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

ý 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 (State or other jurisdiction of incorporation or organization)	75-2386963 (I.R.S. Employer Identification No.)
301 Commerce Street, Suite 500, Fort Worth, Texas	76102
(Address of principal executive offices)	(Zip Code)

(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 ý 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 ý 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 ý	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 ý

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

D.R. HORTON, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2015	September 30, 2014
	(In millions)	
	(Unaudited)	
ASSETS		
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
LIABILITIES		
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)		
EQUITY		
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

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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D.R. HORTON, INC. AND SUBSIDIARIES
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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D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2015	2014
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
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)
INVESTING ACTIVITIES		
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)
FINANCING ACTIVITIES		
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
INCREASE IN CASH AND CASH EQUIVALENTS	35.9	16.0
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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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

(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating the Company’s corporate 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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March 31, 2015

	March 31, 2015	September 30, 2014
	(In millions)	
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

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(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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