HORTON D R INC /DE/
Form 10-Q
April 29, 2011

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended March 31, 2011

OR

o **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 incorporation or organization)	(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

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 319,363,870 shares as of April 25, 2011

D.R. HORTON, INC. AND SUBSIDIARIES
FORM 10-Q
INDEX

		Page
PART I.	FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	
	Consolidated Balance Sheets at March 31, 2011 (unaudited) and September 30, 2010 (unaudited)	3
	Consolidated Statements of Operations for the three and six months ended March 31, 2011 and 2010 (unaudited)	4
	Consolidated Statements of Cash Flows for the six months ended March 31, 2011 and 2010 (unaudited)	5
	Notes to Consolidated Financial Statements (unaudited)	6
ITEM 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	31
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk	56
ITEM 4.	Controls and Procedures	57
PART II.	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	58
ITEM 6.	Exhibits	59
SIGNATURE		60

EX-12.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	March 31, 2011	September 30, 2010
	(In millions)	
	(Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 1,064.8	$ 1,282.6
Marketable securities, available-for-sale	292.1	297.7
Restricted cash	45.0	53.7
Inventories:		
Construction in progress and finished homes	1,329.0	1,286.0
Residential land and lots developed and under development	1,383.7	1,406.1
Land held for development	761.3	749.3
Land inventory not owned		7.6
	3,474.0	3,449.0
Income taxes receivable	14.0	16.0
Deferred income taxes, net of valuation allowance of $856.4 million and $902.6 million at March 31, 2011 and September 30, 2010, respectively		
Property and equipment, net	59.2	60.5
Other assets	386.5	434.8
Goodwill	15.9	15.9
	5,351.5	5,610.2
Financial Services:		
Cash and cash equivalents	16.3	26.7
Mortgage loans held for sale	206.5	253.8
Other assets	47.0	47.9
	269.8	328.4
Total assets	$ 5,621.3	$ 5,938.6
LIABILITIES		
Homebuilding:		
Accounts payable	$ 154.1	$ 135.1
Accrued expenses and other liabilities	820.6	957.2
Notes payable	1,959.4	2,085.3
	2,934.1	3,177.6

Financial Services:		
Accounts payable and other liabilities	31.9	51.6
Mortgage repurchase facility	44.9	86.5
	76.8	138.1
Total liabilities	3,010.9	3,315.7
Commitments and contingencies (Note M)		
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, 323,018,103 shares issued and 319,362,870 shares outstanding at March 31, 2011 and 322,478,467 shares issued and 318,823,234 shares outstanding at September 30, 2010	3.2	3.2
Additional paid-in capital	1,906.9	1,894.8
Retained earnings	794.0	810.6
Treasury stock, 3,655,233 shares at March 31, 2011 and September 30, 2010, at cost	(95.7)	(95.7)
Accumulated other comprehensive income		0.3
Total stockholders equity	2,608.4	2,613.2
Noncontrolling interests	2.0	9.7
Total equity	2,610.4	2,622.9
Total liabilities and equity	$ 5,621.3	$ 5,938.6

See accompanying notes to consolidated financial statements.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(In millions, except per share data) (Unaudited)			
Homebuilding:				
Revenues:				
Home sales	$ 733.0	$ 894.8	$ 1,494.1	$ 2,003.0
Land/lot sales	0.1	2.0	6.0	2.7
	733.1	896.8	1,500.1	2,005.7
Cost of sales:				
Home sales	613.9	733.7	1,256.4	1,652.5
Land/lot sales	0.1	1.5	6.0	2.1
Inventory impairments and land option cost write-offs	14.3	2.4	22.7	3.6
	628.3	737.6	1,285.1	1,658.2
Gross profit:				
Home sales	119.1	161.1	237.7	350.5
Land/lot sales		0.5		0.6
Inventory impairments and land option cost write-offs	(14.3)	(2.4)	(22.7)	(3.6)
	104.8	159.2	215.0	347.5
Selling, general and administrative expense	123.2	129.0	242.0	257.7
Interest expense	14.7	22.7	31.0	49.6
Loss (gain) on early retirement of debt, net	2.7		4.2	(1.6)
Other (income)	(3.4)	(3.6)	(5.6)	(5.4)
	(32.4)	11.1	(56.6)	47.2
Financial Services:				
Revenues, net of recourse and reinsurance expense	18.0	16.7	39.2	39.9
General and administrative expense	18.2	17.4	37.1	36.0
Interest expense	0.1	0.2	0.4	0.7
Interest and other (income)	(1.9)	(1.9)	(4.2)	(4.4)
	1.6	1.0	5.9	7.6
Income (loss) before income taxes	(30.8)	12.1	(50.7)	54.8
(Benefit from) provision for income taxes	(58.6)	0.7	(58.1)	(148.6)
Net income	$ 27.8	$ 11.4	$ 7.4	$ 203.4

Basic net income per common share	$	0.09	$	0.04	$	0.02	$	0.64
Net income per common share assuming dilution	$	0.09	$	0.04	$	0.02	$	0.61
Cash dividends declared per common share	$	0.0375	$	0.0375	$	0.075	$	0.075

See accompanying notes to consolidated financial statements.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 7.4	$ 203.4
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	9.9	9.3
Amortization of discounts and fees	18.1	14.1
Stock based compensation expense	6.6	6.5
Income tax benefit from stock option exercises		(2.9)
Loss (gain) on early retirement of debt, net	4.2	(1.6)
Gain on sale of marketable securities	(0.1)	
Inventory impairments and land option cost write-offs	22.7	3.6
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(48.3)	(191.1)
(Increase) decrease in residential land and lots developed, under development, and held for development	(4.6)	83.1
Decrease in other assets	47.0	20.4
Decrease in income taxes receivable	2.0	263.7
Decrease (increase) in mortgage loans held for sale	47.3	(16.3)
(Decrease) increase in accounts payable, accrued expenses and other liabilities	(133.3)	35.6
Net cash (used in) provided by operating activities	(21.1)	427.8
INVESTING ACTIVITIES		
Purchases of property and equipment	(8.2)	(7.7)
Purchases of marketable securities	(185.9)	(199.1)
Proceeds from the sale or maturity of marketable securities	187.7	
Decrease in restricted cash	8.7	4.9
Net cash provided by (used in) investing activities	2.3	(201.9)
FINANCING ACTIVITIES		
Proceeds from notes payable		8.9
Repayment of notes payable	(186.6)	(535.6)
Proceeds from stock associated with certain employee benefit plans	1.2	4.0
Income tax benefit from stock option exercises		2.9
Cash dividends paid	(24.0)	(23.8)

Net cash used in financing activities	(209.4)	(543.6)
DECREASE IN CASH AND CASH EQUIVALENTS	(228.2)	(317.7)
Cash and cash equivalents at beginning of period	1,309.3	1,957.3
Cash and cash equivalents at end of period	$ 1,081.1	$ 1,639.6

See accompanying notes to consolidated financial statements.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
March 31, 2011

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its wholly-owned, majority-owned and controlled subsidiaries (which are 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 (consisting of normal, recurring accruals and the asset impairment charges, loss reserves and deferred tax asset valuation allowance discussed below) considered necessary for a fair presentation 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, 2010.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Reclassifications

Certain reclassifications have been made in the prior year s financial statements to conform to classifications used in the current year. The statement of operations for the three and six months ended March 31, 2010 has been revised to reflect the reclassification of depreciation expense related to rental properties of $0.3 million and $0.6 million, respectively, from homebuilding other income to selling, general and administrative expense. Additionally, the statement of cash flows for the six months ended March 31, 2010 has been revised to reflect this reclassification.

Business

The Company is a national homebuilder that is engaged in the construction and sale of single-family housing in 72 markets and 26 states in the United States as of March 31, 2011. The Company designs, builds and sells single-family detached homes on lots it develops and on finished 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 (including some mid-rise buildings), which share common walls and roofs. Periodically, the Company sells land and lots. The Company also provides title agency and mortgage financing services, primarily to its homebuyers. The Company generally does not retain or service the mortgages that it originates; rather, it seeks to sell the mortgages and related servicing rights to third-party purchasers.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six-month periods ended March 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2011 or subsequent periods.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
March 31, 2011

NOTE B COMPREHENSIVE INCOME

The following table provides a reconciliation of net income reported in the consolidated statements of operations to comprehensive income for the three and six-month periods ended March 31, 2011 and 2010.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(In millions)			
Net income	$ 27.8	$ 11.4	$ 7.4	$ 203.4
Other comprehensive loss:				
Unrealized loss related to available-for-sale securities (see Note C)		(0.2)	(0.3)	(0.2)
Comprehensive income	$ 27.8	$ 11.2	$ 7.1	$ 203.2

NOTE C MARKETABLE SECURITIES

The Company invests a portion of its cash on hand by purchasing marketable securities with maturities in excess of three months. These securities are held in the custody of a single financial institution. The Company considers its investment portfolio to be available-for-sale. Accordingly, these investments are recorded at fair value. At the end of a reporting period, unrealized gains and losses on these investments, net of tax, are recorded in accumulated other comprehensive income on the consolidated balance sheet. The Company s marketable securities at March 31, 2011 and September 30, 2010 consisted of the following:

	March 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In millions)			
Type of security:				
U.S. Treasury securities	$ 9.1	$	$	$ 9.1
Obligations of U.S. government agencies	101.3			101.3
Corporate debt securities issued under the FDIC Temporary Liquidity Guarantee Program	101.0			101.0
Domestic corporate debt securities	75.7			75.7
Total debt securities	287.1			287.1
Certificates of deposit	5.0			5.0
Total marketable securities, available-for-sale	$ 292.1	$	$	$ 292.1

	September 30, 2010		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses

								Fair Value
				(In millions)				
Type of security:								
U.S. Treasury securities	$	1.0	$		$		$	1.0
Obligations of U.S. government agencies		131.0		0.2				131.2
Corporate debt securities issued under the FDIC Temporary Liquidity Guarantee Program		100.9		0.1				101.0
Domestic corporate debt securities		39.9						39.9
Foreign government securities		14.6						14.6
Total debt securities		287.4		0.3				287.7
Certificates of deposit		10.0						10.0
Total marketable securities, available-for-sale	$	297.4	$	0.3	$		$	297.7

-7-

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
March 31, 2011

Of the $292.1 million in marketable securities at March 31, 2011, $160.7 million mature in the next twelve months and $131.4 million mature in one to two years. Gains and losses realized upon the sale of marketable securities are determined by specific identification and are included in homebuilding other income. The Company s realized gains related to such sales during the three and six months ended March 31, 2011 were $0 and $0.1 million, respectively.

NOTE D INVENTORY IMPAIRMENTS AND LAND OPTION COST WRITE-OFFS

At March 31, 2011, when the Company performed its quarterly inventory impairment analysis, the assumptions utilized reflected the Company s expectation of continued challenging conditions and uncertainties in the homebuilding industry and in its markets. The impairment evaluation indicated communities with a combined carrying value of $491.4 million had indicators of potential impairment, and these communities were evaluated for impairment. The analysis of the large majority of these communities assumed that sales prices in future periods will be equal to or lower than current sales order prices in each community, or in comparable communities, in order to generate an acceptable absorption rate. For a minority of communities that the Company does not intend to develop or operate in current market conditions, slight increases over current sales prices were assumed. While it is difficult to determine a timeframe for a given community in the current market conditions, the remaining lives of these communities were estimated to be in a range from six months to in excess of ten years. In performing this analysis, the Company utilized a range of discount rates for communities of 14% to 18%. Through this evaluation process, it was determined that communities with a carrying value of $59.4 million as of March 31, 2011 were impaired. As a result, during the three months ended March 31, 2011, impairment charges of $13.0 million were recorded to reduce the carrying value of the impaired communities to their estimated fair value, as compared to $2.3 million of impairment charges in the same period of 2010. During the six months ended March 31, 2011 and 2010, impairment charges totaled $19.4 million and $4.1 million, respectively. In the three months ended March 31, 2011, approximately 71% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 29% of the charges were recorded to construction in progress and finished homes inventory, compared to 81% and 19%, respectively, in the same period of 2010. In the six months ended March 31, 2011, approximately 73% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 27% of the charges were recorded to construction in progress and finished homes inventory, compared to 74% and 26%, respectively, in the same period of 2010.

The Company s estimate of undiscounted cash flows from communities analyzed may change and could result in a future need to record impairment charges to adjust the carrying value of these assets to their estimated fair value. There are several factors which could lead to changes in the estimates of undiscounted future cash flows for a given community. The most significant of these include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to develop the lots and construct the homes. The pricing and incentive levels are often inter-related with sales pace within a community, such that a price reduction can typically be expected to increase the sales pace. Further, both of these factors are heavily influenced by the competitive pressures facing a given community from both new homes and existing homes, some of which may result from foreclosures. If conditions in the broader economy, homebuilding industry or specific markets in which the Company operates worsen, and as the Company re-evaluates specific community pricing and incentives, construction and development plans, and its overall land sale strategies, it may be required to evaluate additional communities or re-evaluate previously impaired communities for potential impairment. These evaluations may result in additional impairment charges.

At March 31, 2011 and September 30, 2010, the Company had $17.2 million and $3.3 million, respectively, of land held for sale, consisting of land held for development and land under development that met the criteria of land held for sale.

During the three-month periods ended March 31, 2011 and 2010, the Company wrote off $1.3 million and $0.1 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts which are not expected to be acquired. During the six-month periods ended March 31, 2011 and 2010, the Company wrote off $3.3 million and recovered $0.5 million, respectively, of such deposits and costs.