HORTON D R INC /DE/
Form 10-Q
January 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended December 31, 2015
OR

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

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

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

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

(817) 390-8200
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common stock, $.01 par value – 369,768,662 shares as of January 20, 2016

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

	December 31, 2015 (In millions) (Unaudited)	September 30, 2015
ASSETS		
Homebuilding:		
Cash and cash equivalents	$1,245.7	$1,355.9
Restricted cash	9.7	9.7
Inventories:		
Construction in progress and finished homes	3,792.6	3,501.2
Residential land and lots — developed and under development	4,072.6	4,065.3
Land held for development	185.4	202.3
Land held for sale	37.6	38.2
	8,088.2	7,807.0
Deferred income taxes, net of valuation allowance of $10.1 million at December 31, 2015 and September 30, 2015	542.2	558.1
Property and equipment, net	147.6	144.0
Other assets	434.3	456.2
Goodwill	87.2	87.2
	10,554.9	10,418.1
Financial Services:		
Cash and cash equivalents	23.0	27.9
Mortgage loans held for sale	524.4	631.0
Other assets	77.2	74.0
	624.6	732.9
Total assets	$11,179.5	$11,151.0
LIABILITIES		
Homebuilding:		
Accounts payable	$415.6	$473.0
Accrued expenses and other liabilities	935.3	929.2
Notes payable	3,337.2	3,333.6
	4,688.1	4,735.8
Financial Services:		
Accounts payable and other liabilities	33.8	41.9
Mortgage repurchase facility	397.1	477.9
	430.9	519.8
Total liabilities	5,119.0	5,255.6
Commitments and contingencies (Note K)		
EQUITY		
Preferred stock, $.10 par value, 30,000,000 shares authorized, no shares issued	—	—
Common stock, $.01 par value, 1,000,000,000 shares authorized, 376,927,248 shares issued and 369,727,177 shares outstanding at December 31, 2015 and 375,847,442 shares issued and 368,647,371 shares outstanding at September 30, 2015	3.8	3.8
Additional paid-in capital	2,769.6	2,733.8

Retained earnings	3,417.7	3,289.6
Treasury stock, 7,200,071 shares at December 31, 2015 and September 30, 2015, at cost	(134.3)	(134.3)
Accumulated other comprehensive income	2.6	1.4
Stockholders’ equity	6,059.4	5,894.3
Noncontrolling interests	1.1	1.1
Total equity	6,060.5	5,895.4
Total liabilities and equity	$11,179.5	$11,151.0

See accompanying notes to consolidated financial statements.

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D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Three Months Ended December 31,	
	2015	2014
	(In millions, except per share data) (Unaudited)	
Homebuilding:		
Revenues:		
Home sales	$2,340.9	$2,240.7
Land/lot sales and other	20.2	12.3
	2,361.1	2,253.0
Cost of sales:		
Home sales	1,874.3	1,798.1
Land/lot sales and other	15.9	10.3
Inventory and land option charges	2.0	6.0
	1,892.2	1,814.4
Gross profit:		
Home sales	466.6	442.6
Land/lot sales and other	4.3	2.0
Inventory and land option charges	(2.0)	(6.0)
	468.9	438.6
Selling, general and administrative expense	243.3	238.0
Other (income)	(3.4)	(5.5)
Homebuilding pre-tax income	229.0	206.1
Financial Services:		
Revenues	55.3	49.6
General and administrative expense	46.1	37.8
Interest and other (income)	(3.1)	(2.8)
Financial services pre-tax income	12.3	14.6
Income before income taxes	241.3	220.7
Income tax expense	83.6	78.2
Net income	$157.7	$142.5
Other comprehensive income, net of income tax:		
Unrealized gain related to debt securities collateralized by residential real estate	1.2	—
Comprehensive income	$158.9	$142.5
Basic net income per common share	$0.43	$0.39
Net income per common share assuming dilution	$0.42	$0.39
Cash dividends declared per common share	$0.08	$0.0625

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	2015	2014
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income	$157.7	$142.5
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	13.6	12.3
Amortization of discounts and fees	1.4	1.3
Stock based compensation expense	10.4	11.4
Excess income tax benefit from employee stock awards	(2.2)	(1.2)
Deferred income taxes	13.4	12.3
Inventory and land option charges	2.0	6.0
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(290.3)	(179.5)
Decrease (increase) in residential land and lots – developed, under development, held for development and held for sale	8.4	(110.8)
Decrease (increase) in other assets	30.2	(2.9)
Decrease in mortgage loans held for sale	106.6	23.1
Decrease in accounts payable, accrued expenses and other liabilities	(52.7)	(43.5)
Net cash used in operating activities	(1.5)	(129.0)
INVESTING ACTIVITIES		
Purchases of property and equipment	(20.1)	(11.3)
Decrease in restricted cash	—	0.4
Net principal increase of other mortgage loans and real estate owned	(2.1)	(3.0)
Net cash used in investing activities	(22.2)	(13.9)
FINANCING ACTIVITIES		
Proceeds from notes payable	—	490.0
Repayment of notes payable	(81.0)	(450.9)
Proceeds from stock associated with certain employee benefit plans	17.0	4.6
Excess income tax benefit from employee stock awards	2.2	1.2
Cash dividends paid	(29.6)	(22.8)
Net cash (used in) provided by financing activities	(91.4)	22.1
DECREASE IN CASH AND CASH EQUIVALENTS	(115.1)	(120.8)
Cash and cash equivalents at beginning of period	1,383.8	661.8
Cash and cash equivalents at end of period	$1,268.7	$541.0
Supplemental disclosures of non-cash activities:		
Notes payable issued for inventory	$2.9	$5.5
Stock issued under employee incentive plans	$8.1	$8.3

See accompanying notes to consolidated financial statements.

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

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its 100% owned, majority-owned and controlled subsidiaries (which are collectively referred to as the Company, unless the context otherwise requires). All 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 present fairly the results for the interim periods shown, including normal recurring accruals and other items. These financial statements do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company’s annual report on Form 10-K for the fiscal year ended September 30, 2015.

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.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. 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.

Cash balances of the Company's captive insurance subsidiary, which are expected to be used to fund the subsidiary's operations and pay future anticipated legal claims, were $41.2 million and $40.5 million at December 31, 2015 and September 30, 2015, respectively, and are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three months ended December 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016 or subsequent periods.

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Recent Accounting Pronouncements

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

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

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

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

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which simplifies the subsequent measurement of inventory, excluding inventory measured using the last-in, first-out or retail inventory methods. The guidance specifies that inventory currently measured at the lower of cost or market, where market could be determined with different methods, should now be measured at the lower of cost or net realizable value. The guidance is effective for the Company beginning October 1, 2017 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments,” which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance is effective for the Company beginning October 1, 2016 and is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

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NOTE B – SEGMENT INFORMATION

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

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

The Company’s 39 homebuilding operating divisions and its financial services operations are its operating segments. The homebuilding operating segments are aggregated into six reporting segments and the financial services operating segment is its own reporting segment. The Company’s reportable homebuilding segments are: East, Midwest, Southeast, South Central, Southwest and West. These reporting segments have homebuilding operations located in the following states:

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

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

The accounting policies of the reporting segments are described throughout Note A included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2015. Financial information relating to the Company's reporting segments is as follows:

	Three Months Ended December 31,	
	2015	2014
	(In millions)	
Revenues		
Homebuilding revenues:		
East	$298.1	$298.7
Midwest	123.3	130.0
Southeast	711.6	619.4
South Central	612.6	579.7
Southwest	73.9	75.4
West	541.6	549.8
Homebuilding revenues	2,361.1	2,253.0
Financial services revenues	55.3	49.6
Total revenues	$2,416.4	$2,302.6
Inventory Impairments		
East	$—	$—
Midwest	—	—
Southeast	0.2	—
South Central	—	—
Southwest	—	—
West	0.3	3.8
Total inventory impairments	$0.5	$3.8
Income Before Income Taxes (1)		
Homebuilding pre-tax income:		
East	$27.7	$26.3
Midwest	7.0	