaled \$8.1 billion, compared to \$7.7 billion and \$6.8 billion at September 30, 2014 and March 31, 2014, respectively.

• Homes in inventory totaled 21,300, compared to 20,600 and 17,600 at September 30, 2014 and March 31, 2014, respectively.

• Owned and controlled lots totaled 177,200, compared to 183,500 and 171,600 at September 30, 2014 and March 31, 2014, respectively.

• Homebuilding debt was \$3.5 billion, compared to \$3.3 billion and \$3.6 billion at September 30, 2014 and March 31, 2014, respectively.

• Gross homebuilding debt to total capital was 39.6%, compared to 39.4% and 45.5% at September 30, 2014 and March 31, 2014, respectively. Net homebuilding debt to total capital was 34.7%, compared to 34.5% and 38.0% at September 30, 2014 and March 31, 2014, respectively.

Financial Services Operations:

• Total financial services revenues, net of recourse expense, increased 55% to \$59.5 million.

• Financial services pre-tax income increased 111% to \$21.5 million.

Consolidated Results:

• Consolidated pre-tax income increased 14% to \$230.1 million, compared to \$201.9 million.

• Net income increased 13% to \$147.9 million, compared to \$131.0 million.

• Diluted earnings per share increased 5% to \$0.40, compared to \$0.38.

• Total equity was \$5.4 billion, compared to \$5.1 billion and \$4.3 billion at September 30, 2014 and March 31, 2014, respectively.

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Key financial results as of and for the six months ended March 31, 2015, as compared to the same period of 2014, were as follows:

Homebuilding Operations:

• Homebuilding revenues increased 38% to \$4.6 billion.

• Homes closed increased 31% to 16,216 homes, and the average closing price of those homes increased 5% to \$281,200.

• Net sales orders increased 32% to 18,505 homes, and the value of net sales orders increased 35% to \$5.3 billion.

• Home sales gross margins decreased 270 basis points to 19.7%.

• Inventory and land option charges were \$18.6 million, compared to \$7.1 million.

• Homebuilding SG&A expenses decreased as a percentage of homebuilding revenues by 60 basis points to 10.5%.

• Homebuilding pre-tax income increased 11% to \$414.7 million, compared to \$373.6 million.

Financial Services Operations:

• Total financial services revenues, net of recourse expense, increased 49% to \$109.2 million.

• Financial services pre-tax income increased 101% to \$36.1 million.

Consolidated Results:

• Consolidated pre-tax income increased 15% to \$450.8 million, compared to \$391.6 million.

• Net income increased 14% to \$290.4 million, compared to \$254.1 million.

• Diluted earnings per share increased 8% to \$0.79, compared to \$0.73.

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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 six months ended March 31, 2015 and 2014.

## Net Sales Orders (1)

## Three Months Ended March 31,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
East	1,481	1,056	40	\$ 394.7	\$ 290.5	36	\$ 266,500	\$ 275,100	(3)
Midwest	571	424	35	218.0	152.3	43	381,800	359,200	6
Southeast	3,216	2,365	36	835.2	592.1	41	259,700	250,400	4
South Central	3,812	2,857	33	904.0	626.5	44	237,100	219,300	8
Southwest	447	443	1	99.3	95.7	4	222,100	216,000	3
West	1,608	1,424	13	715.6	632.9	13	445,000	444,500	—
	11,135	8,569	30	\$ 3,166.8	\$ 2,390.0	33	\$ 284,400	\$ 278,900	2

## Six Months Ended March 31,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2015	2014	% Change	2015	2014	% Change	2015	2014	% Change
East	2,451	1,732	42	\$ 654.8	\$ 482.0	36	\$ 267,200	\$ 278,300	(4)
Midwest	911	647	41	341.3	238.4	43	374,600	368,500	2
Southeast	5,443	3,979							