

HORTON D R INC /DE/  
Form 10-Q  
April 30, 2019  
Table of Contents

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, 2019  
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.)

1341 Horton Circle  
Arlington, Texas 76011  
(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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated  
filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 – 373,176,964 shares as of April 24, 2019

---

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

|   | Page      |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u>  |           |
| <u>ITEM 1. Financial Statements (unaudited)</u>   |           |
| <u>Consolidated Balance Sheets at March 31, 2019 and September 30, 2018</u>                               | <u>3</u>  |
| <u>Consolidated Statements of Operations for the three and six months ended March 31, 2019 and 2018</u>   | <u>4</u>  |
| <u>Consolidated Statements of Total Equity for the three and six months ended March 31, 2019 and 2018</u> | <u>5</u>  |
| <u>Consolidated Statements of Cash Flows for the six months ended March 31, 2019 and 2018</u>             | <u>7</u>  |
| <u>Notes to Consolidated Financial Statements</u>   | <u>8</u>  |
| <u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>      | <u>41</u> |
| <u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>                                 | <u>68</u> |
| <u>ITEM 4. Controls and Procedures</u>  | <u>69</u> |
| <u>PART II. OTHER INFORMATION</u>   |           |
| <u>ITEM 1. Legal Proceedings</u>  | <u>70</u> |
| <u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                                | <u>70</u> |
| <u>ITEM 6. Exhibits</u>   | <u>71</u> |
| <u>SIGNATURE</u>  | <u>72</u> |

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2019 | September 30,<br>2018 |
|---|-------------------|-----------------------|
|   | (In millions)     |                       |
|   | (Unaudited)       |                       |
| <b>ASSETS</b>   |                   |                       |
| Cash and cash equivalents   | \$698.8           | \$ 1,473.1            |
| Restricted cash   | 32.4              | 32.9                  |
| Total cash, cash equivalents and restricted cash  | 731.2             | 1,506.0               |
| Inventories:  |                   |                       |
| Construction in progress and finished homes   | 6,087.6           | 5,086.3               |
| Residential land and lots — developed and under development   | 5,672.9           | 5,172.4               |
| Land held for development   | 110.8             | 96.1                  |
| Land held for sale  | 49.0              | 40.2                  |
| Total inventory   | 11,920.3          | 10,395.0              |
| Mortgage loans held for sale  | 796.5             | 796.4                 |
| Deferred income taxes, net of valuation allowance of \$17.0 million and \$17.7 million at March 31, 2019 and September 30, 2018, respectively   | 171.9             | 194.0                 |
| Property and equipment, net   | 437.9             | 401.1                 |
| Other assets  | 785.7             | 712.9                 |
| Goodwill  | 163.5             | 109.2                 |
| Total assets  | \$15,007.0        | \$ 14,114.6           |
| <b>LIABILITIES</b>  |                   |                       |
| Accounts payable  | \$658.5           | \$ 624.7              |
| Accrued expenses and other liabilities  | 1,192.1           | 1,127.5               |
| Notes payable   | 3,622.4           | 3,203.5               |
| Total liabilities   | 5,473.0           | 4,955.7               |
| 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, 391,091,572 shares issued and 373,132,964 shares outstanding at March 31, 2019 and 388,120,243 shares issued and 376,261,635 shares outstanding at September 30, 2018 | 3.9               | 3.9                   |
| Additional paid-in capital  | 3,123.4           | 3,085.0               |
| Retained earnings   | 6,771.6           | 6,217.9               |
| Treasury stock, 17,958,608 shares and 11,858,608 shares at March 31, 2019 and September 30, 2018, respectively, at cost   | (538.6            | ) (322.4              |
| Stockholders' equity  | 9,360.3           | 8,984.4               |
| Noncontrolling interests  | 173.7             | 174.5                 |
| Total equity  | 9,534.0           | 9,158.9               |
| Total liabilities and equity  | \$15,007.0        | \$ 14,114.6           |

See accompanying notes to consolidated financial statements.

3

---

Table of ContentsD.R. HORTON, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Three Months Ended                   |           | Six Months Ended |           |
|---|--------------------------------------|-----------|------------------|-----------|
|   | March 31,                            |           | March 31,        |           |
|   | 2019                                 | 2018      | 2019             | 2018      |
|   | (In millions, except per share data) |           |                  |           |
|   | (Unaudited)                          |           |                  |           |
| Revenues  | \$4,128.7                            | \$3,794.7 | \$7,647.7        | \$7,127.6 |
| Cost of sales   | 3,256.7                              | 2,961.6   | 6,007.8          | 5,541.8   |
| Selling, general and administrative expense                           | 444.2                                | 400.9     | 847.0            | 785.1     |
| Gain on sale of assets  | (29.3 )                              | (1.1 )    | (31.3 )          | (14.5 )   |
| Other (income) expense  | (5.7 )                               | (11.5 )   | (14.3 )          | (20.9 )   |
| Income before income taxes  | 462.8                                | 444.8     | 838.5            | 836.1     |
| Income tax expense  | 108.4                                | 94.0      | 197.4            | 296.4     |
| Net income  | 354.4                                | 350.8     | 641.1            | 539.7     |
| Net income (loss) attributable to noncontrolling interests            | 3.1                                  | (0.2 )    | 2.7              | (0.6 )    |
| Net income attributable to D.R. Horton, Inc.                          | \$351.3                              | \$351.0   | \$638.4          | \$540.3   |
| Basic net income per common share attributable to D.R. Horton, Inc.   | \$0.94                               | \$0.93    | \$1.71           | \$1.44    |
| Weighted average number of common shares                              | 373.3                                | 376.8     | 374.2            | 376.3     |
| Diluted net income per common share attributable to D.R. Horton, Inc. | \$0.93                               | \$0.91    | \$1.68           | \$1.41    |
| Adjusted weighted average number of common shares                     | 377.7                                | 383.9     | 378.9            | 383.8     |

See accompanying notes to consolidated financial statements.

Table of ContentsD.R. HORTON, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF TOTAL EQUITY

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Non-controlling<br>Interests | Total<br>Equity |
|--|-----------------|----------------------------------|----------------------|-------------------|------------------------------|-----------------|
| (In millions, except common stock share data)                |                 |                                  |                      |                   |                              |                 |
| (Unaudited)  |                 |                                  |                      |                   |                              |                 |
| Balances at September 30, 2018 (376,261,635 shares)          | \$3.9           | \$3,085.0                        | \$6,217.9            | \$(322.4)         | \$ 174.5                     | \$9,158.9       |
| Cumulative effect of adoption of ASC 606 (see Note A)        | —               | —                                | 27.1                 | —                 | —                            | 27.1            |
| Net income   | —               | —                                | 287.2                | —                 | (0.5 )                       | 286.7           |
| Exercise of stock options (806,817 shares)                   | —               | 8.6                              | —                    | —                 | —                            | 8.6             |
| Stock issued under employee benefit plans (273,608 shares)   | —               | —                                | —                    | —                 | —                            | —               |
| Cash paid for shares withheld for taxes                      | —               | (4.1 )                           | —                    | —                 | —                            | (4.1 )          |
| Stock-based compensation expense                             | —               | 18.1                             | —                    | —                 | —                            | 18.1            |
| Cash dividends declared (\$0.15 per share)                   | —               | —                                | (56.0 )              | —                 | —                            | (56.0 )         |
| Repurchases of common stock (4,100,000 shares)               | —               | —                                | —                    | (140.6 )          | —                            | (140.6 )        |
| Distributions to noncontrolling interests                    | —               | —                                | —                    | —                 | (0.5 )                       | (0.5 )          |
| Balances at December 31, 2018 (373,242,060 shares)           | \$3.9           | \$3,107.6                        | \$6,476.2            | \$(463.0)         | \$ 173.5                     | \$9,298.2       |
| Net income   | —               | —                                | 351.3                | —                 | 3.1                          | 354.4           |
| Exercise of stock options (831,489 shares)                   | —               | 11.4                             | —                    | —                 | —                            | 11.4            |
| Stock issued under employee benefit plans (1,059,415 shares) | —               | 2.0                              | —                    | —                 | 0.3                          | 2.3             |
| Cash paid for shares withheld for taxes                      | —               | (15.4 )                          | —                    | —                 | —                            | (15.4 )         |
| Stock-based compensation expense                             | —               | 17.8                             | —                    | —                 | —                            | 17.8            |
| Cash dividends declared (\$0.15 per share)                   | —               | —                                | (55.9 )              | —                 | —                            | (55.9 )         |
| Repurchases of common stock (2,000,000 shares)               | —               | —                                | —                    | (75.6 )           | —                            | (75.6 )         |
| Distributions to noncontrolling interests                    | —               | —                                | —                    | —                 | (3.2 )                       | (3.2 )          |
| Balances at March 31, 2019 (373,132,964 shares)              | \$3.9           | \$3,123.4                        | \$6,771.6            | \$(538.6)         | \$ 173.7                     | \$9,534.0       |



See accompanying notes to consolidated financial statements.

Table of ContentsD.R. HORTON, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF TOTAL EQUITY (Continued)

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Treasury<br>Stock | Non-controlling<br>Interests | Total<br>Equity |
|---|-----------------|----------------------------------|----------------------|-------------------|------------------------------|-----------------|
| (In millions, except common stock share data)                   |                 |                                  |                      |                   |                              |                 |
| (Unaudited)   |                 |                                  |                      |                   |                              |                 |
| Balances at September 30, 2017 (374,986,079 shares)             | \$3.8           | \$2,992.2                        | \$4,946.0            | \$(194.9)         | \$ 0.5                       | \$7,747.6       |
| Noncontrolling interests acquired                               | —               | —                                | —                    | —                 | 175.2                        | 175.2           |
| Net income  | —               | —                                | 189.3                | —                 | (0.5                         | ) 188.8         |
| Exercise of stock options (916,913 shares)                      | 0.1             | 14.7                             | —                    | —                 | —                            | 14.8            |
| Stock issued under employee benefit plans<br>(290,974 shares)   | —               | —                                | —                    | —                 | —                            | —               |
| Cash paid for shares withheld for taxes                         | —               | (10.3                            | ) —                  | —                 | —                            | (10.3           |
| Stock-based compensation expense                                | —               | 13.6                             | —                    | —                 | —                            | 13.6            |
| Cash dividends declared (\$0.125 per share)                     | —               | —                                | (47.1                | ) —               | —                            | (47.1           |
| Repurchases of common stock (500,000 shares)                    | —               | —                                | —                    | (25.4             | ) —                          | (25.4           |
| Distributions to noncontrolling interests                       | —               | —                                | —                    | —                 | (1.8                         | ) (1.8          |
| Balances at December 31, 2017 (375,693,966 shares)              | \$3.9           | \$3,010.2                        | \$5,088.2            | \$(220.3)         | \$ 173.4                     | \$8,055.4       |
| Net income  | —               | —                                | 351.0                | —                 | (0.2                         | ) 350.8         |
| Exercise of stock options (1,046,210 shares)                    | —               | 16.3                             | —                    | —                 | —                            | 16.3            |
| Stock issued under employee benefit plans<br>(1,169,341 shares) | —               | 1.8                              | —                    | —                 | —                            | 1.8             |
| Stock-based compensation expense                                | —               | 17.4                             | —                    | —                 | —                            | 17.4            |
| Cash dividends declared (\$0.125 per share)                     | —               | —                                | (47.1                | ) —               | —                            | (47.1           |
| Repurchases of common stock (500,000 shares)                    | —               | —                                | —                    | (22.5             | ) —                          | (22.5           |
| Distributions to noncontrolling interests                       | —               | —                                | —                    | —                 | (0.2                         | ) (0.2          |
| Balances at March 31, 2018 (377,409,517 shares)                 | \$3.9           | \$3,045.7                        | \$5,392.1            | \$(242.8)         | \$ 173.0                     | \$8,371.9       |

See accompanying notes to consolidated financial statements.

Table of ContentsD.R. HORTON, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Six Months Ended<br>March 31,<br>2019    2018<br>(In millions)<br>(Unaudited) |            |
|---|---|------------|
| <b>OPERATING ACTIVITIES</b>   |   |            |
| Net income  | \$641.1   | \$539.7    |
| Adjustments to reconcile net income to net cash used in operating activities:                                   |   |            |
| Depreciation and amortization   | 34.1  | 33.1       |
| Amortization of discounts and fees  | 5.1   | 2.4        |
| Stock-based compensation expense  | 35.9  | 31.0       |
| Equity in earnings of unconsolidated entities   | (0.5 )  | (2.7 )     |
| Distributions of earnings of unconsolidated entities  | 0.5   | 0.2        |
| Deferred income taxes   | 12.6  | 145.0      |
| Inventory and land option charges   | 21.8  | 33.8       |
| Gain on sale of assets  | (31.3 )   | (14.5 )    |
| Changes in operating assets and liabilities:  |   |            |
| Increase in construction in progress and finished homes   | (755.2 )  | (514.5 )   |
| Increase in residential land and lots –<br>developed, under development, held for development and held for sale | (445.6 )  | (271.5 )   |
| (Increase) decrease in other assets   | (39.9 )   | 4.4        |
| Increase in mortgage loans held for sale  | —   | (70.7 )    |
| Increase (decrease) in accounts payable, accrued expenses and other liabilities                                 | 59.7  | (14.5 )    |
| Net cash used in operating activities   | (461.7 )  | (98.8 )    |
| <b>INVESTING ACTIVITIES</b>   |   |            |
| Expenditures for property and equipment   | (69.8 )   | (39.5 )    |
| Proceeds from sale of assets  | 83.8  | 253.4      |
| Expenditures related to multi-family rental properties  | (28.3 )   | (39.5 )    |
| Return of investment in unconsolidated entities   | 4.4   | 15.1       |
| Net principal increase of other mortgage loans and real estate owned  | (1.6 )  | —          |
| Payments related to business acquisitions, net of cash acquired   | (309.6 )  | (158.1 )   |
| Net cash (used in) provided by investing activities   | (321.1 )  | 31.4       |
| <b>FINANCING ACTIVITIES</b>   |   |            |
| Proceeds from notes payable   | 1,815.0   | 1,913.6    |
| Repayment of notes payable  | (1,531.0)   | (1,752.5 ) |
| Advances on mortgage repurchase facility, net   | 53.0  | 69.8       |
| Proceeds from stock associated with certain employee benefit plans  | 22.3  | 32.7       |
| Cash paid for shares withheld for taxes   | (19.5 )   | (10.3 )    |
| Cash dividends paid   | (111.9 )  | (94.1 )    |
| Repurchases of common stock   | (216.2 )  | (47.9 )    |
| Distributions to noncontrolling interests, net  | (3.7 )  | (2.0 )     |
| Net cash provided by financing activities   | 8.0   | 109.3      |
| Net (decrease) increase in cash, cash equivalents and restricted cash   | (774.8 )  | 41.9       |
| Cash, cash equivalents and restricted cash at beginning of period   | 1,506.0   | 1,024.3    |
| Cash, cash equivalents and restricted cash at end of period   | \$731.2   | \$1,066.2  |
| <b>SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:</b>   |   |            |

Edgar Filing: HORTON D R INC /DE/ - Form 10-Q

|  |        |        |
|--|--------|--------|
| Notes payable issued for inventory                           | \$80.8 | \$—    |
| Stock issued under employee incentive plans                  | \$49.0 | \$63.4 |
| Accrual for holdback payment related to acquisition          | \$16.3 | \$—    |
| See accompanying notes to consolidated financial statements. |        |        |

7

---

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)  
March 31, 2019

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. Noncontrolling interests represent the proportionate equity interests in consolidated entities that are not 100% owned by the Company. The Company owns a 75% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 25% interest the Company does not own is accounted for as noncontrolling interests. All 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, these financial statements reflect all adjustments considered necessary to fairly state the results for the interim periods shown, including normal recurring accruals and other items. These financial statements, including the consolidated balance sheet as of September 30, 2018, which was derived from audited 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, 2018.

Changes in Presentation and Reclassifications

In connection with the adoption of Accounting Standards Update (ASU) 2016-18 in fiscal 2019, restricted cash is now included with cash and cash equivalents when reconciling beginning and ending amounts in the consolidated statements of cash flows. Prior period amounts have been reclassified to conform to the current year presentation, resulting in a decrease in cash used in investing activities of \$38.9 million for the six months ended March 31, 2018.

In August 2018, the Securities and Exchange Commission (SEC) issued Final Rule Release No. 33-10532, "Disclosure Update and Simplification," which makes a number of changes meant to simplify interim disclosures. In complying with the relevant aspects of the rule within the current year quarterly reports, the Company has removed the presentation of cash dividends declared per common share from the statements of operations and has added the consolidated statements of total equity.

Certain other prior period amounts have been reclassified to conform to the current year presentation.

Adoption of New Accounting Standard

On October 1, 2018, the Company adopted Accounting Standards Codification 606, "Revenue from Contracts with Customers" (ASC 606), which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services and satisfaction of performance obligations to a customer in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company applied the modified retrospective method to contracts that were not completed as of October 1, 2018. Results for the reporting period beginning after October 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and will continue to be reported under the previous accounting standards. The Company recorded an increase to retained earnings of \$27.1 million, net of tax, as of October 1, 2018, due to the cumulative

effect of adopting ASC 606, which was primarily related to the recognition of contract assets totaling \$32.4 million for insurance brokerage commission renewals. Under ASC 606, the Company recognizes revenue and a contract asset for estimated future renewals of these policies upon issuance of the initial policy, the date at which the performance obligation is satisfied. There was not a material impact to revenues as a result of applying ASC 606 for the three and six months ended March 31, 2019, and there have not been significant changes to the Company's business processes, systems, or internal controls as a result of implementing the standard.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

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.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2019 or subsequent periods.

Revenue Recognition

Homebuilding revenue and related profit are generally recognized at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. The Company's performance obligation, to deliver the agreed-upon home, is generally satisfied in less than one year from the original contract date. Proceeds from home closings held for the Company's benefit at title companies are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

The Company rarely purchases land for resale, but periodically may elect to sell parcels of land that no longer fit into its strategic operating plans. Cash consideration from land sales is typically due on the closing date, which is generally when performance obligations are satisfied.

Financial services revenues associated with the Company's title operations are recognized as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously as each home is closed. The Company transfers substantially all underwriting risk associated with title insurance policies to third-party insurers. The Company typically elects the fair value option for its mortgage loan originations. Mortgage loans held for sale are initially recorded at fair value based on either sale commitments or current market quotes and are adjusted for subsequent changes in fair value until the loans are sold. Net origination costs and fees associated with mortgage loans are recognized at the time of origination. The expected net future cash flows related to the associated servicing of a loan are included in the measurement of all written loan commitments that are accounted for at fair value through earnings at the time of commitment. The Company sells substantially all of the mortgages it originates and the related servicing rights to third-party purchasers. Interest income is earned from the date a mortgage loan is originated until the loan is sold.

The Company collects insurance commissions on homeowner policies placed with third party carriers through its wholly owned insurance agency. The Company recognizes revenue and a contract asset for estimated future renewals of these policies upon issuance of the initial policy, the date at which the performance obligation is satisfied.

Business Acquisitions

During the first quarter of fiscal 2019, the Company acquired the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes for \$325.9 million. The assets acquired included approximately 700 homes in inventory, 4,500 lots and control of approximately 4,300 additional lots through land purchase contracts. The Company also acquired a sales order backlog of approximately 700 homes. Westport Homes operates in Indianapolis and Fort Wayne, Indiana, and Columbus, Ohio; Classic Builders operates in Des Moines, Iowa; and Terramor Homes operates in Raleigh, North Carolina.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

The Company’s allocation of the aggregate purchase price to the assets and liabilities acquired through these transactions is not finalized and is subject to revision as additional information becomes available and more detailed analyses are completed. The preliminary allocation of the purchase price to the assets and liabilities acquired is as follows (in millions):

|                     |         |
|---------------------|---------|
| Inventories         | \$265.5 |
| Other assets        | 23.3    |
| Goodwill            | 54.3    |
| Intangible assets   | 8.6     |
| Other liabilities   | (25.8 ) |
| Net assets acquired | \$325.9 |

As a result of these transactions, the Company’s preliminary estimate of goodwill is \$54.3 million, of which \$49.7 million was allocated to the Midwest region and \$4.6 million was allocated to the East region. The goodwill is tax deductible and relates to expected synergies from expanding the Company’s market presence in its Midwest and East regions, the experienced and knowledgeable workforce of these entities and their capital efficient operating processes. The intangible assets will be amortized on a straight-line basis to selling, general and administrative (SG&A) expense over their expected lives, which range from one to three years.

#### Pending Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, “Leases,” which requires that lease assets and liabilities be recognized on the balance sheet and that key information about leasing arrangements be disclosed. The guidance is effective for the Company beginning October 1, 2019, although early adoption is permitted. The Company is currently evaluating the impact of this guidance on its consolidated financial position, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses,” which replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information in determining credit loss estimates. The guidance is effective for the Company beginning October 1, 2020 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU 2017-04, “Intangibles - Goodwill and Other,” which simplifies the measurement of goodwill impairment by removing the second step of the goodwill impairment test and requires the determination of the fair value of individual assets and liabilities of a reporting unit. Under the new guidance, goodwill impairment is measured as the amount by which a reporting unit’s carrying amount exceeds its fair value with the loss recognized limited to the total amount of goodwill allocated to the reporting unit. The guidance is effective for the Company beginning October 1, 2020 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## 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 84 markets in 29 states across the United States. The Company's operating segments are its 51 homebuilding divisions, its majority-owned Forestar residential lot development operations, its financial services operations and its other business activities. The Company's reporting segments are its homebuilding reporting segments, its Forestar land development segment and its financial services segment. The homebuilding operating segments are aggregated into the following six reporting segments: 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, Iowa, Minnesota and Ohio  |
| 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  |

The Company's homebuilding divisions design, build and sell single-family detached homes on lots they develop and on fully developed lots purchased ready for home construction. To a lesser extent, the homebuilding divisions also build and sell attached homes, such as townhomes, duplexes and triplexes. Most of the revenue generated by the Company's homebuilding operations is from the sale of completed homes and to a lesser extent from the sale of land and lots.

The Forestar segment is a residential lot development company with operations in 41 markets and 17 states. The Company's homebuilding divisions and Forestar are identifying land development opportunities to expand Forestar's platform, and the homebuilding divisions are acquiring finished lots from Forestar in accordance with the master supply agreement between the two companies. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance.

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

In addition to its homebuilding, Forestar and financial services operations, the Company has subsidiaries that engage in other business activities. These subsidiaries conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets. One of these subsidiaries, DHI Communities, constructs multi-family rental properties and has four projects under active construction and two projects that are substantially complete at March 31, 2019. In January 2019, DHI Communities sold its first multi-family rental property for \$73.4 million and

recorded a gain on the sale of \$29.3 million, which is included in the consolidated statements of operations for the three and six months ended March 31, 2019. At March 31, 2019 and September 30, 2018, the consolidated balance sheets included \$170.2 million and \$173.2 million, respectively, of assets related to DHI Communities. The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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, 2018. Financial information relating to the Company's reporting segments is as follows:

|   | March 31, 2019      |                 |                           |              |                     |                             |              |
|---|---------------------|-----------------|---------------------------|--------------|---------------------|-----------------------------|--------------|
|   | Homebuilding<br>(1) | Forestar<br>(1) | Financial<br>Services (2) | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |
|   | (In millions)       |                 |                           |              |                     |                             |              |
| <b>Assets</b>   |                     |                 |                           |              |                     |                             |              |
| Cash and cash equivalents                                   | \$557.3             | \$66.4          | \$61.1                    | \$14.0       | \$—                 | \$—                         | \$698.8      |
| Restricted cash   | 9.4                 | 15.7            | 7.3                       | —            | —                   | —                           | 32.4         |
| <b>Inventories:</b>   |                     |                 |                           |              |                     |                             |              |
| Construction in progress and finished homes                 | 6,086.1             | —               | —                         | —            | 1.5                 | —                           | 6,087.6      |
| Residential land and lots — developed and under development | 4,879.4             | 803.0           | —                         | —            | (22.1)              | 12.6                        | 5,672.9      |
| Land held for development                                   | 62.3                | 48.5            | —                         | —            | —                   | —                           | 110.8        |
| Land held for sale  | 49.0                | —               | —                         | —            | —                   | —                           | 49.0         |
|   | 11,076.8            | 851.5           | —                         | —            | (20.6)              | 12.6                        | 11,920.3     |
| Mortgage loans held for sale                                | —                   | —               | 796.5                     | —            | —                   | —                           | 796.5        |
| Deferred income taxes, net                                  | 155.0               | 22.9            | —                         | —            | 1.5                 | (7.5)                       | 171.9        |
| Property and equipment, net                                 | 220.2               | 2.4             | 3.4                       | 211.9        | —                   | —                           | 437.9        |
| Other assets  | 732.8               | 26.0            | 52.1                      | 37.4         | (75.2)              | 12.6                        | 785.7        |
| Goodwill  | 134.3               | —               | —                         | —            | —                   | 29.2                        | 163.5        |
|   | \$12,885.8          | \$984.9         | \$920.4                   | \$263.3      | \$ (94.3)           | \$ 46.9                     | \$ 15,007.0  |
| <b>Liabilities</b>  |                     |                 |                           |              |                     |                             |              |
| Accounts payable  | \$631.7             | \$16.1          | \$9.4                     | \$3.0        | \$ (1.7)            | \$ —                        | \$ 658.5     |
| Accrued expenses and other liabilities                      | 1,102.2             | 131.9           | 43.8                      | 10.9         | (83.3)              | (13.4)                      | 1,192.1      |
| Notes payable   | 2,777.2             | 149.2           | 690.7                     | —            | —                   | 5.3                         | 3,622.4      |
|   | \$4,511.1           | \$297.2         | \$743.9                   | \$13.9       | \$ (85.0)           | \$ (8.1)                    | \$ 5,473.0   |

Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management (1) evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate balances of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

|   | September 30, 2018  |                 |                           |              |                     |                             |              |
|---|---------------------|-----------------|---------------------------|--------------|---------------------|-----------------------------|--------------|
|   | Homebuilding<br>(1) | Forestar<br>(1) | Financial<br>Services (2) | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |
|   | (In millions)       |                 |                           |              |                     |                             |              |
| <b>Assets</b>   |                     |                 |                           |              |                     |                             |              |
| Cash and cash equivalents                                   | \$ 1,111.8          | \$ 318.8        | \$ 33.7                   | \$ 8.8       | \$ —                | \$ —                        | \$ 1,473.1   |
| Restricted cash   | 8.6                 | 16.2            | 8.1                       | —            | —                   | —                           | 32.9         |
| <b>Inventories:</b>   |                     |                 |                           |              |                     |                             |              |
| Construction in progress and finished homes                 | 5,084.4             | —               | —                         | —            | 1.9                 | —                           | 5,086.3      |
| Residential land and lots — developed and under development | 4,689.3             | 463.1           | —                         | —            | (7.2)               | ) 27.2                      | 5,172.4      |
| Land held for development                                   | 61.2                | 34.9            | —                         | —            | —                   | —                           | 96.1         |
| Land held for sale  | 40.2                | —               | —                         | —            | —                   | —                           | 40.2         |
|   | 9,875.1             | 498.0           | —                         | —            | (5.3)               | ) 27.2                      | 10,395.0     |
| Mortgage loans held for sale                                | —                   | —               | 796.4                     | —            | —                   | —                           | 796.4        |
| Deferred income taxes, net                                  | 176.5               | 26.9            | —                         | —            | 1.1                 | (10.5)                      | ) 194.0      |
| Property and equipment, net                                 | 207.1               | 1.8             | 3.0                       | 189.2        | —                   | —                           | 401.1        |
| Other assets  | 673.7               | 31.4            | 43.6                      | 0.9          | (48.6)              | ) 11.9                      | 712.9        |
| Goodwill  | 80.0                | —               | —                         | —            | —                   | 29.2                        | 109.2        |
|   | \$ 12,132.8         | \$ 893.1        | \$ 884.8                  | \$ 198.9     | \$ (52.8)           | ) \$ 57.8                   | \$ 14,114.6  |
| <b>Liabilities</b>  |                     |                 |                           |              |                     |                             |              |
| Accounts payable  | \$ 612.4            | \$ 11.2         | \$ 0.2                    | \$ 4.2       | \$ (3.3)            | ) \$ —                      | \$ 624.7     |
| Accrued expenses and other liabilities                      | 1,041.3             | 95.7            | 41.9                      | 9.9          | (46.1)              | ) (15.2)                    | ) 1,127.5    |
| Notes payable   | 2,445.9             | 111.7           | 637.7                     | —            | —                   | 8.2                         | 3,203.5      |
|   | \$ 4,099.6          | \$ 218.6        | \$ 679.8                  | \$ 14.1      | \$ (49.4)           | ) \$ (7.0)                  | ) \$ 4,955.7 |

Amounts are presented on Forestar's historical cost basis, consistent with the manner in which management (1) evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate balances of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

|   | Three Months Ended March 31, 2019 |                 |                       |              |                     |                             |              |
|---|-----------------------------------|-----------------|-----------------------|--------------|---------------------|-----------------------------|--------------|
|   | Homebuilding                      | Forestar<br>(1) | Financial<br>Services | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |
|   | (In millions)                     |                 |                       |              |                     |                             |              |
| Revenues:                                   |                                   |                 |                       |              |                     |                             |              |
| Home sales                                  | \$3,980.5                         | \$—             | \$—                   | \$—          | \$—                 | \$—                         | \$3,980.5    |
| Land/lot sales and other                    | 14.9                              | 65.4            | —                     | 6.0          | (39.7)              | ) —                         | 46.6         |
| Financial services                          | —                                 | —               | 101.6                 | —            | —                   | —                           | 101.6        |
|   | 3,995.4                           | 65.4            | 101.6                 | 6.0          | (39.7)              | ) —                         | 4,128.7      |
| Cost of sales:                              |                                   |                 |                       |              |                     |                             |              |
| Home sales (5)                              | 3,214.2                           | —               | —                     | —            | (0.7)               | ) —                         | 3,213.5      |
| Land/lot sales and other                    | 9.3                               | 43.7            | —                     | —            | (31.8)              | ) 8.2                       | 29.4         |
| Inventory and land option charges           | 13.8                              | —               | —                     | —            | —                   | —                           | 13.8         |
|   | 3,237.3                           | 43.7            | —                     | —            | (32.5)              | ) 8.2                       | 3,256.7      |
| Selling, general and administrative expense | 359.3                             | 6.2             | 71.3                  | 7.3          | —                   | 0.1                         | 444.2        |
| Gain on sale of assets                      | —                                 | —               | —                     | (29.3)       | ) —                 | —                           | (29.3)       |
| Other (income) expense                      | (1.6)                             | ) (0.9)         | ) (3.7)               | ) 0.5        | —                   | —                           | (5.7)        |
| Income before income taxes                  | \$400.4                           | \$16.4          | \$34.0                | \$27.5       | \$ (7.2)            | ) \$ (8.3)                  | ) \$462.8    |

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Amount in the Eliminations column represents the profit on lots sold from Forestar to the homebuilding segment.

(5) Intercompany profit is eliminated in the consolidated financial statements when Forestar sells lots to the homebuilding segment and is recognized in the consolidated financial statements when the homebuilding segment closes homes on the lots to homebuyers.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

|   | Six Months Ended March 31, 2019 |                 |                       |              |                     |                             |              |
|---|---------------------------------|-----------------|-----------------------|--------------|---------------------|-----------------------------|--------------|
|   | Homebuilding                    | Forestar<br>(1) | Financial<br>Services | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |
|   | (In millions)                   |                 |                       |              |                     |                             |              |
| <b>Revenues:</b>                                |                                 |                 |                       |              |                     |                             |              |
| Home sales                                      | \$7,391.2                       | \$—             | \$—                   | \$—          | \$—                 | \$—                         | \$ 7,391.2   |
| Land/lot sales and other                        | 21.7                            | 103.8           | —                     | 12.8         | (68.7)              | ) —                         | 69.6         |
| Financial services                              | —                               | —               | 186.9                 | —            | —                   | —                           | 186.9        |
|   | 7,412.9                         | 103.8           | 186.9                 | 12.8         | (68.7)              | ) —                         | 7,647.7      |
| <b>Cost of sales:</b>                           |                                 |                 |                       |              |                     |                             |              |
| Home sales (5)                                  | 5,943.4                         | —               | —                     | —            | (1.7)               | ) —                         | 5,941.7      |
| Land/lot sales and other                        | 14.5                            | 74.3            | —                     | —            | (56.3)              | ) 11.8                      | 44.3         |
| Inventory and land option charges               | 21.8                            | —               | —                     | —            | —                   | —                           | 21.8         |
|   | 5,979.7                         | 74.3            | —                     | —            | (58.0)              | ) 11.8                      | 6,007.8      |
| Selling, general and administrative expense     | 683.9                           | 11.9            | 137.0                 | 13.9         | —                   | 0.3                         | 847.0        |
| Gain on sale of assets                          | (2.0)                           | ) (0.9)         | ) —                   | (29.3)       | ) —                 | 0.9                         | (31.3)       |
| Other (income) expense                          | (3.5)                           | ) (2.8)         | ) (7.7)               | ) (0.3)      | ) —                 | —                           | (14.3)       |
| Income before income taxes                      | \$754.8                         | \$21.3          | \$ 57.6               | \$28.5       | \$ (10.7)           | ) \$ (13.0)                 | ) \$ 838.5   |
| <b>Summary Cash Flow Information:</b>           |                                 |                 |                       |              |                     |                             |              |
| Depreciation and amortization                   | \$30.1                          | \$0.1           | \$ 0.7                | \$2.9        | \$—                 | \$ 0.3                      | \$ 34.1      |
| Cash (used in) provided by operating activities | \$(215.9)                       | ) \$(283.4)     | ) \$ 48.8             | ) \$(4.1)    | ) \$(2.7)           | ) \$ (4.4)                  | ) \$(461.7)  |

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Amount in the Eliminations column represents the profit on lots sold from Forestar to the homebuilding segment.

(5) Intercompany profit is eliminated in the consolidated financial statements when Forestar sells lots to the homebuilding segment and is recognized in the consolidated financial statements when the homebuilding segment closes homes on the lots to homebuyers.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

|   | Three Months Ended March 31, 2018 |                 |                       |              |                     |                             |              |   |
|---|-----------------------------------|-----------------|-----------------------|--------------|---------------------|-----------------------------|--------------|---|
|   | Homebuilding<br>(1)               | Forestar<br>(1) | Financial<br>Services | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |   |
|   | (In millions)                     |                 |                       |              |                     |                             |              |   |
| Revenues:                                   |                                   |                 |                       |              |                     |                             |              |   |
| Home sales                                  | \$3,672.1                         | \$ —            | \$ —                  | \$ —         | \$ —                | \$ —                        | \$ 3,672.1   |   |
| Land/lot sales and other                    | 13.6                              | 22.6            | —                     | —            | (8.5                | ) —                         | 27.7         |   |
| Financial services                          | —                                 | —               | 94.9                  | —            | —                   | —                           | 94.9         |   |
|   | 3,685.7                           | 22.6            | 94.9                  | —            | (8.5                | ) —                         | 3,794.7      |   |
| Cost of sales:                              |                                   |                 |                       |              |                     |                             |              |   |
| Home sales                                  | 2,907.5                           | —               | —                     | —            | —                   | —                           | 2,907.5      |   |
| Land/lot sales and other                    | 12.0                              | 16.2            | —                     | —            | (6.7                | ) 2.5                       | 24.0         |   |
| Inventory and land option charges           | 30.1                              | —               | —                     | —            | —                   | —                           | 30.1         |   |
|   | 2,949.6                           | 16.2            | —                     | —            | (6.7                | ) 2.5                       | 2,961.6      |   |
| Selling, general and administrative expense | 322.7                             | 5.6             | 66.7                  | 5.8          | —                   | 0.1                         | 400.9        |   |
| Gain on sale of assets                      | —                                 | (2.7            | ) —                   | —            | —                   | 1.6                         | (1.1         | ) |
| Interest expense                            | —                                 | 2.1             | —                     | —            | (2.1                | ) —                         | —            |   |
| Other (income) expense                      | (2.6                              | ) (3.2          | ) (3.2                | ) (3.6       | ) —                 | 1.1                         | (11.5        | ) |
| Income (loss) before income taxes           | \$416.0                           | \$ 4.6          | \$ 31.4               | \$ (2.2)     | \$ 0.3              | \$ (5.3                     | ) \$ 444.8   |   |

(1) Results are presented on Forestar's historical cost basis, consistent with the manner in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

|   | Six Months Ended March 31, 2018 |                 |                       |              |                     |                             |              |
|---|---------------------------------|-----------------|-----------------------|--------------|---------------------|-----------------------------|--------------|
|   | Homebuilding<br>(1)             | Forestar<br>(1) | Financial<br>Services | Other<br>(2) | Eliminations<br>(3) | Other<br>Adjustments<br>(4) | Consolidated |
|   | (In millions)                   |                 |                       |              |                     |                             |              |
| Revenues:                                       |                                 |                 |                       |              |                     |                             |              |
| Home sales                                      | \$6,856.6                       | \$—             | \$—                   | \$—          | \$ —                | \$ —                        | \$ 6,856.6   |
| Land/lot sales and other                        | 50.0                            | 53.5            | —                     | —            | (8.5 )              | —                           | 95.0         |
| Financial services                              | —                               | —               | 176.0                 | —            | —                   | —                           | 176.0        |
|   | 6,906.6                         | 53.5            | 176.0                 | —            | (8.5 )              | —                           | 7,127.6      |
| Cost of sales:                                  |                                 |                 |                       |              |                     |                             |              |
| Home sales                                      | 5,429.0                         | —               | —                     | —            | —                   | —                           | 5,429.0      |
| Land/lot sales and other                        | 43.3                            | 35.5            | —                     | —            | (6.7 )              | 6.9                         | 79.0         |
| Inventory and land option charges               | 33.8                            | —               | —                     | —            | —                   | —                           | 33.8         |
|   | 5,506.1                         | 35.5            | —                     | —            | (6.7 )              | 6.9                         | 5,541.8      |
| Selling, general and administrative expense     | 627.5                           | 19.1            | 128.4                 | 9.8          | —                   | 0.3                         | 785.1        |
| Gain on sale of assets                          | (13.4 )                         | (2.7 )          | —                     | —            | —                   | 1.6                         | (14.5 )      |
| Interest expense                                | —                               | 4.2             | —                     | —            | (4.2 )              | —                           | —            |
| Other (income) expense                          | (3.4 )                          | (11.3 )         | (6.1 )                | (6.5 )       | —                   | 6.4                         | (20.9 )      |
| Income (loss) before income taxes               | \$789.8                         | \$8.7           | \$ 53.7               | \$(3.3)      | \$ 2.4              | \$ (15.2 )                  | \$ 836.1     |
| Summary Cash Flow Information:                  |                                 |                 |                       |              |                     |                             |              |
| Depreciation and amortization                   | \$26.3                          | \$2.5           | \$0.7                 | \$3.3        | \$ —                | \$ 0.3                      | \$ 33.1      |
| Cash provided by (used in) operating activities | \$90.7                          | \$(150.2)       | \$(30.7 )             | \$(0.5)      | \$ —                | \$ (8.1 )                   | \$(98.8 )    |

Results are presented from the date of acquisition and on Forestar's historical cost basis, consistent with the manner (1) in which management evaluates segment performance. All purchase accounting adjustments are included in the Other Adjustments column.

(2) Amounts represent the aggregate results of certain subsidiaries that are immaterial for separate reporting.

(3) Amounts represent the elimination of intercompany transactions and the reclassification of Forestar interest expense to inventory.

(4) Amounts represent purchase accounting adjustments related to the Forestar acquisition.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

| Homebuilding Inventories by Reporting Segment (1) | March 31, September 30, |            |
|---|-------------------------|------------|
|   | 2019                    | 2018       |
|   | (In millions)           |            |
| East  | \$1,354.4               | \$ 1,192.0 |
| Midwest   | 817.7                   | 583.1      |
| Southeast   | 2,852.1                 | 2,668.7    |
| South Central                                     | 2,720.6                 | 2,439.4    |
| Southwest   | 628.1                   | 499.7      |
| West  | 2,466.9                 | 2,268.5    |
| Corporate and unallocated (2)                     | 237.0                   | 223.7      |
|   | \$11,076.8              | \$ 9,875.1 |

(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.

| Homebuilding Results by Reporting Segment | Three Months Ended |           | Six Months Ended |           |
|---|--------------------|-----------|------------------|-----------|
|   | March 31,          |           | March 31,        |           |
|   | 2019               | 2018      | 2019             | 2018      |
|   | (In millions)      |           |                  |           |
| Revenues                                  |                    |           |                  |           |
| East                                      | \$518.2            | \$435.8   | \$965.7          | \$828.9   |
| Midwest                                   | 248.1              | 203.6     | 497.2            | 365.0     |
| Southeast                                 | 1,205.3            | 1,042.0   | 2,219.2          | 2,030.6   |
| South Central                             | 990.2              | 919.0     | 1,862.7          | 1,727.8   |
| Southwest                                 | 173.2              | 172.1     | 316.9            | 328.5     |
| West                                      | 860.4              | 913.2     | 1,551.2          | 1,625.8   |
|   | \$3,995.4          | \$3,685.7 | \$7,412.9        | \$6,906.6 |
| Inventory and Land Option Charges         |                    |           |                  |           |
| East                                      | \$0.3              | \$0.7     | \$1.7            | \$0.6     |
| Midwest                                   | 0.2                | 0.2       | 0.5              | 0.4       |
| Southeast                                 | 2.2                | 25.1      | 3.5              | 26.2      |
| South Central                             | 1.4                | 0.6       | 1.9              | 1.9       |
| Southwest                                 | 0.1                | —         | 0.2              | 0.8       |
| West                                      | 9.6                | 3.5       | 14.0             | 3.9       |
|   | \$13.8             | \$30.1    | \$21.8           | \$33.8    |
| Income before Income Taxes (1)            |                    |           |                  |           |
| East                                      | \$45.9             | \$46.7    | \$83.9           | \$91.7    |
| Midwest                                   | 9.5                | 18.7      | 20.2             | 32.0      |
| Southeast                                 | 131.0              | 96.3      | 243.2            | 218.8     |

|               |         |         |         |         |
|---------------|---------|---------|---------|---------|
| South Central | 119.3   | 120.5   | 225.3   | 222.0   |
| Southwest     | 18.6    | 22.0    | 36.3    | 36.7    |
| West          | 76.1    | 111.8   | 145.9   | 188.6   |
|               | \$400.4 | \$416.0 | \$754.8 | \$789.8 |

---

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 homebuilding segment based on the segment's cost of sales, while expenses associated with the corporate office are allocated to each homebuilding segment based on the segment's inventory balances.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

NOTE C – INVENTORIES

At March 31, 2019, the Company reviewed the performance and outlook for all of its communities and land inventories 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 \$95.5 million and recorded impairment charges of \$7.7 million during the three months ended March 31, 2019 to reduce the carrying value of impaired communities to fair value. During the six months ended March 31, 2019, impairment charges totaled \$11.9 million. There were \$3.0 million and \$4.4 million of impairment charges recorded in the three and six months ended March 31, 2018, respectively. Inventory impairments and the land option charges discussed below are included in cost of sales in the consolidated statements of operations.

During the three and six months ended March 31, 2019, the Company wrote off \$6.1 million and \$9.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land purchase contracts that the Company has terminated or expects to terminate. Earnest money and pre-acquisition cost write-offs for the three and six months ended March 31, 2018 were \$2.6 million and \$4.9 million, respectively. Inventory and land option charges for the three and six months ended March 31, 2018 also included a charge of \$24.5 million related to the settlement of an outstanding dispute associated with a land transaction.

In February 2018, the Forestar land development segment sold a portion of its assets for \$232 million. This strategic asset sale included projects owned both directly and indirectly through ventures. The total net proceeds after certain purchase price adjustments, closing costs and other costs associated with selling these projects was \$217.5 million, and a gain on the sale of these assets of \$0.7 million is included in the Company's consolidated statement of operations for the three and six months ended March 31, 2018.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## NOTE D – NOTES PAYABLE

The Company's notes payable at their principal amounts, net of unamortized discounts and debt issuance costs, consist of the following:

|   | March 31, September 30,<br>2019 2018<br>(In millions) |            |
|---|---|------------|
| Homebuilding:                               |   |            |
| Unsecured:                                  |   |            |
| Revolving credit facility, maturing 2023    | \$ 750.0  | \$ —       |
| 3.75% senior notes due 2019                 | —   | 499.6      |
| 4.0% senior notes due 2020                  | 499.2   | 498.8      |
| 2.55% senior notes due 2020                 | 398.4   | 397.9      |
| 4.375% senior notes due 2022                | 348.6   | 348.4      |
| 4.75% senior notes due 2023                 | 298.8   | 298.7      |
| 5.75% senior notes due 2023                 | 398.2   | 398.0      |
| Other secured notes                         | 84.0  | 4.5        |
|   | 2,777.2   | 2,445.9    |
| Forestar:                                   |   |            |
| Unsecured:                                  |   |            |
| Revolving credit facility, maturing 2021    | 35.0  | —          |
| 3.75% convertible senior notes due 2020     | 119.5   | 119.9      |
|   | 154.5   | 119.9      |
| Financial Services:                         |   |            |
| Mortgage repurchase facility, maturing 2020 | 690.7   | 637.7      |
|   | \$3,622.4   | \$ 3,203.5 |

Debt issuance costs that were deducted from the carrying amounts of the homebuilding senior notes totaled \$6.8 million and \$8.5 million at March 31, 2019 and September 30, 2018, respectively. These costs are capitalized into inventory as they are amortized. Forestar's 3.75% convertible senior notes due 2020 include an unamortized fair value adjustment of \$5.3 million and \$8.2 million at March 31, 2019 and September 30, 2018, respectively.

## Homebuilding:

The Company has a \$1.325 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.9 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 25, 2023. Borrowings and repayments under the facility were \$1.8 billion and \$1.0 billion, respectively, during the six months ended March 31,

2019. At March 31, 2019, there were \$750 million of borrowings outstanding at a 3.7% annual interest rate and \$128.0 million of letters of credit issued under the revolving credit facility.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

The Company's revolving credit facility imposes restrictions on its operations and activities, including requiring the maintenance of 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. The credit agreement governing the facility and the indenture governing the senior notes also impose restrictions on the creation of secured debt and liens. At March 31, 2019, the Company was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and public debt obligations.

D.R. Horton has an automatically effective universal shelf registration statement filed with the SEC in August 2018, registering debt and equity securities that the Company may issue from time to time in amounts to be determined.

On March 1, 2019, the Company repaid \$500 million principal amount of its 3.75% senior notes at maturity.

Effective August 1, 2018, the Board of Directors authorized the repurchase of up to \$500 million of the Company's debt securities effective through September 30, 2019. All of the \$500 million authorization was remaining at March 31, 2019.

Forestar:

Forestar has a \$380 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$570 million, 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 the greater of \$100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base based on Forestar's book value of its real estate assets and unrestricted cash. The maturity date of the facility is August 16, 2021. The maturity date of the revolving credit facility may be extended by up to one year on up to three occasions, subject to the approval of lenders holding a majority of the commitments. At March 31, 2019, there were \$35 million of borrowings outstanding at a 4.8% annual interest rate and \$3.8 million of letters of credit issued under the revolving credit facility.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require Forestar to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. 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. At March 31, 2019, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

Forestar also has a secured letter of credit agreement that requires it to deposit cash as collateral with the issuing bank. At March 31, 2019, letters of credit outstanding under the letter of credit facility totaled \$15.0 million, secured by \$15.7 million in cash, which is included in restricted cash in the consolidated balance sheet.



In April 2019, Forestar issued \$350 million principal amount of 8.0% senior notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The notes are due April 15, 2024, with interest payable semi-annually, and represent unsecured obligations of Forestar. The annual effective interest rate of these notes after giving effect to the amortization of financing costs is 8.5%. These notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreement.

Forestar's revolving credit facility, its senior notes and its convertible senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company's homebuilding debt.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

Financial Services:

The Company's mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. 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 60 days in accordance with the terms of the mortgage repurchase facility. In February 2019, the mortgage repurchase facility was amended to extend its maturity date to February 21, 2020. The total capacity of the facility is \$600 million; however, the capacity increases, without requiring additional commitments, to \$725 million for approximately 30 days at each quarter end and to \$800 million for approximately 45 days at fiscal year end. The capacity of the facility can also be increased to \$1.0 billion subject to the availability of additional commitments. Additional commitments were obtained to increase the capacity of the facility to \$800 million for approximately 30 days at the March 2019 quarter end.

As of March 31, 2019, \$784.5 million of mortgage loans held for sale with a collateral value of \$759.4 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of \$690.7 million outstanding under the mortgage repurchase facility at March 31, 2019 at a 4.2% 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 to the lenders monthly. At March 31, 2019, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## 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 reflected as interest expense in the period incurred. During the first six months of fiscal 2019 and fiscal 2018, the Company's active inventory exceeded its debt level, and all interest incurred was 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, 2019 and 2018:

|   | Three Months<br>Ended<br>March 31,<br>2019 |          | Six Months<br>Ended<br>March 31,<br>2018 |          |
|---|--|----------|--|----------|
|   | 2019                                       | 2018     | 2019                                     | 2018     |
|   | (In millions)                              |          |  |          |
| Capitalized interest, beginning of period | \$ 168.8                                   | \$ 170.3 | \$ 162.7                                 | \$ 167.9 |
| Interest incurred (1)                     | 35.0                                       | 31.8     | 66.7                                     | 62.8     |
| Interest charged to cost of sales         | (29.9 )                                    | (32.0 )  | (55.5 )                                  | (60.6 )  |
| Capitalized interest, end of period       | \$ 173.9                                   | \$ 170.1 | \$ 173.9                                 | \$ 170.1 |

Interest incurred included interest on the Company's mortgage repurchase facility of \$3.0 million and \$6.3 million in the three and six months ended March 31, 2019, respectively, and \$2.4 million and \$4.5 million in the same (1) periods of fiscal 2018. Also included in the amounts is interest incurred by Forestar of \$1.5 million and \$2.8 million in the three and six months ended March 31, 2019, respectively, and \$1.3 million and \$1.4 million in the same periods of fiscal 2018.

## NOTE F – MORTGAGE LOANS

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. At March 31, 2019, mortgage loans held for sale had an aggregate carrying value of \$796.5 million and an aggregate outstanding principal balance of \$768.7 million. At September 30, 2018, mortgage loans held for sale had an aggregate carrying value of \$796.4 million and an aggregate outstanding principal balance of \$776.1 million. During the six months ended March 31, 2019 and 2018, mortgage loans originated totaled \$3.6 billion and \$3.4 billion, respectively, and mortgage loans sold totaled \$3.6 billion and \$3.3 billion, respectively. The Company had gains on sales of loans and servicing rights of \$73.1 million and \$132.9 million during the three and six months ended March 31, 2019, respectively, compared to \$68.8 million and \$125.7 million in the prior year periods. Net gains on sales of loans and servicing rights are included in revenues in the consolidated statements of operations.

Approximately 93% of the mortgage loans sold by DHI Mortgage during the six months ended March 31, 2019 were sold to four major financial entities, the largest of which purchased 32% of the total loans sold.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## NOTE G – INCOME TAXES

The Company's income tax expense for the three and six months ended March 31, 2019 was \$108.4 million and \$197.4 million, respectively, compared to \$94.0 million and \$296.4 million in the prior year periods. The effective tax rate was 23.4% and 23.5% for the three and six months ended March 31, 2019, respectively, compared to 21.1% and 35.5% in the prior year periods. The higher effective tax rate for the six months ended March 31, 2018 was primarily due to the remeasurement of the Company's deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act (Tax Act), which was enacted into law on December 22, 2017. The effective tax rates for all periods include an expense for state income taxes, reduced by tax benefits related to stock-based compensation.

The Tax Act reduced the federal corporate tax rate from 35% to 21% for all corporations effective January 1, 2018. For fiscal year companies, the change in law required the application of a blended tax rate in the year of change, which for the Company was 24.5% for the fiscal year ended September 30, 2018. For the fiscal year ending September 30, 2019 and thereafter, the applicable statutory federal tax rate is 21%. The Tax Act also repealed the domestic production activities deduction effective for the Company for fiscal 2019.

The Company's deferred tax assets, net of deferred tax liabilities, were \$188.9 million at March 31, 2019 compared to \$211.7 million at September 30, 2018. The Company has a valuation allowance related to state deferred tax assets for net operating loss (NOL) carryforwards of \$17.0 million at March 31, 2019 and \$17.7 million at September 30, 2018. The Company will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to the remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact the Company's effective tax rate.

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.

## 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.

|   | Three Months<br>Ended<br>March 31,<br>2019 |         | Six Months<br>Ended<br>March 31,<br>2019 |         |
|---|--|---------|--|---------|
|   | 2018                                       | 2018    | 2018                                     | 2018    |
|   | (In millions)                              |         |  |         |
| Numerator:  |  |         |  |         |
| Net income attributable to D.R. Horton, Inc.                              | \$351.3                                    | \$351.0 | \$638.4                                  | \$540.3 |
| Denominator:  |  |         |  |         |
| Denominator for basic earnings per share — weighted average common shares | 373.3                                      | 376.8   | 374.2                                    | 376.3   |

|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Effect of dilutive securities:   |        |        |        |        |
| Employee stock awards  | 4.4    | 7.1    | 4.7    | 7.5    |
| Denominator for diluted earnings per share — adjusted weighted average common shares | 377.7  | 383.9  | 378.9  | 383.8  |
| Basic net income per common share attributable to D.R. Horton, Inc.                  | \$0.94 | \$0.93 | \$1.71 | \$1.44 |
| Diluted net income per common share attributable to D.R. Horton, Inc.                | \$0.93 | \$0.91 | \$1.68 | \$1.41 |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

NOTE I – STOCKHOLDERS' EQUITY

D.R. Horton has an automatically effective universal shelf registration statement, filed with the SEC in August 2018, registering debt and equity securities that it may issue from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in September 2018, registering \$500 million of equity securities.

Effective August 1, 2018, the Board of Directors authorized the repurchase of up to \$400 million of the Company's common stock effective through September 30, 2019. During the six months ended March 31, 2019, the Company repurchased 6.1 million shares of its common stock for \$216.2 million. The Company's remaining authorization at March 31, 2019 was \$159.3 million.

During the three months ended March 31, 2019, the Board of Directors approved a quarterly cash dividend of \$0.15 per common share, which was paid on February 25, 2019 to stockholders of record on February 11, 2019. In April 2019, the Board of Directors approved a quarterly cash dividend of \$0.15 per common share, payable on May 28, 2019 to stockholders of record on May 13, 2019. Cash dividends of \$0.125 per common share were approved and paid in each quarter of fiscal 2018.

NOTE J – EMPLOYEE BENEFIT PLANS

Restricted Stock Units (RSUs)

The Company's Stock Incentive Plan provides for the granting of stock options and restricted stock units to executive officers, other key employees and non-management directors. Restricted stock unit awards may be based on performance (performance-based) or on service over a requisite time period (time-based). Performance-based and time-based RSU equity awards represent the contingent right to receive one share of the Company's common stock per RSU if the vesting conditions and/or performance criteria are satisfied. The RSUs have no dividend or voting rights until vested.

In November 2018, a total of 360,000 performance-based RSU equity awards were granted to the Company's Chairman and executive officers. These awards vest at the end of a three-year performance period ending September 30, 2021. The number of units that ultimately vest depends on the Company's relative position as compared to its peers in achieving certain performance criteria and can range from 10% to 200% of the number of units granted. The performance criteria are total shareholder return; return on investment; selling, general and administrative expense containment; and gross profit. The grant date fair value of these equity awards was \$37.75 per unit. Compensation expense related to these grants was \$1.4 million and \$3.1 million in the three and six months ended March 31, 2019, respectively, based on the Company's performance against its peer group, the elapsed portion of the performance period and the grant date fair value of the award.

During the six months ended March 31, 2019, a total of 1.8 million time-based RSUs were granted to approximately 900 recipients, including the Company's executive officers, other key employees and non-management directors. The

weighted average grant date fair value of these equity awards was \$33.75 per unit, and they vest annually in equal installments over periods of three to five years. Compensation expense related to these grants was \$3.0 million and \$7.4 million in the three and six months ended March 31, 2019, respectively, of which \$3.5 million in the six month period related to expense recognized for employees that were retirement eligible on the date of grant.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## NOTE K – COMMITMENTS AND CONTINGENCIES

## Warranty Claims

The Company 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 to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built.

Changes in the Company's warranty liability during the three and six months ended March 31, 2019 and 2018 were as follows:

|  | Three Months<br>Ended<br>March 31,<br>2019 |         | Six Months<br>Ended<br>March 31,<br>2018 |         |
|--|--|---------|--|---------|
|  | (In millions)                              |         |  |         |
| Warranty liability, beginning of period          | \$205.6                                    | \$149.4 | \$202.0                                  | \$143.7 |
| Warranties issued                                | 21.0                                       | 19.3    | 38.9                                     | 35.8    |
| Changes in liability for pre-existing warranties | 6.0  | 13.7    | 11.5                                     | 20.5    |
| Settlements made                                 | (18.7 )                                    | (19.8 ) | (38.5 )                                  | (37.4 ) |
| Warranty liability, end of period                | \$213.9                                    | \$162.6 | \$213.9                                  | \$162.6 |

## 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, contract disputes and other matters. 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 \$419.1 million and \$408.1 million at March 31, 2019 and September 30, 2018, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets. Approximately 99% of these reserves related to construction defect matters at both March 31, 2019 and September 30, 2018. Expenses related to the Company's legal contingencies were \$14.6 million and \$39.0 million in the six months ended March 31, 2019 and 2018, respectively.

The Company's reserves for legal claims increased from \$408.1 million at September 30, 2018 to \$419.1 million at March 31, 2019. Changes in the Company's legal claims reserves during the six months ended March 31, 2019 and 2018 were as follows:

Six Months  
Ended

|  | March 31,     |         |
|--|---------------|---------|
|  | 2019          | 2018    |
|  | (In millions) |         |
| Reserves for legal claims, beginning of period | \$408.1       | \$420.6 |
| Increase in reserves                           | 23.3          | 41.4    |
| Payments                                       | (12.3 )       | (18.4 ) |
| Reserves for legal claims, end of period       | \$419.1       | \$443.6 |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

The Company estimates and records receivables 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 when recovery is probable. Additionally, the Company may have the ability to recover a portion of its losses from its subcontractors and their insurance carriers when the Company has been named as an additional insured on their insurance policies. The Company's receivables related to its estimates of insurance recoveries from estimated losses for pending legal claims and anticipated future claims related to previously closed homes totaled \$56.9 million, \$54.6 million and \$69.0 million at March 31, 2019, September 30, 2018 and March 31, 2018, respectively, and are included in 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 Purchase Contracts

The Company enters into land and lot 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 purchase contracts, the deposits are not refundable in the event the Company elects to terminate the contract. Land and lot purchase contract deposits are included in other assets in the consolidated balance sheets.

At March 31, 2019, the Company's homebuilding segment had total deposits of \$461.0 million, consisting of cash deposits of \$457.9 million and promissory notes and letters of credit of \$3.1 million, related to contracts to purchase land and lots with a total remaining purchase price of approximately \$7.4 billion. The majority of land and lots under contract are currently expected to be purchased within three years. Of these amounts, \$76.5 million of the deposits related to contracts with Forestar to purchase land and lots with a remaining purchase price of \$895.8 million. A limited number of the homebuilding land and lot purchase contracts at March 31, 2019, representing \$96.8 million of remaining purchase price, were subject to specific performance provisions that may require the Company to purchase the land or lots upon the land sellers meeting their respective contractual obligations. Of the \$96.8 million remaining purchase price subject to specific performance provisions, \$50.9 million related to contracts between the homebuilding segment and Forestar.

During the three and six months ended March 31, 2019, Forestar reimbursed the Company's homebuilding segment \$4.7 million and \$16.8 million, respectively, for previously paid earnest money and \$0.7 million and \$3.7 million, respectively, for pre-acquisition and other due diligence costs related to land purchase contracts whereby the homebuilding segment assigned its rights under contract to Forestar. During the three and six months ended March 31, 2018, Forestar reimbursed the Company's homebuilding segment \$11.8 million and \$14.0 million, respectively, for

previously paid earnest money and \$5.9 million and \$8.2 million, respectively, for pre-acquisition and other due diligence costs.

#### Other Commitments

At March 31, 2019, the Company had outstanding surety bonds of \$1.6 billion and letters of credit of \$148.3 million to secure performance under various contracts. Of the total letters of credit, \$128.0 million were issued under the homebuilding revolving credit facility and \$3.8 million were issued under Forestar's revolving credit facility. The remaining \$16.5 million of letters of credit were issued under secured letter of credit agreements, of which \$1.5 million related to homebuilding operations and \$15.0 million related to Forestar. These agreements require the deposit of cash as collateral with the issuing banks, which is included in restricted cash in the consolidated balance sheets.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## NOTE L – OTHER ASSETS, ACCRUED EXPENSES AND OTHER LIABILITIES

The Company's other assets at March 31, 2019 and September 30, 2018 were as follows:

|  | March 31, 2019 | September 30, 2018 |
|--|----------------|--------------------|
|  | (In millions)  |                    |
| Earnest money and refundable deposits          | \$477.0        | \$ 445.2           |
| Insurance receivables                          | 56.9           | 54.6               |
| Other receivables                              | 79.4           | 81.7               |
| Prepaid assets                                 | 30.9           | 36.9               |
| Rental properties                              | 33.9           | 39.2               |
| Contract assets - insurance agency commissions | 34.4           | —                  |
| Other  | 73.2           | 55.3               |
|  | \$785.7        | \$ 712.9           |

The Company's accrued expenses and other liabilities at March 31, 2019 and September 30, 2018 were as follows:

|   | March 31, 2019 | September 30, 2018 |
|---|----------------|--------------------|
|   | (In millions)  |                    |
| Reserves for legal claims                     | \$419.1        | \$ 408.1           |
| Employee compensation and related liabilities | 244.5          | 252.5              |
| Warranty liability                            | 213.9          | 202.0              |
| Accrued interest                              | 12.9           | 14.8               |
| Federal and state income tax liabilities      | 83.8           | 35.2               |
| Inventory related accruals                    | 42.6           | 45.5               |
| Customer deposits                             | 62.5           | 58.1               |
| Accrued property taxes                        | 20.5           | 38.0               |
| Other   | 92.3           | 73.3               |
|   | \$1,192.1      | \$ 1,127.5         |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

## NOTE M – FAIR VALUE MEASUREMENTS

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2019 and September 30, 2018. Changes in the fair value of the Level 3 assets during the six months ended March 31, 2019 and 2018 were not material.

|   |                              | Fair Value at March<br>31, 2019 |            |        |
|---|------------------------------|---------------------------------|------------|--------|
| Balance Sheet Location                                    |                              | Level<br>2                      | Level<br>3 | Total  |
|   |                              | (In millions)                   |            |        |
| Debt securities collateralized by residential real estate | Other assets                 | \$—                             | \$ 3.9     | \$ 3.9 |
| Mortgage loans held for sale (a)                          | Mortgage loans held for sale | —784.4                          | 8.4        | 792.8  |
| Derivatives not designated as hedging instruments (b):    |                              |                                 |            |        |
| Interest rate lock commitments                            | Other assets                 | —19.8                           | —          | 19.8   |
| Forward sales of mortgage-backed securities               | Other liabilities            | —(8.0)                          | —          | (8.0 ) |
| Best-efforts and mandatory commitments                    | Other liabilities            | —(0.8)                          | —          | (0.8 ) |

|   |                              | Fair Value at<br>September 30, 2018 |            |        |
|---|------------------------------|-------------------------------------|------------|--------|
| Balance Sheet Location                                    |                              | Level<br>2                          | Level<br>3 | Total  |
|   |                              | (In millions)                       |            |        |
| Debt securities collateralized by residential real estate | Other assets                 | \$—                                 | —\$ 3.9    | \$ 3.9 |
| Mortgage loans held for sale (a)                          | Mortgage loans held for sale | —784.6                              | 7.8        | 792.4  |
| Derivatives not designated as hedging instruments (b):    |                              |                                     |            |        |
| Interest rate lock commitments                            | Other assets                 | —10.5                               | —          | 10.5   |
| Forward sales of mortgage-backed securities               | Other assets                 | —3.3                                | —          | 3.3    |
| Best-efforts and mandatory commitments                    | Other assets                 | —0.2                                | —          | 0.2    |

The Company typically elects the fair value option upon origination for mortgage loans held for sale. Interest income earned on mortgage loans held for sale is based on contractual interest rates and included in other income. Mortgage loans held for sale valued using Level 3 inputs at March 31, 2019 and September 30, 2018 include \$8.4 million and \$7.8 million, respectively, of loans for which the Company elected the fair value option upon

(a) origination and did not sell into the secondary market. The fair value of these mortgage loans held for sale is generally calculated considering pricing in the secondary market and adjusted for the value of the underlying collateral, including interest rate risk, liquidity risk and prepayment risk. The Company plans to sell these loans as market conditions permit.

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 as other assets or accrued expenses and other

(b) liabilities. Changes in the fair value of these derivatives are included in revenues in the consolidated statements of operations.



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

The following table summarizes the Company's assets measured at fair value on a nonrecurring basis at March 31, 2019 and September 30, 2018:

|                                      | Balance Sheet Location       | Fair Value at Fair Value at |         |                    |         |
|--------------------------------------|------------------------------|-----------------------------|---------|--------------------|---------|
|                                      |                              | March 31, 2019              |         | September 30, 2018 |         |
|                                      |                              | Level 2                     | Level 3 | Level 2            | Level 3 |
|                                      |                              | (In millions)               |         |                    |         |
| Inventory held and used (a) (b)      | Inventories                  | \$—                         | \$20.8  | \$—                | \$4.4   |
| Inventory available for sale (a) (c) | Inventories                  | —                           | —       | 1.4                | —       |
| Mortgage loans held for sale (a) (d) | Mortgage loans held for sale | —0.8                        | —       | 2.9                | —       |
| Other mortgage loans (a) (e)         | Other assets                 | —1.8                        | —       | 1.0                | —       |

(a) The fair values included in the table above represent only those assets whose carrying values were adjusted to fair value as a result of impairment in the respective period and were held at the end of the period.

(b) In performing its impairment analysis of communities, discount rates ranging from 12% to 16% 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) These mortgage loans have some degree of impairment affecting their marketability and are valued at the lower of carrying value or fair value. When available, quoted prices in the secondary market are used to determine fair value (Level 2); otherwise, a cash flow valuation model is used to determine fair value (Level 3).

(e) The fair value of other mortgage loans was 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, 2019 and September 30, 2018:

|                               | Carrying Value | Fair Value at March 31, 2019 |         |         |          |
|-------------------------------|----------------|------------------------------|---------|---------|----------|
|                               |                | Level 1                      | Level 2 | Level 3 | Total    |
|                               |                | (In millions)                |         |         |          |
| Cash and cash equivalents (a) | \$698.8        | \$698.8                      | \$—     | —       | —\$698.8 |
| Restricted cash (a)           | 32.4           | 32.4                         | —       | —       | 32.4     |
| Notes payable (b) (c)         | 3,622.4        | —                            | 2,124.2 | 1,559.7 | 3,683.9  |

|                               | Carrying Value | Fair Value at September 30, 2018 |         |         |            |
|-------------------------------|----------------|----------------------------------|---------|---------|------------|
|                               |                | Level 1                          | Level 2 | Level 3 | Total      |
|                               |                | (In millions)                    |         |         |            |
| Cash and cash equivalents (a) | \$1,473.1      | \$1,473.1                        | \$—     | —       | —\$1,473.1 |



|                       |         |      |         |       |         |
|-----------------------|---------|------|---------|-------|---------|
| Restricted cash (a)   | 32.9    | 32.9 | —       | —     | 32.9    |
| Notes payable (b) (c) | 3,203.5 | —    | 2,602.6 | 642.2 | 3,244.8 |

---

(a) The fair values of cash, cash equivalents and restricted cash approximate their carrying values due to their short-term nature and are classified as Level 1 within the fair value hierarchy.

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

(c) The fair values of other secured notes and borrowings on the revolving credit facilities and the mortgage repurchase facility approximate carrying value due to their short-term nature or floating interest rate terms, as applicable, and are classified as Level 3 within the fair value hierarchy.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

NOTE N – RELATED PARTY TRANSACTIONS

In March 2019, the Company assigned its rights under a land purchase contract to R&R Riverview LLC (R&R), an entity owned by Ryan Horton and Reagan Horton, the adult sons of Donald Horton, the Company's Chairman. In March 2019, R&R exercised its rights under the purchase contract and purchased 119 acres of undeveloped land in Arizona for \$77.5 million. In connection with the transaction, Donald Horton loaned R&R \$77.5 million at a 2.55% annual interest rate and obtained a security interest in the land. Concurrent with the contract assignment to R&R, the Company entered into a land purchase contract with R&R to purchase the 119 acres for R&R's cost plus an annualized return of 16%. Based on the terms of the contract, the Company will purchase the land in two phases. The first purchase is expected in October 2019. The Company has determined R&R is a variable interest entity, the Company has the power to control the activities that most significantly impact the entity's economic performance, and the Company is the primary beneficiary. Accordingly, the Company consolidated the variable interest entity in its consolidated financial statements by increasing inventory and notes payable at March 31, 2019 by \$77.5 million.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
March 31, 2019

NOTE O – SUPPLEMENTAL GUARANTOR INFORMATION

All of the Company's homebuilding senior notes and the homebuilding revolving credit facility are fully and unconditionally guaranteed, on a joint and several basis, by D.R. Horton, Inc. and other subsidiaries (Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by the Company. The Company's subsidiaries associated with the Forestar land development operation, the financial services operations and certain other subsidiaries do not guarantee the Company's homebuilding senior notes or the homebuilding 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) its ceasing to guarantee any of the Company's publicly traded debt securities and ceasing to guarantee any of the Company's obligations under the homebuilding revolving credit facility.

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Balance Sheet  
 March 31, 2019

|  | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Total      |
|--|---------------------|---------------------------|-------------------------------|---------------|------------|
|  | (In millions)       |                           |                               |               |            |
| <b>ASSETS</b>                          |                     |                           |                               |               |            |
| Cash and cash equivalents              | \$405.4             | \$ 104.3                  | \$ 189.1                      | \$ —          | \$698.8    |
| Restricted cash                        | 7.6                 | 1.8                       | 23.0                          | —             | 32.4       |
| Investment in subsidiaries             | 6,739.8             | —                         | —                             | (6,739.8 )    | —          |
| Inventories                            | 4,458.3             | 6,527.4                   | 955.2                         | (20.6 )       | 11,920.3   |
| Mortgage loans held for sale           | —                   | —                         | 796.5                         | —             | 796.5      |
| Deferred income taxes, net             | 52.1                | 92.3                      | 24.6                          | 2.9           | 171.9      |
| Property and equipment, net            | 112.2               | 76.8                      | 253.3                         | (4.4 )        | 437.9      |
| Other assets                           | 328.7               | 402.5                     | 129.6                         | (75.1 )       | 785.7      |
| Goodwill                               | —                   | 134.3                     | 29.2                          | —             | 163.5      |
| Intercompany receivables               | 596.9               | —                         | —                             | (596.9 )      | —          |
| Total Assets                           | \$12,701.0          | \$ 7,339.4                | \$ 2,400.5                    | \$ (7,433.9 ) | \$15,007.0 |
| <b>LIABILITIES &amp; EQUITY</b>        |                     |                           |                               |               |            |
| Accounts payable and other liabilities | \$625.2             | \$ 1,034.1                | \$ 272.1                      | \$ (80.8 )    | \$1,850.6  |
| Intercompany payables                  | —                   | 298.9                     | 298.0                         | (596.9 )      | —          |
| Notes payable                          | 2,697.8             | 1.9                       | 922.7                         | —             | 3,622.4    |
| Total Liabilities                      | 3,323.0             | 1,334.9                   | 1,492.8                       | (677.7 )      | 5,473.0    |
| Stockholders' equity                   | 9,378.0             | 6,004.5                   | 735.7                         | (6,757.9 )    | 9,360.3    |
| Noncontrolling interests               | —                   | —                         | 172.0                         | 1.7           | 173.7      |
| Total Equity                           | 9,378.0             | 6,004.5                   | 907.7                         | (6,756.2 )    | 9,534.0    |
| Total Liabilities & Equity             | \$12,701.0          | \$ 7,339.4                | \$ 2,400.5                    | \$ (7,433.9 ) | \$15,007.0 |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Balance Sheet  
 September 30, 2018

|  | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations  | Total      |
|--|---------------------|---------------------------|-------------------------------|---------------|------------|
|  | (In millions)       |                           |                               |               |            |
| <b>ASSETS</b>                          |                     |                           |                               |               |            |
| Cash and cash equivalents              | \$908.1             | \$ 158.7                  | \$ 406.3                      | \$ —          | \$1,473.1  |
| Restricted cash                        | 6.6                 | 2.0                       | 24.3                          | —             | 32.9       |
| Investment in subsidiaries             | 6,344.9             | —                         | —                             | (6,344.9 )    | —          |
| Inventories                            | 4,037.1             | 5,824.1                   | 545.0                         | (11.2 )       | 10,395.0   |
| Mortgage loans held for sale           | —                   | —                         | 796.4                         | —             | 796.4      |
| Deferred income taxes, net             | 69.2                | 105.0                     | 17.3                          | 2.5           | 194.0      |
| Property and equipment, net            | 111.2               | 66.1                      | 230.7                         | (6.9 )        | 401.1      |
| Other assets                           | 306.6               | 361.3                     | 90.2                          | (45.2 )       | 712.9      |
| Goodwill                               | —                   | 80.0                      | 29.2                          | —             | 109.2      |
| Intercompany receivables               | 246.2               | 27.3                      | —                             | (273.5 )      | —          |
| Total Assets                           | \$12,029.9          | \$ 6,624.5                | \$ 2,139.4                    | \$ (6,679.2 ) | \$14,114.6 |
| <b>LIABILITIES &amp; EQUITY</b>        |                     |                           |                               |               |            |
| Accounts payable and other liabilities | \$590.8             | \$ 1,000.4                | \$ 210.1                      | \$ (49.1 )    | \$1,752.2  |
| Intercompany payables                  | —                   | —                         | 273.5                         | (273.5 )      | —          |
| Notes payable                          | 2,443.9             | 2.1                       | 757.5                         | —             | 3,203.5    |
| Total Liabilities                      | 3,034.7             | 1,002.5                   | 1,241.1                       | (322.6 )      | 4,955.7    |
| Stockholders' equity                   | 8,995.2             | 5,622.0                   | 722.8                         | (6,355.6 )    | 8,984.4    |
| Noncontrolling interests               | —                   | —                         | 175.5                         | (1.0 )        | 174.5      |
| Total Equity                           | 8,995.2             | 5,622.0                   | 898.3                         | (6,356.6 )    | 9,158.9    |
| Total Liabilities & Equity             | \$12,029.9          | \$ 6,624.5                | \$ 2,139.4                    | \$ (6,679.2 ) | \$14,114.6 |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Operations  
 Three Months Ended March 31, 2019

|   | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|---------------------|---------------------------|-------------------------------|--------------|-----------|
|   | (In millions)       |                           |                               |              |           |
| Revenues  | \$1,575.2           | \$ 2,419.7                | \$ 173.5                      | \$ (39.7 )   | \$4,128.7 |
| Cost of sales                                       | 1,249.8             | 1,989.5                   | 52.4                          | (35.0 )      | 3,256.7   |
| Selling, general and administrative expense         | 193.3               | 164.9                     | 86.0                          | —            | 444.2     |
| Gain on sale of assets                              | —                   | —                         | (26.8 )                       | (2.5 )       | (29.3 )   |
| Other (income) expense                              | (1.1 )              | (0.4 )                    | (4.2 )                        | —            | (5.7 )    |
| Income before income taxes                          | 133.2               | 265.7                     | 66.1                          | (2.2 )       | 462.8     |
| Income tax expense                                  | 31.4                | 62.3                      | 15.2                          | (0.5 )       | 108.4     |
| Equity in net income of subsidiaries, net of tax    | 253.5               | —                         | —                             | (253.5 )     | —         |
| Net income  | 355.3               | 203.4                     | 50.9                          | (255.2 )     | 354.4     |
| Net income attributable to noncontrolling interests | —                   | —                         | 0.6                           | 2.5          | 3.1       |
| Net income attributable to D.R. Horton, Inc.        | \$355.3             | \$ 203.4                  | \$ 50.3                       | \$ (257.7 )  | \$351.3   |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Operations  
 Six Months Ended March 31, 2019

|   | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|---------------------|---------------------------|-------------------------------|--------------|-----------|
|   | (In millions)       |                           |                               |              |           |
| Revenues  | \$2,910.9           | \$ 4,501.4                | \$ 304.1                      | \$ (68.7 )   | \$7,647.7 |
| Cost of sales                                       | 2,307.0             | 3,670.9                   | 90.4                          | (60.5 )      | 6,007.8   |
| Selling, general and administrative expense         | 351.2               | 330.8                     | 165.0                         | —            | 847.0     |
| Gain on sale of assets                              | (2.0 )              | —                         | (26.8 )                       | (2.5 )       | (31.3 )   |
| Other (income) expense                              | (2.0 )              | (0.8 )                    | (11.5 )                       | —            | (14.3 )   |
| Income before income taxes                          | 256.7               | 500.5                     | 87.0                          | (5.7 )       | 838.5     |
| Income tax expense                                  | 60.6                | 118.1                     | 20.0                          | (1.3 )       | 197.4     |
| Equity in net income of subsidiaries, net of tax    | 449.4               | —                         | —                             | (449.4 )     | —         |
| Net income  | 645.5               | 382.4                     | 67.0                          | (453.8 )     | 641.1     |
| Net income attributable to noncontrolling interests | —                   | —                         | —                             | 2.7          | 2.7       |
| Net income attributable to D.R. Horton, Inc.        | \$645.5             | \$ 382.4                  | \$ 67.0                       | \$ (456.5 )  | \$638.4   |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Operations  
 Three Months Ended March 31, 2018

|   | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|---------------------|---------------------------|-------------------------------|--------------|-----------|
|   | (In millions)       |                           |                               |              |           |
| Revenues  | \$1,288.0           | \$ 2,402.7                | \$ 117.5                      | \$ (13.5 )   | \$3,794.7 |
| Cost of sales                                     | 1,026.2             | 1,926.9                   | 19.4                          | (10.9 )      | 2,961.6   |
| Selling, general and administrative expense       | 156.9               | 164.8                     | 79.2                          | —            | 400.9     |
| Gain on sale of assets                            | —                   | —                         | (1.1 )                        | —            | (1.1 )    |
| Other (income) expense                            | (1.7 )              | (0.7 )                    | (9.1 )                        | —            | (11.5 )   |
| Income before income taxes                        | 106.6               | 311.7                     | 29.1                          | (2.6 )       | 444.8     |
| Income tax expense                                | 20.7                | 67.4                      | 5.9                           | —            | 94.0      |
| Equity in net income of subsidiaries, net of tax  | 267.5               | —                         | —                             | (267.5 )     | —         |
| Net income  | 353.4               | 244.3                     | 23.2                          | (270.1 )     | 350.8     |
| Net loss attributable to noncontrolling interests | —                   | —                         | (0.2 )                        | —            | (0.2 )    |
| Net income attributable to D.R. Horton, Inc.      | \$353.4             | \$ 244.3                  | \$ 23.4                       | \$ (270.1 )  | \$351.0   |



Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Operations  
 Six Months Ended March 31, 2018

|   | D.R.<br>Horton, Inc | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total     |
|---|---------------------|---------------------------|-------------------------------|--------------|-----------|
|   | (In millions)       |                           |                               |              |           |
| Revenues  | \$2,451.9           | \$ 4,455.1                | \$ 234.1                      | \$ (13.5 )   | \$7,127.6 |
| Cost of sales                                     | 1,941.6             | 3,567.0                   | 44.1                          | (10.9 )      | 5,541.8   |
| Selling, general and administrative expense       | 309.1               | 316.4                     | 159.6                         | —            | 785.1     |
| Gain on sale of assets                            | —                   | —                         | (14.5 )                       | —            | (14.5 )   |
| Other (income) expense                            | (2.1 )              | (0.7 )                    | (18.1 )                       | —            | (20.9 )   |
| Income before income taxes                        | 203.3               | 572.4                     | 63.0                          | (2.6 )       | 836.1     |
| Income tax expense                                | 71.8                | 205.3                     | 19.3                          | —            | 296.4     |
| Equity in net income of subsidiaries, net of tax  | 410.8               | —                         | —                             | (410.8 )     | —         |
| Net income  | \$542.3             | \$ 367.1                  | \$ 43.7                       | \$ (413.4 )  | \$539.7   |
| Net loss attributable to noncontrolling interests | —                   | —                         | (0.6 )                        | —            | (0.6 )    |
| Net income attributable to D.R. Horton, Inc.      | \$542.3             | \$ 367.1                  | \$ 44.3                       | \$ (413.4 )  | \$540.3   |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Cash Flows  
 Six Months Ended March 31, 2019

|  | D.R. Horton, Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total      |
|--|-------------------|------------------------|----------------------------|--------------|------------|
|  | (In millions)     |                        |                            |              |            |
| <b>OPERATING ACTIVITIES</b>  |                   |                        |                            |              |            |
| Net cash used in operating activities                                | \$(76.5 )         | \$ (61.5 )             | \$ (245.0 )                | \$ (78.7 )   | \$(461.7 ) |
| <b>INVESTING ACTIVITIES</b>  |                   |                        |                            |              |            |
| Expenditures for property and equipment                              | (16.7 )           | (16.9 )                | (36.2 )                    | —            | (69.8 )    |
| Proceeds from sale of assets   | 10.4              | —                      | 73.4                       | —            | 83.8       |
| Expenditures related to multi-family rental properties               | —                 | —                      | (28.3 )                    | —            | (28.3 )    |
| Return of investment in unconsolidated entities                      | —                 | —                      | 4.4                        | —            | 4.4        |
| Net principal increase of other mortgage loans and real estate owned | —                 | —                      | (1.6 )                     | —            | (1.6 )     |
| Intercompany advances  | (42.4 )           | —                      | —                          | 42.4         | —          |
| Payments related to business acquisitions                            | (301.3 )          | —                      | (8.3 )                     | —            | (309.6 )   |
| Net cash (used in) provided by investing activities                  | (350.0 )          | (16.9 )                | 3.4                        | 42.4         | (321.1 )   |
| <b>FINANCING ACTIVITIES</b>  |                   |                        |                            |              |            |
| Proceeds from notes payable  | 1,775.0           | —                      | 40.0                       | —            | 1,815.0    |
| Repayment of notes payable   | (1,524.9 )        | (1.1 )                 | (5.0 )                     | —            | (1,531.0 ) |
| Advances on mortgage repurchase facility, net                        | —                 | —                      | 53.0                       | —            | 53.0       |
| Intercompany advances  | —                 | 24.9                   | 17.5                       | (42.4 )      | —          |
| Proceeds from stock associated with certain employee benefit plans   | 22.3              | —                      | —                          | —            | 22.3       |
| Cash paid for shares withheld for taxes                              | (19.5 )           | —                      | —                          | —            | (19.5 )    |
| Cash dividends paid  | (111.9 )          | —                      | (78.7 )                    | 78.7         | (111.9 )   |
| Repurchases of common stock  | (216.2 )          | —                      | —                          | —            | (216.2 )   |
| Distributions to noncontrolling interests, net                       | —                 | —                      | (3.7 )                     | —            | (3.7 )     |
| Net cash (used in) provided by financing activities                  | (75.2 )           | 23.8                   | 23.1                       | 36.3         | 8.0        |
| Decrease in cash, cash equivalents and restricted cash               | (501.7 )          | (54.6 )                | (218.5 )                   | —            | (774.8 )   |
| Cash, cash equivalents and restricted cash at beginning of period    | 914.7             | 160.7                  | 430.6                      | —            | 1,506.0    |
| Cash, cash equivalents and restricted cash at end of period          | \$413.0           | \$ 106.1               | \$ 212.1                   | \$ —         | \$731.2    |

Table of Contents

D.R. HORTON, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)  
 March 31, 2019

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

Consolidating Statement of Cash Flows  
 Six Months Ended March 31, 2018

|  | D.R.<br>Horton, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total      |
|--|----------------------|---------------------------|-------------------------------|--------------|------------|
|  | (In millions)        |                           |                               |              |            |
| <b>OPERATING ACTIVITIES</b>  |                      |                           |                               |              |            |
| Net cash (used in) provided by operating activities                | \$(147.3)            | \$ 269.9                  | \$ (184.4 )                   | \$ (37.0 )   | \$(98.8 )  |
| <b>INVESTING ACTIVITIES</b>  |                      |                           |                               |              |            |
| Expenditures for property and equipment                            | (21.4 )              | (15.0 )                   | (3.1 )                        | —            | (39.5 )    |
| Proceeds from sale of assets                                       | —                    | —                         | 253.4                         | —            | 253.4      |
| Expenditures related to multi-family rental properties             | —                    | —                         | (44.5 )                       | 5.0          | (39.5 )    |
| Return of investment in unconsolidated entities                    | —                    | —                         | 15.1                          | —            | 15.1       |
| Intercompany advances  | 266.3                | —                         | —                             | (266.3 )     | —          |
| Payments related to business acquisitions, net of cash acquired    | (560.0 )             | —                         | 401.9                         | —            | (158.1 )   |
| Net cash (used in) provided by investing activities                | (315.1 )             | (15.0 )                   | 622.8                         | (261.3 )     | 31.4       |
| <b>FINANCING ACTIVITIES</b>  |                      |                           |                               |              |            |
| Proceeds from notes payable  | 1,912.3              | —                         | 1.3                           | —            | 1,913.6    |
| Repayment of notes payable   | (1,740.2)            | (2.3 )                    | (10.0 )                       | —            | (1,752.5 ) |
| Advances on mortgage repurchase facility, net                      | —                    | —                         | 69.8                          | —            | 69.8       |
| Intercompany advances  | —                    | (291.0 )                  | 24.7                          | 266.3        | —          |
| Proceeds from stock associated with certain employee benefit plans | 32.7                 | —                         | —                             | —            | 32.7       |
| Cash paid for shares withheld for taxes                            | (10.3 )              | —                         | —                             | —            | (10.3 )    |
| Cash dividends paid  | (94.1 )              | —                         | (32.0 )                       | 32.0         | (94.1 )    |
| Repurchases of common stock  | (47.9 )              | —                         | —                             | —            | (47.9 )    |
| Distributions to noncontrolling interests, net                     | —                    | —                         | (2.0 )                        | —            | (2.0 )     |
| Net cash provided by (used in) financing activities                | 52.5                 | (293.3 )                  | 51.8                          | 298.3        | 109.3      |
| (Decrease) increase in cash, cash equivalents and restricted cash  | (409.9 )             | (38.4 )                   | 490.2                         | —            | 41.9       |
| Cash, cash equivalents and restricted cash at beginning of period  | 788.7                | 156.0                     | 79.6                          | —            | 1,024.3    |
| Cash, cash equivalents and restricted cash at end of period        | \$378.8              | \$ 117.6                  | \$ 569.8                      | \$ —         | \$1,066.2  |

Table of Contents

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, 2018. 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

D.R. Horton, Inc. is the largest homebuilding company in the United States as measured by number of homes closed. We construct and sell homes through our operating divisions in 84 markets in 29 states, primarily under the names of D.R. Horton, America's Builder; Emerald Homes; Express Homes and Freedom Homes. Unless the context otherwise requires, the terms "D.R. Horton," the "Company," "we" and "our" used herein refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.

Our business operations consist of homebuilding, a majority-owned residential lot development company, financial services and other activities. Our homebuilding operations primarily include the construction and sale of single-family homes with sales prices generally ranging from \$100,000 to more than \$1,000,000, with an average closing price of \$295,900 during the six months ended March 31, 2019. Approximately 91% of our home sales revenues in the six months ended March 31, 2019 were generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as townhomes, duplexes and triplexes.

During fiscal 2018, we acquired 75% of the outstanding shares of Forestar Group Inc. (Forestar), for \$558.3 million in cash. Forestar is a publicly traded residential lot development company listed on the New York Stock Exchange under the ticker symbol "FOR." The acquisition is a component of our strategy to expand relationships with land developers and increase the optioned portion of our homebuilding land and lot position to enhance operational efficiency and returns.

Our financial services operations 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 homebuyers 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 100% owned subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services, primarily to our homebuyers.

In addition to our homebuilding, Forestar and financial services operations, we have subsidiaries that engage in other business activities. These subsidiaries conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets. One of these subsidiaries, DHI Communities, constructs multi-family rental properties and has four projects under active construction and two projects that are substantially complete at March 31, 2019. In January 2019, DHI Communities sold its first multi-family rental property for \$73.4 million and recorded a gain on the sale of \$29.3 million, which is included in our consolidated statements of operations for the three and six months ended March 31, 2019. At March 31, 2019 and September 30, 2018, our consolidated balance sheets included \$170.2 million and \$173.2 million, respectively, of assets related to DHI Communities. The combined assets of all of our subsidiaries

engaged in other business activities totaled \$263.3 million and \$198.9 million at March 31, 2019 and September 30, 2018, respectively, and the combined pre-tax income of these subsidiaries was \$27.5 million and \$28.5 million in the three and six months ended March 31, 2019, respectively, compared to pre-tax losses of \$2.2 million and \$3.3 million in the same periods of fiscal 2018. The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other.

Table of Contents

OVERVIEW

Sales prices for both new and resale homes have increased across most of our markets over the past several years, which has generally reduced housing affordability. During fiscal 2018, interest rates on mortgage loans increased, which further impacted affordability. These conditions have resulted in some recent moderation of demand for new homes in late fiscal 2018 and early fiscal 2019, with variations across our markets. However, we continue to see solid economic fundamentals and a limited supply of homes at affordable prices across most of our markets.

During the six months ended March 31, 2019, our number and value of net sales orders increased 5% and 3%, respectively, compared to the prior year period. During the six months ended March 31, 2019, our number of homes closed and home sales revenues both increased 8% compared to the prior year period. Our pre-tax income was \$838.5 million in the current year six month period compared to \$836.1 million in the prior year period, and our pre-tax operating margin was 11.0% compared to 11.7%. We are monitoring our sales pace, pricing and homes in inventory in each of our communities, and we will adjust sales pace, home pricing and incentives based on local housing market conditions.

We believe our business is well positioned with a broad geographic footprint, affordable product offerings, a balanced supply of finished lots, land and homes, a strong balance sheet and liquidity and experienced personnel across our operating markets. We remain focused on growing our revenues and profitability, generating positive annual cash flows from operations and managing our product offerings, pricing, sales pace and inventory levels to optimize the return on our inventory investments.

Within our homebuilding land and lot portfolio, our lots controlled under purchase contracts represent 62% of the lots owned and controlled at March 31, 2019 compared to 57% at September 30, 2018 and 52% at March 31, 2018. Forestar's inventory growth is advancing our homebuilding strategy of increasing our access to optioned land and lots.

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 continue to vary across our markets. If the U.S. economy continues to grow, we expect to see solid housing demand, concentrated in markets where job growth is occurring and new home prices remain affordable relative to household incomes. 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, increases in mortgage interest rates or tightening of mortgage lending standards.

Table of Contents

STRATEGY

Our operating strategy focuses on leveraging our financial and competitive position to increase the returns on our inventory investments and generate strong profitability and cash flows, while managing risk and maintaining financial flexibility to make opportunistic strategic investments. This 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.
- Offering new home communities that appeal to a broad range of entry-level, move-up, active adult 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 and maintain affordability.
- Delivering high quality homes to our customers and a positive experience both during and after the sale.
- 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 and actively controlling the number of unsold, completed homes in inventory.
- Investing in land and land development 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.
- Increasing the amount of land and finished lots controlled through purchase contracts by expanding relationships with land developers across the country and growing our majority-owned Forestar lot development operations.
- Opportunistically pursuing acquisitions to enhance our operations and improve returns.
- 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.

We believe our operating strategy, which has produced positive results in recent years, will allow us to maintain and improve our financial and competitive position and balance sheet strength. 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.

Table of Contents

KEY RESULTS

Key financial results as of and for the three months ended March 31, 2019, as compared to the same period of 2018, were as follows:

Homebuilding:

• Homebuilding revenues increased 8% to \$4.0 billion compared to \$3.7 billion.

• Homes closed increased 10% to 13,480 homes, and the average closing price of those homes was \$295,300.

• Net sales orders increased 6% to 16,805 homes, and the value of net sales orders increased 4% to \$4.9 billion.

• Sales order backlog increased 7% to 16,890 homes, and the value of sales order backlog increased 3% to \$5.0 billion.

• Home sales gross margin was 19.3% compared to 20.8%.

• Homebuilding SG&A expense was 9.0% of homebuilding revenues compared to 8.8%.

• Homebuilding pre-tax income was \$400.4 million compared to \$416.0 million.

• Homebuilding pre-tax income was 10.0% of homebuilding revenues compared to 11.3%.

• Homebuilding cash and cash equivalents totaled \$557.3 million compared to \$1.1 billion and \$528.9 million at September 30, 2018 and March 31, 2018, respectively.

• Homebuilding inventories totaled \$11.1 billion compared to \$9.9 billion and \$9.8 billion at September 30, 2018 and March 31, 2018, respectively.

• Homes in inventory totaled 32,100 compared to 27,900 and 27,700 at September 30, 2018 and March 31, 2018, respectively.

• Owned lots totaled 120,900 compared to 124,300 and 124,200 at September 30, 2018 and March 31, 2018, respectively. Lots controlled through purchase contracts totaled 195,500 compared to 164,200 and 133,500 at September 30, 2018 and March 31, 2018, respectively.

• Homebuilding debt was \$2.8 billion compared to \$2.4 billion and \$2.6 billion at September 30, 2018 and March 31, 2018, respectively.

• Homebuilding debt to total capital was 22.9% compared to 21.4% at September 30, 2018 and 24.2% at March 31, 2018.



Table of Contents

Forestar:

Forestar's revenues increased 189% to \$65.4 million compared to \$22.6 million. Revenues in the current and prior year quarters included \$39.7 million and \$8.5 million, respectively, of revenue from land and lot sales to our homebuilding segment.

Forestar's pre-tax income increased 257% to \$16.4 million compared to \$4.6 million.

Owned and controlled lots totaled 31,400 compared to 20,100 at September 30, 2018. Of these lots, 21,700 and 13,600, respectively, were under contract to sell to or subject to a right of first offer with D.R. Horton.

Forestar's cash and cash equivalents totaled \$66.4 million compared to \$318.8 million at September 30, 2018.

Forestar's inventories totaled \$851.5 million compared to \$498.0 million at September 30, 2018.

Financial Services:

Financial services revenues increased 7% to \$101.6 million compared to \$94.9 million.

Financial services pre-tax income increased 8% to \$34.0 million compared to \$31.4 million.

Financial services pre-tax income was 33.5% of financial services revenues compared to 33.1%.

Consolidated Results:

• Consolidated pre-tax income was \$462.8 million compared to \$444.8 million.

• Consolidated pre-tax income was 11.2% of consolidated revenues compared to 11.7%.

• Income tax expense was \$108.4 million compared to \$94.0 million.

• Net income attributable to D.R. Horton was \$351.3 million compared to \$351.0 million.

• Diluted net income per common share attributable to D.R. Horton was \$0.93 compared to \$0.91.

• Stockholders' equity was \$9.4 billion compared to \$9.0 billion and \$8.2 billion at September 30, 2018 and March 31, 2018, respectively.

• Book value per common share increased to \$25.09 compared to \$23.88 and \$21.72 at September 30, 2018 and March 31, 2018, respectively.

• Debt to total capital was 27.9% compared to 26.3% at September 30, 2018 and 28.3% at March 31, 2018.

Table of Contents

Key financial results for the six months ended March 31, 2019, as compared to the same period of 2018 (or from the acquisition date of October 5, 2017 through March 31, 2018 for Forestar's results), were as follows:

Homebuilding:

- Homebuilding revenues increased 7% to \$7.4 billion compared to \$6.9 billion.
- Homes closed increased 8% to 24,980 homes, and the average closing price of those homes was \$295,900.
- Net sales orders increased 5% to 27,847 homes, and the value of net sales orders increased 3% to \$8.2 billion.
- Home sales gross margin was 19.6% compared to 20.8%.
- Homebuilding SG&A expense was 9.2% of homebuilding revenues compared to 9.1%.
- Homebuilding pre-tax income was \$754.8 million compared to \$789.8 million.
- Homebuilding pre-tax income was 10.2% of homebuilding revenues compared to 11.4%.
- Net cash used in homebuilding operations was \$215.9 million compared to cash provided by homebuilding operations of \$90.7 million.

Forestar:

- Forestar's revenues increased 94% to \$103.8 million compared to \$53.5 million. Revenues in the current and prior year periods included \$68.7 million and \$8.5 million, respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar's pre-tax income increased 145% to \$21.3 million compared to \$8.7 million.

Financial Services:

- Financial services revenues increased 6% to \$186.9 million compared to \$176.0 million.
- Financial services pre-tax income increased 7% to \$57.6 million compared to \$53.7 million.
- Financial services pre-tax income was 30.8% of financial services revenues compared to 30.5%.

Consolidated Results:

- Consolidated pre-tax income was \$838.5 million compared to \$836.1 million.
- Consolidated pre-tax income was 11.0% of consolidated revenues compared to 11.7%.
- Income tax expense was \$197.4 million compared to \$296.4 million. Income tax expense in the prior year period included a charge of \$108.7 million as a result of the Tax Cuts and Jobs Act (Tax Act).
- Net income attributable to D.R. Horton increased 18% to \$638.4 million compared to \$540.3 million.
- Diluted net income per common share attributable to D.R. Horton increased 19% to \$1.68 compared to \$1.41.
- Net cash used in operations was \$461.7 million compared to \$98.8 million.

Table of Contents

## RESULTS OF OPERATIONS - HOMEBUILDING

We conduct our homebuilding operations in the geographic regions, states and markets listed below, and we conduct our financial services 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 and the notes thereto contain additional information regarding segment performance.

| State          | Reporting Region/Market   | State       | Reporting Region/Market |
|----------------|---------------------------|-------------|-------------------------|
|                | East Region               |             | Southeast Region        |
| Delaware       | Central Delaware          | Alabama     | Birmingham              |
|                | Northern Delaware         |             | Huntsville              |
| Georgia        | Savannah                  |             | Mobile/Baldwin County   |
| Maryland       | Baltimore                 |             | Montgomery              |
|                | Suburban Washington, D.C. |             | Tuscaloosa              |
| New Jersey     | Northern New Jersey       | Florida     | Fort Myers/Naples       |
|                | Southern New Jersey       |             | Gainesville             |
| North Carolina | Charlotte                 |             | Jacksonville            |
|                | Greensboro/Winston-Salem  |             | Lakeland                |
|                | Raleigh/Durham            |             | Melbourne/Vero Beach    |
|                | Wilmington                |             | Miami/Fort Lauderdale   |
| Pennsylvania   | Philadelphia              |             | Ocala                   |
| South Carolina | Charleston                |             | Orlando                 |
|                | Columbia                  |             | Pensacola/Panama City   |
|                | Greenville/Spartanburg    |             | Port St. Lucie          |
|                | Hilton Head               |             | Tampa/Sarasota          |
|                | Myrtle Beach              |             | Volusia County          |
| Virginia       | Northern Virginia         |             | West Palm Beach         |
|                | Southern Virginia         | Georgia     | Atlanta                 |
|                |                           |             | Augusta                 |
|                | Midwest Region            | Mississippi | Gulf Coast              |
| Colorado       | Denver                    | Tennessee   | Knoxville               |
|                | Fort Collins              |             | Nashville               |
| Illinois       | Chicago                   |             |                         |
| Indiana        | Fort Wayne                |             | West Region             |
|                | Indianapolis              | California  | Bakersfield             |
| Iowa           | Des Moines                |             | Bay Area                |
| Minnesota      | Minneapolis/St. Paul      |             | Fresno                  |
| Ohio           | Columbus                  |             | Los Angeles County      |
|                |                           |             | Riverside County        |
|                | South Central Region      |             | Sacramento              |
| Louisiana      | Baton Rouge               |             | San Bernardino County   |
|                | Lafayette                 |             | San Diego County        |
| Oklahoma       | Oklahoma City             |             | Ventura County          |
| Texas          | Austin                    | Hawaii      | Hawaii                  |
|                | Dallas                    |             | Kauai                   |
|                | Fort Worth                |             | Maui                    |
|                | Houston                   |             | Oahu                    |
|                | Killeen/Temple/Waco       | Nevada      | Las Vegas               |
|                | Midland/Odessa            |             | Reno                    |

|            |                          |            |                        |
|------------|--------------------------|------------|------------------------|
|            | New Braunfels/San Marcos | Oregon     | Portland/Salem         |
|            | San Antonio              | Utah       | Salt Lake City         |
|            |                          | Washington | Seattle/Tacoma/Everett |
|            | Southwest Region         |            | Spokane                |
| Arizona    | Phoenix                  |            | Vancouver              |
|            | Tucson                   |            |                        |
| New Mexico | Albuquerque              |            |                        |

Table of Contents

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, 2019 and 2018.

## Net Sales Orders (1)

## Three Months Ended March 31,

|               | Net Homes Sold |        |          | Value (In millions) |           |          | Average Selling Price |           |          |
|---------------|----------------|--------|----------|---------------------|-----------|----------|-----------------------|-----------|----------|
|               | 2019           | 2018   | % Change | 2019                | 2018      | % Change | 2019                  | 2018      | % Change |
| East          | 2,426          | 1,991  | 22 %     | \$693.1             | \$566.8   | 22 %     | \$285,700             | \$284,700 | — %      |
| Midwest       | 1,036          | 790    | 31 %     | 361.3               | 306.5     | 18 %     | 348,700               | 388,000   | (10) %   |
| Southeast     | 5,605          | 5,054  | 11 %     | 1,488.4             | 1,352.6   | 10 %     | 265,500               | 267,600   | (1) %    |
| South Central | 4,779          | 4,788  | — %      | 1,203.2             | 1,200.5   | — %      | 251,800               | 250,700   | — %      |
| Southwest     | 797            | 889    | (10) %   | 206.2               | 211.7     | (3) %    | 258,700               | 238,100   | 9 %      |
| West          | 2,162          | 2,316  | (7) %    | 989.8               | 1,103.4   | (10) %   | 457,800               | 476,400   | (4) %    |
|               | 16,805         | 15,828 | 6 %      | \$4,942.0           | \$4,741.5 | 4 %      | \$294,100             | \$299,600 | (2) %    |

## Six Months Ended March 31,

|               | Net Homes Sold |        |          | Value (In millions) |           |          | Average Selling Price |           |          |
|---------------|----------------|--------|----------|---------------------|-----------|----------|-----------------------|-----------|----------|
|               | 2019           | 2018   | % Change | 2019                | 2018      | % Change | 2019                  | 2018      | % Change |
| East          | 3,996          | 3,421  | 17 %     | \$1,138.0           | \$965.3   | 18 %     | \$284,800             | \$282,200 | 1 %      |
| Midwest       | 1,568          | 1,167  | 34 %     | 558.2               | 451.5     | 24 %     | 356,000               | 386,900   | (8) %    |
| Southeast     | 9,221          | 8,686  | 6 %      | 2,451.7             | 2,329.0   | 5 %      | 265,900               | 268,100   | (1) %    |
| South Central | 8,174          | 7,814  | 5 %      | 2,059.0             | 1,961.2   | 5 %      | 251,900               | 251,000   | — %      |
| Southwest     | 1,327          | 1,590  | (17) %   | 341.1               | 376.8     | (9) %    | 257,000               | 237,000   | 8 %      |
| West          | 3,561          | 3,903  | (9) %    | 1,619.2             | 1,880.3   | (14) %   | 454,700               | 481,800   | (6) %    |
|               | 27,847         | 26,581 | 5 %      | \$8,167.2           | \$7,964.1 | 3 %      | \$293,300             | \$299,600 | (2) %    |

## Sales Order Cancellations

## Three Months Ended March 31,

|               | Cancelled Sales Orders (In millions) |       | Cancellation Rate (2) |      |
|---------------|--------------------------------------|-------|-----------------------|------|
|               | 2019                                 | 2018  | 2019                  | 2018 |
| East          | 573                                  | 487   | 19 %                  | 20 % |
| Midwest       | 162                                  | 70    | 14 %                  | 8 %  |
| Southeast     | 1,378                                | 1,499 | 20 %                  | 23 % |
| South Central | 1,234                                | 1,194 | 21 %                  | 20 % |
| Southwest     | 234                                  | 244   | 23 %                  | 22 % |
| West          | 315                                  | 326   | 13 %                  | 12 % |
|               | 3,896                                | 3,820 | 19 %                  | 19 % |

## Six Months Ended March 31,

|               | Cancelled Sales Orders (In millions) |       | Cancellation Rate (2) |      |
|---------------|--------------------------------------|-------|-----------------------|------|
|               | 2019                                 | 2018  | 2019                  | 2018 |
| East          | 1,072                                | 877   | 21 %                  | 20 % |
| Midwest       | 269                                  | 122   | 15 %                  | 9 %  |
| Southeast     | 2,597                                | 2,620 | 22 %                  | 23 % |
| South Central | 2,290                                | 2,127 | 22 %                  | 21 % |
| Southwest     | 520                                  | 452   | 28 %                  | 22 % |

|      |       |       |           |           |    |   |    |   |
|------|-------|-------|-----------|-----------|----|---|----|---|
| West | 634   | 604   | 295.2     | 284.7     | 15 | % | 13 | % |
|      | 7,382 | 6,802 | \$2,085.8 | \$1,901.5 | 21 | % | 20 | % |

---

(1) Net sales orders represent the number and dollar value of new sales contracts executed with customers (gross sales orders), net of cancelled sales orders.

(2) Cancellation rate represents the number of cancelled sales orders divided by gross sales orders.

Table of Contents

## Net Sales Orders

The number of net sales orders increased 6% and 5% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The value of net sales orders increased 4% to \$4.9 billion (16,805 homes) and 3% to \$8.2 billion (27,847 homes) for the three and six months ended March 31, 2019, respectively, compared to \$4.7 billion (15,828 homes) and \$8.0 billion (26,581 homes) in the prior year periods. Increases in the East, Midwest and Southeast regions were partially offset by decreases in the Southwest and West regions. The average selling price of net sales orders during the three and six months ended March 31, 2019 was \$294,100 and \$293,300, respectively, both down 2% from the prior year periods.

Higher sales volumes in our East and Midwest regions reflect our recent acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders, which added 105 and 119 net sales orders to the East region's results and 387 and 497 net sales orders to the Midwest region's results in the three and six months ended March 31, 2019, respectively. The decreases in net sales orders in our Southwest and West regions were primarily due to decreases in sales orders in our Phoenix and California markets. Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 19% and 21% in the three and six months ended March 31, 2019, respectively, compared to 19% and 20% in the prior year periods.

We believe our business is well positioned to continue to generate increased sales volume; however, our future sales volumes will depend on new home demand in each of our operating markets and our ability to successfully implement our operating strategies.

|               | Sales Order Backlog |          |        |                     |           |        |                       |           |        |  |
|---------------|---------------------|----------|--------|---------------------|-----------|--------|-----------------------|-----------|--------|--|
|               | As of March 31,     |          |        |                     |           |        |                       |           |        |  |
|               | Homes in Backlog    |          |        | Value (In millions) |           |        | Average Selling Price |           |        |  |
| 2019          | 2018                | % Change | 2019   | 2018                | % Change  | 2019   | 2018                  | % Change  |        |  |
| East          | 2,550               | 2,046    | 25 %   | \$744.1             | \$589.7   | 26 %   | \$291,800             | \$288,200 | 1 %    |  |
| Midwest       | 1,228               | 664      | 85 %   | 417.7               | 258.9     | 61 %   | 340,100               | 389,900   | (13) % |  |
| Southeast     | 5,132               | 5,064    | 1 %    | 1,414.5             | 1,404.2   | 1 %    | 275,600               | 277,300   | (1) %  |  |
| South Central | 5,246               | 4,956    | 6 %    | 1,351.5             | 1,257.8   | 7 %    | 257,600               | 253,800   | 1 %    |  |
| Southwest     | 1,013               | 1,028    | (1) %  | 275.9               | 244.8     | 13 %   | 272,400               | 238,100   | 14 %   |  |
| West          | 1,721               | 2,083    | (17) % | 794.0               | 1,078.1   | (26) % | 461,400               | 517,600   | (11) % |  |
|               | 16,890              | 15,841   | 7 %    | \$4,997.7           | \$4,833.5 | 3 %    | \$295,900             | \$305,100 | (3) %  |  |

## Sales Order Backlog

Sales order backlog represents homes under contract but not yet closed at the end of the period. Many of the contracts in our sales order backlog are subject to contingencies, including mortgage loan approval and buyers selling their existing homes, which can result in cancellations. A portion of the contracts in backlog will not result in closings due to cancellations.

Table of Contents

| Homes Closed and Home Sales Revenue |              |        |          |                     |           |          |                       |           |          |
|-------------------------------------|--------------|--------|----------|---------------------|-----------|----------|-----------------------|-----------|----------|
| Three Months Ended March 31,        |              |        |          |                     |           |          |                       |           |          |
|                                     | Homes Closed |        |          | Value (In millions) |           |          | Average Selling Price |           |          |
|                                     | 2019         | 2018   | % Change | 2019                | 2018      | % Change | 2019                  | 2018      | % Change |
| East                                | 1,791        | 1,531  | 17 %     | \$518.0             | \$435.4   | 19 %     | \$289,200             | \$284,400 | 2 %      |
| Midwest                             | 701          | 514    | 36 %     | 246.4               | 203.6     | 21 %     | 351,500               | 396,100   | (11) %   |
| Southeast                           | 4,527        | 3,935  | 15 %     | 1,196.1             | 1,041.0   | 15 %     | 264,200               | 264,500   | — %      |
| South Central                       | 3,942        | 3,636  | 8 %      | 986.9               | 913.3     | 8 %      | 250,400               | 251,200   | — %      |
| Southwest                           | 681          | 713    | (4) %    | 173.2               | 168.8     | 3 %      | 254,300               | 236,700   | 7 %      |
| West                                | 1,838        | 1,952  | (6) %    | 859.9               | 910.0     | (6) %    | 467,800               | 466,200   | — %      |
|                                     | 13,480       | 12,281 | 10 %     | \$3,980.5           | \$3,672.1 | 8 %      | \$295,300             | \$299,000 | (1) %    |

  

| Six Months Ended March 31, |              |        |          |                     |           |          |                       |           |          |
|----------------------------|--------------|--------|----------|---------------------|-----------|----------|-----------------------|-----------|----------|
|                            | Homes Closed |        |          | Value (In millions) |           |          | Average Selling Price |           |          |
|                            | 2019         | 2018   | % Change | 2019                | 2018      | % Change | 2019                  | 2018      | % Change |
| East                       | 3,349        | 2,919  | 15 %     | \$963.9             | \$828.4   | 16 %     | \$287,800             | \$283,800 | 1 %      |
| Midwest                    | 1,372        | 922    | 49 %     | 491.2               | 365.0     | 35 %     | 358,000               | 395,900   | (10) %   |
| Southeast                  | 8,310        | 7,679  | 8 %      | 2,209.5             | 2,029.7   | 9 %      | 265,900               | 264,300   | 1 %      |
| South Central              | 7,420        | 6,814  | 9 %      | 1,859.3             | 1,721.6   | 8 %      | 250,600               | 252,700   | (1) %    |
| Southwest                  | 1,242        | 1,405  | (12) %   | 316.8               | 324.6     | (2) %    | 255,100               | 231,000   | 10 %     |
| West                       | 3,287        | 3,330  | (1) %    | 1,550.5             | 1,587.3   | (2) %    | 471,700               | 476,700   | (1) %    |
|                            | 24,980       | 23,069 | 8 %      | \$7,391.2           | \$6,856.6 | 8 %      | \$295,900             | \$297,200 | — %      |

## Home Sales Revenue

Revenues from home sales increased 8% to \$4.0 billion (13,480 homes closed) for the three months ended March 31, 2019 from \$3.7 billion (12,281 homes closed) in the prior year period. Revenues from home sales increased 8% to \$7.4 billion (24,980 homes closed) for the six months ended March 31, 2019 from \$6.9 billion (23,069 homes closed) in the prior year period. Home sales revenues increased in most of our regions primarily due to an increase in the number of homes closed.

The number of homes closed increased 10% and 8% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The increases in our East and Midwest regions reflect our recent acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders, which added 68 and 88 closings to the East region's results and 198 and 379 closings to the Midwest region's results in the three and six months ended March 31, 2019, respectively. The decreases in home closings in our Southwest and West regions were primarily due to decreases in homes closed in our Phoenix and California markets, respectively. The average selling price of homes closed during the three and six months ended March 31, 2019 was \$295,300 and \$295,900, respectively, down slightly from the prior year periods. Decreases in the average selling price of homes closed in the Midwest region were largely offset by an increase in the average selling price in the Southwest region.



Table of Contents

## Homebuilding Operating Margin Analysis

|   | Percentages of Related Revenues |                |                  |                |
|---|---------------------------------|----------------|------------------|----------------|
|   | Three Months Ended              |                | Six Months Ended |                |
|   | March 31, 2019                  | March 31, 2018 | March 31, 2019   | March 31, 2018 |
| Gross profit – home sales                   | 19.3 %                          | 20.8 %         | 19.6 %           | 20.8 %         |
| Gross profit – land/lot sales and other     | 37.6 %                          | 11.8 %         | 33.2 %           | 13.4 %         |
| Inventory and land option charges           | (0.3 )%                         | (0.8 )%        | (0.3 )%          | (0.5 )%        |
| Gross profit – total homebuilding           | 19.0 %                          | 20.0 %         | 19.3 %           | 20.3 %         |
| Selling, general and administrative expense | 9.0 %                           | 8.8 %          | 9.2 %            | 9.1 %          |
| Gain on sale of assets                      | — %                             | — %            | — %              | (0.2 )%        |
| Other (income) expense                      | — %                             | (0.1 )%        | — %              | — %            |
| Homebuilding pre-tax income                 | 10.0 %                          | 11.3 %         | 10.2 %           | 11.4 %         |

## Home Sales Gross Profit

Gross profit from home sales was \$766.3 million in the three months ended March 31, 2019 compared to \$764.6 million in the prior year period and decreased 150 basis points to 19.3% as a percentage of home sales revenues. The percentage decrease resulted from a decrease of 180 basis points due to the average selling price of our homes closed decreasing while the average cost increased and 10 basis points from an increase in the amount of purchase accounting adjustments for recent acquisitions, partially offset by a decrease of 20 basis points in the amortization of capitalized interest and 20 basis points from warranty and construction defect expenses.

Gross profit from home sales increased 1% in the six months ended March 31, 2019 from the prior year period and decreased 120 basis points to 19.6% as a percentage of home sales revenues. The percentage decrease resulted from a decrease of 150 basis points due to the average cost of our homes closed increasing while the average selling price decreased and 10 basis points from an increase in the amount of purchase accounting adjustments for recent acquisitions, partially offset by a decrease of 20 basis points in the amortization of capitalized interest and 20 basis points from warranty and construction defect expenses.

We remain focused on managing the pricing, incentives and sales pace in each of our communities to optimize the returns on our inventory investments and adjust to local market conditions and new home demand. These actions could cause our gross profit margins to fluctuate in future periods.

## Land Sales and Other Revenues

Land sales and other revenues from our homebuilding operations were \$14.9 million and \$21.7 million in the three and six months ended March 31, 2019, respectively, and \$13.6 million and \$50.0 million in the comparable periods of fiscal 2018. Land sales revenues during the six months ended March 31, 2018 included \$26.5 million from the sale of a parcel of land in California. We continually evaluate our land and lot supply, and fluctuations in revenues and profitability from land sales occur based on how we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, some of the land that we purchase includes commercially zoned parcels that we may sell to commercial developers. We may also sell residential lots or land parcels to manage our supply or for other strategic reasons. As of March 31, 2019, our homebuilding operations had \$49.0 million of land held for sale that we expect to sell in the next twelve months.



## Table of Contents

### Inventory and Land Option Charges

At March 31, 2019, we reviewed the performance and outlook for all of our communities and land inventories for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. We performed detailed impairment evaluations of communities and land inventories with a combined carrying value of \$95.5 million and recorded impairment charges of \$7.7 million during the three months ended March 31, 2019 to reduce the carrying value of impaired communities to fair value. During the six months ended March 31, 2019, impairment charges totaled \$11.9 million. There were \$3.0 million and \$4.4 million of impairment charges recorded in the three and six months ended March 31, 2018, respectively.

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

During the three and six months ended March 31, 2019, we wrote off \$6.1 million and \$9.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land contracts that we have terminated or expect to terminate. Earnest money and pre-acquisition cost write-offs for the three and six months ended March 31, 2018 were \$2.6 million and \$4.9 million, respectively. Inventory and land option charges for the three and six months ended March 31, 2018 also included a charge of \$24.5 million related to the settlement of an outstanding dispute associated with a land transaction.

### Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities increased 11% to \$359.3 million and 9% to \$683.9 million in the three and six months ended March 31, 2019, respectively, from \$322.7 million and \$627.5 million in the prior year periods. SG&A expense as a percentage of homebuilding revenues was 9.0% and 9.2% in the three and six months ended March 31, 2019, respectively, compared to 8.8% and 9.1% in the prior year periods.

Employee compensation and related costs represented 73% and 72% of SG&A costs in the three and six months ended March 31, 2019, respectively, compared to 73% and 71% in the prior year periods. These costs increased 11% to \$262.8 million and 9% to \$489.1 million in the three and six months ended March 31, 2019, respectively, due to increases in the number of employees as compared to the prior year periods. Our homebuilding operations employed 6,904 and 6,127 employees at March 31, 2019 and 2018, respectively.

We attempt to control our SG&A costs while ensuring that our infrastructure adequately supports our operations; however, we cannot make assurances that we will be able to maintain or improve upon the current SG&A expense as a percentage of revenues.

### Interest Incurred

We capitalize interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. Interest incurred by our homebuilding operations increased 9% to \$30.5 million and 1% to \$57.6 million in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The increases correspond to increases in our

average homebuilding debt of 7% and 1%, respectively. Interest charged to cost of sales was 0.9% of total cost of sales (excluding inventory and land option charges) in both the three and six months ended March 31, 2019, compared to 1.1% in both prior year periods.

#### Gain on Sale of Assets

Gain on sale of assets from our homebuilding operations was \$2.0 million in the six months ended March 31, 2019 compared to \$13.4 million in the prior year period. The gain on sale during both periods resulted from the sale of multi-family rental units in our Southeast region.

Table of Contents

Other Income

Other income, net of other expenses, included in our homebuilding operations was \$1.6 million and \$3.5 million in the three and six months ended March 31, 2019, respectively, compared to \$2.6 million and \$3.4 million in the prior year periods. Other income consists of interest income, rental income and various other types of ancillary income, gains, expenses and losses not directly associated with sales of homes, land and lots. The activities that result in this ancillary income or expense are not significant, either individually or in the aggregate.

Business Acquisitions

During the first quarter of fiscal 2019, we acquired the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes for \$325.9 million. The assets acquired included approximately 700 homes in inventory, 4,500 lots and control of approximately 4,300 additional lots through land purchase contracts. We also acquired a sales order backlog of approximately 700 homes. Westport Homes operates in Indianapolis and Fort Wayne, Indiana, and Columbus, Ohio; Classic Builders operates in Des Moines, Iowa; and Terramor Homes operates in Raleigh, North Carolina.

Table of Contents

## Homebuilding Results by Reporting Region

|               | Three Months Ended March 31,<br>2019 |                                       |                  |   | 2018                     |                                       |                  |   |
|---------------|--------------------------------------|---------------------------------------|------------------|---|--------------------------|---------------------------------------|------------------|---|
|               | Homebuilding<br>Revenues             | Homebuilding<br>Pre-tax<br>Income (1) | % of<br>Revenues |   | Homebuilding<br>Revenues | Homebuilding<br>Pre-tax<br>Income (1) | % of<br>Revenues |   |
|               | (In millions)                        |                                       |                  |   |                          |                                       |                  |   |
| East          | \$518.2                              | \$ 45.9                               | 8.9              | % | \$435.8                  | \$ 46.7                               | 10.7             | % |
| Midwest       | 248.1                                | 9.5                                   | 3.8              | % | 203.6                    | 18.7                                  | 9.2              | % |
| Southeast     | 1,205.3                              | 131.0                                 | 10.9             | % | 1,042.0                  | 96.3                                  | 9.2              | % |
| South Central | 990.2                                | 119.3                                 | 12.0             | % | 919.0                    | 120.5                                 | 13.1             | % |
| Southwest     | 173.2                                | 18.6                                  | 10.7             | % | 172.1                    | 22.0                                  | 12.8             | % |
| West          | 860.4                                | 76.1                                  | 8.8              | % | 913.2                    | 111.8                                 | 12.2             | % |
|               | \$3,995.4                            | \$ 400.4                              | 10.0             | % | \$3,685.7                | \$ 416.0                              | 11.3             | % |

|               | Six Months Ended March 31,<br>2019 |                                       |                  |   | 2018                     |                                       |                  |   |
|---------------|------------------------------------|---------------------------------------|------------------|---|--------------------------|---------------------------------------|------------------|---|
|               | Homebuilding<br>Revenues           | Homebuilding<br>Pre-tax<br>Income (1) | % of<br>Revenues |   | Homebuilding<br>Revenues | Homebuilding<br>Pre-tax<br>Income (1) | % of<br>Revenues |   |
|               | (In millions)                      |                                       |                  |   |                          |                                       |                  |   |
| East          | \$965.7                            | \$ 83.9                               | 8.7              | % | \$828.9                  | \$ 91.7                               | 11.1             | % |
| Midwest       | 497.2                              | 20.2                                  | 4.1              | % | 365.0                    | 32.0                                  | 8.8              | % |
| Southeast     | 2,219.2                            | 243.2                                 | 11.0             | % | 2,030.6                  | 218.8                                 | 10.8             | % |
| South Central | 1,862.7                            | 225.3                                 | 12.1             | % | 1,727.8                  | 222.0                                 | 12.8             | % |
| Southwest     | 316.9                              | 36.3                                  | 11.5             | % | 328.5                    | 36.7                                  | 11.2             | % |
| West          | 1,551.2                            | 145.9                                 | 9.4              | % | 1,625.8                  | 188.6                                 | 11.6             | % |
|               | \$7,412.9                          | \$ 754.8                              | 10.2             | % | \$6,906.6                | \$ 789.8                              | 11.4             | % |

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

East Region — Homebuilding revenues increased 19% and 17% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to increases in the number of homes closed in our Carolina markets. The acquisition of Terramor Homes in the first quarter of fiscal 2019 contributed \$23.0 million and \$30.1 million of revenues in the current year three and six month periods, respectively. The region generated pre-tax income of \$45.9 million and \$83.9 million in the three and six months ended March 31, 2019, respectively, compared to \$46.7 million and \$91.7 million in the prior year periods. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) decreased by 190 and 240 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to increases in the average cost of homes closed. As a percentage of homebuilding revenues, SG&A expense was unchanged in the three month period and decreased by 10 basis points in the six month period ended March 31, 2019 compared to the prior year periods.



Table of Contents

Midwest Region — Homebuilding revenues increased 22% and 36% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The increases were largely due to the acquisitions of Westport Homes and Classic Builders in the first quarter of fiscal 2019 which contributed \$57.0 million and \$108.7 million of revenues in the current year three and six month periods, respectively. The region generated pre-tax income of \$9.5 million and \$20.2 million in the three and six months ended March 31, 2019, respectively, compared to \$18.7 million and \$32.0 million in the prior year periods. Home sales gross profit percentage decreased by 400 and 480 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The decreases in home sales gross profit percentage were due to the average selling price of homes closed decreasing by more than the average cost. As a percentage of homebuilding revenues, SG&A expense increased by 150 basis points and decreased by 10 basis points in the three and six months ended March 31, 2019, respectively. The increase in the three month period was primarily due to an increase in employee compensation and other costs related to the recent acquisitions.

Southeast Region — Homebuilding revenues increased 16% and 9% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to increases in many of our Florida markets. The region generated pre-tax income of \$131.0 million and \$243.2 million in the three and six months ended March 31, 2019, respectively, compared to \$96.3 million and \$218.8 million in the prior year periods. The region's results in both prior year periods include a \$24.5 million inventory and land option charge related to the settlement of an outstanding dispute associated with a land transaction. The region's pre-tax income in the prior year six month period included a \$13.4 million gain on sale of multi-family rental units in one community. Home sales gross profit percentage decreased by 80 and 30 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. As a percentage of homebuilding revenues, SG&A expense decreased by 20 basis points and increased by 10 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods.

South Central Region — Homebuilding revenues increased 8% in both the three and six months ended March 31, 2019 compared to the prior year periods, primarily due to increases in the number of homes closed in our Houston and Fort Worth markets. The region generated pre-tax income of \$119.3 million and \$225.3 million in the three and six months ended March 31, 2019, respectively, compared to \$120.5 million and \$222.0 million in the prior year periods. Home sales gross profit percentage decreased by 130 and 120 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to the average selling price of homes closed decreasing while the average cost increased slightly. As a percentage of homebuilding revenues, SG&A expense decreased by 10 and 20 basis points in the three and six month period ended March 31, 2019, respectively, compared to the prior year periods.

Southwest Region — Homebuilding revenues increased 1% and decreased 4% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. In both periods, the number of homes closed in the region decreased, particularly in our Phoenix market, while the average selling price of homes closed increased. The region generated pre-tax income of \$18.6 million and \$36.3 million in the three and six months ended March 31, 2019, respectively, compared to \$22.0 million and \$36.7 million in the prior year periods. Home sales gross profit percentage decreased by 220 basis points and increased by 20 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The gross profit percentage in the current year three month period was negatively affected by an increase in warranty and construction defect costs. As a percentage of homebuilding revenues, SG&A expense increased by 30 and 40 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods.

West Region — Homebuilding revenues decreased 6% and 5% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. The decrease in the three month period was due to a decrease in the number of homes closed, particularly in our California markets. The decrease in the six month period was primarily due to land sales of \$38.6 million in the prior year period compared to \$0.3 million in the current year period. The region generated pre-tax income of \$76.1 million and \$145.9 million in the three and six months ended March 31,



2019, respectively, compared to \$111.8 million and \$188.6 million in the prior year periods. Home sales gross profit percentage decreased by 180 and 90 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, due to the average cost of homes increasing more than the average selling price. As a percentage of homebuilding revenues, SG&A expense increased by 80 and 70 basis points in the three and six months ended March 31, 2019, respectively, compared to the prior year periods, primarily due to a decrease in homebuilding revenues.

Table of Contents

## HOMEBUILDING INVENTORIES, LAND AND LOT POSITION AND HOMES IN INVENTORY

We routinely enter into contracts to purchase land or developed residential lots at predetermined prices on a defined schedule commensurate with planned development or anticipated new home demand. We also purchase undeveloped land that generally is vested with the rights to begin development or construction work, and we plan and coordinate the development of our land into residential lots for use in our homebuilding business. We manage our inventory of owned land and lots and homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.

Our homebuilding segment's inventories at March 31, 2019 and September 30, 2018 are summarized as follows:

|                               | As of March 31, 2019  |   |                                 |                             |                    |
|-------------------------------|---|---|---------------------------------|-----------------------------|--------------------|
|                               | Construction<br>in<br>Progress<br>and<br>Finished<br>Homes<br>(In millions) | Residential<br>Land/Lots<br>Developed<br>and Under<br>Development | Land Held<br>for<br>Development | Land<br>Held<br>for<br>Sale | Total<br>Inventory |
| East                          | \$829.2   | \$ 512.5  | \$ 10.3                         | \$2.4                       | \$1,354.4          |
| Midwest                       | 444.6   | 370.6   | 1.8                             | 0.7                         | 817.7              |
| Southeast                     | 1,603.8   | 1,213.6   | 31.8                            | 2.9                         | 2,852.1            |
| South Central                 | 1,447.9   | 1,272.4   | 0.3                             | —                           | 2,720.6            |
| Southwest                     | 251.6   | 374.8   | 1.7                             | —                           | 628.1              |
| West                          | 1,378.8   | 1,030.1   | 15.6                            | 42.4                        | 2,466.9            |
| Corporate and unallocated (1) | 130.2   | 105.4   | 0.8                             | 0.6                         | 237.0              |
|                               | \$6,086.1   | \$ 4,879.4  | \$ 62.3                         | \$49.0                      | \$11,076.8         |

|                               | As of September 30, 2018  |   |                                 |                             |                    |
|-------------------------------|---|---|---------------------------------|-----------------------------|--------------------|
|                               | Construction<br>in<br>Progress<br>and<br>Finished<br>Homes<br>(In millions) | Residential<br>Land/Lots<br>Developed<br>and Under<br>Development | Land Held<br>for<br>Development | Land<br>Held<br>for<br>Sale | Total<br>Inventory |
| East                          | \$648.6   | \$ 529.5  | \$ 10.1                         | \$3.8                       | \$ 1,192.0         |
| Midwest                       | 369.9   | 208.0   | 1.8                             | 3.4                         | 583.1              |
| Southeast                     | 1,388.4   | 1,248.5   | 31.5                            | 0.3                         | 2,668.7            |
| South Central                 | 1,222.5   | 1,216.3   | 0.3                             | 0.3                         | 2,439.4            |
| Southwest                     | 194.8   | 303.2   | 1.7                             | —                           | 499.7              |
| West                          | 1,146.5   | 1,076.1   | 14.4                            | 31.5                        | 2,268.5            |
| Corporate and unallocated (1) | 113.7   | 107.7   | 1.4                             | 0.9                         | 223.7              |
|                               | \$5,084.4   | \$ 4,689.3  | \$ 61.2                         | \$40.2                      | \$ 9,875.1         |

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



Table of Contents

Our homebuilding segment's land and lot position and homes in inventory at March 31, 2019 and September 30, 2018 are summarized as follows:

|               | As of March 31, 2019      |  |   |                              |
|---------------|---------------------------|--|---|------------------------------|
|               | Land/Lots<br>Owned<br>(1) | Lots Controlled<br>Under<br>Land and Lot<br>Purchase<br>Contracts (2)(3) | Total<br>Land/Lots<br>Owned and<br>Controlled | Homes<br>in<br>Inventory (4) |
| East          | 9,800                     | 25,800   | 35,600  | 4,700                        |
| Midwest       | 7,300                     | 14,300   | 21,600  | 2,100                        |
| Southeast     | 34,600                    | 84,800   | 119,400                                       | 9,700                        |
| South Central | 42,200                    | 50,900   | 93,100  | 9,400                        |
| Southwest     | 6,700                     | 6,200  | 12,900  | 1,700                        |
| West          | 20,300                    | 13,500   | 33,800  | 4,500                        |
|               | 120,900                   | 195,500  | 316,400                                       | 32,100                       |
|               | 38                        | % 62   | % 100   | %                            |
|               | As of September 30, 2018  |  |   |                              |
|               | Land/Lots<br>Owned<br>(1) | Lots Controlled<br>Under<br>Land and Lot<br>Purchase<br>Contracts (2)(3) | Total<br>Land/Lots<br>Owned and<br>Controlled | Homes<br>in<br>Inventory (4) |
| East          | 11,900                    | 19,400   | 31,300  | 3,700                        |
| Midwest       | 3,800                     | 9,300  | 13,100  | 1,700                        |
| Southeast     | 37,100                    | 70,400   | 107,500                                       | 8,900                        |
| South Central | 42,900                    | 45,700   | 88,600  | 8,400                        |
| Southwest     | 7,600                     | 5,000  | 12,600  | 1,400                        |
| West          | 21,000                    | 14,400   | 35,400  | 3,800                        |
|               | 124,300                   | 164,200  | 288,500                                       | 27,900                       |
|               | 43                        | % 57   | % 100   | %                            |

Land/lots owned include approximately 34,900 and 35,100 owned lots that are fully developed and ready for home (1) construction at March 31, 2019 and September 30, 2018, respectively. Land/lots owned also include land held for development representing 1,800 and 1,700 lots at March 31, 2019 and September 30, 2018, respectively.

The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2019 and September 30, 2018 was \$7.4 billion and \$6.5 billion, respectively, secured by earnest money deposits of (2) \$461.0 million and \$401.1 million, respectively. The total remaining purchase price of lots controlled at March 31, 2019 included \$895.8 million related to lot purchase contracts with Forestar, secured by \$76.5 million of earnest money. The total remaining purchase price of lots controlled at September 30, 2018 included \$522.2 million related to lot purchase contracts with Forestar, secured by \$48.0 million of earnest money.

Lots controlled at March 31, 2019 include approximately 21,700 lots owned or controlled by Forestar, 12,100 of which our homebuilding divisions have under contract to purchase and 9,600 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 7,600 lots were in our Southeast region, 4,600 lots (3) were in our South Central region, 4,200 lots were in our West region, 2,300 lots were in our East region, 2,200 lots were in our Southwest region and 800 lots were in our Midwest region. Lots controlled at September 30, 2018 included approximately 13,600 lots owned or controlled by Forestar, 5,500 of which our homebuilding divisions had under contract to purchase and 8,100 of which our homebuilding divisions had a right of first offer to purchase.

Approximately 17,800 and 16,400 of our homes in inventory were unsold at March 31, 2019 and September 30, 2018, respectively. At March 31, 2019, approximately 5,300 of our unsold homes were completed, of which approximately 500 homes had been completed for more than six months. At September 30, 2018, approximately (4) 4,000 of our unsold homes were completed, of which approximately 400 homes had been completed for more than six months. Homes in inventory exclude approximately 1,900 and 1,800 model homes at March 31, 2019 and September 30, 2018, respectively.

Table of Contents

## RESULTS OF OPERATIONS – FORESTAR

On October 5, 2017, we acquired 75% of the outstanding shares of Forestar, a publicly traded residential lot development company with operations in 41 markets and 17 states as of March 31, 2019. Forestar's segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance. (See Note B for additional Forestar segment information and purchase accounting adjustments.)

Results of operations for the Forestar segment for the three and six months ended March 31, 2019 and 2018 were as follows. For fiscal 2018, the six month period refers to the period from the acquisition date of October 5, 2017 through March 31, 2018.

|   | Three Months Ended March 31, |        | Six Months Ended March 31, 2019 | For the Period from October 5, 2017 to March 31, 2018 |
|---|------------------------------|--------|---------------------------------|---|
|   | 2019                         | 2018   | 31, 2019                        |   |
|   | (In millions)                |        |                                 |   |
| Residential land and lot sales              | \$50.4                       | \$20.6 | \$85.3                          | \$44.4  |
| Commercial lot sales                        | 15.0                         | 2.0    | 18.5                            | 9.1   |
| Total revenues                              | \$65.4                       | \$22.6 | \$103.8                         | \$53.5  |
| Cost of sales                               | 43.7                         | 16.2   | 74.3                            | 35.5  |
| Selling, general and administrative expense | 6.2                          | 5.6    | 11.9                            | 19.1  |
| Gain on sale of assets                      | —                            | (2.7 ) | (0.9 )                          | (2.7 )  |
| Interest expense                            | —                            | 2.1    | —                               | 4.2   |
| Other (income) expense                      | (0.9 )                       | (3.2 ) | (2.8 )                          | (11.3 )   |
| Income before income taxes                  | \$16.4                       | \$4.6  | \$21.3                          | \$8.7   |

Residential land and lot sales primarily consist of the sale of single-family lots to local, regional and national homebuilders. During the three and six months ended March 31, 2019, Forestar lot sales, including the portion sold to D.R. Horton and the revenues generated from those sales, were as follows.

|   | Three Months Ended March 31, |       | Six Months Ended March 31, 2019 | For the Period from October 5, 2017 to March 31, 2018 |
|---|------------------------------|-------|---------------------------------|---|
|   | 2019                         | 2018  | 31, 2019                        |   |
|   | (\$ in millions)             |       |                                 |   |
| Total residential single-family lots sold                         | 548                          | 304   | 1,066                           | 559   |
| Residential single-family lots sold to D.R. Horton                | 453                          | 183   | 908                             | 183   |
| Residential land and lot sales revenues from sales to D.R. Horton | \$39.7                       | \$8.5 | \$68.7                          | \$8.5   |

SG&A expense for the three and six months ended March 31, 2019 includes charges of \$0.5 million and \$1.0 million, respectively, related to the shared services agreement between Forestar and D.R. Horton whereby D.R. Horton provides Forestar with certain administrative, compliance, operational and procurement services. Shared services charges were \$0.3 million in both periods of fiscal 2018. SG&A expense for the six month period ended March 31, 2018 includes \$6.3 million of severance and change of control charges for Forestar's executive officers that were triggered shortly after the acquisition date.

Other income includes equity in earnings of unconsolidated entities of \$0.6 million in the six months ended March 31, 2019 and \$1.5 million and \$9.1 million in the three and six months ended March 31, 2018, respectively. The amount for the prior year six month period primarily relates to the sale of a multi-family joint venture project in Nashville, Tennessee.

At March 31, 2019, Forestar owned directly or controlled through land and lot purchase contracts approximately 31,400 residential lots, of which approximately 3,600 are fully developed. Approximately 21,700 of these lots are under contract to sell to D.R. Horton or subject to a right of first offer under the master supply agreement with D.R. Horton. Approximately 300 of these lots are under contract to sell to other builders.

Table of Contents

## RESULTS OF OPERATIONS – FINANCIAL SERVICES

The following tables and related discussion set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and six months ended March 31, 2019 and 2018.

|  | Three Months Ended March 31, |        |          | Six Months Ended March 31, |        |          |
|--|------------------------------|--------|----------|----------------------------|--------|----------|
|  | 2019                         | 2018   | % Change | 2019                       | 2018   | % Change |
| Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers | 7,518                        | 7,046  | 7 %      | 13,762                     | 13,060 | 5 %      |
| Number of homes closed by D.R. Horton  | 13,480                       | 12,281 | 10 %     | 24,980                     | 23,069 | 8 %      |
| Percentage of D.R. Horton homes financed by DHI Mortgage                                     | 56 %                         | 57 %   |          | 55 %                       | 57 %   |          |
| Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers      | 7,536                        | 7,081  | 6 %      | 13,797                     | 13,127 | 5 %      |
| Total number of loans originated or brokered by DHI Mortgage                                 | 7,662                        | 7,278  | 5 %      | 14,060                     | 13,566 | 4 %      |
| Captive business percentage  | 98 %                         | 97 %   |          | 98 %                       | 97 %   |          |
| Loans sold by DHI Mortgage to third parties  | 6,949                        | 6,758  | 3 %      | 13,996                     | 13,100 | 7 %      |

|  | Three Months Ended March 31, |        |          | Six Months Ended March 31, |        |          |
|--|------------------------------|--------|----------|----------------------------|--------|----------|
|  | 2019                         | 2018   | % Change | 2019                       | 2018   | % Change |
|  | (In millions)                |        |          |                            |        |          |
| Loan origination fees  | \$3.5                        | \$3.8  | (8) %    | \$6.8                      | \$7.3  | (7) %    |
| Sale of servicing rights and gains from sale of mortgage loans | 73.1                         | 68.8   | 6 %      | 132.9                      | 125.7  | 6 %      |
| Other revenues   | 5.2                          | 4.5    | 16 %     | 9.7                        | 8.6    | 13 %     |
| Total mortgage operations revenues                             | 81.8                         | 77.1   | 6 %      | 149.4                      | 141.6  | 6 %      |
| Title policy premiums  | 19.8                         | 17.8   | 11 %     | 37.5                       | 34.4   | 9 %      |
| Total revenues   | 101.6                        | 94.9   | 7 %      | 186.9                      | 176.0  | 6 %      |
| General and administrative expense                             | 71.3                         | 66.7   | 7 %      | 137.0                      | 128.4  | 7 %      |
| Other (income) expense   | (3.7 )                       | (3.2 ) | 16 %     | (7.7 )                     | (6.1 ) | 26 %     |
| Financial services pre-tax income                              | \$34.0                       | \$31.4 | 8 %      | \$57.6                     | \$53.7 | 7 %      |

## Financial Services Operating Margin Analysis

|                                    | Percentages of Financial Services Revenues |         |                            |         |
|------------------------------------|--|---------|----------------------------|---------|
|                                    | Three Months Ended March 31,               |         | Six Months Ended March 31, |         |
|                                    | 2019                                       | 2018    | 2019                       | 2018    |
| General and administrative expense | 70.2 %                                     | 70.3 %  | 73.3 %                     | 73.0 %  |
| Other (income) expense             | (3.6) %                                    | (3.4) % | (4.1) %                    | (3.5) % |
| Financial services pre-tax income  | 33.5 %                                     | 33.1 %  | 30.8 %                     | 30.5 %  |





Table of Contents

Mortgage Loan Activity

The volume of loans originated by our mortgage operations is directly related to the number of homes closed by our homebuilding operations. In the three and six months ended March 31, 2019, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 7% and 5%, respectively, primarily as a result of increases in the number of homes closed by our homebuilding operations of 10% and 8%. The percentage of homes closed for which DHI Mortgage handled the homebuyers' financing was 56% and 55% in the three and six months ended March 31, 2019, respectively, compared to 57% in both prior year periods.

Homes closed by our homebuilding operations constituted 98% of DHI Mortgage loan originations in both the three and six months ended March 31, 2019 compared to 97% in both prior year periods. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 3% and 7% in the three and six months ended March 31, 2019, respectively, compared to the prior year periods. Virtually all of the mortgage loans held for sale on March 31, 2019 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). Approximately 93% of the mortgage loans sold by DHI Mortgage during the six months ended March 31, 2019 were sold to four major financial entities, the largest of which purchased 32% of the total loans sold.

Financial Services Revenues and Expenses

Revenues from our mortgage operations increased 6% to \$81.8 million and \$149.4 million in the three and six months ended March 31, 2019, respectively, from \$77.1 million and \$141.6 million in the prior year periods, while the number of loan originations increased 5% and 4% over those same periods.

General and administrative (G&A) expense related to our financial services operations increased 7% to \$71.3 million and \$137.0 million in the three and six months ended March 31, 2019, respectively, from \$66.7 million and \$128.4 million in the prior year periods. The increases were primarily due to increases in employee related costs. Our financial services operations employed 1,923 and 1,862 employees at March 31, 2019 and 2018, respectively.

As a percentage of financial services revenues, G&A expense was 70.2% and 73.3% in the three and six months ended March 31, 2019, respectively, compared to 70.3% and 73.0% in the prior year periods. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur, as some components of revenue may fluctuate differently than loan volumes, and some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

Other income, net of other expense, included in our financial services operations consists primarily of the interest income of our mortgage subsidiary.

Table of Contents

RESULTS OF OPERATIONS - CONSOLIDATED

Income before Income Taxes

Pre-tax income for the three and six months ended March 31, 2019 was \$462.8 million and \$838.5 million, respectively, compared to \$444.8 million and \$836.1 million in the prior year periods.

Income Taxes

Our income tax expense for the three and six months ended March 31, 2019 was \$108.4 million and \$197.4 million, respectively, compared to \$94.0 million and \$296.4 million in the prior year periods. Our effective tax rate was 23.4% and 23.5% for the three and six months ended March 31, 2019, respectively, compared to 21.1% and 35.5% in the prior year periods. The higher effective tax rate for the six months ended March 31, 2018 was primarily due to the remeasurement of our deferred tax assets and liabilities as a result of the Tax Act, which was enacted into law on December 22, 2017. The effective tax rates for all periods include an expense for state income taxes, reduced by tax benefits related to stock-based compensation.

The Tax Act reduced the federal corporate tax rate from 35% to 21% for all corporations effective January 1, 2018. For fiscal year companies, the change in law required the application of a blended tax rate in the year of change, which for us was 24.5% for the fiscal year ended September 30, 2018. For the fiscal year ending September 30, 2019 and thereafter, the applicable statutory federal tax rate is 21%. The Tax Act also repealed the domestic production activities deduction effective for us for fiscal 2019.

Our deferred tax assets, net of deferred tax liabilities, were \$188.9 million at March 31, 2019 compared to \$211.7 million at September 30, 2018. We have a valuation allowance related to state deferred tax assets for net operating loss (NOL) carryforwards of \$17.0 million at March 31, 2019 and \$17.7 million at September 30, 2018. We will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to our remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact our effective tax rate.

The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

## Table of Contents

### CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our operations with cash flows from operating activities, borrowings under bank credit facilities and the issuance of new debt securities. Our current levels of cash, borrowing capacity and balance sheet leverage provide us with the operational flexibility to adjust to changes in market conditions and allow us to increase our investments in homes, finished lots, land and land development to expand our operations and grow our revenues and profitability.

At March 31, 2019, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 27.9% compared to 26.3% at September 30, 2018 and 28.3% at March 31, 2018. Our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 22.9% compared to 21.4% at September 30, 2018 and 24.2% at March 31, 2018. Over the long term, we intend to maintain our ratio of homebuilding debt to total capital below 35%, and we expect it to remain significantly lower than 35% throughout fiscal 2019. We believe that the ratio of homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing our capital structure with other homebuilders. We exclude the debt of Forestar and our financial services business because they are separately capitalized and not guaranteed by our parent company or any of our homebuilding entities.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, and support other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. D.R. Horton has an automatically effective universal shelf registration statement filed with the Securities and Exchange Commission (SEC) in August 2018, registering debt and equity securities that may be issued from time to time in amounts to be determined. Forestar also has an effective shelf registration statement filed with the SEC in September 2018, registering \$500 million of equity securities. As market conditions permit, we may issue new debt or equity securities through the capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. We believe that our existing cash resources, revolving credit facilities, mortgage repurchase facility and ability to access the capital markets will provide sufficient liquidity to fund our near-term working capital needs and debt obligations.

#### Capital Resources - Homebuilding

**Cash and Cash Equivalents** — At March 31, 2019, cash and cash equivalents of our homebuilding segment totaled \$557.3 million.

**Bank Credit Facility** — We have a \$1.325 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.9 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 25, 2023. Borrowings and repayments under the facility were \$1.8 billion and \$1.0 billion, respectively, during the six months ended March 31, 2019. At March 31, 2019, there were \$750 million of borrowings outstanding at a 3.7% annual interest rate and \$128.0 million of letters of credit issued under the revolving credit facility, resulting in available capacity of \$447.0 million.

Our homebuilding revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if our ratio of debt to tangible net worth exceeds a certain level. These covenants are measured as defined in the credit

agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. The credit agreement governing the facility imposes restrictions on the creation of secured debt and liens. At March 31, 2019, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facility.

Table of Contents

**Public Unsecured Debt** — We have \$1.95 billion principal amount of homebuilding senior notes outstanding as of March 31, 2019 that mature from February 2020 through August 2023. On March 1, 2019, we repaid \$500 million principal amount of our 3.75% senior notes at maturity. The indenture governing our senior notes imposes restrictions on the creation of secured debt and liens. At March 31, 2019, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

**Repurchases of Common Stock** — During the three and six months ended March 31, 2019, we repurchased 2.0 million and 6.1 million shares, respectively, of our common stock for \$75.6 million and \$216.2 million.

**Debt and Equity Repurchase Authorizations** — Effective August 1, 2018, our Board of Directors authorized the repurchase of up to \$500 million of debt securities and \$400 million of our common stock effective through September 30, 2019. The full amount of the debt authorization was remaining at March 31, 2019. Repurchases of common stock from August 1, 2018 through March 31, 2019 totaled \$240.7 million, reducing the stock repurchase authorization to \$159.3 million.

**Capital Resources - Forestar**

At March 31, 2019, Forestar had cash and cash equivalents of \$66.4 million. In August 2018, Forestar entered into a \$380 million senior unsecured bank credit facility. In September 2018, Forestar filed an effective shelf registration statement with the SEC, registering \$500 million of equity securities. Forestar's ability to achieve its long-term growth objectives will depend on its ability to obtain financing in sufficient capacities. As market conditions permit, Forestar may issue new debt or equity securities through the capital markets or obtain additional bank financing to provide capital for future growth and additional liquidity. In April 2019, Forestar raised capital through the issuance of senior notes as discussed below.

**Bank Credit Facility** — Forestar has a \$380 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$570 million, 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 the greater of \$100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base based on Forestar's book value of its real estate assets and unrestricted cash. The maturity date of the facility is August 16, 2021. The maturity date of the revolving credit facility may be extended by up to one year on up to three occasions, subject to the approval of lenders holding a majority of the commitments. At March 31, 2019, there were \$35 million of borrowings outstanding at a 4.8% annual interest rate and \$3.8 million of letters of credit issued under the revolving credit facility.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require Forestar to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. 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. At March 31, 2019, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

**Letter of Credit Facility** — Forestar has a secured letter of credit agreement that requires it to deposit cash as collateral with the issuing bank. At March 31, 2019, letters of credit outstanding under the letter of credit facility totaled \$15.0 million, secured by \$15.7 million in cash, which is included in restricted cash in the consolidated balance sheet.

**Unsecured Debt** — Forestar has \$118.9 million principal amount of 3.75% convertible senior notes outstanding as of March 31, 2019 that are expected to be settled in cash upon their maturity at March 1, 2020. In April 2019, Forestar

issued \$350 million principal amount of 8.0% senior notes pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The notes are due April 15, 2024, with interest payable semi-annually, and represent unsecured obligations of Forestar. The annual effective interest rate of these notes after giving effect to the amortization of financing costs is 8.5%. These notes may be redeemed prior to maturity, subject to certain limitations and premiums defined in the indenture agreement.

Forestar's revolving credit facility, its senior notes and its convertible senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt.

## Table of Contents

### Capital Resources - Financial Services

Cash and Cash Equivalents — At March 31, 2019, cash and cash equivalents of our financial services operations totaled \$61.1 million.

Mortgage Repurchase Facility — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. 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 60 days in accordance with the terms of the mortgage repurchase facility. In February 2019, the mortgage repurchase facility was amended to extend its maturity date to February 21, 2020. The total capacity of the facility is \$600 million; however, the capacity increases, without requiring additional commitments, to \$725 million for approximately 30 days at each quarter end and to \$800 million for approximately 45 days at fiscal year end. The capacity of the facility can also be increased to \$1.0 billion subject to the availability of additional commitments. Additional commitments were obtained to increase the capacity of the facility to \$800 million for approximately 30 days at the March 2019 quarter end.

As of March 31, 2019, \$784.5 million of mortgage loans held for sale with a collateral value of \$759.4 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of \$690.7 million outstanding under the mortgage repurchase facility at March 31, 2019 at a 4.2% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary's minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At March 31, 2019, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

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

### Operating Cash Flow Activities

In the six months ended March 31, 2019, net cash used in operating activities was \$461.7 million compared to \$98.8 million in the prior year period. Cash used in operating activities in the current year period primarily consisted of \$215.9 million and \$287.8 million of cash used in our homebuilding and Forestar segments, respectively, partially offset by \$48.8 million of cash provided by our financial services segment.

We used \$755.2 million of cash to increase our construction in progress and finished home inventory compared to \$514.5 million in the prior year period. In both periods, the expenditures were made to support the current period increase in sales and closing volumes, as well as the expected increase in future periods. Cash used to increase residential land and lots in the current year period was \$445.6 million, of which \$341.8 million related to Forestar, compared to \$271.5 million in the prior year period, of which \$167.6 million related to Forestar. The most significant source of cash provided by operating activities in both periods was net income.





## Table of Contents

### Investing Cash Flow Activities

In the six months ended March 31, 2019, net cash used in investing activities was \$321.1 million compared to cash provided by investing activities of \$31.4 million in the prior year period. The most significant investing uses of cash in the current year period were the purchases of the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes, whereby \$309.6 million of the aggregate purchase price was paid during the current year period. Proceeds from the sale of assets in the current year period included \$73.4 million related to the sale of the first multi-family rental property constructed by DHI Communities. In the prior year period, we paid \$558.3 million to purchase 75% of the outstanding shares of Forestar, which had \$401.9 million of cash on the acquisition date. Proceeds from the sale of assets in the prior year period included \$228.6 million related to Forestar, primarily from the strategic sale of assets.

### Financing Cash Flow Activities

We expect the short-term financing needs of our operations will be funded with existing cash, cash generated from operations and borrowings under our credit facilities. Long-term financing needs for the growth of our homebuilding and Forestar operations may be funded with the issuance of senior unsecured debt securities or equity securities through the capital markets.

During the six months ended March 31, 2019, net cash provided by financing activities was \$8.0 million, consisting primarily of note proceeds, largely offset by note repayments, repurchases of common stock and payments of cash dividends. Note proceeds of \$1.8 billion were due to draws on our revolving credit facilities. Note repayments of \$1.5 billion included repayments of amounts drawn on our homebuilding revolving credit facility of \$1.0 billion and repayment of \$500 million principal amount of our 3.75% senior notes at maturity. We also used cash of \$216.2 million to repurchase 6.1 million shares of our common stock and \$111.9 million to pay dividends to our common stockholders. During the six months ended March 31, 2018, net cash provided by financing activities was \$109.3 million, consisting primarily of note proceeds, partially offset by note repayments, payments of cash dividends and repurchases of common stock. Note proceeds of \$1.9 billion included draws of \$1.5 billion on our homebuilding revolving credit facility and our issuance of \$400 million principal amount of 2.55% senior notes due December 2020. Note repayments of \$1.8 billion included our early redemption of the \$400 million principal amount of our 3.625% senior notes due February 2018 and repayments of amounts drawn on our homebuilding revolving credit facility of \$1.3 billion. We also used cash to repurchase 1.0 million shares of our common stock for \$47.9 million during the prior year period.

During the three months ended March 31, 2019, our Board of Directors approved a quarterly cash dividend of \$0.15 per common share, which was paid on February 25, 2019 to stockholders of record on February 11, 2019. In April 2019, our Board of Directors approved a quarterly cash dividend of \$0.15 per common share, payable on May 28, 2019 to stockholders of record on May 13, 2019. Cash dividends of \$0.125 per common share were approved and paid in each quarter of fiscal 2018. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, cash flows, capital requirements, financial condition and general business conditions.

## Table of Contents

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

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

At March 31, 2019, we had outstanding letters of credit of \$148.3 million and surety bonds of \$1.6 billion, issued by third parties to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

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

We enter into land and lot purchase contracts to acquire land or lots for the construction of homes. Lot purchase contracts enable us to control significant lot positions with limited capital investment. Among our homebuilding land and lot purchase contracts at March 31, 2019, there were a limited number of contracts, representing \$96.8 million of remaining purchase price, subject to specific performance provisions that may require us to purchase the land or lots upon the land sellers meeting their respective contractual obligations. Of this amount, \$50.9 million related to contracts between our homebuilding segment and Forestar. Further information about our land purchase contracts is provided in the “Homebuilding Inventories, Land and Lot Position and Homes in Inventory” section included herein.

### CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2018, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, business acquisitions, goodwill, warranty claims, legal claims and insurance, income taxes, stock-based compensation and fair value measurements. Since September 30, 2018, there have been no significant changes to those critical accounting policies.

As disclosed in our critical accounting policies in our Form 10-K for the fiscal year ended September 30, 2018, our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At March 31, 2019 and September 30, 2018, we had reserves for approximately 160 and 155 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2019, we established reserves for approximately 50 new construction defect claims and resolved 45 construction defect claims for a total cost of \$5.4 million. At March 31, 2018 and September 30, 2017, we had reserves for approximately 135 and 140 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2018, we established reserves for approximately 45 new construction defect claims and resolved 50 construction defect claims for a total cost of \$12.3 million.

### SEASONALITY

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in our working capital requirements in both our homebuilding and financial services operations. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

Table of Contents

## Forward-Looking Statements

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

- the cyclical nature of the homebuilding industry and changes in economic, real estate and other conditions;
- constriction of the credit and public capital markets, which could limit our ability to access capital and increase our costs of capital;
- reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates;
- the risks associated with our land and lot inventory;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the impact of an inflationary, deflationary or higher interest rate environment;
- home warranty and construction defect claims;
- the effects of health and safety incidents;
- the effects of negative publicity;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- reductions in the availability of performance bonds;
- increases in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding and land development operations;
- the effects of governmental regulations on our financial services operations;
- our significant debt and our ability to comply with related debt covenants, restrictions and limitations;
- competitive conditions within the homebuilding and financial services industries;
- the effects of the loss of key personnel; and
- information technology failures and data security breaches.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in our annual report on Form 10-K for the fiscal year ended September 30, 2018, including the section entitled “Risk Factors,” which is filed with the SEC.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the three and six months ended March 31, 2019 and 2018 was not significant, is recognized in current earnings. At March 31, 2019, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of \$1.2 billion. Uncommitted IRLCs totaled a notional amount of approximately \$663.9 million and uncommitted mortgage loans held for sale totaled a notional amount of approximately \$567.1 million at March 31, 2019.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of March 31, 2019. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale that are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at March 31, 2019.

|                       | Six Months Fiscal Year Ending September 30, |         |         |         |         |      |                  | Fair Value at March 31, 2019 |           |
|-----------------------|---|---------|---------|---------|---------|------|------------------|------------------------------|-----------|
|                       | Ending September 30, 2019                   | 2020    | 2021    | 2022    | 2023    | 2024 | Thereafter Total |                              |           |
| (\$ in millions)      |   |         |         |         |         |      |                  |                              |           |
| Debt:                 |   |         |         |         |         |      |                  |                              |           |
| Fixed rate            | \$3.1                                       | \$696.4 | \$403.3 | \$350.0 | \$700.0 | \$—  | \$—              | \$2,152.8                    | \$2,208.2 |
| Average interest rate | 4.1   | % 3.8   | % 2.8   | % 4.5   | % 5.5   | % —  | % —              | 4.3                          | %         |
| Variable rate         | \$690.7                                     | \$—     | \$35.0  | \$—     | \$750.0 | \$—  | \$—              | \$1,475.7                    | \$1,475.7 |
| Average interest rate | 4.2   | % —     | % 4.8   | % —     | % 3.7   | % —  | % —              | 3.9                          | %         |



Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of March 31, 2019 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Table of Contents

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

In fiscal 2013, our mortgage subsidiary was subpoenaed by the United States Department of Justice (DOJ) regarding the adequacy of certain underwriting and quality control processes related to Federal Housing Administration loans originated and sold in prior years. We have provided information related to these loans and our processes to the DOJ, and communications are ongoing. The DOJ has to date not asserted any formal claim amount, penalty or fine.

In May and July of 2014, we received Notices of Violation from the United States Environmental Protection Agency (EPA) related to stormwater compliance at certain of our sites in our Southeast region. This matter could potentially result in monetary sanctions to the Company; however, we do not believe it is reasonably possible that this matter would result in a loss that would have a material effect on our consolidated financial position, results of operations or cash flows.

In October 2018, we reached an agreement in principle with the EPA to settle an alleged violation of the wetlands provisions of the Clean Water Act at one of our development sites in our Southeast region. Upon finalizing the agreement in March 2019, we paid a penalty of \$267,000 without an admission of liability. We also are participating in settlement discussions with the U.S. Army Corps of Engineers (ACOE) and DOJ concerning alleged violations of the wetlands provisions of the Clean Water Act at another development site in our Southeast region relating to a violation notice the ACOE issued in April 2017. This matter could potentially result in a penalty that could range between \$100,000 and \$350,000 without an admission of liability, but the final scope of the potential penalty is not known at this time. We do not believe it is reasonably possible that this matter would result in a loss that would have a material effect on our consolidated financial position, results of operations or cash flows.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

We may repurchase shares of our common stock from time to time pursuant to our common stock repurchase authorization. The following table sets forth information concerning our common stock repurchases during the three months ended March 31, 2019. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934.

| Total<br>Number of<br>Shares<br>Purchased<br>(1) | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or | Approximate<br>Dollar Value<br>of Shares<br>that may yet<br>be<br>Purchased<br>Under the<br>Plans or<br>Programs (1) |
|--|---------------------------------------|--|--|
|--|---------------------------------------|--|--|

|                                      |           |          | Programs  | (In millions) |
|--------------------------------------|-----------|----------|-----------|---------------|
| January 1, 2019 - January 31, 2019   | —         | \$—      | —         | \$ 234.9      |
| February 1, 2019 - February 28, 2019 | 2,000,000 | 37.84    | 2,000,000 | 159.3         |
| March 1, 2019 - March 31, 2019       | —         | —        | —         | 159.3         |
| Total                                | 2,000,000 | \$ 37.84 | 2,000,000 | \$ 159.3      |

(1) Shares purchased during the three months ended March 31, 2019 were part of a \$400 million common stock repurchase authorization approved by our Board of Directors effective from August 1, 2018 through September 30, 2019. At March 31, 2019, there was \$159.3 million remaining on the repurchase authorization.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits.

- 2.1 Agreement and Plan of Merger dated June 29, 2017 by and among D.R. Horton, Inc., Force Merger Sub, Inc. and Forestar Group Inc. (1)  
Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the
- 3.1 Company dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992. (2)
- 3.2 Amended and Restated Bylaws of the Company. (3)
- 10.1 Amendment No. 8 to Credit Agreement, dated February 15, 2019 by and among the Registrant, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein. (\*)  
Sixth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 22,
- 10.2 2019, among DHI Mortgage Company, Ltd., U.S. Bank National Association, as Administrative Agent, Sole Book Runner, Lead Arranger, and a Buyer, and all other Buyers. (4)
- 31.1 Certificate of Chief Executive Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (\*)
- 31.2 Certificate of Chief Financial Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (\*)
- 32.1 Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Executive Officer. (\*)
- 32.2 Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company's Chief Financial Officer. (\*)  
The following financial statements from D.R. Horton, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed on April 30, 2019, formatted in XBRL (Extensible Business Reporting
- 101 Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Total Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements. (\*)

\* Filed herewith.

- (1) Incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K dated June 29, 2017, filed with the SEC on June 29, 2017.
- (2) Incorporated by reference from Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2005, filed with the SEC on February 2, 2006.
- (3) Incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K dated November 2, 2017, filed with the SEC on November 8, 2017.
- (4) Incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 22, 2019, filed with the SEC on February 22, 2019.

Table of Contents

SIGNATURE

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

D.R. HORTON, INC.

April 30, 2019 By: /s/ Bill W. Wheat

Date:

Bill W. Wheat, on behalf of D.R. Horton, Inc.,  
as Executive Vice President and Chief Financial Officer  
(Principal Financial and Principal Accounting Officer)