UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended September 30, 2019

or

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

For the Transition Period From ______ To ______

Commission file number 1-14122

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

Delaware	**75-2386963**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	DHI	New York Stock Exchange
5.750% Senior Notes due 2023	DHI 23A	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 ☒

As of March 31, 2019, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $14.4 billion based on the closing price as reported on the New York Stock Exchange.

As of November 13, 2019, there were 368,493,204 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders are incorporated herein by reference (to the extent indicated) in Part III.

D.R. HORTON, INC. AND SUBSIDIARIES

2019 ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1. 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 90 markets across 29 states, primarily under the names of D.R. Horton, *America's Builder*, Emerald Homes, Express Homes and Freedom Homes. Our common stock is included in the S&P 500 Index and listed on the New York Stock Exchange under the ticker symbol "DHI." 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 homebuilding business began in 1978 in Fort Worth, Texas, and our common stock has been publicly traded since 1992. We have expanded and diversified our homebuilding operations geographically over the years by investing available capital into our existing markets, start-up operations in new markets and acquisitions of other homebuilding companies. Our product offerings across our operating markets are broad and diverse. Our homes range in size from 1,000 to more than 4,000 square feet and in price from $100,000 to more than $1,000,000. For the year ended September 30, 2019, we closed 56,975 homes with an average closing price of $297,100.

Our business operations consist of homebuilding, a majority-owned residential lot development company, financial services and other activities. Our homebuilding operations are our core business, generating 97% of our consolidated revenues of $17.6 billion and $16.1 billion in fiscal 2019 and 2018, respectively, and 98% of our consolidated revenues of $14.1 billion in fiscal 2017. Our homebuilding operations generate most of their revenues from the sale of completed homes and to a lesser extent from the sale of land and lots. Approximately 90% of our home sales revenue in fiscal 2019 was generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as townhomes, duplexes and triplexes.

Our position as the most geographically diverse and largest volume homebuilder in the United States provides a strong platform for us to compete for new home sales. In recent years, we have expanded our product offerings to include a broad range of homes for entry-level, move-up, active adult and luxury buyers across our markets. Our entry-level homes at affordable price points have experienced very strong demand from homebuyers, as the entry-level segment of the new home market remains under-served, with low inventory levels relative to demand.

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." Forestar is a component of our homebuilding strategy to enhance operational efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled under land purchase contracts to enhance operational efficiency and returns. We owned approximately 66% of Forestar's outstanding common stock at September 30, 2019.

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 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. The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other.

Available Information

We make available, as soon as reasonably practicable, on our website, *www.drhorton.com*, all of our reports required to be filed with the Securities and Exchange Commission (SEC). These reports can be found on the "Investor Relations" section of our website under "Financial Information" and include our annual and quarterly reports on Form 10-K and 10-Q (including related filings in XBRL format), current reports on Form 8-K, beneficial ownership reports on Forms 3, 4, and 5, proxy statements and amendments to such reports. Our SEC filings are also available to the public on the SEC's website at www.sec.gov. In addition to our SEC filings, our corporate governance documents, including our Code of Ethical Conduct for the Chief Executive Officer, Chief Financial Officer and senior financial officers, are available on the "Investor Relations" section of our website under "Corporate Governance." Our stockholders may also obtain these documents in paper format free of charge upon request made to our Investor Relations department.

Our principal executive offices are located at 1341 Horton Circle, Arlington, Texas 76011, and our telephone number is (817) 390-8200. Information on or linked to our website is not incorporated by reference into this annual report on Form 10-K unless expressly noted.

OPERATING STRUCTURE AND PROCESSES

Following is an overview of our company's operating structure and the significant processes that support our business controls, strategies and performance.

Homebuilding Markets

Our homebuilding business operates in 90 markets across 29 states, which provides us with geographic diversification in our homebuilding inventory investments and our sources of revenues and earnings. We believe our geographic diversification lowers our operational risks by mitigating the effects of local and regional economic cycles, and it also enhances our earnings potential by providing more diverse opportunities to invest in our business.

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
	East Region
Delaware	Central Delaware
	Northern Delaware
Georgia	Savannah
Maryland	Baltimore
	Suburban Washington, D.C.
New Jersey	Northern New Jersey
	Southern New Jersey
North Carolina	Asheville
	Charlotte
	Greensboro/Winston-Salem
	Raleigh/Durham
	Wilmington
Pennsylvania	Philadelphia
South Carolina	Charleston
	Columbia
	Greenville/Spartanburg
	Hilton Head
	Myrtle Beach
Virginia	Northern Virginia
	Southern Virginia
	Midwest Region
Colorado	Denver
	Fort Collins
Illinois	Chicago
Indiana	Fort Wayne
	Indianapolis
Iowa	Des Moines
Minnesota	Minneapolis/St. Paul
Ohio	Cincinnati
	Columbus
	South Central Region
Louisiana	Baton Rouge
	Lafayette
Oklahoma	Oklahoma City
Texas	Austin
	Bryan/College Station
	Dallas
	Fort Worth
	Houston
	Killeen/Temple/Waco
	Midland/Odessa
	New Braunfels/San Marcos
	San Antonio
	Southwest Region
Arizona	Phoenix

State	Reporting Region/Market
	Southeast Region
Alabama	Birmingham
	Huntsville
	Mobile/Baldwin County
	Montgomery
	Tuscaloosa
Florida	Fort Myers/Naples
	Gainesville
	Jacksonville
	Lakeland
	Melbourne/Vero Beach
	Miami/Fort Lauderdale
	Ocala
	Orlando
	Pensacola/Panama City
	Port St. Lucie
	Tampa/Sarasota
	Volusia County
	West Palm Beach
Georgia	Atlanta
	Augusta
Mississippi	Gulf Coast
Tennessee	Chattanooga
	Knoxville
	Memphis
	Nashville
	West Region
California	Bakersfield
	Bay Area
	Fresno
	Los Angeles County
	Riverside County
	Sacramento
	San Bernardino County
	San Diego County
	Ventura County
Hawaii	Hawaii
	Kauai
	Maui
	Oahu
Nevada	Las Vegas
	Reno
Oregon	Bend
	Portland/Salem
Utah	Salt Lake City
Washington	Seattle/Tacoma/Everett
	Spokane
	Vancouver

	Tucson
New Mexico	Albuquerque

When evaluating new or existing homebuilding markets for purposes of capital allocation, we consider local, market-specific factors, including among others:

- Economic conditions;
- Employment levels and job growth;
- Income level of potential homebuyers;
- Local housing affordability and typical mortgage products utilized;
- Market for homes at our targeted price points;
- Availability of land and lots in desirable locations on acceptable terms;
- Land entitlement and development processes;
- Availability of qualified subcontractors;
- New and secondary home sales activity;
- Competition;
- Prevailing housing products, features, cost and pricing; and
- Performance capabilities of our local management team.

Economies of Scale

We are the largest homebuilding company in the United States in fiscal 2019 as measured by number of homes closed, and we are also one of the largest builders in many of the markets in which we operate. We believe that our national, regional and local scale of operations provides us with benefits that may not be available to the same degree to some other smaller homebuilders, such as:

- Greater access to and lower cost of capital, due to our balance sheet strength and our lending and capital markets relationships;
- Volume discounts and rebates from national, regional and local materials suppliers and lower labor rates from certain subcontractors; and
- Enhanced leverage of our general and administrative activities, which allows us flexibility to adjust to changes in market conditions and compete effectively across our markets.

Decentralized Homebuilding Operations

We view homebuilding as a local business; therefore, most of our direct homebuilding activities are decentralized to provide flexibility to our local managers in making operational decisions. We believe that our local management teams, who are familiar with local conditions, have the best information to make many decisions regarding their operations. At September 30, 2019, we had 52 separate homebuilding operating divisions, many of which operate in more than one market area. Generally, each operating division consists of a division president; a controller; land entitlement, acquisition and development personnel; a sales manager and sales and marketing personnel; a construction manager and construction superintendents; customer service personnel; a purchasing manager and office staff. Our division presidents receive performance-based compensation if they achieve targeted financial and operating metrics related to their operating divisions. Following is a summary of our homebuilding activities that are decentralized in our local operating divisions, and the control and oversight functions that are centralized in our regional and corporate offices.

Operating Division Responsibilities

Each operating division is responsible for:

- Site selection, which involves
  - — A feasibility study;
  - — Soil and environmental reviews;
  - — Review of existing zoning and other governmental requirements;
  - — Review of the need for and extent of offsite work required to obtain project entitlements; and
  - — Financial analysis of the potential project;
- Negotiating lot purchase, land acquisition and related contracts;
- Obtaining all necessary land development and home construction approvals;
- Selecting land development subcontractors and ensuring their work meets our contracted scopes;
- Selecting building and architectural plans;
- Selecting home construction subcontractors and ensuring their work meets our contracted scopes;
- Planning and managing home construction schedules;
- Determining the pricing for each house plan and options in a given community;
- Developing and implementing local marketing and sales plans;
- Coordinating all interactions with customers and real estate brokers during the sales, construction and home closing processes; and
- Ensuring the quality and timeliness of post-closing service and warranty repairs provided to customers.

Centralized Controls

We centralize many important risk elements of our homebuilding business through our regional and corporate offices. We have five separate homebuilding regional offices. Generally, each regional office consists of a region president, a chief financial officer, legal counsel and other operational and office support staff. Each of our region presidents and their management teams are responsible for oversight of the operations of a number of homebuilding operating divisions, including:

- Review and approval of division business plans and budgets;
- Review and approval of all land and lot acquisition contracts;
- Review of all business and financial analysis for potential land and lot inventory investments;
- Oversight of land and home inventory levels;
- Monitoring division financial and operating performance; and
- Review of major personnel decisions and division incentive compensation plans.

Our corporate executives and corporate office departments are responsible for establishing our operational policies and internal control standards and for monitoring compliance with established policies and controls throughout our operations. The corporate office also has primary responsibility for direct management of certain key risk elements and initiatives through the following centralized functions:

- Financing;
- Cash management;
- Allocation of capital;
- Issuance and monitoring of inventory investment guidelines;
- Approval and funding of land and lot acquisitions;
- Monitoring and analysis of profitability, returns, costs and inventory levels;
- Risk and litigation management;
- Environmental assessments of land and lot acquisitions;
- Technology systems to support management of operations, marketing and financial information;
- Accounting and management reporting;
- Income taxes;
- Internal audit;
- Public reporting and investor and media relations;
- Administration of payroll and employee benefits;
- Negotiation of national purchasing contracts;
- Administration, reporting and monitoring of customer satisfaction surveys and resolutions of issues; and
- Approval of major personnel decisions and management incentive compensation plans.

Land/Lot Acquisition and Inventory Management

We acquire land for use in our homebuilding and Forestar operations after we have completed due diligence and generally after we have obtained the rights (known as entitlements) to begin development or construction work resulting in an acceptable number of residential lots. Before we acquire lots or tracts of land, we complete a feasibility study, which includes soil tests, independent environmental studies, other engineering work and financial analysis. We also evaluate the status of necessary zoning and other governmental entitlements required to develop and use the property for home construction. Although we purchase and develop land primarily to support our homebuilding activities, we may sell land and lots to other developers and homebuilders where we have excess land and lot positions or for other strategic reasons.

We also enter into land/lot contracts, in which we obtain the right, but generally not the obligation, to buy land or lots at predetermined prices on a defined schedule commensurate with anticipated home closings or planned development. These contracts generally are non-recourse, which limits our financial exposure to our earnest money deposited into escrow under the terms of the contract and any pre-acquisition due diligence costs we incur. This enables us to control land and lot positions with limited capital investment, which substantially reduces the risks associated with land ownership and development.

We directly acquire almost all of our land and lot positions. We are a party to a small number of joint ventures. Joint ventures are consolidated if we have a controlling interest, or accounted for under the equity method of accounting if we have a significant influence, but not control.

We attempt to mitigate our exposure to real estate inventory risks by:

- Controlling our level of inventory investment and managing our supply of land/lots owned and controlled under purchase contracts to match the expected housing demand in each of our operating markets;

- Monitoring local market and demographic trends, housing preferences and related economic developments, including the identification of desirable housing submarkets based on the quality of local schools, new job opportunities, local growth initiatives and personal income trends;

- Utilizing land/lot purchase contracts and seeking to acquire developed lots which are substantially ready for home construction, where possible; and

- Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each subdivision.

Land Development and Home Construction

Substantially all of our land development and home construction work is performed by subcontractors. Subcontractors typically are selected after a competitive bidding process and are retained for a specific subdivision or series of house plans pursuant to a contract that obligates the subcontractor to complete the scope of work at an agreed-upon price. We employ land development managers and construction superintendents to monitor land development and home construction activities, participate in major design and building decisions, coordinate the activities of subcontractors and suppliers, review the work of subcontractors for quality and cost controls and monitor compliance with zoning and building codes. In addition, our construction superintendents interact with our homebuyers during the construction process and instruct buyers on post-closing home maintenance.

Our home designs are selected or prepared in each of our markets to appeal to local homebuyers' expectations for affordability, home size and features, and our local management teams adjust product offerings to meet buyer demand as necessary. In many communities, we offer optional interior and exterior features to homebuyers for an additional charge. Construction time for our homes depends on the availability of labor, materials and supplies, the weather, the size of the home and other factors. We complete the construction of most homes within two to six months.

We typically do not maintain significant inventories of land development or construction materials, except for work in progress materials for active development projects and homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources. We have contracts exceeding one year with certain suppliers of building materials that are cancelable at our option.

We are subject to governmental regulations that affect our land development and construction operations. At times, we have experienced delays in receiving the proper approvals from municipalities or other government agencies that have delayed our anticipated development and construction activities in certain communities.

Cost Controls

We control construction costs by designing our homes efficiently and by obtaining competitive bids for construction materials and labor. We also competitively bid and negotiate pricing from our subcontractors and suppliers based on the volume of services and products we purchase on a local, regional and national basis. We monitor our land development expenditures and construction costs versus budgets for each house and community, and we review our inventory levels, margins, expenses, profitability and returns for each operating market compared to both its business plan and our performance expectations.

We control overhead costs by centralizing certain accounting and administrative functions, monitoring staffing and compensation levels and by applying technology to business processes to improve productivity where practical. We review other general and administrative costs to identify efficiencies and savings opportunities in our operating divisions and our regional and corporate offices. We also direct many of our promotional activities toward local real estate brokers and digital marketing initiatives, which we believe are efficient uses of our marketing expenditures.

Marketing and Sales

We primarily use the D.R. Horton, Emerald Homes, Express Homes and Freedom Homes brand names to market and sell our homes. Our D.R. Horton branded communities are the core of our business and account for the majority of our home closings, focusing primarily on the first time and first time move-up homebuyer. Our Emerald branded communities appeal to buyers in search of higher-end move-up and luxury homes. Our Express branded communities primarily accommodate a segment of entry-level buyers who are focused on affordability. We introduced our Freedom Homes brand in 2016 to offer homes at affordable price points to active adult buyers seeking a low-maintenance lifestyle. The percentage of home closings and home sales revenue contributed by each brand during fiscal 2019 was as follows:

	Percentage of Home Closings	Percentage of Home Sales Revenue
D.R. Horton	60%	63%
Emerald	2%	5%
Express	35%	29%
Freedom	3%	3%
Total	100%	100%

We also use names of acquired companies for a period of time after the acquisition. We currently utilize the Pacific Ridge Homes brand in our Seattle, Washington market; the Westport Homes brand in our Indianapolis and Fort Wayne, Indiana and Columbus, Ohio markets; and the Terramor Homes brand in our Raleigh, North Carolina market. The product offerings in all of these markets are similar to, and included with, our D.R. Horton branded communities shown above.

We market and sell our homes primarily through commissioned employees, and the majority of our home closings also involve an independent real estate broker. We typically conduct home sales from sales offices located in furnished model homes in each subdivision, and we generally do not offer our model homes for sale until the completion of a subdivision. Our sales personnel assist prospective homebuyers by providing floor plans and price information, demonstrating the features and layouts of our homes and assisting with the selection of options, when available. We train and inform our sales personnel regarding construction schedules and marketing and advertising plans. As market conditions warrant, we may provide potential homebuyers with incentives, such as discounts or free upgrades, to be competitive in a particular market or to attain our targeted sales pace.

We market our homes and communities to prospective homebuyers and real estate brokers digitally, through email, search engine marketing, social media and our company website and other real estate websites, in addition to print media and advertisement. We also use billboards, radio, television, magazine and newspaper advertising locally as necessary. We attempt to position our subdivisions in locations that are desirable to potential homebuyers and convenient to or visible from local traffic patterns, which helps to reduce advertising costs. Model homes play an important role in our marketing efforts, and we expend significant effort and resources to create an attractive atmosphere in our model homes.

We also build speculative homes in most of our communities, which allow us to compete effectively with existing homes available in the market and improve our profits and returns. These homes enhance our marketing and sales efforts to prospective homebuyers who are renters or who are relocating to these markets and require a home within a short time frame, as well as to independent brokers who represent these homebuyers. We determine our speculative homes strategy in each market based on local market factors, such as new job growth, the number of job relocations, housing demand and supply, seasonality, current sales contract cancellation trends and our past experience in the market. We maintain a level of speculative home inventory in each community based on our current and planned sales pace, and we monitor and adjust speculative home inventory on an ongoing basis as conditions warrant.

Sales Contracts and Backlog

Our sales contracts require an earnest money deposit which varies in amount across our markets and communities. Additionally, customers are generally required to pay additional deposits when they select options or upgrade features for their homes. Our sales contracts include a financing contingency which permits customers to cancel and receive a refund of their deposit if they cannot obtain mortgage financing at prevailing or specified interest rates within a specified period. Our contracts may include other contingencies, such as the sale of an existing home. We either retain or refund customer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

Sales order backlog represents homes under contract but not yet closed at the end of the period. At September 30, 2019, the value of our backlog of sales orders was $4.1 billion (13,613 homes), an increase of 3% from $4.0 billion (13,371 homes) at September 30, 2018. The average sales price of homes in backlog was $304,100 at September 30, 2019, up slightly from the $301,300 average at September 30, 2018. Many of the contracts in our sales order backlog are subject to contingencies, such as those described above, which can result in cancellations. As a percentage of gross sales orders, cancellations of sales contracts were 21% in fiscal 2019 compared to 22% in fiscal 2018.

The length of time between the signing of a sales contract for a home and delivery of the home to the buyer (closing) is generally from two to six months; therefore, substantially all of the homes in our sales backlog at September 30, 2019 are scheduled to close in fiscal year 2020.

Customer Service and Quality Control

Our operating divisions are responsible for pre-closing quality control inspections and responding to customers' post-closing needs. We believe that a prompt and courteous response to homebuyers' needs during and after construction reduces post-closing repair costs, enhances our reputation for quality and service and ultimately leads to repeat and referral business from the real estate community and homebuyers. We typically provide our 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 subcontractors who perform the actual construction also provide us with warranties on workmanship and are generally prepared to respond to us and the homeowner promptly upon request. In addition, some of our suppliers provide manufacturer's warranties on specified products installed in the home.

Forestar Residential Lot Development Operations

During fiscal 2018, we acquired 75% of the outstanding shares of Forestar. Forestar is a residential lot development company with operations in 51 markets and 20 states as of September 30, 2019. We owned approximately 66% of Forestar's outstanding common stock at September 30, 2019. Forestar is a component of our homebuilding strategy to enhance operational efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled under land purchase contracts to enhance operational efficiency and returns. Forestar is making significant investments in land acquisition and development to expand its residential lot development business across a geographically diversified national platform. Our homebuilding operations acquire finished lots from Forestar in accordance with the master supply agreement between the two companies. A shared services agreement is in place whereby we provide Forestar certain administrative, compliance, operational and procurement services. As the controlling shareholder of Forestar, we strongly influence the strategic direction and operations of Forestar.

Customer Mortgage Financing

We provide mortgage financing services principally to purchasers of our homes in the majority of our homebuilding markets through DHI Mortgage, our 100% owned subsidiary. DHI Mortgage assists in the sales transaction by coordinating the mortgage application, mortgage commitment and home closing processes to facilitate a timely and efficient home buying experience for our buyers. During the year ended September 30, 2019, DHI Mortgage provided mortgage financing services for approximately 58% of our total homes closed, and approximately 98% of DHI Mortgage's loan volume related to homes closed by our homebuilding operations. Most of our homebuilding divisions also work with additional mortgage lenders that offer a range of mortgage financing programs to our homebuyers.

To limit the risks associated with our mortgage operations, DHI Mortgage originates loan products that we believe can be sold to third-party purchasers of mortgage loans, the majority of which are 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). DHI Mortgage sells substantially all of the loans and their servicing rights to third-party purchasers shortly after origination with limited recourse provisions. DHI Mortgage centralizes most of its control and oversight functions, including those related to loan underwriting, quality control, regulatory compliance, secondary marketing of loans, hedging activities, accounting and financial reporting.

Title Services

Through our subsidiary title companies, we serve as a title insurance agent in selected markets by providing title insurance policies, examination and closing services primarily to our homebuilding customers. We currently assume little or no underwriting risk associated with these title policies.

Insurance Agency

Through our insurance agency subsidiary, we collect insurance commissions on homeowner policies placed with third party carriers.

Multi-Family Rental Properties

Through DHI Communities, a 100% owned subsidiary, we develop, construct and own multi-family residential properties that produce rental income. DHI Communities is primarily focused on constructing garden style multi-family products, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. After DHI Communities has completed construction and achieved a stabilized occupancy rate, the property is typically marketed for sale. We currently have four projects under active construction and two projects that are substantially complete, one of which was under contract to sell at September 30, 2019. During fiscal 2019, DHI Communities sold two multi-family rental properties for $133.4 million and recorded gains on sale totaling $51.9 million. At September 30, 2019, DHI Communities had total assets of $204.0 million, which included property and equipment of $153.9 million and other assets of $28.9 million for a property held for sale.

Employees

At September 30, 2019, we employed 8,916 persons, of whom 1,908 were sales and marketing personnel, 2,532 were involved in construction, 2,552 were office personnel and 1,924 worked in mortgage and title operations. We focus significant attention toward attracting and retaining talented and experienced individuals to manage and support our operations, and we believe that we have good relations with our employees.

Business Acquisitions

We routinely evaluate opportunities to profitably expand our operations, including potential acquisitions of other homebuilding or related businesses. Acquisitions of homebuilding and related businesses usually provide us with immediate land and home inventories and control of additional land and lot positions through purchase contracts. Also, employees of acquired businesses generally have specialized knowledge of local market conditions, including existing relationships with municipalities, land owners, developers, subcontractors and suppliers. These inventory positions and local market knowledge and relationships could take us several years to develop through our own efforts. We seek to limit the risks associated with acquiring other companies by conducting extensive operational, financial and legal due diligence on each acquisition and by performing financial analysis to determine that each acquisition will have a positive impact on our earnings within an acceptable period of time.

During 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.

Competition

The homebuilding and lot development industries are highly competitive. We compete with numerous other national, regional and local homebuilders and developers for homebuyers, desirable land, raw materials, skilled labor, employees, management talent and financing. We also compete with resales of existing and foreclosed homes and with the rental housing market. Our homes compete on the basis of price, location, quality, design and mortgage financing terms.

The competitors to our financial services businesses include other mortgage lenders and title companies, including national, regional and local mortgage bankers and other financial institutions. Some of these competitors are subject to fewer governmental regulations and may have greater access to capital, and some of them may operate with different lending criteria and may offer a broader array of financing and other products and services to consumers than we do. We strive to provide flexible, fairly priced financing alternatives subject to applicable regulations.

Governmental Regulations and Environmental Matters

The homebuilding industry is subject to extensive and complex regulations. We and the subcontractors we use must comply with many federal, state and local laws and regulations. These include zoning, density and development requirements and building, environmental, advertising, labor and real estate sales rules and regulations. These regulations and requirements affect substantially all aspects of our land development and home design, construction and sales processes in varying degrees across our markets. Our homes are inspected by local authorities where required, and homes eligible for insurance or guarantees provided by the Federal Housing Administration (FHA) and the Department of Veteran Affairs (VA) are subject to inspection by them. These regulations often provide broad discretion to the administering governmental authorities. In addition, our new housing developments may be subject to various assessments for schools, parks, streets, utilities and other public improvements.

Our homebuilding and land development operations are also subject to an extensive array of local, state and federal statutes, ordinances, rules and regulations concerning protection of health, safety and the environment. The particular compliance requirements for each site vary greatly according to location, environmental condition and the present and former uses of the site and adjoining properties.

Our mortgage company must comply with extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the Consumer Financial Protection Bureau (CFPB), Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, United States Department of Agriculture (USDA), Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies.

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 our homebuilding, land development 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.

ITEM 1A. RISK FACTORS

Discussion of our business and operations included in this annual report on Form 10-K should be read together with the risk factors set forth below. They describe various risks and uncertainties we are or may become subject to, many of which are difficult to predict or beyond our control. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

The homebuilding and lot development industries are cyclical and affected by changes in economic, real estate or other conditions that could adversely affect our business or financial results.

The homebuilding and lot development industries are cyclical and are significantly affected by changes in general and local economic and real estate conditions, such as:

- employment levels;
- consumer confidence and spending;
- housing demand;
- availability of financing for homebuyers;
- interest rates;
- availability and prices of new homes for sale and alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes and rental properties; and
- demographic trends.

Adverse changes in these general and local economic conditions or deterioration in the broader economy would cause a negative impact on our business and financial results and increase the risk for asset impairments and writeoffs. Changes in these economic conditions may affect some of our regions or markets more than others. If adverse conditions affect our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies.

In the past, the federal government’s fiscal and trade policies and economic stimulus actions have created uncertainty in the financial markets and caused volatility in interest rates, which impacted business and consumer behavior. Monetary policy actions affecting interest rates or fiscal policy actions and new legislation related to taxation, spending levels or borrowing limits, along with the related political debates, conflicts and compromises associated with such actions, may negatively impact the financial markets and consumer confidence. Such events could hurt the U.S. economy and the housing market and in turn, could adversely affect the operating results of our businesses.

Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, volcanic activity, droughts and floods, heavy or prolonged precipitation or wildfires, can harm our business. These can delay our development work, home construction and home closings, adversely affect the cost or availability of materials or labor or damage homes under construction. The climates and geology of many of the states in which we operate, including California, Florida, Texas and other coastal areas, where we have some of our larger operations and which have experienced recent natural disasters, present increased risks of adverse weather or natural disasters.

Deployments of U.S. military personnel to foreign regions, terrorist attacks, other acts of violence or threats to national security and any corresponding response by the United States or others, related domestic or international instability or civil unrest may cause an economic slowdown in the markets where we operate, which could adversely affect our business.

Public health issues such as a major epidemic or pandemic could adversely affect our business. The U.S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public perception of health risk. In the event of a widespread, prolonged, actual or perceived outbreak of a contagious disease, our operations could be negatively impacted by a reduction in customer traffic or other factors which could reduce demand for new homes.

If we experience any of the foregoing, potential customers may be less willing or able to buy our homes. In the future, our pricing and product strategies may also be limited by market conditions. We may be unable to change the mix of our home offerings, reduce the costs of the homes we build, offer more affordable homes or satisfactorily address changing market conditions in other ways without adversely affecting our profits and returns. In addition, cancellations of home sales contracts in backlog may increase if homebuyers do not honor their contracts due to any of the factors discussed above.

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters will also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale of mortgages or may increase our recourse obligations for previous originations. We may be responsible for losses associated with mortgage loans originated and sold to third-party purchasers in the event of errors or omissions relating to certain representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in the connection with the loan, and we may be required to repurchase certain of those mortgage loans or provide indemnification. Repurchased mortgage loans and/or the settlement of claims associated with such loans could adversely affect our business or financial results. We establish reserves for estimated losses and future repurchase obligations for mortgage loans we have sold; however, actual future obligations related to these mortgages could differ significantly from our current estimated amounts.

Constriction of the credit and public capital markets could limit our ability to access capital and increase our costs of capital.

During past economic and housing downturns, the credit markets constricted and reduced some sources of liquidity that were previously available to us. Consequently, we relied principally on our cash on hand to meet our working capital needs and repay outstanding indebtedness during those times. There likely will be periods in the future when financial market upheaval will increase our cost of capital or limit our ability to access the public debt markets or obtain bank financing.

Our homebuilding operations utilize a $1.59 billion senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $2.5 billion, subject to certain conditions and availability of additional bank commitments. Our homebuilding revolving credit facility also provides for the issuance of letters of credit with a sublimit equal to 100% of the revolving credit commitment. The maturity date of such facility is October 2, 2024. Forestar and its subsidiaries, our financial services subsidiaries, and certain of our other subsidiaries are not guarantors under our homebuilding revolving credit facility or our homebuilding senior notes.

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 Forestar revolving credit 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. The maturity date of such facility is October 2, 2022. The Forestar revolving credit facility is guaranteed by Forestar’s wholly-owned subsidiaries that are not immaterial subsidiaries or have not been designated as unrestricted subsidiaries. The Forestar revolving credit facility is not guaranteed by us or our other subsidiaries.

Our mortgage subsidiary utilizes a $900 million mortgage repurchase facility to finance the majority of the loans it originates. The capacity of the facility increases, without requiring additional commitments, to $1.1 billion for approximately 45 days at fiscal year end. The capacity can also be increased to $1.2 billion subject to the availability of additional commitments. The mortgage repurchase facility must be renewed annually and currently expires on February 21, 2020. We expect to renew and extend the term of the mortgage repurchase facility with similar terms prior to its maturity. Adverse changes in market conditions could make the renewal of these facilities more difficult or could result in an increase in the cost of these facilities or a decrease in the committed amounts. Such changes affecting our mortgage repurchase facility may also make it more difficult or costly to sell the mortgages that we originate.

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. We have an automatically effective universal shelf registration statement filed with the SEC in August 2018, registering debt and equity securities that we may issue from time to time in amounts to be determined. Also, Forestar has an effective shelf registration statement filed with the SEC in September 2018, registering $500 million of equity securities, of which $394.3 million remains available. As market conditions permit, we may issue new debt or equity securities through the public capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. We believe that our existing cash resources, our homebuilding revolving credit facility, our mortgage repurchase facility and our ability to access the capital markets will provide sufficient liquidity to fund our near-term working capital needs and debt obligations, including the maturity of $500 million aggregate principal amount of homebuilding senior notes in fiscal 2020. We believe that Forestar's existing cash resources together with borrowings under the Forestar revolving credit facility and its ability to access the capital markets will provide sufficient liquidity to fund its near-term working capital needs, including the maturity of its convertible senior notes in fiscal 2020. Adverse changes in economic, homebuilding or capital market conditions could negatively affect our business, liquidity and financial results, restrict our ability to obtain additional capital or 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 could decrease our buyers' ability to obtain financing and adversely affect our business or financial results.

The mortgage loans originated by our financial services operations are primarily eligible for sale to Fannie Mae, Freddie Mac and Ginnie Mae and are sold to third-party purchasers. The secondary market for mortgage loans continues to primarily desire securities backed by Fannie Mae, Freddie Mac or Ginnie Mae, and we believe the liquidity these agencies provide to the mortgage industry is important to the housing market. Any significant change regarding the long-term structure and viability of Fannie Mae and Freddie Mac could result in adjustments to the size of their loan portfolios and to guidelines for their loan products. Additionally, a reduction in the availability of financing provided by these institutions could adversely affect interest rates, mortgage availability and sales of new homes and mortgage loans. During fiscal 2019, approximately 93% of the mortgage loans sold by DHI Mortgage were sold to four major financial entities, the largest percentage of which purchased 32% of the total loans sold. On an ongoing basis, we seek to establish loan purchase arrangements with additional financial entities. If we are unable to sell mortgage loans to purchasers on attractive terms, our ability to originate and sell mortgage loans at competitive prices could be limited, which would negatively affect our profitability.

The FHA insures mortgage loans that generally have lower credit requirements and is an important source for financing the sale of our homes. Changes, restrictions or significant premium increases in FHA programs in the future may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes.

Some of our customers may qualify for 100% financing through programs offered by the VA, USDA and certain other housing finance agencies. These programs are subject to changes in regulations, lending standards and government funding levels. There can be no assurances that these programs or other programs will continue to be available in our homebuilding markets or that they will be as attractive to our customers as the programs currently offered, which could negatively affect our sales.

Mortgage rates are currently low as compared to most historical periods; however, the Federal Reserve Board could raise its benchmark rate. When interest rates increase, the cost of owning a home increases, which will likely reduce the number of potential homebuyers who can obtain mortgage financing and could result in a decline in the demand for our homes.

The risks associated with our land and lot inventory could adversely affect our business or financial results.

Inventory risks are substantial for our homebuilding and Forestar businesses. There are risks inherent in controlling, owning and developing land. If housing demand declines, we may not be able to build and sell homes profitably in some of our communities, and we may not be able to fully recover the costs of some of the land and lots we own. Also, the values of our owned undeveloped land, lots and housing inventories may fluctuate significantly due to changes in market conditions. As a result, our deposits for lots controlled under purchase contracts may be put at risk, we may have to sell homes or land for a lower profit margin or record inventory impairment charges on our land and lots. A significant deterioration in economic or homebuilding industry conditions may result in substantial inventory impairment charges.

We cannot make any assurances that our growth strategies, acquisitions or investments will be successful or will not expose us to additional risks or other negative consequences.

In recent years, we have primarily grown our business by increasing our investments in land, lot and home inventories in our existing homebuilding markets. We have also expanded through investments in new product offerings, new geographic markets, and the growth of our multi-family rental property operations. Investments in land, lots, home inventories and rental properties can expose us to risks of economic loss and asset impairments if housing conditions weaken or if we are unsuccessful in implementing our growth strategies.

On October 5, 2017, we acquired 75% of the outstanding shares of Forestar for $558.3 million, pursuant to the terms of a merger agreement entered into in June 2017 and approved by a vote of Forestar's shareholders. We currently own approximately 66% of the outstanding shares of Forestar. Forestar is a publicly traded residential lot development company with operations in 51 markets and 20 states as of September 30, 2019. Forestar is making significant investments in land acquisition and development to expand its residential lot development business across a geographically diversified national platform. Our homebuilding divisions acquire finished lots from Forestar in accordance with the master supply agreement between the two companies, and we provide Forestar certain administrative, compliance, operational and procurement services through a shared services agreement. As the controlling shareholder of Forestar, we strongly influence the strategic direction and operations of Forestar.

In addition to the investment and merger with Forestar, we have acquired the homebuilding operations of several homebuilding companies in recent years, and we may make strategic acquisitions of or investments in other companies, operations or assets in the future. Such acquisitions and investments may have risks similar to those related to land, lots and home inventories, but they may also expose us to additional risks or other negative consequences. These transactions may not advance our business strategy, provide a satisfactory return on our investment or provide other benefits we anticipate. Also, the integration of these transactions may not be successful and may require significant time and resources, which may divert management's attention from other operations. Acquisitions and investments could also expose us to material liabilities not discovered in the due diligence process and may lead to litigation. If these transactions under-perform our expectations or are unsuccessful, we may incur significant expenses or write-offs of inventory, other assets or intangible assets such as goodwill. Acquisitions and investments can result in dilution to existing stockholders if we issue our common stock as consideration and can increase our debt levels or reduce our liquidity if we purchase them with cash. The magnitude, timing and nature of any future acquisitions or investments will depend on a number of factors, including our ability to identify suitable additional markets or acquisition candidates, the negotiation of acceptable terms, our financial position and general economic and business conditions. We also may seek to divest an investment or a business and may have difficulty selling such investment or business on acceptable terms in a timely manner.

Our business and financial results could be adversely affected by significant inflation, higher interest rates or deflation.

Inflation can adversely affect us by increasing costs of land, materials and labor. In addition, significant inflation is often accompanied by higher interest rates, which have a negative impact on housing affordability. In a highly inflationary environment, depending on industry and other economic conditions, we may be precluded from raising home prices enough to keep up with the rate of inflation, which could reduce our profit margins. Moreover, in a highly inflationary environment, our cost of capital, labor and materials can increase and the purchasing power of our cash resources can decline, which could have an adverse impact on our business or financial results.

Alternatively, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially increase the supply of existing homes. If oil prices decline significantly, economic conditions in markets that have significant exposure to the energy sector may weaken. These, or other factors that increase the risk of significant deflation, could have a negative impact on our business or financial results.

Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can be significant.

We are subject to home warranty and construction defect claims arising in the ordinary course of our homebuilding business. We rely on subcontractors to perform the actual construction of our homes, and in many cases, to select and obtain construction materials. Despite our detailed specifications and monitoring of the construction process, our subcontractors occasionally do not meet adequate quality standards in the construction of our homes. When we find these issues, we repair them in accordance with our warranty obligations. We spend significant resources to repair items in homes we have sold to fulfill the warranties we issued to our homebuyers. Additionally, we are subject to construction defect claims which can be costly to defend and resolve in the legal system. Warranty and construction defect matters can also result in negative publicity in the media and on the internet, which can damage our reputation and adversely affect our ability to sell homes.

Based on the large number of homes we have sold over the years, our potential liabilities related to warranty and construction defect claims are significant. As a consequence, we maintain product liability insurance, and we seek to obtain indemnities and certificates of insurance from subcontractors covering claims related to their workmanship and materials. We establish warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our future warranty and construction defect claims. Contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of product liability insurance for construction defects is limited and costly. We have responded to increases in insurance costs and coverage limitations by increasing our self-insured retentions and claim reserves. There can be no assurance that coverage will not be further restricted or become more costly. If costs to resolve our future warranty and construction defect claims exceed our estimates, our financial results and liquidity could be adversely affected.

A health and safety incident relating to our operations could be costly in terms of potential liability and reputational damage.

Building and land development sites are inherently dangerous, and operating in the homebuilding and lot development industries poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of homes we construct, health and safety performance is critical to the success of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly and could expose us to liability that could be costly. Such an incident could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our financial results and liquidity.

Damage to our corporate reputation or brands from negative publicity could adversely affect our business, financial results and/or stock price.

Adverse publicity related to our company, industry, personnel, operations or business performance may cause damage to our corporate reputation or brands and may generate negative sentiment, potentially affecting the performance of our business or our stock price, regardless of its accuracy or inaccuracy. Negative publicity can be disseminated rapidly through digital platforms, including social media, websites, blogs and newsletters. Customers and other interested parties value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction, and our success in preserving our brand image depends on our ability to recognize, respond to and effectively manage negative publicity in a rapidly changing environment. Adverse publicity or unfavorable commentary from any source could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, which could adversely affect our business.

Supply shortages and other risks related to acquiring land, building materials and skilled labor could increase our costs and delay deliveries.

The homebuilding and lot development industries have from time to time experienced significant difficulties that can affect the cost or timing of construction, including:

- difficulty in acquiring land suitable for residential building at affordable prices in locations where our potential customers want to live;
- shortages of qualified subcontractors;
- reliance on local subcontractors, manufacturers, distributors and land developers who may be inadequately capitalized;
- shortages of materials; and
- volatile increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

In addition, tariffs, duties and/or trade restrictions imposed or increased on imported materials and goods that are used in connection with the construction and delivery of our homes, including steel, aluminum and lumber, may raise our costs for these items or for the products made with them. These factors may cause construction delays or cause us to incur more costs building our homes. If the level of new home demand increases significantly in future periods, the risk of shortages in residential lots, labor and materials available to the homebuilding industry will likely increase.

We are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and cash flows.

We often are required to provide surety bonds to secure our performance or obligations under construction contracts, development agreements and other arrangements. At September 30, 2019, we had $1.7 billion of outstanding surety bonds. Our ability to obtain surety bonds primarily depends upon our credit rating, financial condition, past performance and other factors, including the capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds for construction and development activities. If we are unable to obtain surety bonds when required, our results of operations and cash flows could be adversely affected.

Increases in the costs of owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results.

Prior to the enactment of the Tax Cuts and Jobs Act (Tax Act), which was enacted into law on December 22, 2017, significant expenses of owning a home, including mortgage loan interest and state and local taxes, generally were deductible expenses for an individual’s federal income taxes, subject to various limitations. The Tax Act established new limits on the federal tax deductions individual taxpayers may take on mortgage loan interest payments and on state and local taxes, including property taxes. These changes could reduce the actual or perceived affordability of homeownership, which could adversely affect demand for and sales prices of new homes, especially in areas with relatively high housing prices or high state and local income taxes and real estate taxes. Any further change in income tax laws by the federal or state government to eliminate or substantially reduce income tax benefits associated with homeownership could adversely affect demand for and sales prices of new homes.

In addition, increases in property tax rates by local governmental authorities, as experienced in some areas in response to reduced federal and state funding, could adversely affect the amount of financing our potential customers could obtain or their desire to purchase new homes.

Governmental regulations and environmental matters could increase the cost and limit the availability of our land development and homebuilding projects and adversely affect our business or financial results.

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to development or construction being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities, roads or other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives. Any of these may limit, delay or increase the costs of development or home construction.

We are also subject to a significant number and variety of local, state and federal laws and regulations concerning protection of health, safety, labor standards and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas. Government agencies also routinely initiate audits, reviews or investigations of our business practices to ensure compliance with these laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. For example, we have received Notices of Violation from the United States Environmental Protection Agency related to stormwater compliance at certain of our sites in our Southeast region. This matter could potentially result in requirements for us to perform additional compliance procedures and to pay monetary sanctions.

The subcontractors we rely on to perform the actual construction of our homes are also subject to a significant number of local, state and federal laws and regulations, including laws involving matters that are not within our control. If the subcontractors who construct our homes fail to comply with all applicable laws, we can suffer reputational damage, and may be exposed to possible liability.

We are also subject to an extensive number of laws and regulations because our common stock and debt securities and the common stock of our Forestar subsidiary are publicly traded in the capital markets. These regulations govern our communications with our shareholders and the capital markets, our financial statement disclosures and our legal processes, and they also impact the work required to be performed by our independent registered public accounting firm and our legal counsel. Changes in these laws and regulations, including the subsequent implementation of rules by the administering government authorities, may require us to incur additional compliance costs, and such costs may be significant.

Governmental regulation of our financial services operations could adversely affect our business or financial results.

Our financial services operations are subject to extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the CFPB, Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies.

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 FHA 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.

Due to the significant increases in regulations in recent years, operating costs have increased for our mortgage operations. The possibility of additional future regulations, changing rule interpretations and examinations by regulatory agencies may result in more stringent compliance standards and could adversely affect the results of our operations.

We have significant amounts of debt and may incur additional debt, which could affect our financial health and our ability to raise additional capital to fund our operations or potential acquisitions.

As of September 30, 2019, our consolidated debt was $3.4 billion, which consisted of $2.0 billion related to our homebuilding segment, $462.9 million related to our Forestar segment and $888.9 million related to our financial services segment. We had $1.6 billion principal amount of our debt maturing before the end of fiscal 2020, including $500 million principal amount of homebuilding senior notes, $888.9 million outstanding under the mortgage repurchase facility and $118.9 million principal amount of Forestar's convertible senior notes. The indentures governing our homebuilding senior notes do not restrict the incurrence of future unsecured debt by us or our homebuilding subsidiaries or the incurrence of secured or unsecured debt by our non-guarantor subsidiaries, and the agreement governing our homebuilding revolving credit facility allows us to incur a substantial amount of future unsecured debt. Also, the indentures governing our homebuilding senior notes and the agreement governing our homebuilding revolving credit facility impose restrictions on our ability and on that of the guarantors under our homebuilding senior notes and our homebuilding revolving credit facility to incur debt secured by certain assets, but still permit us and our homebuilding subsidiaries to incur significant amounts of additional secured debt. The Forestar revolving credit facility and the indenture governing Forestar's senior notes impose restrictions on the ability of Forestar and its restricted subsidiaries to incur secured and unsecured debt, but still permit Forestar and its subsidiaries to incur a substantial amount of future secured and unsecured debt, and do not restrict the incurrence of future secured and unsecured debt by Forestar's unrestricted subsidiaries.

The amount and the maturities of our debt and the debt of our subsidiaries could have important consequences. For example, possible consequences for our homebuilding, financial services and Forestar operations each with respect to their individual debt obligations, could:

- require the dedication of a substantial portion of cash flow from operations to payment of debt and reduce the ability to use cash flow for other operating or investing purposes;
- limit the flexibility to adjust to changes in business or economic conditions; and
- limit the ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements.

Servicing our debt requires a significant amount of cash, and we or our subsidiaries may not have sufficient cash flow from our respective businesses to pay our substantial debt.

Our ability and that of our subsidiaries to meet our respective debt service obligations will depend, in part, upon our and our subsidiaries' future financial performance. Future results are subject to the risks and uncertainties described in this report. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of debt or equity, the refinancing of debt or the sale of assets. Changes in prevailing interest rates may affect the cost of our debt service obligations, because borrowings under our revolving credit facilities and mortgage repurchase facility bear interest at floating rates.

The instruments governing our and our subsidiaries' indebtedness impose certain restrictions on our and our subsidiaries' business, and the ability of us and our subsidiaries to comply with related covenants, restrictions or limitations could adversely affect our and our subsidiaries' financial condition or operating flexibility.

The restrictions imposed by our and certain of our subsidiaries' indebtedness could limit our or our subsidiaries' ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our or our subsidiaries' ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest.

The agreements governing our indebtedness contain restrictions on our and our guarantor subsidiaries' ability to, among other things, engage in sale and leaseback transactions with respect to certain assets, incur secured debt, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets and engage in mergers, consolidations or sales of all or substantially all of our assets. The instruments governing Forestar's indebtedness contain restrictions on the ability of Forestar and certain of its subsidiaries to, among other things, incur additional indebtedness, create liens, pay dividends and make other distributions on or redeem or repurchase equity securities, sell certain assets, enter into affiliate transactions and engage in mergers, consolidations or sales of all or substantially all of Forestar's assets.

In addition, the agreements governing certain of our and our subsidiaries' debt instruments contain the following financial covenants:

Homebuilding revolving credit facility. Our homebuilding revolving credit facility contains financial covenants requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio exceeds a certain level. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under this revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity.

Forestar's revolving credit facility. The Forestar revolving credit facility contains financial covenants requiring the maintenance by Forestar of a minimum level of tangible net worth, a minimum level of liquidity, a maximum allowable leverage ratio and a borrowing base restriction based on the book value of Forestar's real estate assets and unrestricted cash. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under this revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity.

Mortgage repurchase facility and other restrictions. The mortgage repurchase facility for our mortgage subsidiary requires the maintenance of a minimum level of tangible net worth, a maximum allowable leverage ratio and a minimum level of liquidity by our mortgage subsidiary. A failure to comply with these requirements could allow the lending banks to terminate the availability of funds to our mortgage subsidiary or cause any outstanding borrowings to become due and payable prior to maturity. Any difficulty experienced in complying with these covenants could make the renewal of the facility more difficult or costly.

In addition, although our financial services business is conducted through subsidiaries that are not restricted by the indentures governing our senior notes or the agreements governing our revolving credit facilities, the ability of our financial services subsidiaries to distribute funds to our homebuilding operations would be restricted in the event such distribution would cause an event of default under the mortgage repurchase facility or if an event of default had occurred under this facility. Moreover, our right to receive assets from our financial services subsidiaries upon their liquidation or recapitalization is subject to the prior claims of the creditors of these subsidiaries. Any claims we may have to funds from our financial services subsidiaries would be subordinate to subsidiary indebtedness to the extent of any security for such indebtedness and to any indebtedness otherwise recognized as senior to our claims.

Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our debt ratings.

Our homebuilding senior unsecured debt is currently rated investment grade by all three major rating agencies; however, there can be no assurance that we will be able to maintain these ratings. Any lowering of our debt ratings could make accessing the public capital markets or obtaining additional credit from banks more difficult and/or more expensive. Any lowering of Forestar's debt ratings could also make Forestar's ability to access the public capital markets or obtain additional credit from banks more difficult and/or more expensive.

The instruments governing our indebtedness contain change of control provisions which could affect the timing of repayment.

Change of control purchase options under our homebuilding senior notes and change of control default under our homebuilding revolving credit facility. Upon the occurrence of both a change of control and a ratings downgrade event, each as defined in the indentures governing our homebuilding senior notes, we will be required to offer to repurchase such notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. Moreover, a change of control (as defined in our homebuilding revolving credit facility) would constitute an event of default under our homebuilding revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If repayment of more than $50 million outstanding under our homebuilding revolving credit facility were accelerated and such acceleration were not rescinded or such indebtedness were not satisfied, in either case within 30 days, an event of default would result under the indentures governing our homebuilding senior notes, entitling the trustee for the notes or holders of at least 25% in principal amount of the relevant series of notes then outstanding to declare all such notes to be due and payable immediately. If purchase offers were required under the indentures for our homebuilding senior notes, repayment of the borrowings under our homebuilding revolving credit facility were required, or if the senior notes were accelerated, we can give no assurance that we would have sufficient funds to pay the required amounts.

Change of control purchase option under Forestar's notes and change of control default under the Forestar revolving credit facility. Upon the occurrence of a change of control triggering event (as defined in the indenture governing Forestar's notes), Forestar will be required to offer to repurchase Forestar's notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. A change of control (as defined in the Forestar revolving credit facility) with respect to Forestar would constitute an event of default under the Forestar revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under the facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If the maturity of the Forestar revolving credit facility and/or other indebtedness of Forestar and its restricted subsidiaries together having an aggregate principal amount outstanding of $40 million or more is accelerated, an event of default would result under the indenture governing the Forestar notes, entitling the trustee for the Forestar notes or holders of at least 25% in aggregate principal amount of the then outstanding Forestar notes to declare all such Forestar notes to be due and payable immediately. If purchase offers were required under the indenture for Forestar's notes, repayment of the borrowings under Forestar's revolving credit facility were required, or if Forestar's notes were accelerated, we can give no assurance that Forestar would have sufficient funds to pay the required amounts.

Homebuilding, lot development and financial services are competitive industries, and competitive conditions could adversely affect our business or financial results.

The homebuilding and lot development industries are highly competitive. Homebuilders compete not only for homebuyers, but also for desirable properties, financing, raw materials and skilled labor. We compete with local, regional and national homebuilders and developers, and also with existing home sales, foreclosures and rental properties. The competitive conditions in the homebuilding industry can negatively affect our sales volumes, selling prices and incentive levels, reduce our profit margins, and cause the value of our inventory or other assets to be impaired. Competition can also affect our ability to acquire suitable land, raw materials and skilled labor at acceptable prices or terms, or cause delays in land development or in the construction of our homes.

The competitors to our financial services businesses include other title companies and mortgage lenders, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, and some of them may operate with different lending criteria than we do. These competitors may offer a broader or more attractive array of financing and other products and services to potential customers than we do.

Our businesses compete with other companies across all industries to attract and retain highly skilled and experienced employees, managers and executives. Competition for the services of these individuals increases as business conditions improve in the homebuilding, lot development and financial services industries and in the general economy. If we are unable to attract and retain key employees, managers or executives, our business could be adversely affected.

Our business could be adversely affected by the loss of key personnel.

We rely on our key personnel to effectively operate and manage our businesses. Specifically, our success depends heavily on the performance of our homebuilding division and region presidents and their management teams, our financial services management team, our corporate office management teams, our Forestar management team and our executive officers. These key personnel have significant experience and skills in the homebuilding, land development and financial services industries, as well as leadership and management abilities that are important to our success. We seek to retain our key personnel and to have succession plans in place to address the potential loss of key personnel. However, if our retention and succession planning efforts are unsuccessful or if we fail to attract suitable replacements, the loss of key personnel could adversely affect our business.

Information technology failures and data security breaches could harm our business.

We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, third-party software and data storage providers and other aspects of the Internet infrastructure that have experienced security breaches, cyber-attacks, significant systems failures and service outages in the past. A material breach in the security of our information technology systems or other data security controls could include the theft or release of customer, employee or company data. A data security breach, a significant and extended disruption in the functioning of our information technology systems or a breach of any of our data security controls could disrupt our business operations, damage our reputation and cause us to lose customers, adversely impact our sales and revenue and require us to incur significant expense to address and remediate or otherwise resolve these kinds of issues. The unintended or unauthorized public disclosure of personal identifying and confidential information related to our homebuyers, employees, vendors and suppliers as a result of a security breach could also lead to litigation or other proceedings against us by the affected individuals or business partners, or by regulators. The outcome of such proceedings, which could include penalties or fines, could have a significant negative impact on our business. We may also be required to incur significant costs to protect against damages caused by information technology failures or security breaches in the future as legal requirements related to data security continue to increase. We provide employee awareness training of cybersecurity threats and routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures to protect our systems and data. We use various encryption, tokenization and authentication technologies to mitigate cybersecurity risks and have increased our monitoring capabilities to enhance early detection and rapid response to potential cyber threats. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Consequently, we cannot provide assurances that a security breach, cyber-attack, data theft or other significant systems or security failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our homebuilding and Forestar operations own inventories of land, lots and homes, and DHI Communities owns multi-family rental properties that are both completed and under construction as part of the ordinary course of our business. We also own office buildings totaling approximately 1.0 million square feet, and we lease approximately 580,000 square feet of office space under leases expiring through December 2024. These properties are located in our various operating markets to house our homebuilding, Forestar and financial services operating divisions and our regional and corporate offices.

We own ranch land and improvements totaling 93,600 acres, most of which has been owned for approximately 20 years. We use this land to conduct ranching and agricultural activities and to host company meetings and events.

ITEM 3. 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 settlement that includes a penalty of approximately $350,000 without an admission of liability. We do not believe it is reasonably possible that this matter will result in a loss that would have a material effect on our consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol "DHI." As of November 13, 2019, the closing price of our common stock on the NYSE was $54.33, and there were approximately 319 holders of record.

In November 2019, our Board of Directors approved a cash dividend of $0.175 per common share, payable on December 11, 2019, to stockholders of record on November 27, 2019. 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.

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 September 30, 2019. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934, as amended.

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) (In millions)
July 1, 2019 - July 31, 2019	—	$ —	—	$ 1,000.0
August 1, 2019 - August 31, 2019	924,297	48.45	924,297	955.2
September 1, 2019 - September 30, 2019	1,200,000	49.60	1,200,000	895.7
Total	2,124,297	$ 49.10	2,124,297	$ 895.7

(1) Effective July 30, 2019, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock, which replaced the previous authorization that we used to repurchase 9.8 million shares of our common stock during the nine months ended June 30, 2019. The new authorization has no expiration date. During August and September 2019, we purchased 2.1 million shares of our common stock for $104.3 million, resulting in a remaining authorization of $895.7 million at September 30, 2019.

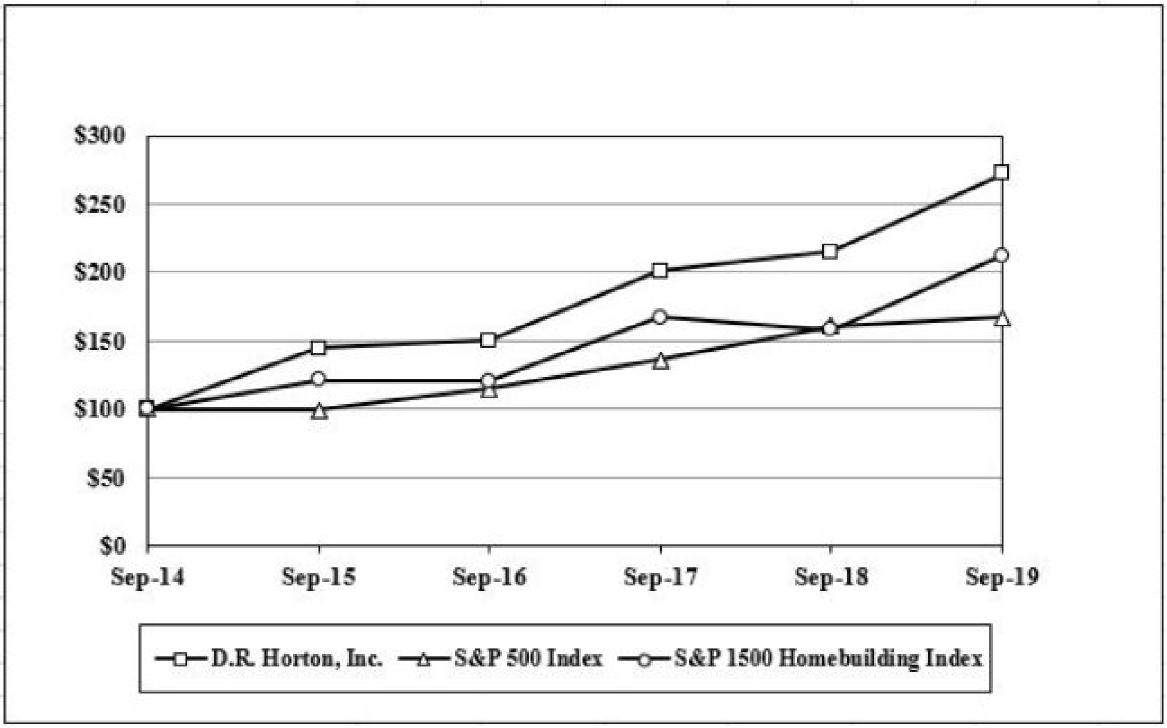
During fiscal years 2019, 2018 and 2017, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

The information required by this item with respect to equity compensation plans is set forth under Item 12 of this annual report on Form 10-K and is incorporated herein by reference.

Stock Performance Graph

The following graph illustrates the cumulative total stockholder return on D.R. Horton common stock for the last five fiscal years through September 30, 2019, compared to the S&P 500 Index and the S&P 1500 Homebuilding Index. The comparison assumes a hypothetical investment in D.R. Horton common stock and in each of the foregoing indices of $100 at September 30, 2014 and assumes that all dividends were reinvested. Shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns. The graph and related disclosure in no way reflect our forecast of future financial performance.

Comparison of Five-Year Cumulative Total Return
Among D.R. Horton, Inc., S&P 500 Index and S&P 1500 Homebuilding Index



	Year Ended September 30,					
	2014	2015	2016	2017	2018	2019
D.R. Horton, Inc.	$ 100.00	$ 144.45	$ 150.18	$ 201.09	$ 214.77	$ 272.36
S&P 500 Index	100.00	99.39	114.72	136.07	160.44	167.27
S&P 1500 Homebuilding Index	100.00	121.48	120.76	167.16	158.10	212.29

This performance graph shall not be deemed to be incorporated by reference into our SEC filings and should not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from our consolidated financial statements and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 1A, "Risk Factors," Item 8, "Financial Statements and Supplementary Data," and all other financial data contained in this annual report on Form 10-K. As described in Note A to the financial statements, we have changed the presentation of our consolidated balance sheets and statements of operations to present our homebuilding, Forestar, financial services and other operations on a combined basis. The financial data in the tables below, including prior year amounts, reflect this presentation. These historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended September 30,				
	2019	2018	2017	2016	2015
	(In millions, except per share data)				
Consolidated Operating Data:					
Revenues (1)	$ 17,592.9	$ 16,068.0	$ 14,091.0	$ 12,157.4	$ 10,824.0
Cost of sales	13,720.9	12,398.1	11,042.8	9,502.6	8,535.7
Selling, general and administrative expense	1,832.5	1,676.8	1,471.6	1,320.3	1,186.0
Income before income taxes	2,125.3	2,060.0	1,602.1	1,353.5	1,123.4
Income tax expense	506.7	597.7	563.7	467.2	372.7
Net income attributable to D.R. Horton, Inc.	1,618.5	1,460.3	1,038.4	886.3	750.7
Net income per common share attributable to D.R. Horton, Inc.:					
Basic	4.34	3.88	2.77	2.39	2.05
Diluted	4.29	3.81	2.74	2.36	2.03
Cash dividends declared per common share	0.60	0.50	0.40	0.32	0.25

	September 30,				
	2019	2018	2017	2016	2015
	(In millions)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 1,494.3	$ 1,473.1	$ 1,007.8	$ 1,303.2	$ 1,383.8
Inventories	11,282.0	10,395.0	9,237.1	8,340.9	7,807.0
Total assets	15,606.6	14,114.6	12,184.6	11,558.9	11,151.0
Notes payable	3,399.4	3,203.5	2,871.6	3,271.3	3,811.5
Total liabilities	5,311.5	4,955.7	4,437.0	4,765.9	5,255.6
Stockholders' equity	10,020.9	8,984.4	7,747.1	6,792.5	5,894.3
Total equity	10,295.1	9,158.9	7,747.6	6,793.0	5,895.4

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations — Fiscal Year 2019 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 resulted in some moderation of demand for new homes across most of our markets in late fiscal 2018 and early fiscal 2019, and in response, we increased our sales incentives to improve sales pace. Later in fiscal 2019, interest rates on mortgage loans decreased, and we reduced sales incentives as demand strengthened compared to earlier in the year. We continue to see solid economic fundamentals and a limited supply of homes at affordable prices across most of our markets.

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 position and experienced personnel across our operating markets. We remain focused on growing our revenues and profitability, generating consistently strong annual cash flows from operations and managing our product offerings, pricing, sales pace and inventory levels to optimize the return on our inventory investments.

In fiscal 2019, our number of homes closed and home sales revenues increased 10% and 9%, respectively, compared to the prior year. Our pre-tax income was $2.1 billion in both fiscal 2019 and 2018. Our pre-tax operating margin was 12.1% in fiscal 2019 compared to 12.8% in fiscal 2018. Cash provided by our homebuilding operations was $1.4 billion in fiscal 2019 compared to $1.0 billion in fiscal 2018. In fiscal 2019, our homebuilding return on inventory (ROI) was 18.1% compared to 20.2% in fiscal 2018. Homebuilding ROI is calculated as homebuilding pre-tax income for the year divided by average inventory. Average inventory in the ROI calculation is the sum of ending inventory balances for the trailing five quarters divided by five.

Within our homebuilding land and lot portfolio, our lots controlled under purchase contracts represent 60% of the lots owned and controlled at September 30, 2019 compared to 57% at September 30, 2018. Growing our majority-owned Forestar lot development operations is advancing our homebuilding strategy of increasing our controlled finished lot pipeline.

We believe that housing demand in our individual operating markets is tied closely to each market's economy. Therefore, we expect that housing market conditions will vary across our markets. 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.

Strategy

Our operating strategy focuses on enhancing long-term value to our shareholders by leveraging our financial and competitive position in our core homebuilding business 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:

- Developing and retaining highly experienced and productive teams of personnel throughout our company that are aligned and focused on continuous improvement in our operational execution and financial performance.
- 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 and a positive experience to our customers 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 continuing to assist our majority-owned Forestar lot development subsidiary with the growth of their 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.
- Ensuring that our financial services business provides high quality mortgage and title services to homebuyers efficiently and effectively.
- Investing in the construction of garden style multi-family rental properties to meet rental demand in high growth suburban markets, and selling these properties profitably.

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.

Key Results

Key financial results as of and for our fiscal year ended September 30, 2019, as compared to fiscal 2018 (or from the acquisition date of October 5, 2017 through September 30, 2018 for Forestar's results), were as follows:

Homebuilding:

- Homebuilding revenues increased 9% to $17.0 billion compared to $15.6 billion.
- Homes closed increased 10% to 56,975 homes, and the average closing price of those homes was $297,100.
- Net sales orders increased 7% to 56,565 homes, and the value of net sales orders increased 7% to $16.8 billion.
- Sales order backlog increased 2% to 13,613 homes, and the value of sales order backlog increased 3% to $4.1 billion.
- Home sales gross margin was 20.2% compared to 21.3%.
- Homebuilding SG&A expense was 8.7% of homebuilding revenues compared to 8.6%.
- Homebuilding pre-tax income was $1.9 billion compared to $2.0 billion.
- Homebuilding pre-tax income was 11.2% of homebuilding revenues compared to 12.5%.
- Homebuilding return on inventory was 18.1% compared to 20.2%.
- Net cash provided by homebuilding operations was $1.4 billion compared to $1.0 billion.
- Homebuilding cash and cash equivalents totaled $1.0 billion compared to $1.1 billion.
- Homebuilding inventories totaled $10.3 billion compared to $9.9 billion.
- Homes in inventory totaled 27,700 compared to 27,900.
- Owned lots totaled 121,400 compared to 124,300, and lots controlled through purchase contracts increased to 185,900 from 164,200.
- Homebuilding debt decreased to $2.0 billion from $2.4 billion.
- Homebuilding debt to total capital improved to 17.0% compared to 21.4%.

Forestar:

- Forestar’s revenues increased 292% to $428.3 million compared to $109.2 million. Revenues in fiscal 2019 and 2018 included $326.6 million and $39.1 million, respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar’s lot sales increased 223% to 4,132 compared to 1,279. Lot sales to D.R. Horton were 3,728 compared to 642.
- Forestar’s pre-tax income was $45.7 million compared to $48.7 million.
- Forestar’s pre-tax income was 10.7% of Forestar revenues compared to 44.6%.
- Forestar’s cash and cash equivalents totaled $382.8 million compared to $318.8 million.
- Forestar’s inventories totaled $1.0 billion compared to $498.0 million.
- Owned and controlled lots totaled 38,300 compared to 20,100. Of these lots, 23,400 were under contract to sell to or subject to a right of first offer with D.R. Horton compared to 13,600.
- Forestar’s debt was $460.5 million compared to $111.7 million.

Financial Services:

- Financial services revenues increased 18% to $441.7 million compared to $375.3 million.
- Financial services pre-tax income increased 41% to $166.3 million compared to $117.8 million.
- Financial services pre-tax income was 37.6% of financial services revenues compared to 31.4%.

Consolidated Results:

- Consolidated pre-tax income increased 3% to $2.1 billion.
- Consolidated pre-tax income was 12.1% of consolidated revenues compared to 12.8%.
- Income tax expense was $506.7 million compared to $597.7 million.
- Net income attributable to D.R. Horton increased 11% to $1.6 billion compared to $1.5 billion.
- Diluted net income per common share attributable to D.R. Horton increased 13% to $4.29 compared to $3.81.
- Net cash provided by operations was $892.1 million compared to $545.2 million.
- Stockholders’ equity was $10.0 billion compared to $9.0 billion.
- Book value per common share increased 14% to $27.20 compared to $23.88.
- Debt to total capital improved to 25.3% compared to 26.3%.

Results of Operations — Homebuilding

Our operating segments are our 52 homebuilding divisions, our majority-owned Forestar lot development operations, our financial services operations and our other business activities. The homebuilding operating segments are aggregated into six reporting segments. These reporting segments, which we also refer to as reporting regions, 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 following tables and related discussion set forth key operating and financial data for our homebuilding operations by reporting segment as of and for the fiscal years ended September 30, 2019 and 2018. For similar operating and financial data and discussion of our fiscal 2018 results compared to our fiscal 2017 results, refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under Part II of our annual report on Form 10-K for the fiscal year ended September 30, 2018, which was filed with the SEC on November 16, 2018.

Net Sales Orders (1)

Fiscal Year Ended September 30,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
East	7,941	6,994	14 %	$ 2,291.1	$ 1,988.8	15 %	$ 288,500	$ 284,400	1 %
Midwest	3,224	2,209	46 %	1,127.8	864.3	30 %	349,800	391,300	(11)%
Southeast	18,609	17,380	7 %	5,011.2	4,640.7	8 %	269,300	267,000	1 %
South Central	16,278	15,317	6 %	4,123.5	3,849.8	7 %	253,300	251,300	1 %
Southwest	2,797	3,179	(12)%	750.6	784.4	(4)%	268,400	246,700	9 %
West	7,716	7,661	1 %	3,539.2	3,632.7	(3)%	458,700	474,200	(3)%
	56,565	52,740	7 %	$ 16,843.4	$ 15,760.7	7 %	$ 297,800	$ 298,800	— %

(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.

Sales Order Cancellations

Fiscal Year Ended September 30,

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (1)	
	2019	2018	2019	2018	2019	2018
East	2,155	2,031	$ 607.3	$ 570.0	21%	23%
Midwest	680	299	229.2	115.1	17%	12%
Southeast	5,410	5,655	1,444.4	1,502.5	23%	25%
South Central	4,751	4,408	1,193.2	1,091.9	23%	22%
Southwest	969	1,031	247.0	251.8	26%	24%
West	1,323	1,378	614.0	661.3	15%	15%
	15,288	14,802	$ 4,335.1	$ 4,192.6	21%	22%

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

Net Sales Orders

The number of net sales orders increased 7% during 2019 compared to 2018, with increases in most of our regions. The value of net sales orders increased 7% to $16.8 billion (56,565 homes) in 2019 from $15.8 billion (52,740 homes) in 2018. The average selling price of homes sold during fiscal 2019 was $297,800, essentially unchanged from the prior year.

Higher sales volumes in our East and Midwest regions reflect our acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders in early fiscal 2019, which added 262 net sales orders to the East region’s results and 1,199 net sales orders to the Midwest region's results. Lower sales volume in our Southwest region during 2019 was due to a decrease in sales orders in our Phoenix market. Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 21% in 2019 compared to 22% in 2018.

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 September 30,

	Homes in Backlog			**Value (In millions)**			**Average Selling Price**		
	2019	**2018**	**% Change**	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
East	1,916	1,841	4 %	$ 576.1	$ 548.6	5 %	$ 300,700	$ 298,000	1 %
Midwest	1,063	442	140 %	364.7	179.2	104 %	343,100	405,400	(15)%
Southeast	4,277	4,221	1 %	1,219.5	1,172.3	4 %	285,100	277,700	3 %
South Central	4,166	4,492	(7)%	1,084.0	1,151.8	(6)%	260,200	256,400	1 %
Southwest	815	928	(12)%	241.6	251.7	(4)%	296,400	271,200	9 %
West	1,376	1,447	(5)%	654.2	725.3	(10)%	475,400	501,200	(5)%
	13,613	13,371	2 %	$ 4,140.1	$ 4,028.9	3 %	$ 304,100	$ 301,300	1 %

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.

Homes Closed and Home Sales Revenue

Fiscal Year Ended September 30,

	Homes Closed			Value (In millions)			Average Selling Price		
	2019	2018	% Change	2019	2018	% Change	2019	2018	% Change
East	7,928	6,697	18 %	$ 2,285.0	$ 1,893.0	21 %	$ 288,200	$ 282,700	2 %
Midwest	3,193	2,186	46 %	1,113.8	857.5	30 %	348,800	392,300	(11)%
Southeast	18,553	17,216	8 %	4,964.0	4,573.3	9 %	267,600	265,600	1 %
South Central	16,604	14,940	11 %	4,191.3	3,760.4	11 %	252,400	251,700	— %
Southwest	2,910	3,094	(6)%	760.6	725.4	5 %	261,400	234,500	11 %
West	7,787	7,724	1 %	3,610.3	3,692.4	(2)%	463,600	478,000	(3)%
	56,975	51,857	10 %	$ 16,925.0	$ 15,502.0	9 %	$ 297,100	$ 298,900	(1)%

Home Sales Revenue

Revenues from home sales increased 9% to $16.9 billion (56,975 homes closed) in 2019 from $15.5 billion (51,857 homes closed) in 2018. 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 in fiscal 2019 increased 10% from 2018. The increases in our East and Midwest regions reflect our acquisitions of the homebuilding operations of Terramor Homes, Westport Homes and Classic Builders in early fiscal 2019, which added 266 closings to the East region’s results and 1,157 closings to the Midwest region's results. Lower home closings volume in our Southwest region during 2019 was due to a decrease in closings in our Phoenix market. The average selling price of homes closed during fiscal 2019 was $297,100, down slightly from the prior year. Decreases in the average selling price of homes closed in the Midwest and West regions were largely offset by an increase in the average selling price in the Southwest region.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues	
	Fiscal Year Ended September 30,	
	2019	2018
Gross profit — home sales	20.2 %	21.3 %
Gross profit — land/lot sales and other	18.3 %	18.6 %
Inventory and land option charges	(0.3)%	(0.3)%
Gross profit — total homebuilding	19.9 %	21.0 %
Selling, general and administrative expense	8.7 %	8.6 %
Gain on sale of assets	— %	(0.1)%
Other (income)	(0.1)%	— %
Homebuilding pre-tax income	11.2 %	12.5 %

Home Sales Gross Profit

Gross profit from home sales increased 4% to $3.4 billion in 2019 from $3.3 billion in 2018 and decreased 110 basis points to 20.2% as a percentage of home sales revenues. The percentage decrease resulted from decreases of 130 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 improvements of 20 basis points due to a reduction in warranty and construction defect expenses and 10 basis points due to a decrease in the amortization of capitalized interest.

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/Lot Sales and Other Revenues

Land sales and other revenues from our homebuilding operations were $91.9 million and $121.8 million in fiscal 2019 and 2018, respectively. 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 September 30, 2019, our homebuilding operations had $19.8 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At the end of each quarter during fiscal 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. As of September 30, 2019, we performed detailed impairment evaluations of communities and land inventories with a combined carrying value of $55.0 million and recorded impairment charges of $6.3 million during the fourth quarter to reduce the carrying value of impaired communities to fair value. Total homebuilding impairment charges during fiscal 2019 and 2018 were $24.9 million and $10.9 million, 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 fiscal 2019 and 2018, earnest money and pre-acquisition cost write-offs related to land purchase contracts that we have terminated or expect to terminate were $28.3 million and $13.4 million, respectively. Total inventory and land option charges for fiscal 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 10% to $1.5 billion in fiscal 2019 from $1.3 billion in fiscal 2018. SG&A expense as a percentage of homebuilding revenues was 8.7% and 8.6% in fiscal 2019 and 2018, respectively.

Employee compensation and related costs represented 72% of SG&A costs in both fiscal 2019 and 2018. These costs increased 11% to $1.1 billion in 2019 from $964.2 million in 2018 due to an increase in the number of employees as compared to the prior year. Our homebuilding operations employed 6,810 and 6,419 employees at September 30, 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 decreased 5% to $104.7 million in fiscal 2019 from $109.9 million in fiscal 2018. The decrease was due to a decrease in our average homebuilding debt in fiscal 2019 compared to the prior year. Interest charged to cost of sales was 0.9% and 1.1% of total cost of sales (excluding inventory and land option charges) in fiscal 2019 and 2018, respectively.

Gain on Sale of Assets

Gain on sale of assets from our homebuilding operations was $2.0 million in fiscal 2019 compared to $15.8 million in fiscal 2018. The higher gain on sale during the prior year primarily resulted from the sale of rental units in our homebuilding segment's Southeast region.

Other Income

Other income, net of other expenses, included in our homebuilding operations was $9.5 million in fiscal 2019 compared to $7.2 million in fiscal 2018. 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 are not significant, either individually or in the aggregate.

Business Acquisitions

During 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.

Homebuilding Results by Reporting Region

	Fiscal Year Ended September 30,					
	2019			2018		
	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues	Homebuilding Revenues	Homebuilding Pre-tax Income (1)	% of Revenues
	(In millions)					
East	$ 2,290.2	$ 238.8	10.4%	$ 1,893.4	$ 217.3	11.5%
Midwest	1,123.1	57.7	5.1%	858.9	77.5	9.0%
Southeast	4,977.8	584.7	11.7%	4,578.6	536.0	11.7%
South Central	4,202.4	551.1	13.1%	3,769.9	506.1	13.4%
Southwest	772.6	100.4	13.0%	768.7	97.4	12.7%
West	3,650.8	378.0	10.4%	3,754.3	522.9	13.9%
	$ 17,016.9	$ 1,910.7	11.2%	$ 15,623.8	$ 1,957.2	12.5%

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(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating our corporate office. The 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 21% in fiscal 2019 compared to fiscal 2018, primarily due to an increase in the number of homes closed in our Carolina markets. The acquisition of Terramor Homes in early fiscal 2019 contributed $85.0 million of revenues in the current year. The region generated pre-tax income of $238.8 million in 2019 compared to $217.3 million in 2018. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) decreased by 130 basis points in 2019 compared to 2018, due to the average cost of homes closed increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 30 basis points in 2019 compared to 2018.

Midwest Region — Homebuilding revenues increased 31% in fiscal 2019 compared to fiscal 2018. The acquisitions of Westport Homes and Classic Builders in early fiscal 2019 contributed $328.8 million of revenues in the current year. The region generated pre-tax income of $57.7 million in 2019 compared to $77.5 million in 2018. Home sales gross profit percentage decreased by 360 basis points in 2019 compared to 2018, largely due to purchase accounting adjustments related to the two acquisitions. As a percentage of homebuilding revenues, SG&A expenses increased by 80 basis points in 2019 compared to 2018, primarily due to the increases in employee compensation and other costs associated with the two acquisitions.

Southeast Region — Homebuilding revenues increased 9% in fiscal 2019 compared to fiscal 2018, primarily due to an increase in the number of homes closed in our Florida markets. The region generated pre-tax income of $584.7 million in 2019 compared to $536.0 million in 2018. The region's fiscal 2018 results include a $24.5 million inventory and land option charge related to the settlement of an outstanding dispute associated with a land transaction and a $13.4 million gain on the sale of multi-family rental units in one community. Home sales gross profit percentage decreased by 10 basis points in 2019 compared to 2018. As a percentage of homebuilding revenues, SG&A expenses increased by 10 basis points in 2019 compared to 2018.

South Central Region — Homebuilding revenues increased 11% in fiscal 2019 compared to fiscal 2018, primarily due to an increase in the number of homes closed in our Houston and Fort Worth markets. The region generated pre-tax income of $551.1 million in 2019 compared to $506.1 million in 2018. Home sales gross profit percentage decreased by 50 basis points in 2019 compared to 2018, due to the average cost of homes closed increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 30 basis points in 2019 compared to 2018.

Southwest Region — Homebuilding revenues increased 1% in fiscal 2019 compared to fiscal 2018. The region generated pre-tax income of $100.4 million in 2019 compared to $97.4 million in 2018. Home sales gross profit percentage increased by 130 basis points in 2019 compared to 2018, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. The gross profit percentage was also positively impacted by a decrease in warranty and construction defect costs. The region's fiscal 2018 results include $13.1 million of profit generated from a land sale in our Phoenix market. As a percentage of homebuilding revenues, SG&A expenses increased by 20 basis points in 2019 compared to 2018.

West Region — Homebuilding revenues decreased 3% in fiscal 2019 compared to fiscal 2018, due to a decrease in the average selling price of homes closed. The region generated pre-tax income of $378.0 million in 2019 compared to $522.9 million in 2018. Home sales gross profit percentage decreased by 270 basis points in 2019 compared to 2018, primarily due to the average selling price decreasing while the average cost of those homes increased slightly. As a percentage of homebuilding revenues, SG&A expenses increased by 50 basis points in 2019 compared to 2018.

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. At the time of purchase, the undeveloped land is generally 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 September 30, 2019 and 2018 are summarized as follows:

	September 30, 2019				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
	(In millions)				
East	$ 697.1	$ 581.2	$ 10.5	$ —	$ 1,288.8
Midwest	473.9	361.1	1.8	—	836.8
Southeast	1,434.7	1,299.9	31.8	1.6	2,768.0
South Central	1,215.4	1,317.5	0.3	—	2,533.2
Southwest	221.8	335.6	1.6	15.4	574.4
West	1,089.0	950.6	13.9	2.5	2,056.0
Corporate and unallocated (1)	117.1	110.2	0.8	0.3	228.4
	$ 5,249.0	$ 4,956.1	$ 60.7	$ 19.8	$ 10,285.6

	September 30, 2018				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
	(In millions)				
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

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

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

	September 30, 2019			
	Land/Lots Owned (1)	**Lots Controlled Under Land and Lot Purchase Contracts (2)(3)**	**Total Land/Lots Owned and Controlled**	**Homes in Inventory (4)**
East	11,000	30,500	41,500	3,900
Midwest	8,300	10,900	19,200	2,200
Southeast	34,800	73,300	108,100	8,900
South Central	41,600	51,400	93,000	7,900
Southwest	6,700	5,800	12,500	1,300
West	19,000	14,000	33,000	3,500
	121,400	185,900	307,300	27,700
	40%	60%	100%	

	September 30, 2018			
	Land/Lots Owned (1)	**Lots Controlled Under Land and Lot Purchase Contracts (2)(3)**	**Total Land/Lots Owned and Controlled**	**Homes in 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%	

(1) Land/lots owned include approximately 36,100 and 35,100 owned lots that are fully developed and ready for home construction at September 30, 2019 and 2018, respectively. Land/lots owned also include land held for development representing 1,700 lots at both September 30, 2019 and 2018.

(2) The total remaining purchase price of lots controlled through land and lot purchase contracts at September 30, 2019 and 2018 was $7.2 billion and $6.5 billion, respectively, secured by earnest money deposits of $515.4 million and $401.1 million, respectively. The total remaining purchase price of lots controlled through land and lot purchase contracts at September 30, 2019 and 2018 included $953.8 million and $522.2 million, respectively, related to lot purchase contracts with Forestar, secured by $88.7 million and $48.0 million, respectively, of earnest money.

(3) Lots controlled at September 30, 2019 include approximately 23,400 lots owned or controlled by Forestar, 12,800 of which our homebuilding divisions have under contract to purchase and 10,600 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 8,700 lots were in our Southeast region, 4,600 lots were in our South Central region, 3,800 lots were in our West region, 2,600 lots were in our East region, 2,400 lots were in our Southwest region and 1,300 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.

(4) Approximately 16,000 and 16,400 of our homes in inventory were unsold at September 30, 2019 and 2018, respectively. At September 30, 2019, approximately 5,200 of our unsold homes were completed, of which approximately 800 homes had been completed for more than six months. At September 30, 2018, approximately 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 September 30, 2019 and 2018, respectively.

Results of Operations — Forestar

On October 5, 2017, we acquired 75% of the outstanding shares of Forestar and as of September 30, 2019 owned approximately 66% of its outstanding shares. Forestar is a publicly traded residential lot development company with operations in 51 markets and 20 states as of September 30, 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 fiscal 2019 and from the date of acquisition through September 30, 2018 (referred to as fiscal 2018 in the discussion below) were as follows:

	Year Ended September 30, 2019	For the Period from October 5, 2017 to September 30, 2018
	(In millions)	
Residential land and lot sales	$ 407.5	$ 99.1
Commercial tract sales	18.5	9.1
Other	2.3	1.0
Total revenues	$ 428.3	$ 109.2
Cost of sales	362.7	69.0
Selling, general and administrative expense	28.9	32.8
Equity in earnings of unconsolidated entities	(0.5)	(12.4)
Gain on sale of assets	(3.0)	(27.7)
Interest expense	—	5.8
Other (income) expense	(5.5)	(7.0)
Income before income taxes	$ 45.7	$ 48.7

At September 30, 2019, Forestar owned directly or controlled through land and lot purchase contracts approximately 38,300 residential lots, of which approximately 4,400 are fully developed. Approximately 23,400 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 700 of these lots are under contract to sell to other builders.

Residential land and lot sales primarily consist of the sale of single-family lots to local, regional and national homebuilders. During fiscal 2019 and 2018, Forestar's land and lot sales, including the portion sold to D.R. Horton and the revenues generated from those sales, were as follows:

	Year Ended September 30, 2019	For the Period from October 5, 2017 to September 30, 2018
	(Dollars in millions)	
Total residential single-family lots sold	4,132	1,279
Residential single-family lots sold to D.R. Horton	3,728	642
Residential lot sales revenues from sales to D.R. Horton	$ 315.7	$ 37.1
Residential tract acres sold to D.R. Horton	290	79
Residential land sales revenues from sales to D.R. Horton	$ 10.9	$ 2.0

SG&A expense for fiscal 2019 and 2018 includes charges of $2.1 million and $0.9 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. SG&A expense for fiscal 2018 also includes $6.3 million of severance and change of control charges for Forestar's executive officers that were triggered shortly after the acquisition date.

Equity in earnings of unconsolidated entities for fiscal 2018 primarily relates to the sale of a multi-family joint venture project in Nashville, Tennessee.

Gain on sale of assets during fiscal 2018 was primarily due to gains of $14.6 million related to the sale of Forestar's interest in a multi-family venture and $9.1 million related to the sale of water rights in East Texas.

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 fiscal years ended September 30, 2019 and 2018.

	Fiscal Year Ended September 30,		
	2019	2018	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	33,024	29,133	13%
Number of homes closed by D.R. Horton	56,975	51,857	10%
Percentage of D.R. Horton homes financed by DHI Mortgage	58%	56%	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	33,114	29,234	13%
Total number of loans originated or brokered by DHI Mortgage	33,827	30,107	12%
Captive business percentage	98%	97%	
Loans sold by DHI Mortgage to third parties	32,849	29,120	13%

	Fiscal Year Ended September 30,		
	2019	2018	% Change
	(In millions)		
Loan origination fees	$ 11.7	$ 15.0	(22)%
Sale of servicing rights and gains from sale of mortgage loans	319.4	265.1	20 %
Other revenues	24.4	18.7	30 %
Total mortgage operations revenues	355.5	298.8	19 %
Title policy premiums	86.2	76.5	13 %
Total revenues	441.7	375.3	18 %
General and administrative expense	293.0	272.6	7 %
Other (income) expense	(17.6)	(15.1)	17 %
Financial services pre-tax income	$ 166.3	$ 117.8	41 %

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues	
	Fiscal Year Ended September 30,	
	2019	2018
General and administrative expense	66.3 %	72.6 %
Other (income) expense	(4.0)%	(4.0)%
Financial services pre-tax income	37.6 %	31.4 %

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 fiscal 2019, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 13% from the prior year, primarily as a result of an increase in the number of homes closed by our homebuilding operations of 10%. The percentage of homes closed for which DHI Mortgage handled the homebuyers' financing was 58% and 56% in fiscal 2019 and 2018, respectively.

Homes closed by our homebuilding operations constituted 98% and 97% of DHI Mortgage loan originations in fiscal 2019 and 2018, respectively. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 13% in fiscal 2019 compared to the prior year. Virtually all of the mortgage loans held for sale on September 30, 2019 were eligible for sale to Fannie Mae, Freddie Mac or Ginnie Mae. Approximately 93% of the mortgage loans sold by DHI Mortgage during fiscal 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 19% to $355.5 million in fiscal 2019 from $298.8 million in fiscal 2018, while the number of loan originations increased 12% over that same period. Revenues increased at a higher rate than origination volume primarily due to improved loan sale execution in the secondary market.

Our mortgage operations revenues were reduced by $0.8 million and $1.3 million in fiscal 2019 and 2018, respectively, to increase our loss reserves for estimated future recourse obligations and other mortgage loans, and to adjust certain mortgage loans held for sale to fair value. Our loss reserves for loan recourse obligations are estimated based upon analysis of the volume of mortgages originated, loan repurchase requests received, actual repurchases and losses through the disposition of such loans or requests and discussions with our mortgage purchasers. Actual losses on mortgage loans may differ from our estimates, which may result in future changes to our loss reserves.

General and administrative (G&A) expense related to financial services operations increased 7% to $293.0 million in fiscal 2019 from $272.6 million in the prior year. The increase was primarily due to an increase in employee related costs. Our financial services operations employed 1,924 and 1,919 employees at September 30, 2019 and 2018, respectively.

As a percentage of financial services revenues, G&A expense was 66.3% in fiscal 2019 compared to 72.6% in the prior year. The lower percentage in fiscal 2019 was primarily due to improved loan sale execution on mortgage loan originations and increased mortgage loan origination volume allowing us to better leverage G&A expenses.

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.

Results of Operations — Other Businesses

Through DHI Communities, a 100% owned subsidiary, we develop, construct and own multi-family residential properties that produce rental income. DHI Communities is primarily focused on constructing garden style multi-family products, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. After DHI Communities has completed construction and achieved a stabilized occupancy rate, the property is typically marketed for sale. We currently have four projects under active construction and two projects that are substantially complete, one of which was under contract to sell at September 30, 2019. During fiscal 2019, DHI Communities sold two multi-family rental properties for $133.4 million and recorded gains on sale totaling $51.9 million.

Results of Operations — Consolidated

Income before Income Taxes

Pre-tax income was $2.1 billion in both fiscal 2019 and 2018. In fiscal 2019, our homebuilding, financial services and other businesses generated pre-tax income of $1.9 billion, $166.3 million and $55.5 million, respectively. In fiscal 2018, our homebuilding and financial services businesses generated pre-tax income of $2.0 billion and $117.8 million, respectively.

Income Taxes

Our income tax expense was $506.7 million and $597.7 million in fiscal 2019 and 2018, respectively, and our effective tax rate was 23.8% and 29.0% in those years. The effective tax rates reflect the impact of the Tax Cuts and Jobs Act (Tax Act), which was enacted into law in December 2017. 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 ended 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 beginning October 1, 2018. The effective tax rates also include a tax benefit related to stock-based compensation and an expense for state income taxes.

The fiscal year 2018 effective tax rate also included the remeasurement of our deferred tax assets and liabilities as a result of the Tax Act, the release of a valuation allowance against deferred tax assets related to Forestar and the enactment of the Bipartisan Budget Act of 2018, which retroactively extended the expiration date of the federal energy efficient home credit from December 31, 2016 until December 31, 2017.

Our deferred tax assets, net of deferred tax liabilities, were $181.8 million at September 30, 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 $18.7 million at September 30, 2019 and $17.7 million at September 30, 2018 related to state deferred tax assets for NOL carryforwards that are more likely than not to expire before being realized. 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.

D.R. Horton has $16.4 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction. Of the total amount, $6.2 million of the tax benefits expire over the next ten years and the remaining $10.2 million expires from fiscal years 2030 to 2039.

Forestar has $11.4 million of tax benefits for federal NOL carryforwards which have no expiration date. Additionally, Forestar has $3.7 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction.

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.

D.R. Horton is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for D.R. Horton’s major tax jurisdictions remains open for examination for fiscal years 2016 through 2019. D.R. Horton is currently being audited by various states; however, to date, we are not aware of any significant findings identified by the taxing authorities.

Forestar is subject to federal income tax and state income tax in multiple jurisdictions. The federal statute of limitations for tax years prior to 2017 is effectively closed. The statute of limitations in major state jurisdictions for tax years prior to 2015 is closed. The Internal Revenue Service recently completed an audit of Forestar’s 2016 tax year with no changes. Forestar is not currently being audited by any state jurisdictions.

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, to increase our investments in homes, finished lots, land and land development to expand our operations and grow our revenues and profitability, as well as to consider opportunistic strategic investments as they arise.

At September 30, 2019, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 25.3% compared to 26.3% at September 30, 2018. Our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 17.0% compared to 21.4% at September 30, 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 2020. 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, pay dividends, repurchase our common stock 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 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, of which $394.3 million remains available. 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, including the maturity of $500 million principal amount of homebuilding senior notes and $118.9 million principal amount of Forestar's convertible senior notes in fiscal 2020.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At September 30, 2019, cash and cash equivalents of our homebuilding segment totaled $1.0 billion.

Bank Credit Facility — At September 30, 2019, we had 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 provided 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. At September 30, 2019, there were no borrowings outstanding and $141.2 million of letters of credit issued under the revolving credit facility, resulting in available capacity of approximately $1.2 billion. Borrowings and repayments under the facility totaled $2.1 billion each during fiscal 2019.

In October 2019, the homebuilding revolving credit facility was amended to increase its capacity to $1.59 billion with an uncommitted accordion feature that could increase the size of the facility to $2.5 billion, subject to certain conditions and availability of additional bank commitments. The amendment also extended the facility's maturity date from September 25, 2023 to October 2, 2024 and increased the letter of credit sublimit to 100% of the revolving credit commitment.

Our homebuilding revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if our leverage ratio 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 September 30, 2019, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facility.

Public Unsecured Debt — We have $1.95 billion principal amount of homebuilding senior notes outstanding as of September 30, 2019 that mature from February 2020 through August 2023. In March 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 September 30, 2019, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

In October 2019, we issued $500 million principal amount of 2.5% senior notes due October 15, 2024, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 2.7%.

Repurchases of Common Stock — During fiscal 2019, we repurchased 11.9 million shares of our common stock for $479.8 million.

Debt and Equity Repurchase Authorizations — Effective July 30, 2019, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $1.0 billion of our common stock, which replaced the previous authorizations. The new authorizations have no expiration date. At September 30, 2019, the full amount of the debt repurchase authorization was remaining and $895.7 million of the equity repurchase authorization was remaining.

Capital Resources - Forestar

At September 30, 2019, Forestar had cash and cash equivalents of $382.8 million. Forestar obtained a $380 million senior unsecured bank credit facility in August 2018 and issued $350 million principal amount of senior notes in April 2019. In September 2018, Forestar filed an effective shelf registration statement with the SEC, registering $500 million of equity securities, and in September 2019, Forestar issued common stock that provided net proceeds of $100.7 million. 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.

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. Letters of credit issued under the facility reduce the available borrowing capacity. At September 30, 2019, there were no borrowings outstanding and $29.7 million of letters of credit issued under the revolving credit facility. 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. At September 30, 2019, the borrowing base limited the available capacity under the revolving credit facility to $339.6 million. Borrowings and repayments under the facility totaled $85 million each during fiscal 2019.

In October 2019, the Forestar revolving credit facility was amended to extend its maturity date from August 16, 2021 to October 2, 2022. The maturity date may be extended by up to one year on up to two additional occasions, subject to the approval of lenders holding a majority of the commitments.

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 September 30, 2019, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

Unsecured Debt — Forestar has $118.9 million principal amount of 3.75% convertible senior notes outstanding as of September 30, 2019 that are expected to be settled in cash upon their maturity on 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 mature 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.

Equity Offering — On September 30, 2019, Forestar issued 6.0 million shares of its common stock for $17.50 per share in a public underwritten offering. Net proceeds to Forestar from this offering after deducting underwriting discounts and commissions and other expenses were $100.7 million. As a result of the issuance, our ownership of Forestar's outstanding common shares decreased from 75% to approximately 66%. Following the offering, $394.3 million remains available for issuance under Forestar's shelf registration statement.

Capital Resources - Financial Services

Cash and Cash Equivalents — At September 30, 2019, cash and cash equivalents of our financial services operations totaled $43.4 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. The total capacity of the facility is $900 million; however, the capacity increases, without requiring additional commitments, to $1.1 billion for approximately 45 days at fiscal year end. The capacity of the facility can also be increased to $1.2 billion subject to the availability of additional commitments. The maturity date of the facility is February 21, 2020.

As of September 30, 2019, $1.0 billion of mortgage loans held for sale with a collateral value of $972.0 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of $888.9 million outstanding under the mortgage repurchase facility at September 30, 2019 at a 3.7% 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 leverage ratio and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At September 30, 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 fiscal 2019, net cash provided by operating activities was $892.1 million compared to $545.2 million in fiscal 2018. Cash provided by operating activities in the current year consisted of $1.4 billion of cash provided by our homebuilding segment, partially offset by $395.7 million and $150.2 million of cash used in our Forestar and financial services segments, respectively.

Cash provided from a decrease in construction in progress and finished homes inventory was $84.6 million in fiscal 2019 as our homes in inventory at September 30, 2019 remained relatively flat with the prior year. Cash used to increase construction in progress and finished homes inventory was $482.8 million in fiscal 2018 as our homes in inventory increased by approximately 3,300 homes at September 30, 2018 compared to September 30, 2017. During fiscal 2019, cash used to increase residential land and lots was $676.4 million compared to $573.8 million in fiscal 2018. Of these amounts, $513.2 million and $393.2 million, respectively, related to Forestar. The most significant source of cash provided by operating activities in all years was net income.

Investing Cash Flow Activities

In fiscal 2019, net cash used in investing activities was $394.0 million compared to cash provided by investing activities of $19.0 million in fiscal 2018. In fiscal 2019, we paid $315.8 million to purchase the homebuilding operations of Westport Homes, Classic Builders and Terramor Homes. Proceeds from the sale of assets in fiscal 2019 included $133.4 million related to the sale of two multi-family rental properties constructed by DHI Communities. In fiscal 2018, 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 fiscal 2018 included $258.3 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.

In fiscal 2019, net cash used in financing activities was $490.1 million, consisting primarily of note repayments, repurchases of common stock and payments of cash dividends, largely offset by note proceeds. Note repayments of $2.7 billion included repayments of amounts drawn on our revolving credit facilities of $2.2 billion and repayment of $500 million principal amount of our 3.75% homebuilding senior notes at maturity. We also used cash of $479.8 million to repurchase 11.9 million shares of our common stock and used $223.4 million to pay dividends to our common stockholders. Note proceeds of $2.5 billion included draws of $2.2 billion on our revolving credit facilities and Forestar’s issuance of $350 million principal amount of 8.0% senior notes due April 2024. Our financial services segment received proceeds of $251.2 million from net advances under its mortgage repurchase facility. Additionally, Forestar’s issuance of common stock resulted in $100.7 million of cash proceeds.

In fiscal 2018, net cash used in financing activities was $82.5 million, consisting primarily of note repayments, payments of cash dividends and repurchases of common stock, largely offset by note proceeds. Note repayments of $2.2 billion included repayments of amounts drawn on our homebuilding revolving credit facility of $1.8 billion and our early redemption of $400 million principal amount of our 3.625% senior notes due February 2018. We also used cash of $188.4 million to pay dividends to our common stockholders and used $127.5 million to repurchase 2.8 million shares of our common stock. Note proceeds of $2.2 billion included draws of $1.8 billion on our homebuilding revolving credit facility and our issuance of $400 million principal amount of 2.55% senior notes due December 2020. Our financial services segment received proceeds of $217.7 million from net advances under its mortgage repurchase facility.

Our Board of Directors approved and paid quarterly cash dividends of $0.15 per common share in fiscal 2019 and $0.125 per common share in fiscal 2018. In November 2019, our Board of Directors approved a cash dividend of $0.175 per common share, payable on December 11, 2019, to stockholders of record on November 27, 2019. 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.

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.

Our future cash requirements for contractual obligations as of September 30, 2019 are presented below.

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	> 3 - 5 Years	More Than 5 Years
	(In millions)				
Notes Payable — Principal (1)	$ 3,410.9	$ 1,605.3	$ 753.7	$ 1,051.9	$ —
Notes Payable — Interest (1)	367.2	134.0	162.2	71.0	—
Operating Leases	42.5	18.6	18.2	5.5	0.2
Purchase Obligations (2)	59.8	48.2	11.6	—	—
	$ 3,880.4	$ 1,806.1	$ 945.7	$ 1,128.4	$ 0.2

(1) Notes payable represents principal and interest payments due on our senior notes, our secured notes, our mortgage subsidiary's repurchase facility and our homebuilding and Forestar revolving credit facilities. Because the balances of our revolving credit facilities were zero at September 30, 2019, we did not assume any principal or interest payments related to these facilities in future periods. The interest obligation associated with our mortgage repurchase facility is based on its annual effective rate of 3.7% and principal balance outstanding at September 30, 2019.

(2) Purchase obligations relate to our land and lot purchase contracts which enable us to control significant lot positions with limited capital investment. Among our homebuilding land and lot purchase contracts at September 30, 2019, there were a limited number of contracts, representing $59.8 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, $13.2 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.

At September 30, 2019, we had outstanding letters of credit of $171.7 million and surety bonds of $1.7 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 7A "Quantitative and Qualitative Disclosures About Market Risk" under Part II of this annual report on Form 10-K.

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 our homebuilding, land development 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.

Inflation

We may be adversely affected during periods of high inflation, primarily because of higher financing, land, labor and material construction costs. We attempt to offset cost increases in one component with savings in another, and we increase our sales prices and reduce customer sales incentives when housing market conditions permit. However, during periods when housing market conditions are challenging, we may not be able to offset cost increases with higher selling prices. In addition, higher mortgage interest rates reduce the affordability of our homes to prospective homebuyers.

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, 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," "projection," "seek," "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 and lot development industries 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 ability to manage and service our debt and 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 Item 1A, "Risk Factors" under Part I of this annual report on Form 10-K.

Critical Accounting Policies

General — A comprehensive enumeration of the significant accounting policies of D.R. Horton, Inc. and subsidiaries is presented in Note A to the accompanying financial statements as of September 30, 2019 and 2018, and for the years ended September 30, 2019, 2018 and 2017. Each of our accounting policies has been chosen based upon current authoritative literature that collectively comprises U.S. Generally Accepted Accounting Principles (GAAP). In instances where alternative methods of accounting are permissible under GAAP, we have chosen the method that most appropriately reflects the nature of our business, the results of our operations and our financial condition, and have consistently applied those methods over each of the periods presented in the financial statements. The Audit Committee of our Board of Directors has reviewed and approved the accounting policies selected.

Revenue Recognition — We generally recognize homebuilding revenue and related profit at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. Our 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 our benefit at title companies are included in homebuilding cash and cash equivalents in the consolidated balance sheets.

When we execute sales contracts with our homebuyers, or when we require advance payment from homebuyers for custom changes, upgrades or options related to their homes, we record the cash deposits received as liabilities until the homes are closed or the contracts are cancelled. We either retain or refund to the homebuyer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

We rarely purchase land for resale, but periodically may elect to sell parcels of land that no longer fit into our strategic operating plans. Revenue from land sales is typically recognized on the closing date, which is generally when performance obligations are satisfied.

We recognize financial services revenues associated with our title operations as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously as each home is closed. We transfer substantially all underwriting risk associated with title insurance policies to third-party insurers. Revenues associated with our mortgage operations primarily include net gains on the sale of mortgage loans and servicing rights. We typically elect the fair value option for our mortgage loan originations whereby mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes and loan values are adjusted through revenues for subsequent changes in fair value until the loans are sold. Expected gains and losses from the sale of servicing rights are included in the measurement of all written loan commitments that are accounted for at fair value through revenues at the time of commitment. We sell substantially all of the mortgages we originate 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.

Mortgage loans are sold with limited recourse provisions, which can result in repurchases of loans previously sold to investors or payments to reimburse investors for loan losses. Based on historical experience, discussions with our mortgage purchasers, analysis of the volume of mortgages we originated and current housing and credit market conditions, we estimate and record a loss reserve for mortgage loans held in portfolio and mortgage loans held for sale, as well as known and projected mortgage loan repurchase requests.

We collect insurance commissions on homeowner policies placed with third party carriers through our 100% owned insurance agency. We recognize 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.

Inventories and Cost of Sales — Inventory includes the costs of direct land acquisition, land development and home construction, capitalized interest, real estate taxes and direct overhead costs incurred during development and home construction. Costs that we incur after development projects or homes are substantially complete, such as utilities, maintenance, and cleaning, are charged to SG&A expense as incurred. All indirect overhead costs, such as compensation of sales personnel, division and region management, and the costs of advertising and builder’s risk insurance are charged to SG&A expense as incurred.

Land and development costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Home construction costs are specifically identified and recorded to individual homes. Cost of sales for homes closed includes the specific construction costs of each home and all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot based upon the total number of homes expected to be closed in each community. Cost of sales for lots sold includes all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot in the community. Any changes to the estimated total development costs subsequent to the initial home or lot closings in a community are generally allocated on a pro-rata basis to the remaining homes or lots in the community associated with the relevant development activity.

When a home is closed, we generally have not paid all incurred costs necessary to complete the home. We record a liability and a charge to cost of sales for the amount estimated to ultimately be paid related to completed homes that have been closed. We compare our home construction budgets to actual recorded costs to determine the additional costs remaining to be paid on each closed home. We monitor the accrual by comparing actual costs incurred on closed homes in subsequent months to the amounts previously accrued. Although actual costs to be paid in the future on previously closed homes could differ from our current accruals, such differences have not been significant.

Each quarter, we review our communities and land inventories for indicators of potential impairment. We generally review our inventory for impairment indicators at the community level, and the inventory within each community is categorized as land held for development, residential land and lots developed and under development, land held for sale and construction in progress and finished homes, based on the stage of production or plans for future development or sale. A particular community often includes inventory in more than one category. In certain situations, inventory may be analyzed separately for impairment purposes based on its product type or future plans. In reviewing each of our communities, we determine if impairment indicators exist on inventory held and used by analyzing a variety of factors including, but not limited to, the following:

- gross margins on homes closed in recent months;
- projected gross margins on homes sold but not closed;
- projected gross margins based on community budgets;
- trends in gross margins, average selling prices or cost of sales;
- sales absorption rates; and
- performance of other communities in nearby locations.

If indicators of impairment are present for a community, we perform an impairment evaluation of the community, which includes an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If so, impairment charges are recorded to cost of sales if the fair value of such assets is less than their carrying amounts. These estimates of cash flows are significantly impacted by community specific factors including estimates of the amounts and timing of future revenues and estimates of the amount of land development, materials and labor costs which, in turn, may be impacted by the following local market conditions:

- supply and availability of new and existing homes;
- location and desirability of our communities;
- variety of product types offered in the area;
- pricing and use of incentives by us and our competitors;
- alternative uses for our land or communities such as the sale of land, finished lots or home sites to third parties;
- amount of land and lots we own or control in a particular market or sub-market; and
- local economic and demographic trends.

For those assets deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Our determination of fair value is primarily based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. When an impairment charge for a community is determined, the charge is then allocated to each lot in the community in the same manner as land and development costs are allocated to each lot. Impairment charges are also recorded on finished homes in substantially completed communities when events or circumstances indicate that the carrying values are greater than the fair values less estimated costs to sell these homes.

For the inventory impairment analyses performed during fiscal 2019, we assumed that for the majority of communities, sales prices in future periods will be equal to or lower than current sales order prices in each community, or in comparable communities, in order to generate an acceptable absorption rate. The remaining lives of the communities evaluated were estimated to be in a range from one month to five years, and we utilized a range of discount rates for communities from 12% to 18%.

We rarely purchase land for resale. However, when we own land or communities under development that do not fit into our development and construction plans, and we determine that we will sell the asset, the project is accounted for as land held for sale if certain criteria are met. We record land held for sale at the lesser of its carrying value or fair value less estimated costs to sell. In performing the impairment evaluation for land held for sale, we consider several factors including, but not limited to, recent offers received to purchase the property, prices for land in recent comparable sales transactions and market analysis studies, which include the estimated price a willing buyer would pay for the land. If the estimated fair value less costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

The key assumptions relating to inventory valuations are impacted by local market and economic conditions, and are inherently uncertain. Although our quarterly assessments reflect management's best estimates, due to uncertainties in the estimation process, actual results could differ from such estimates.

Warranty Claims — We typically provide our 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. Since we subcontract our construction work to subcontractors who typically provide us with an indemnity and a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of the subcontractors. Warranty liabilities have been established by charging cost of sales for each home delivered. The amounts charged are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. Our warranty liability is based upon historical warranty cost experience in each market in which we operate and is adjusted to reflect qualitative risks associated with the types of homes we build and the geographic areas in which we build them. Actual future warranty costs could differ from our currently estimated amounts. A 10% change in the historical warranty rates used to estimate our warranty accrual would not result in a material change in our accrual.

Legal Claims and Insurance — We are named as a defendant in various claims, complaints and other legal actions in the ordinary course of business. At any point in time, we are managing several hundred individual claims related to construction defect matters, personal injury claims, employment matters, land development issues, contract disputes and other matters. We have 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. Approximately 99% of these reserves related to construction defect matters at both September 30, 2019 and 2018.

Our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At September 30, 2019 and 2018, we had reserves for approximately 180 and 155 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During fiscal 2019, we established reserves for approximately 110 new construction defect claims and resolved 85 construction defect claims for a total cost of $17.9 million. We have closed a significant number of homes during recent years, and we may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which we operate. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where we operate are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and we believe they may continue to fluctuate. We also believe that fluctuations in housing market conditions can affect the frequency and cost of construction defect claims. If the ultimate resolution of construction defect claims resulting from our home closings in prior years varies from current expectations, it could significantly change our estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed our current estimates, they will have a significant negative impact on our future earnings and liquidity.

We estimate and record receivables under the applicable insurance policies related to our 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, we may have the ability to recover a portion of our losses from our subcontractors and their insurance carriers when we have been named as an additional insured on their insurance policies.

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 our 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. A 10% increase in the claim frequency and the average cost per claim used to estimate the reserves would result in an increase of approximately $73.7 million in our reserves and a $35.3 million increase in our receivable, resulting in additional expense of $38.4 million. A 10% decrease in the claim frequency and the average cost per claim would result in a decrease of approximately $66.3 million in our reserves and a $27.9 million decrease in our receivable, resulting in a reduction in expense of $38.4 million.

Pending Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 us beginning October 1, 2019 and will not have a material impact on our consolidated financial position, results of operations or 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 us beginning October 1, 2020 and is not expected to have a material impact on our 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 us beginning October 1, 2020 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

ITEM 7A. 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 (MBS), 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 years ended September 30, 2019 and 2018 was not significant, is recognized in current earnings. At September 30, 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 $1.3 billion. Uncommitted IRLCs totaled a notional amount of approximately $702.7 million and uncommitted mortgage loans held for sale totaled a notional amount of approximately $663.8 million at September 30, 2019.

From time to time, we enter into forward sales of MBS as part of a program to offer below market interest rate financing to our homebuyers in certain markets. At September 30, 2019, we had MBS totaling $111.4 million that did not yet have IRLCs or closed loans created or assigned and recorded a liability of $0.5 million for the fair value of such MBS position.

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 September 30, 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 September 30, 2019.

	Fiscal Year Ending September 30,							
	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value at September 30, 2019
					($ in millions)			
Debt:								
Fixed rate	$ 716.4	$ 403.3	$ 350.4	$ 700.4	$ 351.5	$ —	$ 2,522.0	$ 2,636.9
Average interest rate	3.8%	2.8%	4.5%	5.5%	8.6%	—%	4.9%	
Variable rate	$ 888.9	$ —	$ —	$ —	$ —	$ —	$ 888.9	$ 888.9
Average interest rate	3.7%	—%	—%	—%	—%	—%	3.7%	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of D.R. Horton, Inc. and subsidiaries (the Company) as of September 30, 2019, and the related consolidated statements of operations, total equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2019, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of September 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated November 25, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Estimation of reserves for construction defect matters

Description of the Matter	At September 30, 2019, the Company's reserve for legal claims related to construction defect matters was $432.8 million. As explained in Note K to the consolidated financial statements, the Company has established reserves for construction defect matters based on the estimated costs of pending legal claims and the estimated costs of anticipated future legal claims related to previously closed homes, and this liability is included within the accrued expenses and other liabilities account in the consolidated balance sheet. This reserve estimate is subject to a high degree of variability and ongoing revision as the circumstances of individual pending claims and historical data and trends change. Management applies judgment in determining the key assumptions used in calculating the reserve for construction defect matters. Auditing the reserve for construction defect matters is complex and especially challenging due to the judgmental nature of the key assumptions related to projections of the frequency of future claims and the costs to resolve claims in consideration of historical claims information. These assumptions are developed by management, are subjective in nature and have a significant effect on the determined amount of the reserve for construction defect matters. Further, the estimated reserve balance is sensitive to changes in these key assumptions.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process for estimating the reserve for construction defect matters. We tested the Company's controls that address the risk of material misstatement related to the measurement and valuation of the reserve for construction defect matters, including the key assumptions related to the projections of the frequency and costs of future claims, and the completeness and accuracy of data used in the model developed by management. To test the reserve for construction defect matters, our audit procedures included, among others, evaluating the methodology used, the key assumptions and the underlying data used by the Company in developing the reserve estimate. As management utilizes historical trends of frequency of claims incurred and the average cost to resolve claims relative to the types of products and markets where the Company operates in measuring the reserve estimate, we evaluated management's methodology for determining the frequency and cost of future claims assumptions by comparing these key assumptions to trends observed in historical Company claims data and other available information. In addition, we involved an actuarial specialist to assist with our procedures. Our specialist developed a range of values for the reserve estimate based on independently selected assumptions, which we compared to management's recorded amount to evaluate management's estimate. We also performed sensitivity analyses to determine the effect of changes in assumptions, where appropriate. Finally, we reconciled historical data included in the model and performed recalculations to evaluate the completeness and accuracy of the underlying data used by management to determine the estimate.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2018.

Fort Worth, Texas
November 25, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

Opinion on Internal Control over Financial Reporting

We have audited D.R Horton, Inc. and subsidiaries' internal control over financial reporting as of September 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, D.R. Horton, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of September 30, 2019, the related consolidated statements of operations, total equity, and cash flows for the year then ended, and the related notes and our report dated November 25, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Fort Worth, Texas
November 25, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

Opinion on the Financial Statements

We have audited the consolidated balance sheet of D.R. Horton, Inc. and its subsidiaries (the "Company") as of September 30, 2018, and the related consolidated statements of operations, total equity, and cash flows for each of the two years in the period ended September 30, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2018**,** and the results of its operations and its cash flows for each of the two years in the period ended September 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Fort Worth, Texas
November 16, 2018

We served as the Company's auditor from 2008 to 2018.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	September 30, 2019	September 30, 2018
	(In millions)	
ASSETS		
Cash and cash equivalents	$ 1,494.3	$ 1,473.1
Restricted cash	19.7	32.9
Total cash, cash equivalents and restricted cash	1,514.0	1,506.0
Inventories:		
Construction in progress and finished homes	5,245.0	5,086.3
Residential land and lots — developed and under development	5,939.4	5,172.4
Land held for development	77.8	96.1
Land held for sale	19.8	40.2
Total inventory	11,282.0	10,395.0
Investment in unconsolidated entities	6.5	11.0
Mortgage loans held for sale	1,072.0	796.4
Deferred income taxes, net of valuation allowance of $18.7 million and $17.7 million at September 30, 2019 and 2018, respectively	163.1	194.0
Property and equipment, net	462.2	401.1
Other assets	943.3	701.9
Goodwill	163.5	109.2
Total assets	$ 15,606.6	$ 14,114.6
LIABILITIES		
Accounts payable	$ 634.0	$ 624.7
Accrued expenses and other liabilities	1,278.1	1,127.5
Notes payable	3,399.4	3,203.5
Total liabilities	5,311.5	4,955.7
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, 392,172,821 shares issued and 368,431,454 shares outstanding at September 30, 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	3,179.1	3,085.0
Retained earnings	7,640.1	6,217.9
Treasury stock, 23,741,367 shares and 11,858,608 shares at September 30, 2019 and 2018, respectively, at cost	(802.2)	(322.4)
Stockholders' equity	10,020.9	8,984.4
Noncontrolling interests	274.2	174.5
Total equity	10,295.1	9,158.9
Total liabilities and equity	$ 15,606.6	$ 14,114.6

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2019	2018	2017
	(In millions, except per share data)		
Revenues	$ 17,592.9	$ 16,068.0	$ 14,091.0
Cost of sales	13,720.9	12,398.1	11,042.8
Selling, general and administrative expense	1,832.5	1,676.8	1,471.6
Equity in earnings of unconsolidated entities	(0.5)	(2.8)	—
Gain on sale of assets	(53.9)	(18.8)	—
Other (income) expense	(31.4)	(45.3)	(25.5)
Income before income taxes	2,125.3	2,060.0	1,602.1
Income tax expense	506.7	597.7	563.7
Net income	1,618.6	1,462.3	1,038.4
Net income attributable to noncontrolling interests	0.1	2.0	—
Net income attributable to D.R. Horton, Inc.	$ 1,618.5	$ 1,460.3	$ 1,038.4
Basic net income per common share attributable to D.R. Horton, Inc.	$ 4.34	$ 3.88	$ 2.77
Weighted average number of common shares	372.6	376.6	374.3
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 4.29	$ 3.81	$ 2.74
Adjusted weighted average number of common shares	377.4	383.4	378.9

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TOTAL EQUITY

	Common Stock		Additional Paid-in Capital		Retained Earnings		Treasury Stock		Non-controlling Interests		Total Equity
	(In millions, except common stock share data)										
Balances at September 30, 2016 (372,923,187 shares)	$	3.8	$	2,865.8	$	4,057.2	$	(134.3)	$	0.5	$ 6,793.0
Net income		—		—		1,038.4		—		—	1,038.4
Exercise of stock options (2,770,569 shares)		—		43.8		—		—		—	43.8
Tax benefit from employee stock awards		—		13.7		—		—		—	13.7
Stock issued under employee benefit plans (1,142,323 shares)		—		14.8		—		—		—	14.8
Cash paid for shares withheld for taxes		—		(5.1)		—		—		—	(5.1)
Stock-based compensation expense		—		59.2		—		—		—	59.2
Cash dividends declared ($0.40 per share)		—		—		(149.6)		—		—	(149.6)
Repurchases of common stock (1,850,000 shares)		—		—		—		(60.6)		—	(60.6)
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 interest acquired		—		—		—		—		175.2	175.2
Net income		—		—		1,460.3		—		2.0	1,462.3
Exercise of stock options (2,547,139 shares)		0.1		43.3		—		—		—	43.4
Stock issued under employee benefit plans (1,536,954 shares)		—		4.0		—		—		—	4.0
Cash paid for shares withheld for taxes		—		(10.3)		—		—		—	(10.3)
Stock-based compensation expense		—		55.8		—		—		—	55.8
Cash dividends declared ($0.50 per share)		—		—		(188.4)		—		—	(188.4)
Repurchases of common stock (2,808,537 shares)		—		—		—		(127.5)		—	(127.5)
Distributions to noncontrolling interests		—		—		—		—		(3.2)	(3.2)
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		—		—		1,618.5		—		0.1	1,618.6
Exercise of stock options (2,634,802 shares)		—		38.1		—		—		—	38.1
Stock issued under employee benefit plans (1,417,776 shares)		—		4.6		—		—		—	4.6
Cash paid for shares withheld for taxes		—		(19.7)		—		—		—	(19.7)
Stock-based compensation expense		—		73.2		—		—		—	73.2
Cash dividends declared ($0.60 per share)		—		—		(223.4)		—		—	(223.4)
Repurchases of common stock (11,882,759 shares)		—		—		—		(479.8)		—	(479.8)
Distributions to noncontrolling interests		—		—		—		—		(3.9)	(3.9)
Change of ownership interest in Forestar		—		(2.1)		—		—		103.5	101.4
Balances at September 30, 2019 (368,431,454 shares)	$	3.9	$	3,179.1	$	7,640.1	$	(802.2)	$	274.2	$ 10,295.1

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2019	2018	2017
		(In millions)	
OPERATING ACTIVITIES			
Net income	$ 1,618.6	$ 1,462.3	$ 1,038.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	72.0	62.4	54.7
Amortization of discounts and fees	10.9	9.9	5.0
Stock-based compensation expense	73.2	55.8	59.2
Equity in earnings of unconsolidated entities	(0.5)	(2.8)	—
Distributions of earnings of unconsolidated entities	0.5	2.0	—
Excess income tax benefit from employee stock awards	—	—	(14.3)
Deferred income taxes	20.1	170.9	110.8
Inventory and land option charges	54.0	50.4	40.2
Gain on sale of assets	(53.9)	(18.8)	—
Changes in operating assets and liabilities:			
Decrease (increase) in construction in progress and finished homes	84.6	(482.8)	(584.4)
Increase in residential land and lots — developed, under development, held for development and held for sale	(676.4)	(573.8)	(362.3)
Increase in other assets	(161.6)	(110.6)	(63.7)
Net (increase) decrease in mortgage loans held for sale	(275.6)	(208.8)	67.6
Increase in accounts payable, accrued expenses and other liabilities	126.2	129.1	89.0
Net cash provided by operating activities	892.1	545.2	440.2
INVESTING ACTIVITIES			
Expenditures for property and equipment	(127.2)	(68.1)	(102.7)
Proceeds from sale of assets	143.8	292.9	—
Expenditures related to rental properties	(96.9)	(70.2)	(54.6)
Return of investment in unconsolidated entities	4.4	17.5	—
Net principal (increase) decrease of other mortgage loans and real estate owned	(2.3)	(1.2)	6.2
Proceeds from (purchases of) debt securities collateralized by residential real estate	—	7.3	(8.8)
Payments related to business acquisitions, net of cash acquired	(315.8)	(159.2)	(4.1)
Net cash (used in) provided by investing activities	(394.0)	19.0	(164.0)
FINANCING ACTIVITIES			
Proceeds from notes payable	2,528.2	2,163.5	835.0
Repayment of notes payable	(2,686.1)	(2,181.7)	(1,192.3)
Advances (payments) on mortgage repurchase facility, net	251.2	217.7	(53.0)
Proceeds from stock associated with certain employee benefit plans	42.7	47.4	46.7
Excess income tax benefit from employee stock awards	—	—	14.3
Cash paid for shares withheld for taxes	(19.7)	(10.3)	(5.1)
Cash dividends paid	(223.4)	(188.4)	(149.6)
Repurchases of common stock	(479.8)	(127.5)	(60.6)
Distributions to noncontrolling interests, net	(3.9)	(3.2)	—
Net proceeds from issuance of Forestar common stock	100.7	—	—
Net cash used in financing activities	(490.1)	(82.5)	(564.6)
Net increase (decrease) in cash, cash equivalents and restricted cash	8.0	481.7	(288.4)
Cash, cash equivalents and restricted cash at beginning of year	1,506.0	1,024.3	1,312.7
Cash, cash equivalents and restricted cash at end of year	$ 1,514.0	$ 1,506.0	$ 1,024.3

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

	Year Ended September 30,		
	2019	2018	2017
		(In millions)	
Supplemental cash flow information:			
Income taxes paid, net	$ 488.0	$ 387.2	$ 446.4
Supplemental disclosures of non-cash activities:			
Notes payable issued for inventory	$ 83.6	$ —	$ 4.5
Stock issued under employee incentive plans	$ 49.6	$ 64.0	$ 31.9
Accrued expenditures for property and equipment	$ 14.1	$ 10.7	$ 16.3
Accrual for holdback payment related to acquisition	$ 10.1	$ —	$ —

See accompanying notes to consolidated financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) and 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 66% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 34% interest the Company does not own is accounted for as noncontrolling interests. All intercompany accounts, transactions and balances have been eliminated in consolidation.

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 year amounts have been reclassified to conform to the current year presentation, resulting in an increase in cash provided by investing activities of $16.4 million for fiscal 2018 and a decrease in cash used in investing activities of $7.0 million for fiscal 2017.

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.

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 fiscal 2019 are presented under ASC 606, while prior year 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 fiscal 2019 revenues as a result of applying ASC 606, and there have not been significant changes to the Company’s business processes, systems, or internal controls as a result of implementing the standard.

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.

When the Company executes sales contracts with its homebuyers, or when it requires advance payment from homebuyers for custom changes, upgrades or options related to their homes, the cash deposits received are recorded as liabilities until the homes are closed or the contracts are cancelled. The Company either retains or refunds to the homebuyer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

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. Revenue from land sales is typically recognized 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. Revenues associated with the Company's mortgage operations primarily include net gains on the sale of mortgage loans and servicing rights. The Company typically elects the fair value option for its mortgage loan originations whereby mortgage loans held for sale are recorded at fair value based on either sale commitments or current market quotes and loan values are adjusted through revenues for subsequent changes in fair value until the loans are sold. Expected gains and losses from the sale of servicing rights are included in the measurement of all written loan commitments that are accounted for at fair value through revenues 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 100% 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.

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, which totaled $244.8 million at September 30, 2019, 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 $48.6 million and $44.2 million at September 30, 2019 and 2018, respectively, and are included in cash and cash equivalents in the consolidated balance sheets.

Restricted Cash

The Company has cash that is restricted as to its use. Restricted cash related to homebuilding and land development operations includes customer deposits that are temporarily restricted in accordance with regulatory requirements. Restricted cash related to financial services is mortgagor related funds held by the Company for taxes and insurance on an interim basis until the loans are sold.

Inventories and Cost of Sales

Inventory includes the costs of direct land acquisition, land development and home construction, capitalized interest, real estate taxes and direct overhead costs incurred during development and home construction. Costs incurred after development projects or homes are substantially complete, such as utilities, maintenance, and cleaning, are charged to selling, general and administrative (SG&A) expense as incurred. All indirect overhead costs, such as compensation of sales personnel, division and region management, and the costs of advertising and builder's risk insurance are charged to SG&A expense as incurred.

Land and development costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Home construction costs are specifically identified and recorded to individual homes. Cost of sales for homes closed includes the specific construction costs of each home and all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot based upon the total number of homes expected to be closed in each community. Cost of sales for lots sold includes all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot in the community. Any changes to the estimated total development costs subsequent to the initial home or lot closings in a community are generally allocated on a pro-rata basis to the remaining homes or lots in the community associated with the relevant development activity.

When a home is closed, the Company generally has not paid all incurred costs necessary to complete the home. A liability and a corresponding charge to cost of sales are recorded for the amount estimated to ultimately be paid related to completed homes that have been closed. Home construction budgets are compared to actual recorded costs to determine the additional costs remaining to be paid on each closed home.

The Company rarely purchases land for resale. However, when the Company owns land or communities under development that do not fit into its development and construction plans, and the Company determines that it will sell the asset, the project is accounted for as land held for sale if certain criteria are met. The Company records land held for sale at the lesser of its carrying value or fair value less estimated costs to sell.

Each quarter, the Company reviews its communities and land inventories for indicators of potential impairment. If indicators of impairment are present for a community, the Company performs an impairment evaluation of the community, which includes an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If so, impairment charges are recorded to cost of sales if the fair value of such assets is less than their carrying amounts. Impairment charges are also recorded on finished homes in substantially completed communities when events or circumstances indicate that the carrying values are greater than the fair values less estimated costs to sell these homes. The key assumptions relating to inventory valuations are impacted by local market and economic conditions and are inherently uncertain. Due to uncertainties in the estimation process, actual results could differ from such estimates. See Note C.

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 fiscal 2019, 2018 and 2017, the Company’s active inventory exceeded its debt level, and all interest incurred was capitalized to inventory. See Note E.

Land Purchase Contract Deposits and Pre-Acquisition Costs

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 purchase contract deposits and capitalized pre-acquisition costs are expensed to inventory and land option charges when the Company believes it is probable that it will not acquire the property under contract and will not be able to recover these costs through other means. See Notes C and K.

Variable Interests

Land purchase contracts can result in the creation of a variable interest in the entity holding the land parcel under contract. At September 30, 2019, there was one variable interest entity reported in the Company's consolidated balance sheet as a result of the related party transaction described in Note N. There were no variable interest entities reported in the consolidated balance sheet at September 30, 2018 because, with regard to each entity, the Company determined it did not control the activities that most significantly impact the variable interest entity's economic performance, and it did not have an obligation to absorb losses of or the right to receive benefits from the entity. The maximum exposure to losses related to the Company's unconsolidated variable interest entities is limited to the amounts of the Company's related deposits. At September 30, 2019 and 2018, the deposits related to these contracts totaled $396.9 million and $326.0 million, respectively, and are included in other assets in the consolidated balance sheets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Repairs and maintenance costs are expensed as incurred. Property under construction is not depreciated until the property is placed in service. Depreciation generally is recorded using the straight-line method over the estimated useful life of the asset. The depreciable life of model home furniture is 2 years, depreciable lives of office furniture and equipment typically range from 2 to 5 years, and depreciable lives of buildings and improvements typically range from 5 to 30 years.

DHI Communities develops, constructs and owns multi-family residential properties that produce rental income. DHI Communities has four projects under active construction and two projects that are substantially complete, one of which was under contract to sell at September 30, 2019. The property balances related to these operations are presented in the table below.

The Company's property and equipment balances and the related accumulated depreciation at September 30, 2019 and 2018 were as follows:

	September 30, 2019	September 30, 2018
	(In millions)	
Buildings and improvements (1) (2)	$ 329.4	$ 292.3
Multi-family rental properties under construction	65.2	54.1
Model home furniture	128.3	127.8
Office furniture and equipment	128.6	107.8
Land (1) (2)	71.6	63.8
Total property and equipment	$ 723.1	$ 645.8
Accumulated depreciation	(260.9)	(244.7)
Property and equipment, net	$ 462.2	$ 401.1

(1) At September 30, 2019, buildings and improvements included $50.7 million related to completed multi-family rental properties and $56.9 million related to the Company's oil and gas related assets. Additionally, land included $38.0 million related to the Company's multi-family rental operations.

(2) At September 30, 2018, buildings and improvements included $87.3 million related to completed multi-family rental properties and land included $36.7 million related to the Company's multi-family rental operations.

Depreciation expense was $66.1 million, $58.2 million and $49.4 million in fiscal 2019, 2018 and 2017, respectively.

Business Acquisitions

The Company accounts for acquisitions of businesses by allocating the purchase price of the business to the various assets acquired and liabilities assumed at their respective fair values. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. These estimates and assumptions are based on historical experience, information obtained from the management of the acquired companies and the Company's estimates of significant assumptions that a market participant would use when determining fair value. While the Company believes the estimates and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

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. 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.

The Company's allocation of the aggregate purchase price of these transactions was based on the estimated fair value of the assets and liabilities acquired 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 recorded goodwill of $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 SG&A expense over their expected lives, which range from one to three years.

Goodwill

The Company records goodwill associated with its acquisitions of businesses when the purchase price of the business exceeds the fair value of the net tangible and identifiable intangible assets acquired. Goodwill balances are evaluated for potential impairment on at least an annual basis by performing a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an operating segment with goodwill is less than its carrying amount. If the qualitative assessment indicates that additional impairment testing is required, then a quantitative assessment is performed to determine the operating segment's fair value. The estimated fair value is determined by discounting the future cash flows of the operating segment to present value. If the carrying value of the operating segment exceeds its fair value, the Company determines if an impairment exists based on the implied fair value of the operating segment's goodwill. As a result of the qualitative assessments performed in fiscal 2019, 2018 and 2017, no impairment charges were indicated or recorded.

The Company’s goodwill balances by reporting segment were as follows:

	September 30, 2019	September 30, 2018
	(In millions)	
East	$ 26.4	$ 21.8
Midwest	49.7	—
Southeast	40.1	40.1
South Central	15.9	15.9
Southwest	—	—
West	2.2	2.2
Forestar	29.2	29.2
Total goodwill	$ 163.5	$ 109.2

Warranty Claims

The Company typically provides its homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems and a one-year limited warranty on other construction components. Since the Company subcontracts its construction work to subcontractors who typically provide it with an indemnity and a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of the subcontractors. Warranty liabilities have been established by charging cost of sales for each home delivered. The amounts charged are based on management’s estimate of expected warranty-related costs under all unexpired warranty obligation periods. 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. See Note K.

Legal Claims and Insurance

The Company records expenses and liabilities for legal claims related to construction defect matters, personal injury claims, employment matters, land development issues, contract disputes and other matters. The amounts recorded for these contingencies are based on the estimated costs of pending claims and the estimated costs of anticipated future claims related to previously closed homes. The Company estimates and records receivables under its applicable insurance policies for these legal claims 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. See Note K.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense was approximately $47.0 million, $44.1 million and $45.4 million in fiscal 2019, 2018 and 2017, respectively.

Income Taxes

The Company's income tax expense is calculated using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement amounts of assets and liabilities and their respective tax bases and attributable to net operating losses and tax credit carryforwards. When assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of its deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods and in the jurisdictions in which those temporary differences become deductible. The Company records a valuation allowance when it determines it is more likely than not that a portion of the deferred tax assets will not be realized. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on the Company's consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of the Company's deferred tax assets and liabilities. See Note G.

Interest and penalties related to unrecognized tax benefits are recognized in the financial statements as a component of income tax expense. Significant judgment is required to evaluate uncertain tax positions. The Company evaluates its uncertain tax positions on a quarterly basis. The evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in increases or decreases in the Company's income tax expense in the period in which the change is made. The Company's unrecognized tax benefits and related accrued interest at September 30, 2019 and 2018 were immaterial.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per share is based on the weighted average number of shares of common stock and dilutive securities outstanding during each year. See Note H.

Stock-Based Compensation

The Company's stockholders formally authorize shares of its common stock to be available for future grants of stock-based compensation awards. From time to time, the Compensation Committee of the Company's Board of Directors authorizes the grant of stock-based compensation to its employees and directors from these available shares. At September 30, 2019, the outstanding stock-based compensation awards include stock options and restricted stock units. Grants of restricted stock units vest over a certain number of years as determined by the Compensation Committee of the Board of Directors. Restricted stock units outstanding at September 30, 2019 have a remaining vesting period up to 4.2 years. Stock options are granted at exercise prices which equal the market value of the Company's common stock at the date of the grant. All stock options outstanding at September 30, 2019 were vested and expire 10 years after the dates on which they were granted.

The compensation expense for stock-based awards is based on the fair value of the award and is recognized on a straight-line basis over the remaining vesting period. The fair values of restricted stock units are based on the Company's stock price on the date of grant. The fair values of stock options granted are calculated on the date of grant using a Black-Scholes option pricing model. Determining the fair value of stock options requires judgment in developing assumptions and involves a number of estimates. These estimates include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield and expected stock option exercise behavior. In addition, judgment is used in estimating the number of stock awards that are expected to be forfeited. See Note J.

Fair Value Measurements

The Financial Accounting Standards Board's (FASB) authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and nonperformance risk associated with the Company's counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for the Company's mortgage loans held for sale, debt securities collateralized by residential real estate, interest rate lock commitments and other derivative instruments on a recurring basis and are used for inventories, other mortgage loans and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value is not recoverable. See Note M.

Pending Accounting Pronouncements

In February 2016, the 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 and will not have a material impact on its consolidated financial position, results of operations or 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.

NOTE B – SEGMENT INFORMATION

The Company's operating segments are its 52 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

Homebuilding is the Company's core business, generating 97% of consolidated revenues in fiscal 2019 and 2018 and 98% of consolidated revenues in fiscal 2017. The Company's homebuilding divisions are primarily engaged in the acquisition and development of land and the construction and sale of residential homes, with operations in 90 markets in 29 states across the United States. 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 51 markets and 20 states. Forestar is making significant investments in land acquisition and development to expand its business across a geographically diversified national platform. The homebuilding divisions acquire 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. The operating results of these subsidiaries are immaterial for separate reporting and therefore are grouped together and presented as other. 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, one of which was under contract to sell at September 30, 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. In June 2019, DHI Communities sold its second multi-family rental property for $60.0 million and recorded a gain on the sale of $22.6 million. At September 30, 2019 and 2018, property and equipment in the consolidated balance sheets included $153.9 million and $171.4 million, respectively, of assets owned by DHI Communities.

The accounting policies of the reporting segments are described throughout Note A. Financial information relating to the Company's reporting segments is as follows:

	September 30, 2019						
	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
	(In millions)						
Assets							
Cash and cash equivalents	$ 1,043.0	$ 382.8	$ 43.4	$ 25.1	$ —	$ —	$ 1,494.3
Restricted cash	8.0	—	11.6	0.1	—	—	19.7
Inventories:							
Construction in progress and finished homes	5,249.0	—	—	—	(4.0)	—	5,245.0
Residential land and lots — developed and under development	4,956.1	1,011.8	—	—	(31.4)	2.9	5,939.4
Land held for development	60.7	17.1	—	—	—	—	77.8
Land held for sale	19.8	—	—	—	—	—	19.8
	10,285.6	1,028.9	—	—	(35.4)	2.9	11,282.0
Investment in unconsolidated entities	—	7.3	—	—	—	(0.8)	6.5
Mortgage loans held for sale	—	—	1,072.0	—	—	—	1,072.0
Deferred income taxes, net	146.4	17.4	—	—	5.1	(5.8)	163.1
Property and equipment, net	235.4	2.4	3.2	221.2	—	—	462.2
Other assets	863.2	16.9	68.3	71.5	(88.5)	11.9	943.3
Goodwill	134.3	—	—	—	—	29.2	163.5
	$ 12,715.9	$ 1,455.7	$ 1,198.5	$ 317.9	$ (118.8)	$ 37.4	$ 15,606.6
Liabilities							
Accounts payable	$ 598.6	$ 16.8	$ 7.0	$ 11.6	$ —	$ —	$ 634.0
Accrued expenses and other liabilities	1,152.5	169.5	53.0	9.3	(93.6)	(12.6)	1,278.1
Notes payable	2,047.6	460.5	888.9	—	—	2.4	3,399.4
	$ 3,798.7	$ 646.8	$ 948.9	$ 20.9	$ (93.6)	$ (10.2)	$ 5,311.5

(1) Amounts 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 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.

	September 30, 2018						
	Homebuilding	Forestar (1)	Financial Services	Other (1)	Eliminations (3)	Other Adjustments (4)	Consolidated
				(In millions)			
Assets							
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
Inventories:							
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
Investment in unconsolidated entities	—	11.7	—	—	—	(0.7)	11.0
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	19.7	43.6	0.9	(48.6)	12.6	701.9
Goodwill	80.0	—	—	—	—	29.2	109.2
	$ 12,132.8	$ 893.1	$ 884.8	$ 198.9	$ (52.8)	$ 57.8	$ 14,114.6
Liabilities							
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

(1) Amounts 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 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.

	Year Ended September 30, 2019						
	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
				(In millions)			
Revenues:							
Home sales	$ 16,925.0	$ —	$ —	$ —	$ —	$ —	$ 16,925.0
Land/lot sales and other	91.9	428.3	—	32.6	(326.6)	—	226.2
Financial services	—	—	441.7	—	—	—	441.7
	17,016.9	428.3	441.7	32.6	(326.6)	—	17,592.9
Cost of sales:							
Home sales (5)	13,507.1	—	—	—	(8.3)	—	13,498.8
Land/lot sales and other	75.1	361.9	—	—	(287.4)	18.5	168.1
Inventory and land option charges	53.2	0.8	—	—	—	—	54.0
	13,635.4	362.7	—	—	(295.7)	18.5	13,720.9
Selling, general and administrative expense	1,482.3	28.9	293.0	27.8	—	0.5	1,832.5
Equity in earnings of unconsolidated entities	—	(0.5)	—	—	—	—	(0.5)
Gain on sale of assets	(2.0)	(3.0)	—	(51.9)	—	3.0	(53.9)
Other (income) expense	(9.5)	(5.5)	(17.6)	1.2	—	—	(31.4)
Income before income taxes	$ 1,910.7	$ 45.7	$ 166.3	$ 55.5	$ (30.9)	$ (22.0)	$ 2,125.3
Summary Cash Flow Information:							
Depreciation and amortization	$ 63.7	$ 0.2	$ 1.5	$ 6.1	$ —	$ 0.5	$ 72.0
Cash provided by (used in) operating activities	$ 1,438.0	$ (391.3)	$ (150.2)	$ 2.5	$ (2.5)	$ (4.4)	$ 892.1

(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.

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

	Year Ended September 30, 2018						
	Homebuilding	Forestar (1)	Financial Services	Other (2)	Eliminations (3)	Other Adjustments (4)	Consolidated
				(In millions)			
Revenues:							
Home sales	$ 15,502.0	$ —	$ —	$ —	$ —	$ —	$ 15,502.0
Land/lot sales and other	121.8	109.2	—	—	(39.1)	(1.2)	190.7
Financial services	—	—	375.3	—	—	—	375.3
	15,623.8	109.2	375.3	—	(39.1)	(1.2)	16,068.0
Cost of sales:							
Home sales (5)	12,195.5	—	—	—	(1.2)	—	12,194.3
Land/lot sales and other	99.1	68.0	—	—	(30.1)	16.4	153.4
Inventory and land option charges	48.8	1.0	—	—	—	0.6	50.4
	12,343.4	69.0	—	—	(31.3)	17.0	12,398.1
Selling, general and administrative expense	1,346.2	32.8	272.6	24.7	—	0.5	1,676.8
Equity in earnings of unconsolidated entities	—	(12.4)	—	—	2.5	7.1	(2.8)
Gain on sale of assets	(15.8)	(27.7)	—	—	—	24.7	(18.8)
Interest expense	—	5.8	—	—	(5.8)	—	—
Other (income) expense	(7.2)	(7.0)	(15.1)	(17.0)	—	1.0	(45.3)
Income (loss) before income taxes	$ 1,957.2	$ 48.7	$ 117.8	$ (7.7)	$ (4.5)	$ (51.5)	$ 2,060.0
Summary Cash Flow Information:							
Depreciation and amortization	$ 53.4	$ 0.3	$ 1.4	$ 6.8	$ —	$ 0.5	$ 62.4
Cash provided by (used in) operating activities	$ 1,001.7	$ (320.3)	$ (116.6)	$ 0.8	$ (10.5)	$ (9.9)	$ 545.2

(1) Results are presented from the date of acquisition and 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.

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

	Year Ended September 30, 2017			
	Homebuilding	Financial Services	Other (1)	Consolidated
	(In millions)			
Revenues:				
Home sales	$ 13,653.2	$ —	$ —	$ 13,653.2
Land/lot sales and other	88.3	—	—	88.3
Financial services	—	349.5	—	349.5
	13,741.5	349.5	—	14,091.0
Cost of sales:				
Home sales	10,927.8	—	—	10,927.8
Land/lot sales and other	74.8	—	—	74.8
Inventory and land option charges	40.2	—	—	40.2
	11,042.8	—	—	11,042.8
Selling, general and administrative expense	1,220.4	239.3	11.9	1,471.6
Other (income) expense	(11.0)	(14.3)	(0.2)	(25.5)
Income (loss) before income taxes	$ 1,489.3	$ 124.5	$ (11.7)	$ 1,602.1
Summary Cash Flow Information:				
Depreciation and amortization	$ 49.5	$ 1.5	$ 3.7	$ 54.7
Cash provided by (used in) operating activities	$ 303.7	$ 139.1	$ (2.6)	$ 440.2

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

Homebuilding Inventories by Reporting Segment (1)	**September 30,**	
	2019	**2018**
	(In millions)	
East	$ 1,288.8	$ 1,192.0
Midwest	836.8	583.1
Southeast	2,768.0	2,668.7
South Central	2,533.2	2,439.4
Southwest	574.4	499.7
West	2,056.0	2,268.5
Corporate and unallocated (2)	228.4	223.7
	$ 10,285.6	$ 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	**Year Ended September 30,**		
	2019	**2018**	**2017**
		(In millions)	
Revenues			
East	$ 2,290.2	$ 1,893.4	$ 1,640.1
Midwest	1,123.1	858.9	736.5
Southeast	4,977.8	4,578.6	4,087.6
South Central	4,202.4	3,769.9	3,383.1
Southwest	772.6	768.7	597.5
West	3,650.8	3,754.3	3,296.7
	$ 17,016.9	$ 15,623.8	$ 13,741.5
Inventory and Land Option Charges			
East	$ 2.7	$ 2.3	$ 13.6
Midwest	3.5	5.1	1.8
Southeast	10.7	28.8	8.7
South Central	11.6	4.6	4.1
Southwest	0.5	0.9	1.6
West	24.2	7.1	10.4
	$ 53.2	$ 48.8	$ 40.2
Income Before Income Taxes (1)			
East	$ 238.8	$ 217.3	$ 153.9
Midwest	57.7	77.5	49.1
Southeast	584.7	536.0	450.3
South Central	551.1	506.1	439.1
Southwest	100.4	97.4	39.6
West	378.0	522.9	357.3
	$ 1,910.7	$ 1,957.2	$ 1,489.3

(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating the Company's corporate office. The amortization of capitalized interest and property taxes is allocated to each 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.

NOTE C – INVENTORIES

At the end of each quarter during fiscal 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. As of September 30, 2019, the Company performed detailed impairment evaluations of communities and land inventories with a combined carrying value of $55.9 million and recorded impairment charges of $7.1 million during the fourth quarter to reduce the carrying value of impaired communities and land to fair value. Total impairment charges during fiscal 2019, 2018 and 2017 were $25.7 million, $11.8 million and $23.2 million, respectively. Inventory impairments and the land option charges discussed below are included in cost of sales in the consolidated statements of operations.

During fiscal 2019, 2018 and 2017, earnest money and pre-acquisition cost write-offs related to land purchase contracts that the Company has terminated or expects to terminate were $28.3 million, $14.1 million and $17.0 million, respectively. Total inventory and land option charges for fiscal 2018 also included a charge of $24.5 million related to the settlement of an outstanding dispute associated with a land transaction.

In fiscal 2018, the Forestar 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 year ended September 30, 2018.

NOTE D – NOTES PAYABLE

The Company's notes payable at their carrying amounts consist of the following:

	September 30, 2019	September 30, 2018
	(In millions)	
Homebuilding:		
Unsecured:		
Revolving credit facility	$ —	$ —
3.75% senior notes due 2019 (1)	—	499.6
4.0% senior notes due 2020 (1)	499.6	498.8
2.55% senior notes due 2020 (1)	398.9	397.9
4.375% senior notes due 2022 (1)	348.8	348.4
4.75% senior notes due 2023 (1)	298.9	298.7
5.75% senior notes due 2023 (1)	398.4	398.0
Other secured notes	103.0	4.5
	2,047.6	2,445.9
Forestar:		
Unsecured:		
Revolving credit facility	—	—
3.75% convertible senior notes due 2020 (2)	119.1	119.9
8.0% senior notes due 2024 (3)	343.8	—
	462.9	119.9
Financial Services:		
Mortgage repurchase facility	888.9	637.7
	$ 3,399.4	$ 3,203.5

(1) Debt issuance costs that were deducted from the carrying amounts of the homebuilding senior notes totaled $5.4 million and $8.5 million at September 30, 2019 and 2018, respectively.

(2) Forestar's 3.75% convertible senior notes due 2020 include an unamortized fair value adjustment of $2.4 million and $8.2 million at September 30, 2019 and 2018, respectively.

(3) Debt issuance costs that were deducted from the carrying amount of Forestar's 8.0% senior notes totaled $6.2 million at September 30, 2019.

As of September 30, 2019, maturities of consolidated notes payable, assuming the mortgage repurchase facility is not extended or renewed, are $1.6 billion in fiscal 2020, $403.3 million in fiscal 2021, $350.4 million in fiscal 2022, $700.4 million in fiscal 2023 and $351.5 million in fiscal 2024.

Homebuilding:

At September 30, 2019, the Company had 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 provided 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. At September 30, 2019, there were no borrowings outstanding and $141.2 million of letters of credit issued under the revolving credit facility, resulting in available capacity of approximately $1.2 billion. Borrowings and repayments under the facility totaled $2.1 billion each during fiscal 2019.

In October 2019, the homebuilding revolving credit facility was amended to increase its capacity to $1.59 billion with an uncommitted accordion feature that could increase the size of the facility to $2.5 billion, subject to certain conditions and availability of additional bank commitments. The amendment also extended the facility's maturity date from September 25, 2023 to October 2, 2024 and increased the letter of credit sublimit to 100% of the revolving credit commitment.

The Company's homebuilding revolving credit facility imposes restrictions on its operations and activities, including requiring the maintenance of a maximum allowable leverage ratio and a borrowing base restriction if the leverage ratio 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 September 30, 2019, the Company was in compliance with all of the covenants, limitations and restrictions of its homebuilding revolving credit facility and public debt obligations.

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 the Company may issue from time to time in amounts to be determined.

In March 2019, the Company repaid $500 million principal amount of its 3.75% senior notes at maturity. In October 2019, the Company issued $500 million principal amount of 2.5% senior notes due October 15, 2024, with interest payable semi-annually. The annual effective interest rate of these notes after giving effect to the amortization of the discount and financing costs is 2.7%.

The key terms of the Company's homebuilding senior notes outstanding as of September 30, 2019 are summarized below.

Notes Payable	Principal Amount	Date Issued	Date Due	Redeemable Prior to Maturity (1)	Effective Interest Rate (2)
	(In millions)				
4.0% senior notes	$500.0	February 2015	February 15, 2020	Yes	4.2%
2.55% senior notes	$400.0	December 2017	December 1, 2020	Yes	2.8%
4.375% senior notes	$350.0	September 2012	September 15, 2022	Yes	4.5%
4.75% senior notes	$300.0	February 2013	February 15, 2023	Yes	4.9%
5.75% senior notes	$400.0	August 2013	August 15, 2023	Yes	5.9%

(1) The Company may redeem the notes in whole at any time or in part from time to time, at a redemption price equal to the greater of 100% of their principal amount or the present value of the remaining scheduled payments discounted to the redemption date, plus accrued and unpaid interest.

(2) Interest is payable semi-annually on each of the series of senior notes. The annual effective interest rate is calculated after giving effect to the amortization of debt issuance costs.

All series of homebuilding senior notes and borrowings under the homebuilding revolving credit facility are senior obligations and rank *pari passu* in right of payment to all existing and future unsecured indebtedness and senior to all existing and future indebtedness expressly subordinated to them. The homebuilding senior notes and borrowings under the homebuilding revolving credit facility are guaranteed by entities that hold approximately 79% of the Company's assets. Upon the occurrence of both a change of control of the Company and a ratings downgrade event, as defined in the indenture governing its senior notes, the Company would be required in certain circumstances to offer to repurchase these notes at 101% of their principal amount, along with accrued and unpaid interest. Also, a change of control as defined in the revolving credit facility would constitute an event of default under the revolving credit facility, which could result in the acceleration of any borrowings outstanding under the facility and the termination of the commitments thereunder.

Effective July 30, 2019, the Board of Directors authorized the repurchase of up to $500 million of the Company's debt securities. The authorization has no expiration date. All of the $500 million authorization was remaining at September 30, 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. Letters of credit issued under the facility reduce the available borrowing capacity. At September 30, 2019, there were no borrowings outstanding and $29.7 million of letters of credit issued under the revolving credit facility. 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. At September 30, 2019, the borrowing base limited the available capacity under the revolving credit facility to $339.6 million. Borrowings and repayments under the facility totaled $85 million each during fiscal 2019.

In October 2019, the Forestar revolving credit facility was amended to extend its maturity date from August 16, 2021 to October 2, 2022. The maturity date may be extended by up to one year on up to two additional occasions, subject to the approval of lenders holding a majority of the commitments.

The Forestar 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 September 30, 2019, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

At September 30, 2019, the principal amount of Forestar's 3.75% convertible senior notes due March 2020 was $118.9 million. Forestar intends to settle the principal amount of these notes in cash at maturity, with any excess conversion value to be settled in shares of its common stock.

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 mature 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.

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. The total capacity of the facility is $900 million; however, the capacity increases, without requiring additional commitments, to $1.1 billion for approximately 45 days at fiscal year end. The capacity can also be increased to $1.2 billion subject to the availability of additional commitments. The maturity date of the facility is February 21, 2020.

As of September 30, 2019, $1.0 billion of mortgage loans held for sale with a collateral value of $972.0 million were pledged under the mortgage repurchase facility. DHI Mortgage had an obligation of $888.9 million outstanding under the mortgage repurchase facility at September 30, 2019 at a 3.7% 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 leverage ratio and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At September 30, 2019, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

NOTE E – CAPITALIZED INTEREST

The following table summarizes the Company's interest costs incurred, capitalized and expensed during the years ended September 30, 2019, 2018 and 2017.

	Year Ended September 30,		
	2019	**2018**	**2017**
		(In millions)	
Capitalized interest, beginning of year	$ 162.7	$ 167.9	$ 191.2
Interest incurred (1)	140.2	125.4	129.3
Interest charged to cost of sales	(122.8)	(130.6)	(152.6)
Capitalized interest, end of year	$ 180.1	$ 162.7	$ 167.9

(1) Interest incurred included interest on the Company's mortgage repurchase facility of $16.1 million, $12.1 million and $8.5 million in fiscal 2019, 2018 and 2017, respectively. Also included in interest incurred is Forestar interest of $19.4 million and $3.4 million in fiscal 2019 and 2018, respectively.

NOTE F – MORTGAGE LOANS

Mortgage Loans Held for Sale and Related Derivatives

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. At September 30, 2019, mortgage loans held for sale had an aggregate carrying value of $1.1 billion and an aggregate outstanding principal balance of $1.0 billion. 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 years ended September 30, 2019, 2018 and 2017, mortgage loans originated totaled $8.7 billion, $7.6 billion and $6.8 billion, respectively, and mortgage loans sold totaled $8.4 billion, $7.4 billion and $6.8 billion, respectively. The Company had gains on sales of loans and servicing rights of $319.4 million, $265.1 million and $251.1 million during the years ended September 30, 2019, 2018 and 2017, respectively. 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 fiscal 2019 were sold to four major financial entities, the largest percentage of which purchased 32% of the total loans sold.

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

Newly originated loans that have been closed but not committed to third-party purchasers are hedged to mitigate the risk of changes in their fair value. Hedged loans are committed to third-party purchasers typically within three days after origination. The notional amounts of the hedging instruments used to hedge mortgage loans held for sale vary in relationship to the underlying loan amounts, depending on the movements in the value of each hedging instrument relative to the value of the underlying mortgage loans. The fair value change related to the hedging instruments generally offsets the fair value change in the mortgage loans held for sale. The net fair value change, which for the years ended September 30, 2019, 2018 and 2017 was not significant, is recognized in revenues in the consolidated statements of operations. At September 30, 2019 and 2018, the Company’s mortgage loans held for sale that were not committed to third-party purchasers totaled $663.8 million and $575.9 million, respectively, and the notional amounts of the hedging instruments related to those loans totaled $663.8 million and $575.8 million, respectively.

Other Mortgage Loans and Loss Reserves

Mortgage loans are sold with limited recourse provisions derived from industry-standard representations and warranties in the relevant agreements. These representations and warranties primarily involve the absence of misrepresentations by the borrower or other parties, the appropriate underwriting of the loan and in some cases, a required minimum number of payments to be made by the borrower. The Company generally does not retain any other continuing interest related to mortgage loans sold in the secondary market. The majority of other mortgage loans consists of loans repurchased due to these limited recourse obligations. Typically, these loans are impaired, and some result in real estate owned through the foreclosure process. At September 30, 2019 and 2018, the Company’s total other mortgage loans and real estate owned, before loss reserves, totaled $11.4 million and $9.1 million, respectively.

The Company has recorded reserves for estimated losses on other mortgage loans, real estate owned and future loan repurchase obligations due to the limited recourse provisions, all of which are recorded as reductions of revenue. The loss reserve for loan repurchase and settlement obligations is estimated based on analysis of the volume of mortgages originated, loan repurchase requests received, actual repurchases and losses through the disposition of such loans or requests and discussions with mortgage purchasers. The reserve balances at September 30, 2019 and 2018 totaled $8.7 million and $8.4 million, respectively.

Other mortgage loans and real estate owned net of the related loss reserves are included in other assets, while loan repurchase obligations are included in accrued expenses and other liabilities in the Company's consolidated balance sheets.

Loan Commitments and Related Derivatives

The Company is party to interest rate lock commitments (IRLCs), which are extended to borrowers who have applied for loan funding and meet defined credit and underwriting criteria. At September 30, 2019 and 2018, the notional amount of IRLCs, which are accounted for as derivative instruments recorded at fair value, totaled $727.9 million and $485.3 million, respectively.

The Company manages interest rate risk related to its IRLCs through the use of best-efforts whole loan delivery commitments and hedging instruments. These instruments are considered derivatives in an economic hedge and are accounted for at fair value with gains and losses recognized in revenues in the consolidated statements of operations. At September 30, 2019 and 2018, the notional amount of best-efforts whole loan delivery commitments totaled $25.2 million and $25.6 million, respectively, and the notional amount of hedging instruments related to IRLCs not yet committed to purchasers totaled $636.2 million and $430.2 million, respectively.

From time to time, the Company enters into forward sales of MBS as part of a program to offer below market interest rate financing to its homebuyers in certain markets. At September 30, 2019, the Company had MBS totaling $111.4 million that did not yet have interest rate lock commitments or closed loans created or assigned and recorded a liability of $0.5 million for the fair value of such MBS position.

NOTE G – INCOME TAXES

Income Tax Expense

The components of the Company's income tax expense are as follows:

	Year Ended September 30,		
	2019	2018	2017
		(In millions)	
Current tax expense:			
Federal	$ 407.3	$ 373.2	$ 425.6
State	79.3	53.6	27.3
	486.6	426.8	452.9
Deferred tax expense:			
Federal	13.9	158.7	87.9
State	6.2	12.2	22.9
	20.1	170.9	110.8
Total income tax expense	$ 506.7	$ 597.7	$ 563.7

The Company's effective tax rate was 23.8%, 29.0% and 35.2% in fiscal 2019, 2018 and 2017, respectively. The effective tax rates for fiscal 2019 and 2018 reflect the impact of the Tax Cuts and Jobs Act (Tax Act), which was enacted into law in December 2017. 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 ended 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 beginning October 1, 2018. The effective tax rates for fiscal year 2019 and 2018 also include a tax benefit related to stock-based compensation.

The fiscal year 2018 effective tax rate also included the remeasurement of the Company's deferred tax assets and liabilities as a result of the Tax Act, the release of a valuation allowance against deferred tax assets related to Forestar and the enactment of the Bipartisan Budget Act of 2018, which retroactively extended the expiration date of the federal energy efficient home credit from December 31, 2016 until December 31, 2017. The effective tax rates for all years include an expense for state income taxes.

Reconciliation of Expected Income Tax Expense

Differences between income tax expense and tax computed by applying the federal statutory rate of 21% in fiscal 2019, 24.5% in fiscal 2018 and 35% in fiscal 2017 to income before income taxes during each year is due to the following:

	Year Ended September 30,		
	2019	2018	2017
		(In millions)	
Income taxes at federal statutory rate	$ 446.3	$ 505.0	$ 560.7
Increase (decrease) in tax resulting from:			
State income taxes, net of federal benefit	69.1	59.4	42.3
Domestic production activities deduction	—	(36.7)	(39.8)
Valuation allowance	(0.2)	(7.3)	0.8
Tax credits	(1.6)	(19.0)	(3.5)
Excess tax benefit from stock-based compensation	(16.1)	(21.2)	—
Tax law change from enactment of Tax Act	—	108.7	—
Other	9.2	8.8	3.2
Total income tax expense	$ 506.7	$ 597.7	$ 563.7

Deferred Income Taxes

Deferred tax assets and liabilities reflect the tax consequences of temporary differences between the financial statement bases of assets and liabilities and their tax bases, tax losses and credit carryforwards. Components of deferred income taxes are summarized as follows:

	September 30,	
	2019	2018
	(In millions)	
Deferred tax assets:		
Inventory costs	$ 39.8	$ 40.9
Inventory impairments	27.9	31.8
Warranty and construction defect costs	135.1	121.8
Net operating loss carryforwards	31.5	38.1
Tax credit carryforwards	3.5	4.3
Incentive compensation plans	65.1	55.2
Deferred income	0.2	1.3
Other	7.0	5.8
Total deferred tax assets	310.1	299.2
Valuation allowance	(18.7)	(17.7)
Total deferred tax assets, net of valuation allowance	$ 291.4	$ 281.5
Deferred tax liabilities:		
Deferral of profit on home closings	95.4	64.9
Depreciation of fixed assets	14.2	10.7
Other	18.7	11.9
Total deferred tax liabilities	$ 128.3	$ 87.5
Deferred income taxes, net	$ 163.1	$ 194.0

D.R. Horton has $16.4 million of tax benefits for state net operating loss (NOL) carryforwards that expire at various times depending on the tax jurisdiction. Of the total amount, $6.2 million of the tax benefits expire over the next ten years and the remaining $10.2 million expires from fiscal years 2030 to 2039.

Forestar has $11.4 million of tax benefits for federal NOL carryforwards which have no expiration date. Additionally, Forestar has $3.7 million of tax benefits for state NOL carryforwards that expire at various times depending on the tax jurisdiction.

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.

Valuation Allowance

The Company has a valuation allowance of $18.7 million at September 30, 2019 and $17.7 million at September 30, 2018 related to state deferred tax assets for NOL carryforwards that are more likely than not to expire before being realized. 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.

Regulations and Legislation

D.R. Horton is subject to federal income tax and state income tax in multiple jurisdictions. The statute of limitations for D.R. Horton's major tax jurisdictions remains open for examination for fiscal years 2016 through 2019. D.R. Horton is currently being audited by various states; however, to date, management is not aware of any significant findings identified by the taxing authorities.

Forestar is subject to federal income tax and state income tax in multiple jurisdictions. The federal statute of limitations for tax years prior to 2017 is effectively closed. The statute of limitations in major state jurisdictions for tax years prior to 2015 is closed. The Internal Revenue Service recently completed an audit of Forestar's 2016 tax year with no changes. Forestar is not currently being audited by any state jurisdictions.

NOTE H – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share.

	Year Ended September 30,		
	2019	2018	2017
		(In millions)	
Numerator:			
Net income attributable to D.R. Horton, Inc.	$ 1,618.5	$ 1,460.3	$ 1,038.4
Denominator:			
Denominator for basic earnings per share — weighted average common shares	372.6	376.6	374.3
Effect of dilutive securities:			
Employee stock awards	4.8	6.8	4.6
Denominator for diluted earnings per share — adjusted weighted average common shares	377.4	383.4	378.9
Basic net income per common share attributable to D.R. Horton, Inc.	$ 4.34	$ 3.88	$ 2.77
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 4.29	$ 3.81	$ 2.74

NOTE I – STOCKHOLDERS' EQUITY

The Company 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. On September 30, 2019, Forestar issued 6.0 million shares of its common stock for $17.50 per share in a public underwritten offering. Net proceeds to Forestar from this offering after deducting underwriting discounts and commissions and other expenses were $100.7 million. As a result of the issuance, D.R. Horton's ownership of Forestar's outstanding common shares decreased from 75% to approximately 66%. Following the offering, $394.3 million remains available for issuance under Forestar's shelf registration statement.

At September 30, 2019, the Company had 392,172,821 shares of common stock issued and 368,431,454 shares outstanding. No shares of preferred stock were issued or outstanding.

During fiscal 2019, the Company repurchased 11.9 million shares of its common stock for $479.8 million. Effective July 30, 2019, the Board of Directors authorized the repurchase of up to $1.0 billion of the Company's common stock, which replaced the previous authorization. The new authorization has no expiration date. Shares repurchased under the new authorization reduced the remaining authorization amount to $895.7 million at September 30, 2019.

The Board of Directors approved and paid quarterly cash dividends of $0.15 per common share and $0.125 per common share in fiscal 2019 and 2018, respectively. In November 2019, the Board of Directors approved a cash dividend of $0.175 per common share, payable on December 11, 2019, to stockholders of record on November 27, 2019.

NOTE J – EMPLOYEE BENEFIT PLANS

Deferred Compensation Plans

The Company has a 401(k) plan for all employees who have been with the Company for a period of six months or more. The Company matches portions of employees' voluntary contributions. Additional employer contributions in the form of profit sharing may also be made at the Company's discretion. The Company recorded $21.7 million, $18.4 million and $16.0 million of expense for matching contributions in fiscal 2019, 2018 and 2017, respectively.

The Company's Supplemental Executive Retirement Plan (SERP) is a non-qualified deferred compensation program that provides benefits payable to certain management employees upon retirement, death or termination of employment. Under the SERP, the Company accrues an unfunded benefit based on a percentage of the eligible employees' salaries, as well as an interest factor based upon a predetermined formula. The Company's liabilities related to the SERP were $40.6 million and $35.4 million at September 30, 2019 and 2018, respectively. The Company recorded $5.8 million, $5.4 million and $4.9 million of expense for this plan in fiscal 2019, 2018 and 2017, respectively.

The Company has a deferred compensation plan available to a select group of employees which allows participating employees to contribute compensation into the plan on a before tax basis and defer income taxation on the contributions until the funds are withdrawn from the plan. The participating employees designate investments for their contributions; however, the Company is not required to invest the contributions in the designated investments. The Company's net liabilities related to the deferred compensation plan were $78.6 million and $69.3 million at September 30, 2019 and 2018, respectively. The Company records as expense the amount that the employee contributions would have earned had the funds been invested in the designated investments. Related to this plan, the Company recorded expense of $2.9 million, $5.8 million and $6.3 million in fiscal 2019, 2018 and 2017, respectively.

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan provides eligible employees the opportunity to purchase common stock of the Company at a discounted price of 85% of the fair market value of the stock on the designated dates of purchase. The price to eligible employees may be further discounted depending on the average fair market value of the stock during the period and certain other criteria. Under the terms of the plan, the total fair market value of common stock that an eligible employee may purchase each year is limited to the lesser of 15% of the employee's annual compensation or $25,000. Under the plan, employees purchased 141,661 shares for $4.6 million in fiscal 2019, 114,340 shares for $4.0 million in fiscal 2018 and 111,527 shares for $2.8 million in fiscal 2017. At September 30, 2019, the Company had 3.0 million shares of common stock reserved for issuance pursuant to the Employee Stock Purchase Plan.

Incentive Bonus Plan

The Company's Incentive Bonus Plan provides for the Compensation Committee to award short-term performance bonuses to senior management based upon the level of achievement of certain criteria. For fiscal 2019, 2018 and 2017, the Compensation Committee approved awards whereby certain executive officers could earn performance bonuses based upon percentages of the Company's pre-tax income. Compensation expense related to these plans was $24.4 million, $23.7 million and $16.8 million in fiscal 2019, 2018 and 2017, respectively.

Stock-Based Compensation

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). At September 30, 2019, the Company had 21.1 million shares of common stock reserved for issuance and 13.0 million shares available for future grants under the Stock Incentive Plan.

Stock Options

Stock options are granted at exercise prices which equal the market value of the Company's common stock at the date of the grant. The options outstanding at September 30, 2019 are all exercisable and expire 10 years after the dates on which they were granted.

The Company did not grant stock options during fiscal 2019, 2018 or 2017. The following table provides information related to stock option activity during those years.

	Year Ended September 30,					
	2019		2018		2017	
	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price	Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	5,856,959	$ 17.25	8,431,348	$ 16.92	11,395,917	$ 16.69
Exercised	(2,634,802)	14.47	(2,547,139)	16.10	(2,770,569)	15.83
Cancelled or expired	(38,000)	18.98	(27,250)	22.08	(194,000)	18.83
Outstanding at end of year	3,184,157	$ 19.53	5,856,959	$ 17.25	8,431,348	$ 16.92
Exercisable at end of year	3,184,157	$ 19.53	4,955,392	$ 17.07	5,772,214	$ 16.01

The aggregate intrinsic value of options exercised during fiscal 2019, 2018 and 2017 was $70.6 million, $76.8 million and $49.5 million, respectively. The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the option exercise price.

The aggregate intrinsic value of options outstanding and exercisable at September 30, 2019 was $105.6 million. Exercise prices for options outstanding at September 30, 2019 ranged from $9.97 to $23.86. The weighted average remaining contractual lives of options outstanding and exercisable at September 30, 2019 is 3.4 years.

For fiscal 2019, 2018 and 2017, compensation expense related to stock options was $1.0 million, $6.9 million and $15.1 million, respectively. At September 30, 2019, there was no unrecognized compensation expense related to stock option awards as all of the awards are fully expensed.

Performance-Based Restricted Stock Unit (RSU) Equity Awards

During fiscal 2019, 2018 and 2017, performance-based RSU equity awards that vest at the end of three-year performance periods were granted to the Company's executive officers. 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 0% to 200% of the number of units granted. The performance criteria are total shareholder return, return on investment, SG&A expense containment and gross profit. The performance-based RSUs have no dividend or voting rights during the performance period. Each of these performance-based RSUs represents the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. Compensation expense related to these grants is based on the Company's performance against the peer group, the elapsed portion of the performance period and the grant date fair value of the award.

The following table provides additional information related to the performance-based RSUs outstanding at September 30, 2019.

Grant Date	Vesting Date	Target Number of Performance Units	Grant Date Fair Value per Unit	Compensation Expense Year Ended September 30, 2019	2018	2017
				(In millions)		
November 2016	September 2019	330,000	$ 29.20	$ 2.9	$ 3.9	$ 5.1
November 2017	September 2020	330,000	45.79	8.9	4.8	—
November 2018	September 2021	360,000	37.75	6.1	—	—
				$ 17.9	$ 8.7	$ 5.1

In November 2019, the Compensation Committee approved the payout of the performance-based RSUs that vested in September 2019 in the form of 495,000 shares of common stock to satisfy the awards.

Time-Based Restricted Stock Unit (RSU) Equity Awards

Time-based RSUs represent the contingent right to receive one share of the Company's common stock if the vesting conditions are satisfied. The time-based RSUs have no dividend or voting rights during the vesting period.

During fiscal 2019, 2018 and 2017, time-based RSUs were granted to the Company's executive officers, other key employees and non-management directors (collectively, approximately 900, 920 and 600 recipients, respectively). These awards vest annually in equal installments over periods of three to five years.

The following table provides additional information related to time-based RSU activity during fiscal 2019, 2018 and 2017. The number of restricted stock units vested in fiscal 2019 includes shares of common stock withheld by the Company on behalf of employees to satisfy the tax withholding requirements.

	Year Ended September 30,					
	2019		2018		2017	
	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding at beginning of year	4,797,922	$ 31.77	4,365,782	$ 26.09	3,478,233	$ 24.12
Granted	1,796,200	33.75	1,747,870	41.82	1,868,660	28.64
Vested	(1,430,826)	29.83	(1,149,055)	25.80	(792,941)	24.48
Cancelled	(273,762)	32.82	(166,675)	29.56	(188,170)	25.21
Outstanding at end of year	4,889,534	$ 33.01	4,797,922	$ 31.77	4,365,782	$ 26.09

The total fair value of shares vested on the vesting date during fiscal 2019, 2018 and 2017 was $56.9 million, $51.0 million and $25.0 million, respectively. For fiscal 2019, 2018 and 2017, compensation expense related to time-based RSUs was $51.8 million, $39.3 million and $28.8 million, respectively. At September 30, 2019, there was $99.8 million of unrecognized compensation expense related to unvested time-based RSU awards. This expense is expected to be recognized over a weighted average period of 3.3 years.

NOTE K – COMMITMENTS AND CONTINGENCIES

Warranty Claims

The Company provides its homebuyers with warranties for defects in structural elements, mechanical systems and other construction components of the home. Warranty liabilities are established by charging cost of sales for each home delivered based on management's estimate of expected warranty-related costs and by accruing for existing warranty claims. 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. The estimation of these costs is subject to a high degree of variability due to uncertainties related to these factors. Due to the high degree of judgment required in establishing the liability for warranty claims, actual future costs 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 warranty liability.

Changes in the Company's warranty liability during fiscal 2019 and 2018 were as follows:

	September 30,	
	2019	2018
	(In millions)	
Warranty liability, beginning of year	$ 202.0	$ 143.7
Warranties issued	92.7	81.6
Changes in liability for pre-existing warranties	32.0	49.3
Settlements made	(79.4)	(72.6)
Warranty liability, end of year	$ 247.3	$ 202.0

The change in liabilities for pre-existing warranties was $32.0 million and $49.3 million in fiscal 2019 and 2018, respectively. These amounts reflect the Company's ongoing efforts to improve its customer service and relations, which in many cases results in the performance of warranty service after the original warranty period has expired. The Company has increased the amount of its warranties issued as a percentage of home cost of sales to reflect this increase in warranty costs.

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 $434.7 million and $408.1 million at September 30, 2019 and 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 September 30, 2019 and 2018. Expenses related to the Company's legal contingencies were $15.3 million, $41.0 million and $87.8 million in fiscal 2019, 2018 and 2017, respectively.

The Company's reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. As of September 30, 2019, no individual existing claim was material to the Company's financial statements. The Company has closed a significant number of homes during recent years and may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which the Company operates. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where the Company operates are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and the Company believes they may continue to fluctuate. The Company also believes that fluctuations in housing market conditions can affect the frequency and cost of construction defect claims. If the ultimate resolution of construction defect claims resulting from the Company's home closings in prior years varies from current expectations, it could significantly change the Company's estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed the Company's current estimates, they will have a significant negative impact on its future earnings and liquidity.

The Company's reserves for legal claims increased from $408.1 million at September 30, 2018 to $434.7 million at September 30, 2019. The increase in reserves in fiscal 2019 was comparable to fiscal 2018 but there were fewer payments to resolve legal claims in fiscal 2019 compared to fiscal 2018. Changes in the Company's legal claims reserves during fiscal 2019 and 2018 were as follows:

	September 30,	
	2019	2018
	(In millions)	
Reserves for legal claims, beginning of year	$ 408.1	$ 420.6
Increase in reserves	49.2	46.4
Payments	(22.6)	(58.9)
Reserves for legal claims, end of year	$ 434.7	$ 408.1

In the majority of states in which it operates, the Company has, and requires the majority of the subcontractors it uses to have, general liability insurance which includes construction defect coverage. The Company's general liability insurance policies protect it against a portion of its risk of loss from construction defect and other claims and lawsuits, subject to self-insured retentions and other coverage limits. For policy years ended June 30, 2007 through 2020, the Company is self-insured for the first $10 million to $20 million of aggregate completed operations indemnity claims incurred, depending on the policy year. After the aggregate self-insurance limits have been satisfied, the Company's excess loss insurance coverage begins. However, the Company must still pay $0.25 million of any indemnity claim and a portion of the legal fees incurred for each claim occurrence.

In some states where the Company believes it is too difficult or expensive for its subcontractors to obtain general liability insurance, the Company has waived its normal subcontractor general liability insurance requirements to obtain lower costs from subcontractors. In these states, the Company purchases insurance policies from either third-party carriers or its 100% owned captive insurance subsidiary and names certain subcontractors as additional insureds. The policies issued by the captive insurance subsidiary represent self-insurance of these risks by the Company. The Company is self-insured under its captive policies for up to $25 million in aggregate completed operations indemnity claims per policy year and for the first $0.25 million for each claim occurrence. For all policy years after April 2007 to July 2019, the captive insurance subsidiary has $15 million of excess loss insurance coverage with a third-party insurer. For policy year July 2019 to July 2020, the reinsurance amount is $5 million. For policy years 2018 and 2019, after consideration of the aforementioned $15 million of risk transfer, the Company is self-insured under these captive policies for up to $10 million in aggregate completed operations indemnity claims, plus defense costs, per policy year and for up to $0.25 million for each claim occurrence. For policy year 2020, the Company is self-insured under these captive policies for up to $20 million in aggregate completed operations indemnity claims, plus defense costs, per policy year and for up to $0.25 million for each claim occurrence.

The Company is self-insured for the deductible amounts under its workers' compensation insurance policies. The deductibles vary by policy year, but in no years exceed $0.5 million per occurrence. The deductible for the 2018, 2019 and 2020 policy years is $0.5 million per occurrence.

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 $75.1 million and $54.6 million at September 30, 2019 and 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. At September 30, 2019, the Company's homebuilding segment had total deposits of $515.4 million, consisting of cash deposits of $496.0 million and promissory notes of $19.4 million, related to contracts to purchase land and lots with a total remaining purchase price of approximately $7.2 billion. The majority of land and lots under contract are currently expected to be purchased within three years. Of these amounts, $88.7 million of the deposits related to contracts with Forestar to purchase land and lots with a remaining purchase price of $953.8 million. A limited number of the homebuilding land and lot purchase contracts at September 30, 2019, representing $59.8 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 $59.8 million remaining purchase price subject to specific performance provisions, $13.2 million related to contracts between the homebuilding segment and Forestar.

During fiscal 2019 and 2018, Forestar reimbursed the homebuilding segment $34.5 million and $21.2 million, respectively, for previously paid earnest money and $13.1 million and $15.2 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.

Other Commitments

At September 30, 2019, the Company had outstanding surety bonds of $1.7 billion and letters of credit of $171.7 million to secure performance under various contracts. Of the total letters of credit, $141.2 million were issued under the homebuilding revolving credit facility, $29.7 million were issued under Forestar's revolving credit facility and $0.8 million were issued under secured letter of credit agreements.

The Company leases office space and equipment under non-cancelable operating leases. At September 30, 2019, the future minimum annual lease payments under these agreements are as follows (in millions):

Fiscal 2020	$ 18.6
Fiscal 2021	12.0
Fiscal 2022	6.2
Fiscal 2023	3.6
Fiscal 2024	1.9
Thereafter	0.2
	$ 42.5

Rent expense was $30.5 million, $27.8 million and $26.3 million for fiscal 2019, 2018 and 2017, respectively.

NOTE L – OTHER ASSETS, ACCRUED EXPENSES AND OTHER LIABILITIES

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

	September 30,	
	2019	2018
	(In millions)	
Earnest money and refundable deposits	$ 540.0	$ 445.2
Insurance receivables	75.1	54.6
Other receivables	103.6	81.7
Prepaid assets	49.6	36.9
Rental properties	35.5	39.2
Multi-family rental property held for sale	28.9	—
Contract assets - insurance agency commissions	39.3	—
Other	71.3	44.3
	$ 943.3	$ 701.9

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

	September 30,	
	2019	2018
	(In millions)	
Reserves for legal claims	$ 434.7	$ 408.1
Employee compensation and related liabilities	282.1	252.5
Warranty liability	247.3	202.0
Accrued interest	26.3	14.8
Federal and state income tax liabilities	33.4	35.2
Inventory related accruals	61.5	45.5
Customer deposits	57.7	58.1
Accrued property taxes	40.1	38.0
Other	95.0	73.3
	$ 1,278.1	$ 1,127.5

NOTE M – FAIR VALUE MEASUREMENTS

Fair value measurements are used for the Company's mortgage loans held for sale, debt securities collateralized by residential real estate, IRLCs and other derivative instruments on a recurring basis and are used for inventories, other mortgage loans, rental properties and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value is not recoverable. The fair value hierarchy and its application to the Company's assets and liabilities is as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities. The Company does not currently have any assets or liabilities measured at fair value using Level 1 inputs.

- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market. The Company's assets and liabilities measured at fair value using Level 2 inputs on a recurring basis are as follows:

  - *Mortgage loans held for sale* - The fair value of these loans is generally calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics. Closed mortgage loans are typically sold shortly after origination, which limits exposure to nonperformance by loan buyer counterparties to a short time period. In addition, the Company actively monitors the financial strength of its counterparties.

  - *IRLCs* - The fair value of IRLCs is calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics. These valuations do not contain adjustments for expirations as any expired commitments are excluded from the fair value measurement. The Company generally only issues IRLCs for products that meet specific purchaser guidelines. Should any purchaser become insolvent, the Company would not be required to close the transaction based on the terms of the commitment. Since not all IRLCs will become closed loans, the Company adjusts its fair value measurements for the estimated amount of IRLCs that will not close.

  - *Loan sale commitments and hedging instruments* - The fair values of best-efforts and mandatory loan sale commitments and derivative instruments such as forward sales of MBS that are utilized as hedging instruments are calculated by reference to quoted prices for similar assets. The Company mitigates exposure to nonperformance risk associated with derivative instruments by limiting the number of counterparties and actively monitoring their financial strength and creditworthiness while requiring them to be well-known institutions with credit ratings equal to or better than AA- or equivalent. Further, the Company's derivative contracts typically have short-term durations with maturities from one to four months. Accordingly, the Company's risk of nonperformance relative to its derivative positions is not significant.

  The Company's assets measured at fair value using Level 2 inputs on a nonrecurring basis are a limited number of mortgage loans held for sale with some degree of impairment affecting their marketability and are reported at the lower of carrying value or fair value. When available, fair value is determined by reference to quoted prices in the secondary markets for such assets.

  After consideration of nonperformance risk, no additional adjustments were made to the fair value measurements of mortgage loans held for sale, IRLCs or hedging instruments.

- Level 3 – Valuation is typically derived from model-based techniques in which at least one significant input is unobservable and based on the Company's own estimates about the assumptions that market participants would use to value the asset or liability.

  The Company's assets measured at fair value using Level 3 inputs on a recurring basis are its debt securities collateralized by residential real estate and a limited number of mortgage loans held for sale with some degree of impairment affecting their marketability and for which reference to quoted prices in the secondary markets is not available.

  The Company's assets measured at fair value using Level 3 inputs that are typically reported at the lower of carrying value or fair value on a nonrecurring basis are as follows:

  - *Inventory held and used* - In determining the fair values of its inventory held and used in its impairment evaluations, the Company performs an analysis of the undiscounted cash flows estimated to be generated by those assets. The most significant factors used to estimate undiscounted future cash flows include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to develop the lots and construct the homes. Inventory held and used measured at fair value represents those communities for which the estimated undiscounted cash flows are less than their carrying amounts and therefore, the Company has recorded impairments during the current period to record the inventory at fair value calculated based on its discounted estimated future cash flows.

  - *Inventory available for sale* - The factors considered in determining fair values of the Company's land held for sale primarily include actual sale contracts and recent offers received from outside third parties, and may also include prices for land in recent comparable sales transactions and other market analysis. If the estimated fair value less the costs to sell an asset is less than the asset's current carrying value, the asset is written down to its estimated fair value less costs to sell.

  - *Certain mortgage loans held for sale* - A limited number of mortgage loans held for sale have some degree of impairment affecting their marketability. For some of these loans, quoted prices in the secondary market are not available and therefore, a cash flow valuation model is used to determine fair value.

  - *Certain other mortgage loans, rental properties and real estate owned* - Other mortgage loans include performing and nonperforming mortgage loans, which often become real estate owned through the foreclosure process. The fair values of other mortgage loans, rental properties and real estate owned are determined based on the Company's assessment of the value of the underlying collateral or the value of the property, as applicable. The Company uses different methods to assess the value of the properties, which may include broker price opinions, appraisals or cash flow valuation models.

The following tables summarize the Company's assets and liabilities measured at fair value on a recurring basis at September 30, 2019 and 2018, and the changes in the fair value of the Level 3 assets during fiscal 2019 and 2018.

		Fair Value at September 30, 2019			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
		(In millions)			
Debt securities collateralized by residential real estate	Other assets	$ —	$ —	$ 3.9	$ 3.9
Mortgage loans held for sale (1)	Mortgage loans held for sale	—	1,055.3	9.8	1,065.1
Derivatives not designated as hedging instruments (2):					
Interest rate lock commitments	Other assets	—	19.2	—	19.2
Forward sales of mortgage-backed securities	Other liabilities	—	(4.1)	—	(4.1)
Best-efforts and mandatory commitments	Other liabilities	—	(1.0)	—	(1.0)

		Fair Value at September 30, 2018			
	Balance Sheet Location	Level 1	Level 2	Level 3	Total
		(In millions)			
Debt securities collateralized by residential real estate	Other assets	$ —	$ —	$ 3.9	$ 3.9
Mortgage loans held for sale (1)	Mortgage loans held for sale	—	784.6	7.8	792.4
Derivatives not designated as hedging instruments (2):					
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

	Level 3 Assets at Fair Value for the Year Ended September 30, 2019						
	Balance at September 30, 2018	Net realized and unrealized gains (losses)	Purchases	Sales and Settlements	Principal Reductions	Net transfers to (out of) Level 3	Balance at September 30, 2019
	(In millions)						
Debt securities collateralized by residential real estate	$ 3.9	$ —	$ —	$ —	$ —	$ —	$ 3.9
Mortgage loans held for sale (1)	7.8	0.9	—	(5.4)	—	6.5	9.8

	Level 3 Assets at Fair Value for the Year Ended September 30, 2018						
	Balance at September 30, 2017	Net realized and unrealized gains (losses)	Purchases	Sales and Settlements	Principal Reductions	Net transfers to (out of) Level 3	Balance at September 30, 2018
	(In millions)						
Debt securities collateralized by residential real estate (3)	$ 8.8	$ —	$ —	$ (4.9)	$ —	$ —	$ 3.9
Mortgage loans held for sale (1)	5.6	0.6	—	(6.8)	—	8.4	7.8

(1) 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 September 30, 2019 and 2018 include $9.8 million and $7.8 million, respectively, of loans for which the Company elected the fair value option upon origination and did not sell into the secondary market. Mortgage loans held for sale totaling $6.5 million and $8.4 million were transferred to Level 3 during fiscal 2019 and 2018, respectively, due to significant unobservable inputs used in determining the fair value of these loans. 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.

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

(3) In August 2018, the Company sold $4.9 million of its debt securities to a third party for $7.3 million. The resulting gain of $2.4 million on the sale is included in other income in the consolidated statement of operations for fiscal 2018.

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

	Balance Sheet Location	Fair Value at September 30, 2019	2018
		Level 3	
		(In millions)	
Inventory held and used (a) (b)	Inventories	$ 4.5	$ 4.4
Inventory available for sale (a) (c)	Inventories	—	1.4
Mortgage loans held for sale (a) (d)	Mortgage loans held for sale	2.7	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 16% to 18% were used in the periods presented.

(c) The fair value of inventory available for sale was determined based on recent offers received from outside third parties, comparable sales or actual contracts.

(d) 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 values 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 September 30, 2019 and 2018.

	Carrying Value	Fair Value at September 30, 2019 Level 1	Level 2	Level 3	Total
		(In millions)			
Cash and cash equivalents (a)	$ 1,494.3	$ 1,494.3	$ —	$ —	$ 1,494.3
Restricted cash (a)	19.7	19.7	—	—	19.7
Notes payable (b) (c)	3,399.4	—	2,533.9	991.9	3,525.8

	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.

NOTE N – RELATED PARTY TRANSACTIONS

In March 2019, the Company assigned its rights under a land purchase contract it entered into in December 2017 to R&R Riverview LLC (R&R), an entity owned by Ryan Horton and Reagan Horton, the adult sons of Donald R. Horton, the Company's Chairman. In March 2019, R&R exercised its rights under the purchase contract and paid $77.5 million for 119 acres of undeveloped land in Arizona. In connection with the transaction, Donald R. 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%. In accordance with the Company's policy on related party transactions, this transaction was reviewed and approved by a committee of the Board of Directors composed of independent directors.

The Company determined that R&R is a variable interest entity, and the Company has the power through its rights in its land purchase contract with R&R 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 by $77.5 million, and this amount was included in those balances at September 30, 2019.

In October 2019, the Company paid R&R $84.2 million for all 119 acres of land. The purchase transaction was also reviewed and approved by a committee of the Board of Directors composed of independent directors.

NOTE O – QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Consolidated quarterly results of operations for fiscal 2019 and 2018 were (in millions, except per share amounts):

	Fiscal 2019			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 3,519.0	$ 4,128.7	$ 4,906.3	$ 5,038.9
Income before income taxes	375.7	462.8	626.7	660.1
Income tax expense	89.0	108.4	153.1	156.2
Net income	286.7	354.4	473.6	503.9
Net income (loss) attributable to noncontrolling interests	(0.5)	3.1	(1.2)	(1.4)
Net income attributable to D.R. Horton, Inc.	287.2	351.3	474.8	505.3
Basic net income per common share attributable to D.R. Horton, Inc.	0.77	0.94	1.28	1.37
Diluted net income per common share attributable to D.R. Horton, Inc.	0.76	0.93	1.26	1.35

	Fiscal 2018			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$ 3,332.7	$ 3,794.7	$ 4,435.3	$ 4,505.2
Income before income taxes	391.2	444.8	616.2	607.7
Income tax expense (1)	202.4	94.0	162.5	138.8
Net income	188.8	350.8	453.7	468.9
Net income (loss) attributable to noncontrolling interests	(0.5)	(0.2)	(0.1)	2.8
Net income attributable to D.R. Horton, Inc.	189.3	351.0	453.8	466.1
Basic net income per common share attributable to D.R. Horton, Inc.	0.50	0.93	1.20	1.24
Diluted net income per common share attributable to D.R. Horton, Inc.	0.49	0.91	1.18	1.22

(1) Income tax expense in the first quarter of fiscal 2018 includes additional expense of $108.7 million due to remeasurement of the Company's net deferred tax assets as a result of the Tax Act.

The Company experiences variability in its results of operations from quarter to quarter due to the seasonal nature of its homebuilding business. The Company generally closes more homes and has greater revenues and income before income taxes in the third and fourth quarters (June and September) than in the first and second quarters (December and March) of its fiscal year.

NOTE P – 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 certain subsidiaries of D.R. Horton, Inc. (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.

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
September 30, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
ASSETS					
Cash and cash equivalents	$ 877.1	$ 115.8	$ 501.4	$ —	$ 1,494.3
Restricted cash	6.8	1.3	11.6	—	19.7
Investment in subsidiaries	7,349.8	—	—	(7,349.8)	—
Inventories	4,166.1	5,890.7	1,260.5	(35.3)	11,282.0
Investment in unconsolidated entities	—	—	6.5	—	6.5
Mortgage loans held for sale	—	—	1,072.0	—	1,072.0
Deferred income taxes, net	60.6	89.4	8.0	5.1	163.1
Property and equipment, net	123.8	76.6	267.8	(6.0)	462.2
Other assets	398.7	459.7	174.4	(89.5)	943.3
Goodwill	—	134.3	29.2	—	163.5
Intercompany receivables	—	825.9	—	(825.9)	—
Total Assets	$ 12,982.9	$ 7,593.7	$ 3,331.4	$ (8,301.4)	$ 15,606.6
LIABILITIES & EQUITY					
Accounts payable and other liabilities	$ 616.1	$ 1,071.3	$ 316.4	$ (91.7)	$ 1,912.1
Intercompany payables	352.7	—	473.2	(825.9)	—
Notes payable	1,955.9	14.2	1,429.3	—	3,399.4
Total Liabilities	2,924.7	1,085.5	2,218.9	(917.6)	5,311.5
Stockholders’ equity	10,058.2	6,508.2	841.6	(7,387.1)	10,020.9
Noncontrolling interests	—	—	270.9	3.3	274.2
Total Equity	10,058.2	6,508.2	1,112.5	(7,383.8)	10,295.1
Total Liabilities & Equity	$ 12,982.9	$ 7,593.7	$ 3,331.4	$ (8,301.4)	$ 15,606.6

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
September 30, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
ASSETS					
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
Investment in unconsolidated entities	—	—	11.0	—	11.0
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	79.2	(45.2)	701.9
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
LIABILITIES & EQUITY					
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

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Year Ended September 30, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Revenues	$ 6,812.6	$ 10,210.4	$ 906.1	$ (336.2)	$ 17,592.9
Cost of sales	5,350.3	8,301.5	373.3	(304.2)	13,720.9
Selling, general and administrative expense	731.3	744.9	356.3	—	1,832.5
Equity in earnings of unconsolidated entities	—	—	(0.5)	—	(0.5)
Gain on sale of assets	(2.0)	—	(49.2)	(2.7)	(53.9)
Other (income) expense	(5.0)	(1.5)	(24.9)	—	(31.4)
Income before income taxes	738.0	1,165.5	251.1	(29.3)	2,125.3
Income tax expense	176.9	279.5	57.3	(7.0)	506.7
Equity in net income of subsidiaries, net of tax	1,084.0	—	—	(1,084.0)	—
Net income	1,645.1	886.0	193.8	(1,106.3)	1,618.6
Net loss attributable to noncontrolling interests	—	—	(4.1)	4.2	0.1
Net income attributable to D.R. Horton, Inc.	$ 1,645.1	$ 886.0	$ 197.9	$ (1,110.5)	$ 1,618.5

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Year Ended September 30, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Revenues	$ 5,835.0	$ 9,795.7	$ 488.0	$ (50.7)	$ 16,068.0
Cost of sales	4,612.5	7,752.5	74.9	(41.8)	12,398.1
Selling, general and administrative expense	665.6	676.1	335.1	—	1,676.8
Equity in earnings of unconsolidated entities	—	—	(5.3)	2.5	(2.8)
Gain on sale of assets	(2.4)	—	(16.4)	—	(18.8)
Other (income) expense	(6.0)	(0.2)	(39.1)	—	(45.3)
Income before income taxes	565.3	1,367.3	138.8	(11.4)	2,060.0
Income tax expense	167.9	406.1	27.1	(3.4)	597.7
Equity in net income of subsidiaries, net of tax	1,069.7	—	—	(1,069.7)	—
Net income	1,467.1	961.2	111.7	(1,077.7)	1,462.3
Net income attributable to noncontrolling interests	—	—	3.1	(1.1)	2.0
Net income attributable to D.R. Horton, Inc.	$ 1,467.1	$ 961.2	$ 108.6	$ (1,076.6)	$ 1,460.3

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Year Ended September 30, 2017

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Revenues	$ 4,773.6	$ 8,939.5	$ 387.0	$ (9.1)	$ 14,091.0
Cost of sales	3,827.6	7,199.6	24.1	(8.5)	11,042.8
Selling, general and administrative expense	584.3	631.0	256.3	—	1,471.6
Other (income) expense	(8.3)	(1.4)	(15.8)	—	(25.5)
Income before income taxes	370.0	1,110.3	122.4	(0.6)	1,602.1
Income tax expense	129.4	388.6	45.9	(0.2)	563.7
Equity in net income of subsidiaries, net of tax	798.2	—	—	(798.2)	—
Net income	$ 1,038.8	$ 721.7	$ 76.5	$ (798.6)	$ 1,038.4

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Year Ended September 30, 2019

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	$ 581.8	$ 1,092.2	$ (679.9)	$ (102.0)	$ 892.1
INVESTING ACTIVITIES					
Expenditures for property and equipment	(45.3)	(26.1)	(55.8)	—	(127.2)
Proceeds from sale of assets	10.4	—	133.4	—	143.8
Expenditures related to rental properties	(4.0)	(2.4)	(90.5)	—	(96.9)
Return of investment in unconsolidated entities	—	—	4.4	—	4.4
Net principal increase of other mortgage loans and real estate owned	—	—	(2.3)	—	(2.3)
Intercompany advances	(192.2)	(1,106.2)	—	1,298.4	—
Payments related to business acquisitions	(307.5)	—	(8.3)	—	(315.8)
Net cash used in investing activities	(538.6)	(1,134.7)	(19.1)	1,298.4	(394.0)
FINANCING ACTIVITIES					
Proceeds from notes payable	2,100.0	—	428.2	—	2,528.2
Repayment of notes payable	(2,600.0)	(1.1)	(85.0)	—	(2,686.1)
Advances on mortgage repurchase facility, net	—	—	251.2	—	251.2
Intercompany advances	1,106.2	—	192.2	(1,298.4)	—
Proceeds from stock associated with certain employee benefit plans	42.7	—	—	—	42.7
Cash paid for shares withheld for taxes	(19.7)	—	—	—	(19.7)
Cash dividends paid	(223.4)	—	(102.0)	102.0	(223.4)
Repurchases of common stock	(479.8)	—	—	—	(479.8)
Distributions to noncontrolling interests, net	—	—	(3.9)	—	(3.9)
Net proceeds from issuance of Forestar common stock	—	—	100.7	—	100.7
Net cash (used in) provided by financing activities	(74.0)	(1.1)	781.4	(1,196.4)	(490.1)
(Decrease) increase in cash, cash equivalents and restricted cash	(30.8)	(43.6)	82.4	—	8.0
Cash, cash equivalents and restricted cash at beginning of year	914.7	160.7	430.6	—	1,506.0
Cash, cash equivalents and restricted cash at end of year	$ 883.9	$ 117.1	$ 513.0	$ —	$ 1,514.0

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Year Ended September 30, 2018

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	$ 195.0	$ 903.8	$ (445.9)	$ (107.7)	$ 545.2
INVESTING ACTIVITIES					
Expenditures for property and equipment	(34.5)	(30.3)	(3.3)	—	(68.1)
Proceeds from sale of assets	—	—	292.9	—	292.9
Expenditures related to rental properties	—	—	(81.8)	11.6	(70.2)
Return of investment in unconsolidated entities	—	—	17.5	—	17.5
Net principal increase of other mortgage loans and real estate owned	—	—	(1.2)	—	(1.2)
Proceeds from debt securities collateralized by residential real estate	7.3	—	—	—	7.3
Intercompany advances	801.8	—	—	(801.8)	—
Payments related to business acquisitions, net of cash acquired	(561.0)	—	401.8	—	(159.2)
Net cash provided by (used in) investing activities	213.6	(30.3)	625.9	(790.2)	19.0
FINANCING ACTIVITIES					
Proceeds from notes payable	2,162.1	—	1.4	—	2,163.5
Repayment of notes payable	(2,165.9)	(5.2)	(10.6)	—	(2,181.7)
Advances on mortgage repurchase facility, net	—	—	217.7	—	217.7
Intercompany advances	—	(863.6)	61.8	801.8	—
Proceeds from stock associated with certain employee benefit plans	47.4	—	—	—	47.4
Cash paid for shares withheld for taxes	(10.3)	—	—	—	(10.3)
Cash dividends paid	(188.4)	—	(96.1)	96.1	(188.4)
Repurchases of common stock	(127.5)	—	—	—	(127.5)
Distributions to noncontrolling interests, net	—	—	(3.2)	—	(3.2)
Net cash (used in) provided by financing activities	(282.6)	(868.8)	171.0	897.9	(82.5)
Increase in cash, cash equivalents and restricted cash	126.0	4.7	351.0	—	481.7
Cash, cash equivalents and restricted cash at beginning of year	788.7	156.0	79.6	—	1,024.3
Cash, cash equivalents and restricted cash at end of year	$ 914.7	$ 160.7	$ 430.6	$ —	$ 1,506.0

NOTE P – SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Year Ended September 30, 2017

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
OPERATING ACTIVITIES					
Net cash (used in) provided by operating activities	$ (283.2)	$ 721.0	$ 115.0	$ (112.6)	$ 440.2
INVESTING ACTIVITIES					
Expenditures for property and equipment	(54.2)	(26.2)	(22.3)	—	(102.7)
Expenditures related to rental properties	—	—	(63.7)	9.1	(54.6)
Net principal decrease of other mortgage loans and real estate owned	—	—	6.2	—	6.2
Purchases of debt securities collateralized by residential real estate	(8.8)	—	—	—	(8.8)
Intercompany advances	561.7	—	—	(561.7)	—
Payments related to business acquisitions	(4.1)	—	—	—	(4.1)
Net cash provided by (used in) investing activities	494.6	(26.2)	(79.8)	(552.6)	(164.0)
FINANCING ACTIVITIES					
Proceeds from notes payable	835.0	—	—	—	835.0
Repayment of notes payable	(1,187.2)	(5.1)	—	—	(1,192.3)
Payments on mortgage repurchase facility, net	—	—	(53.0)	—	(53.0)
Intercompany advances	—	(689.8)	128.1	561.7	—
Proceeds from stock associated with certain employee benefit plans	46.7	—	—	—	46.7
Excess income tax benefit from employee stock awards	14.3	—	—	—	14.3
Cash paid for shares withheld for taxes	(5.1)	—	—	—	(5.1)
Cash dividends paid	(149.6)	—	(103.5)	103.5	(149.6)
Repurchases of common stock	(60.6)	—	—	—	(60.6)
Net cash used in financing activities	(506.5)	(694.9)	(28.4)	665.2	(564.6)
(Decrease) increase in cash, cash equivalents and restricted cash	(295.1)	(0.1)	6.8	—	(288.4)
Cash, cash equivalents and restricted cash at beginning of year	1,083.8	156.1	72.8	—	1,312.7
Cash, cash equivalents and restricted cash at end of year	$ 788.7	$ 156.0	$ 79.6	$ —	$ 1,024.3

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 September 30, 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 Securities and Exchange Commission (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 September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of September 30, 2019.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of September 30, 2019, as stated in their report included herein.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth under the captions *"Proposal One — Election of Directors," "Corporate Governance and Board Matters," "Delinquent Section 16(a) Reports"* and *"Requesting Documents from the Company"* in the registrant's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth under the captions *"Executive Compensation"* and *"Compensation Committee Interlocks and Insider Participation"* in the registrant's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes our equity compensation plans as of September 30, 2019.

Plan Category	(a) Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by stockholders	9,093,691 (1)	$ 19.53 (2)	12,052,770 (3)
Equity compensation plans not approved by stockholders	—	n/a	—
Total	9,093,691	$ 19.53	12,052,770

(1) Amount includes outstanding stock option and restricted stock unit awards. The number of outstanding performance-based restricted stock unit awards is based on the target number of units granted.

(2) Amount reflects the weighted average exercise price with respect to outstanding stock options and does not take into account outstanding restricted stock units, which do not have an exercise price.

(3) Amount includes 2,959,079 shares reserved for issuance under the Company's Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, employees purchased 141,661 shares of common stock in fiscal 2019.

The remaining information required by this item is set forth under the caption *"Beneficial Ownership of Common Stock"* in the registrant's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is set forth under the captions *“Certain Relationships and Related Person Transactions”* and *“Corporate Governance and Board Matters”* in the registrant’s definitive Proxy Statement for the 2020 Annual Meeting of Stockholders and incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is set forth under the caption *“Independent Registered Public Accountants”* in the registrant’s definitive Proxy Statement for the 2020 Annual Meeting of Stockholders and incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1). Financial Statements:

See Item 8 above.

(2). Financial Statement Schedules:

Schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission (SEC) are omitted because they are not required under the related instructions or are not applicable, or because the required information is shown in the consolidated financial statements or notes thereto.

(3). and (b) Exhibits:

Exhibit Number	Exhibit
2.1	Agreement and Plan of Merger dated June 29, 2017 by and among the Company, Force Merger Sub, Inc. and Forestar Group Inc. (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).
3.1	Certificate of Amendment of the Amended and Restated Certificate of Incorporation, as amended, of the Company, dated January 31, 2006, and the Amended and Restated Certificate of Incorporation, as amended, of the Company dated March 18, 1992 (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).
3.2	Amended and Restated Bylaws (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).
4.1	See Exhibit 3.1
4.2	Senior Debt Securities Indenture, dated as of May 1, 2012, between Company and American Stock Transfer & Trust Company, LLC, as Trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 1, 2012, filed with the SEC on May 4, 2012).
4.3	Second Supplemental Indenture, dated as of September 14, 2012, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 4.375% Senior Notes due 2022 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 14, 2012, filed with the SEC on September 17, 2012).
4.4	Fourth Supplemental Indenture, dated as of February 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 4.750% Senior Notes due 2023 issued by the Company (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K dated February 5, 2013, filed with the SEC on February 8, 2013).
4.5	Fifth Supplemental Indenture, dated as of February 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K dated February 5, 2013, filed with the SEC on February 8, 2013).
4.6	Sixth Supplemental Indenture, dated as of August 5, 2013, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as Trustee, relating to the 5.750% Senior Notes Due 2023 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated August 5, 2013, filed with the SEC on August 8, 2013).
4.7	Eighth Supplemental Indenture, dated as of February 9, 2015, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee, relating to the 4.000% Senior Notes Due 2020 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated February 9, 2015, filed with the SEC on February 9, 2015).

Exhibit Number	Exhibit
4.8	Ninth Supplemental Indenture, dated as of December 5, 2017, among the Company, the Guarantors named therein, American Stock Transfer & Trust Company, LLC, as original trustee, and Branch Banking and Trust Company, as series trustee, relating to the 2.550% Senior Notes Due 2020 issued by the Company (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated December 5, 2017, filed with the SEC on December 5, 2017).
4.9	Tenth Supplemental Indenture, dated as of December 5, 2017, among the Company, the Guarantors named therein and American Stock Transfer & Trust Company, LLC, as trustee (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K dated December 5, 2017, filed with the SEC on December 5, 2017).
4.10	Eleventh Supplemental Indenture, dated as of October 10, 2019, among the Company, the guarantors named therein, American Stock Transfer & Trust Company, LLC, as original trustee, and Branch Banking and Trust Company, as series trustee (incorporated by reference from Exhibit 4.3 to the Company's Current Report on Form 8-K dated October 10, 2019, filed with the SEC on October 10, 2019).
4.11	Indenture, dated February 26, 2013, between Forestar Group Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on February 26, 2013).
4.12	First Supplemental Indenture, dated February 26, 2013, between Forestar Group Inc. and U.S. Bank National Association, as trustee, relating to the 3.75% Convertible Senior Notes due 2020 issued by Forestar Group Inc. (incorporated by reference to Exhibit 4.2 of Forestar's Current Report on Form 8-K filed with the SEC on February 26, 2013).
4.13	Third Supplemental Indenture, dated October 5, 2017, between Forestar Group Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on October 10, 2017).
4.14	Indenture, dated as of April 12, 2019, by and among Forestar Group Inc., the subsidiary guarantors party thereto and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 of Forestar's Current Report on Form 8-K filed with the SEC on April 12, 2019).
4.15	Senior Debt Securities Indenture, dated as of October 10, 2019, among D.R. Horton, Inc. and Branch Banking and Trust Company, as trustee (incorporated by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 10, 2019, filed with the SEC on October 10, 2019).
4.16	First Supplemental Indenture, dated as of October 10, 2019, among the Company, the guarantors named therein and Branch Banking and Trust Company, as trustee, relating to the 2.500% Senior Notes Due 2024 issued by the Company (incorporated by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K dated October 10, 2019, filed with the SEC on October 10, 2019).
4.17 *	Description of Securities.
10.1	Form of Indemnification Agreement between the Company and each of its directors and executive officers and schedules of substantially identical documents (incorporated by reference from Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1995, filed with the SEC on November 22, 1995 (file number 1-14122); Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, filed with the SEC on August 6, 1998; and Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, filed with the SEC on May 15, 2001).
10.2 †	D.R. Horton, Inc. 1991 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 13, 2002).
10.3 †	Amendment No. 1 to 1991 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, filed with the SEC on August 13, 2002).

Exhibit Number		Exhibit
10.4	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 1991 Stock Incentive Plan (Term Vesting) (incorporated by reference from Exhibit 10.3 to the Company's Registration Statement on Form S-1 (Registration No. 3-81856), filed with the SEC on July 22, 1994).
10.5	†	D.R. Horton, Inc. 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.6 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).
10.6	†	D.R. Horton, Inc. 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 20, 2011, filed with the SEC on January 26, 2011).
10.7	†	D.R. Horton, Inc. 2006 Stock Incentive Plan, as amended and restated, effective as of December 11, 2014 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated January 22, 2015, filed with the SEC on January 26, 2015).
10.8	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 2006 Stock Incentive Plan (Employee - Term Vesting 2006 Form) (incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the SEC on May 8, 2006).
10.9	†	Form of Non-Qualified Stock Option Agreement under the D.R. Horton, Inc. 2006 Stock Incentive Plan (Director - Term Vesting 2006 Form) (incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, filed with the SEC on May 8, 2006).
10.10	†	Form of Non-Qualified Stock Option Agreement (Employee-Term Vesting 2008 Form) pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 11, 2008, filed with the SEC on February 15, 2008).
10.11	†	Form of Non-Qualified Stock Option Agreement (Outside Director-Term Vesting 2008 Form) pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K dated February 11, 2008, filed with the SEC on February 15, 2008).
10.12	†	Form of Restricted Stock Unit Agreement pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 30, 2010, filed with the SEC on October 6, 2010).
10.13	†	Form of Restricted Stock Unit Agreement pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated November 9, 2011, filed with the SEC on November 16, 2011).
10.14	†	Form of Restricted Stock Unit Agreement (Outside Director) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2012, filed with the SEC on January 29, 2013).
10.15	†	Form of Restricted Stock Unit Agreement (Employees) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Current Report on Form 8-K dated November 5, 2014, filed with the SEC on November 12, 2014).
10.16	†	Form of Time-Based Restricted Stock Unit Agreement (Employees) pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated (incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, filed with the SEC on April 24, 2015).
10.17	†	Form of Stock Award Agreement pursuant to the Company's 2006 Stock Incentive Plan (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated September 30, 2010, filed with the SEC on October 6, 2010).
10.18	†	D.R. Horton, Inc. Supplemental Executive Retirement Plan No. 1 (incorporated by reference from the Company's Transitional Report on Form 10-K for the period from January 1, 1993 to September 30, 1993, filed with the SEC on December 28, 1993 (file number 1-14122)).

Exhibit Number	Exhibit
10.19 †	D.R. Horton, Inc. Amended and Restated Deferred Compensation Plan (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 10, 2008, filed with the SEC on December 16, 2008).
10.20 †	D.R. Horton, Inc. Amended and Restated Supplemental Executive Retirement Plan No. 2 (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated December 10, 2008, filed with the SEC on December 16, 2008).
10.21 †	D.R. Horton, Inc. 2018 Incentive Bonus Plan, dated November 6, 2018 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 6, 2018, filed with the SEC on November 9, 2018).
10.22 †	Summary of Executive Compensation Notification - Chairman, CEO and COO (fiscal 2019) (incorporated by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended September 30, 2018, filed with the SEC on November 16, 2018).
10.23 * †	Summary of Executive Compensation Notification - Chairman, CEO and COO (fiscal 2020).
10.24 †	Summary of Executive Compensation Notification - Other Executive Officer - CFO (fiscal 2019) (incorporated by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended September 30, 2018, filed with the SEC on November 16, 2018).
10.25 * †	Summary of Executive Compensation Notification - Other Executive Officer - CFO (fiscal 2020).
10.26 †	Summary of Director, Committee and Chairperson Compensation (fiscal 2019) (incorporated by reference from Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended September 30, 2018, filed with the SEC on November 16, 2018).
10.27 * †	Summary of Director, Committee and Chairperson Compensation (fiscal 2020).
10.28	Grantor Trust Agreement, dated June 21, 2002, by and between the Company and Wachovia Bank, National Association, as Trustee (incorporated by reference from Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2002, filed with the SEC on December 13, 2002).
10.29	Credit Agreement, dated September 7, 2012, among the Company, the Lenders named therein and The Royal Bank of Scotland PLC, as Administrative Agent (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 7, 2012, filed with the SEC on September 10, 2012).
10.30	Amendment No.1 to Credit Agreement, dated November 1, 2012, among the Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated November 1, 2012, filed with the SEC on November 5, 2012).
10.31	Amendment No. 2 to Credit Agreement, dated August 8, 2013 by and among the Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 8, 2013, filed with the SEC on August 13, 2013).
10.32	Amendment No. 3 to Credit Agreement, dated August 22, 2014 by and among Company, The Royal Bank of Scotland PLC, as Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 22, 2014, filed with the SEC on August 25, 2014).
10.33	Amendment No. 5 to Credit Agreement, dated August 26, 2015 by and among Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated August 26, 2015, filed with the SEC on August 27, 2015).
10.34	Amendment No. 6 to Credit Agreement, dated September 25, 2017 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 25, 2017, filed with the SEC on September 28, 2017).

Exhibit Number	Exhibit
10.35	Amendment No. 7 to Credit Agreement, dated September 25, 2018 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 25, 2018, filed with the SEC on September 26, 2018).
10.36	Amendment No. 8 to Credit Agreement, dated February 15, 2019 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on April 30, 2019).
10.37	Amendment No. 9 to Credit Agreement, dated October 2, 2019 by and among the Company, Mizuho Bank, Ltd., as successor Administrative Agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 2, 2019, filed with the SEC on October 4, 2019).
10.38	Second Amended and Restated Master Repurchase Agreement, dated February 27, 2015, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 27, 2015, filed with the SEC on March 4, 2015).
10.39	First Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 26, 2016, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 26, 2016, filed with the SEC on March 2, 2016).
10.40	Third Amendment to Second Amended and Restated Master Repurchase Agreement, dated September 23, 2016, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 23, 2016, filed with the SEC on September 27, 2016).
10.41	Fourth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 24, 2017, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 24, 2017, filed with the SEC on February 28, 2017).
10.42	Fifth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 23, 2018, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated February 23, 2018, filed with the SEC on February 28, 2018).
10.43	Sixth Amendment to Second Amended and Restated Master Repurchase Agreement, dated February 22, 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 (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).
10.44 *	Seventh Amendment to Second Amended and Restated Master Repurchase Agreement, dated March 26, 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.
10.45	Eighth Amendment to Second Amended and Restated Master Repurchase Agreement, dated June 21, 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 (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 21, 2019, filed with the SEC on June 26, 2019).
10.46	Amended and Restated Custody Agreement, dated March 1, 2013, by and between DHI Mortgage Company, Ltd. and U.S. Bank National Association, as Administrative Agent and representative of certain buyers (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated February 27, 2015, filed with the SEC on March 4, 2015).
10.47	Stockholder's Agreement dated June 29, 2017 by and between the Company and Forestar Group Inc. (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K dated June 29, 2017, filed with the SEC on June 29, 2017).

Exhibit Number	Exhibit
10.48	Master Supply Agreement dated June 29, 2017 by and between the Company and Forestar Group Inc. (incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K dated June 29, 2017, filed with the SEC on June 29, 2017).
10.49	Credit Agreement, dated August 16, 2018, among Forestar Group Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of Forestar's Current Report on Form 8-K filed with the SEC on August 17, 2018).
10.50	Amendment No. 1 to Credit Agreement, dated October 2, 2019 by and among Forestar Group Inc., JPMorgan Chase Bank, N.A., as administrative agent, and the Lenders named therein (incorporated by reference from Exhibit 10.1 to Forestar's Current Report on Form 8-K dated October 2, 2019, filed with the SEC on October 3, 2019).
21.1 *	Subsidiaries of D.R. Horton, Inc.
23.1 *	Consent of PricewaterhouseCoopers LLP, Fort Worth, Texas
23.2 *	Consent of Ernst & Young LLP, Fort Worth, Texas
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
101.INS **	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the inline XBRL document.
101.SCH **	XBRL Taxonomy Extension Schema Document.
101.CAL **	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF **	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB **	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE **	XBRL Taxonomy Extension Presentation Linkbase Document.
104 **	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101).

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* Filed or furnished herewith.

** Submitted electronically herewith.

† Management contract or compensatory plan arrangement.

ITEM 16. 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: November 25, 2019

By: /s/ Bill W. Wheat
Bill W. Wheat
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David V. Auld David V. Auld	President and Chief Executive Officer (Principal Executive Officer)	November 25, 2019
/s/ Bill W. Wheat Bill W. Wheat	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 25, 2019
/s/ Aron M. Odom Aron M. Odom	Vice President and Controller (Principal Accounting Officer)	November 25, 2019
/s/ Donald R. Horton Donald R. Horton	Chairman of the Board and Director	November 25, 2019
/s/ Barbara K. Allen Barbara K. Allen	Director	November 25, 2019
/s/ Brad S. Anderson Brad S. Anderson	Director	November 25, 2019
/s/ Michael R. Buchanan Michael R. Buchanan	Director	November 25, 2019
/s/ Michael W. Hewatt Michael W. Hewatt	Director	November 25, 2019
/s/ Maribess L. Miller Maribess L. Miller	Director	November 25, 2019

Exhibit 4.17

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of the date of the Annual Report on Form 10-K of which this exhibit is a part, D.R. Horton, Inc. (the "Company") has two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our common stock, $.01 par value per share, and (2) our 5.750% Senior Notes due 2023.

Description of Common Stock

The following description of our common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Certificate of Incorporation, as amended (the "charter") and our Amended and Restated Bylaws (the "bylaws"), each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this exhibit is a part. We encourage you to read our charter, our bylaws and the applicable provisions of Delaware General Corporation Law for additional information.

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders. The vote of the holders of a majority of the stock represented at a meeting at which a quorum is present is generally required to take stockholder action, unless a greater vote is required by law. The holders are not entitled to cumulative voting in the election of directors. Directors are elected by the affirmative vote of the majority of votes cast at a meeting at which a quorum is present, except that if the number of nominees exceeds the number of directors to be elected, the directors are elected by a plurality of the shares represented in person or by proxy at the meeting and entitled to vote. A majority of the votes cast means that the number of shares voted "for" a director must exceed the number of votes cast "against" that director.

Holders of common stock have no preemptive rights. They are entitled to such dividends as may be declared by our board of directors out of funds legally available for such purpose. The common stock is not entitled to any sinking fund, redemption or conversion provisions. On our liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in our net assets remaining after the payment of all creditors and liquidation preferences of preferred stock, if any. The outstanding shares of common stock are duly authorized, validly issued, fully paid and nonassessable.

The transfer agent and registrar for the common stock is American Stock Transfer & Trust Company, LLC, which currently serves as trustee for certain of our senior notes.

The following provisions in our charter or bylaws may make a takeover of our company more difficult:

- an article in our charter prohibiting stockholder action by written consent;
- an article in our charter requiring the affirmative vote of the holders of two-thirds of the outstanding shares of common stock to remove a director;
- an article in our charter and a bylaw limiting the persons who may call special meetings of stockholders to our board of directors or a committee authorized to call a meeting by the board or the bylaws; and
- bylaws establishing an advance written notice procedure for stockholders seeking to nominate candidates for election to the board of directors or for proposing matters which can be acted upon at stockholders' meetings.

These provisions may delay stockholder actions with respect to business combinations and the election of new members to our board of directors. As such, the provisions could discourage open market purchases of our common stock because a stockholder who desires to participate in a business combination or elect a new director may consider them disadvantageous. Additionally, the issuance of preferred stock could delay or prevent a change of control or other corporate action.

Delaware Anti-Takeover Statute. As a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. In general, Section 203 prevents an "interested stockholder" from engaging in a "business combination" with us for three years following the date that person became an interested stockholder, unless:

- before that person became an interested stockholder, our board of directors approved the transaction in which the interested stockholder became an interested stockholder or approved the business combination;

- upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding stock held by persons who are both directors and officers of our corporation or by certain employee stock plans; or

- on or following the date on which that person became an interested stockholder, the business combination is approved by our board of directors and authorized at a meeting of stockholders by the affirmative vote of the holders of at least 66 2/3% of our outstanding voting stock excluding shares held by the interested stockholder.

An "interested stockholder" is generally a person owning 15% or more of our outstanding voting stock. A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder.

Description of 5.750% Senior Notes due 2023

The following description of our 5.750% Senior Notes due 2023 (the "Notes") is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Indenture, dated as of May 1, 2012 (the "Base Indenture"), between the Company and American Stock Transfer & Trust Company, LLC, as trustee (the "Trustee"), as supplemented by the Sixth Supplemental Indenture, dated as of August 5, 2013 (the "Sixth Supplemental Indenture"), the Tenth Supplemental Indenture, dated as of December 5, 2017 (the "Tenth Supplemental Indenture"), and the Eleventh Supplemental Indenture, dated as of October 10, 2019 (the Base Indenture, as supplemented by the Sixth Supplemental Indenture, Tenth Supplemental Indenture and Eleventh Supplemental Indenture, the "Indenture"), which are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this exhibit is a part. The Notes are traded on The New York Stock Exchange under the bond trading symbol of "DHI 23A".

Definitions of certain terms are set forth under "Certain Definitions" and throughout this description. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture, and those definitions are incorporated herein by reference. We encourage you to read the above referenced Indenture for additional information.

General

The Notes were initially issued in an aggregate principal amount of $400 million.

The Notes bear interest from August 5, 2013, payable semi-annually on February 15 and August 15 of each year (each, an "Interest Payment Date"), commencing February 15, 2014, to Holders of record at the close of business on February 1 or August 1, as the case may be, immediately preceding each such interest payment date. The Notes bear interest at 5.750% per annum and mature on August 15, 2023.

Additional Notes (the "Additional Notes") in an unlimited amount may be issued in one or more series from time to time on the same terms and conditions, except for issue date, and in certain cases the issue price and the first interest payment, either of which may differ from the respective terms of the previously issued Notes of the same series, and with the same CUSIP numbers as the Notes (to the extent permissible under applicable law) without the consent of Holders of the Notes.

The Notes are guaranteed by each of the Guarantors pursuant to the guarantees of the Notes (the "Guarantees") described below. The Guarantors do not include Forestar Group Inc. or, in general, our subsidiaries that are engaged in the financial services segment or the insurance, energy or mineral business. These subsidiaries do not guarantee our other senior notes or our revolving credit facility. In addition, the Notes are not guaranteed by several of our insignificant subsidiaries.

Ranking

The Notes are general unsecured obligations of the Company and rank senior in right of payment to any future Indebtedness of the Company that is, by its terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Company that is not so subordinated, including our revolving credit facility. The Guarantees described below are general unsecured obligations of the Guarantors and rank senior in right of payment to any future Indebtedness of the Guarantors that is, by its terms, expressly subordinated in right of payment to the Guarantees and rank *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Guarantors that is not so subordinated, including our revolving credit facility.

Secured creditors of the Company and the Guarantors have a claim on the assets that secure the obligations of the Company and the Guarantors to such creditors prior to claims of Holders of the Notes against those assets, to the extent of the value of such assets. Our revolving credit facility provides for the issuance of letters of credit under the facility that are secured by cash collateral.

Optional Redemption

The Company may, at its option, redeem the Notes in whole at any time or in part from time to time, as set forth below. The Company must mail to registered holders of the Notes notice of redemption at least 30 but not more than 60 days prior to the proposed date of redemption.

If we redeem the Notes prior to three months of the final maturity of the Notes, the redemption price for the Notes being redeemed will equal the greater of the following amounts:

- 100% of their principal amount; and
- the present value of the Remaining Scheduled Payments on the Notes being redeemed on the redemption date, discounted to the redemption date, on a semiannual basis, at the Treasury Rate plus 50 basis points (0.50%),

plus, in each case, accrued and unpaid interest on such Notes to the redemption date.

If we redeem the Notes within three months of the final maturity of the Notes, the redemption price will equal 100% of the principal amount of the Notes being redeemed plus accrued and unpaid interest on the Notes to the redemption date.

In determining the redemption price and accrued interest, interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

If money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed is deposited with the Trustee on or before the redemption date, on and after the redemption date interest will cease to accrue on the Notes (or such portions thereof) called for redemption and such Notes will cease to be outstanding.

On or before the redemption date, we will deposit with the paying agent (or the Trustee) money sufficient to pay the redemption price of and accrued interest on the Notes to be redeemed on that date. Selection of the Notes or portions thereof for redemption shall be made by the Trustee only on a pro rata basis or on as nearly a pro rata basis as is practicable (subject to the procedures of The Depository Trust Company), unless such method is otherwise prohibited.

The Guarantees

The Notes are guaranteed by each of the Guarantors pursuant to the Guarantees. The Guarantors do not include Forestar Group Inc. or, in general, our subsidiaries that are engaged in the financial services segment or the insurance, energy or mineral business. These subsidiaries do not guarantee our other senior notes or our revolving credit facility. In addition, the Notes are not guaranteed by several of our insignificant subsidiaries. Under the circumstances described under “Certain Covenants-Additional Guarantees,” we are required to cause subsidiaries that are not Guarantors to become Guarantors.

Each of the Guarantors unconditionally guarantees on a joint and several basis all of the Company's obligations under the Notes, including its obligations to pay principal, premium, if any, and interest, if any, with respect to the Notes. The Guarantees are general unsecured obligations of the Guarantors and rank *pari passu* with all existing and future unsecured Indebtedness of the Guarantors that is not, by its terms, expressly subordinated in right of payment to the Guarantees. The obligations of each Guarantor are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such Guarantor and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Guarantee or pursuant to its contribution obligations under the Indenture, will result in the obligations of such Guarantor under its Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each Guarantor that makes a payment or distribution under a Guarantee shall be entitled to a contribution from each other Guarantor in an amount pro rata, based on the "adjusted net assets" of each Guarantor, as defined in the Indenture.

The Indenture provides that, in the event of (i) the sale or other disposition of Capital Stock of any Guarantor if as a result of such disposition, such Person ceases to be a Subsidiary of the Company, (ii) a sale or other disposition of all or substantially all of the assets of any Guarantor (other than to the Company or another Guarantor), (iii) a merger or consolidation of a Guarantor with a Person other than the Company or another Guarantor, or (iv) a Guarantor ceasing to guarantee any (a) Indebtedness of the Company outstanding under any of the Credit Facilities and (b) Publicly Traded Debt Securities, then such Guarantor (in the case of clauses (i), (ii) and (iv) above) will be automatically and unconditionally released and discharged from all obligations under the Indenture and the Notes and the Person acquiring such assets (in the case of clauses (ii) and (iii) above) shall not be required to assume the Guarantor's obligations under the Indenture and the Notes, or otherwise become a Guarantor, in each case without any further action required on the part of the Trustee, any Holder, the Company or any Guarantor; *provided* that such sale, disposition or other transaction is otherwise in compliance with the Indenture.

Except as provided in the covenants described under "Certain Covenants" below, the Indenture does not prevent any consolidation or merger of a Guarantor with or into the Company or another Guarantor, nor does it prevent any sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor to the Company or another Guarantor. Upon any such consolidation, merger, or disposition, the Guarantee given by such Guarantor will no longer have any force or effect.

Certain Covenants

The following is a summary of certain covenants contained in the Indenture. Such covenants are applicable (unless waived or amended as permitted by the Indenture) so long as any of the Notes are outstanding and are not defeased or discharged pursuant to provisions described under "Defeasance" below.

Restrictions on Secured Debt

The Indenture provides that the Company will not, and will not cause or permit any Guarantor to, create, incur, assume or guarantee any Secured Debt unless the Notes are secured equally and ratably with (or prior to) such Secured Debt, *provided* that the foregoing does not prohibit the creation, incurrence, assumption or guarantee of:

(1) Secured Debt which is secured by Liens on model homes, homes held for sale, homes that are under construction or under contract for sale, contracts for the sale of homes, land (improved or unimproved), contracts for the sale of land, project club houses, amenity centers and common areas, manufacturing plants, warehouses, distribution facilities or office buildings, and fixtures and equipment located at or on any of the foregoing or leasehold or other interests in any of the foregoing;

(2) Secured Debt which is secured by a Lien on property at the time of its acquisition by the Company or a Guarantor, which Lien secures obligations assumed by the Company or a Guarantor, or on the property of a corporation or other entity at the time it is merged into or consolidated with the Company or a Guarantor or becomes a Guarantor as a result of the acquisition of its Capital Stock by the Company or a Guarantor (other than Secured Debt created in contemplation of the acquisition of such property or the consummation of such a merger or consolidation or acquisition where the Lien attaches to or affects the property of the Company or a Guarantor prior to such transaction);

(3) Secured Debt which is secured by Liens arising from conditional sales agreements or title retention agreements with respect to property acquired by the Company or a Guarantor;

(4) Secured Debt which is secured by Liens securing Indebtedness of a Guarantor owing to the Company or to another Guarantor;

(5) Indebtedness secured by a Permitted Lien; and

(6) any amendment, restatement, supplement, renewal, replacement, extension, refinancing or refunding, in whole or in part ("Refinanced Debt"), of Secured Debt that was permitted to be created, incurred, assumed or guaranteed pursuant to clauses (1) through (5) above at the time of the original creation, incurrence, assumption or guarantee thereof, or by this clause (6), *provided*, in each case, that the principal amount of the Refinanced Debt does not exceed the principal amount of the Secured Debt being refinanced, extended, renewed or replaced (plus accrued interest thereon and expenses of refinancing, extension, renewal or replacement) and such Refinanced Debt is not secured by any additional properties of the Company or any Guarantor (other than accessions and proceeds).

In addition, the Company and the Guarantors may create, incur, assume or guarantee Secured Debt, without equally or ratably (or on a senior basis) securing the Notes, if immediately thereafter the sum of (1) the aggregate principal amount (or the accreted value thereof, in the case of any Secured Debt issued with original issue discount) of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (6) above and any Secured Debt in relation to which the Notes have been secured equally and ratably (or on a senior basis)) and (2) all Attributable Debt in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions satisfying the conditions set forth in clauses (1) and (2) and if the 365 day period referenced therein shall have expired, also clause (3) under "Restrictions on Sale and Leaseback Transactions") as of the date of determination would not exceed 20% of Consolidated Adjusted Tangible Assets.

Restrictions on Sale and Leaseback Transactions

The Indenture provides that the Company will not, and will not cause or permit any Guarantor to, enter into any Sale and Leaseback Transaction, unless:

(1) notice is promptly given to the Trustee of the Sale and Leaseback Transaction;

(2) fair value is received by the Company or a Guarantor for the property sold (as determined in good faith pursuant to a resolution of the board of directors of the Company delivered to the Trustee); and

(3) the Company or a Guarantor, within 365 days after the completion of the Sale and Leaseback Transaction, applies an amount equal to the net proceeds therefrom either:

(A) to the redemption, repayment or retirement of (a) debt securities of any series under the Indenture (other than a series that, pursuant to the applicable supplemental indenture or authorizing resolution, does not have the benefit of this covenant or its equivalent), including the cancellation by the Trustee of any securities of any such series delivered by the Company to the Trustee, or (b) any other Indebtedness of the Company or any Guarantor (other than Indebtedness which by its terms or the terms of the instrument by which it was issued is subordinate in right of payment to the Notes or any such other series of debt securities), or

(B) to the purchase by the Company or a Guarantor of property substantially similar to the property sold or transferred.

Without regard to the foregoing, the Company and the Guarantors may enter into a Sale and Leaseback Transaction if immediately thereafter the sum of (1) the aggregate principal amount of all Secured Debt outstanding (excluding Secured Debt permitted under clauses (1) through (6) described in "Restrictions on Secured Debt" above or Secured Debt in relation to which the Notes have been secured equally and ratably (or on a senior basis)) and (2) all Attributable Debt in respect of Sale and Leaseback Transactions (excluding Attributable Debt in respect of Sale and Leaseback Transactions satisfying the conditions set forth in clauses (1) and (2) and if the 365 day period referenced therein shall have expired, also clause (3) above) as of the date of determination would not exceed 20% of Consolidated Adjusted Tangible Assets.

Repurchase of Notes upon Change of Control Triggering Event

In the event that there shall occur a Change of Control Triggering Event, except as otherwise provided below, the Company shall make an offer to each Holder of the Notes (the "Change of Control Offer") to purchase all or any part of such Holder's Notes at 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase (the "Change of Control Purchase Price") in accordance with the procedures set forth below.

On or before the thirtieth day after any Change of Control Triggering Event, or, at the Company's option, prior to any Change of Control, but after the public announcement of the Change of Control, the Company shall be obligated to make the Change of Control offer by mailing, or causing to be mailed, to all Holders of Notes, with a copy to the Trustee, a notice regarding the Change of Control Triggering Event and the Change of Control Offer. The notice shall state the payment date for the repurchase of the Notes, which date shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice may, if mailed prior to the date of consummation of the Change of Control, also state that the offer to purchase is conditioned on a Change of Control or Change of Control Triggering Event occurring on or prior to the payment date specified in the notice.

The Company will comply with applicable law, including Section 14(e) of the Exchange Act and Rule 14e-1 thereunder, and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control or Change of Control Triggering Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Triggering Event provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control Triggering Event provisions of the Indenture by virtue of such conflict.

The Company will not be required to make a Change of Control Offer after a Change of Control Triggering Event if (1) a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by the Company and such third party purchases all Notes properly tendered and not withdrawn under its offer, (2) the Company has given notice to redeem all Notes in accordance with the redemption provisions of the Indenture as described above under the caption "-Optional Redemption," unless and until there is a default in payment of the applicable redemption price or (3) in connection with or in contemplation of any Change of Control for which a definitive agreement is in place, the Company or a third party has made an offer to purchase (an "Alternate Offer") any and all Notes properly tendered at a cash price equal to or higher than the Change of Control Purchase Price and has purchased all Notes properly tendered and not withdrawn in accordance with the terms of such Alternate Offer.

With respect to any disposition of assets, the phrase "all or substantially all" as used in the Indenture (including as set forth under "-Limitations on Mergers, Consolidations and Sales of Assets" below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the Indenture) and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Company, and therefore it may be unclear as to whether a Change of Control, and by extension, Change of Control Triggering Event, has occurred.

None of the provisions relating to a repurchase upon a Change of Control Triggering Event is waivable by the Board of Directors of the Company. The Company could, in the future, enter into certain transactions, including certain recapitalizations of the Company, that would not result in a Change of Control Triggering Event, but would substantially increase the amount of Indebtedness outstanding at such time.

The Indenture requires the payment of money for Notes or portions thereof validly tendered to and accepted for payment by the Company pursuant to a Change of Control Offer. In the event that a Change of Control Triggering Event has occurred under the Indenture, a change of control may have also occurred under the agreements governing other Indebtedness of the Company or its subsidiaries. If a Change of Control Triggering Event were to occur, there can be no assurance that the Company would have sufficient funds to pay the purchase price for all Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay. In the event that the Company were required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

Failure by the Company to purchase the Notes when required upon a Change of Control Triggering Event will result in an Event of Default with respect to the Notes.

These provisions could have the effect of deterring hostile or friendly acquisitions of the Company where the Person attempting the acquisition views itself as unable to finance the purchase of the principal amount of Notes which may be tendered to the Company upon the occurrence of a Change of Control Triggering Event.

Amendment or waiver of the provisions described in this covenant will require consent of Holders of a majority of the outstanding principal amount of Notes.

Limitations on Mergers, Consolidations and Sales of Assets

The Indenture provides that neither the Company nor any Guarantor will consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets (including by way of liquidation or dissolution), to any Person (in each case other than in a transaction in which the Company or a Guarantor is the survivor of a consolidation or merger, or the transferee in a sale, lease, conveyance or other disposition) unless:

(1) the Person formed by or surviving such consolidation or merger (if other than the Company or the Guarantor, as the case may be), or to which such sale, lease, conveyance or other disposition will be made (collectively, the "Successor"), is a corporation or other legal entity organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor assumes by supplemental indenture in a form reasonably satisfactory to the Trustee all of the obligations of the Company or the Guarantor, as the case may be, under the Notes or a Guarantee, as the case may be, and the Indenture, and

(2) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing.

The foregoing provisions shall not apply to:

(a) the consolidation or merger of a Guarantor, or the sale, lease, conveyance or other disposition of all or substantially all of the assets of a Guarantor, that in any such case results in such Guarantor being released from its Guarantee or the Successor not being required to become a Guarantor, as the case may be, as provided under "The Guarantees" above, or

(b) a transaction the purpose of which is to change the state of incorporation of the Company or any Guarantor.

Upon any such consolidation, merger, sale, lease, conveyance or other disposition, the Successor will be substituted for the Company or the relevant Guarantor under the Indenture. The Successor may then exercise every power and right of the Company or the relevant Guarantor under the Indenture, and except in the case of a lease, the Company or the relevant Guarantor will be released from all of its liabilities and obligations in respect of the Notes, the Guarantee and the Indenture. If the Company or a Guarantor leases all or substantially all of its assets, the Company or such Guarantor will not be released from its obligations to pay the principal of and premium, if any, and interest, if any, on the Notes or the Guarantee, as applicable.

Additional Guarantees

If (a) any Subsidiary that is not a Guarantor shall guarantee any (i) Indebtedness of the Company outstanding under any of the Credit Facilities or (ii) Publicly Traded Debt Securities, or (b) the Company elects to add any Subsidiary as a Guarantor, then such Subsidiary shall (i) execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee pursuant to which such Subsidiary shall unconditionally guarantee all of the Company's obligations under the Notes and under the Indenture on the terms set forth in the Indenture and (ii) deliver to the Trustee an opinion of counsel that such supplemental indenture has been duly authorized, executed and delivered by such Subsidiary and constitutes a legal, valid, binding and enforceable obligation of such Subsidiary. Thereafter, such Subsidiary shall be a Guarantor for all purposes of the Indenture until it is released from its obligations as a Guarantor pursuant to the provisions of the Indenture.

Events of Default

The following are Events of Default in respect of the Notes under the Indenture:

(1) the failure by the Company to pay interest on any such Note when the same becomes due and payable and the continuance of any such failure for a period of 30 days;

(2) the failure by the Company to pay the principal or premium of any such Note when the same becomes due and payable at maturity, upon acceleration or otherwise;

(3) the failure by the Company or any Guarantor to comply with any of its agreements or covenants in, or provisions of, such Notes, the Guarantees (as relating to the Notes) or the Indenture (as relating to the Notes) and such failure continues for the period and after the notice specified below (except in the case of a default under the covenants described under "Repurchase of Notes upon Change of Control Triggering Event" and "Limitations on Mergers, Consolidations and Sales of Assets," which will constitute an Event of Default with notice but without passage of time);

(4) the acceleration of any Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Guarantor that has an outstanding principal amount of $50 million or more, individually or in the aggregate, and such acceleration does not cease to exist, or such Indebtedness is not satisfied, in either case within 30 days after such acceleration;

(5) the failure by the Company or any Guarantor to make any principal or interest payment in an amount of $50 million or more, individually or in the aggregate, in respect of Indebtedness (other than Non-Recourse Indebtedness) of the Company or any Guarantor within 30 days of such principal or interest becoming due and payable (after giving effect to any applicable grace period set forth in the documents governing such Indebtedness);

(6) the Company or any Guarantor that is a Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

(A) commences a voluntary case,

(B) consents to the entry of an order for relief against it in an involuntary case,

(C) consents to the appointment of a Custodian of it or for all or substantially all of its property, or

(D) makes a general assignment for the benefit of its creditors;

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(A) is for relief against the Company or any Guarantor that is a Significant Subsidiary as debtor in an involuntary case,

(B) appoints a Custodian of the Company or any Guarantor that is a Significant Subsidiary or a Custodian for all or substantially all of the property of the Company or any Guarantor that is a Significant Subsidiary, or

(C) orders the liquidation of the Company or any Guarantor that is a Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days; or

(8) any Guarantee of a Guarantor that is a Significant Subsidiary ceases to be in full force and effect (other than in accordance with the terms of such Guarantee and the Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Guarantee (other than by reason of release of a Guarantor from its Guarantee in accordance with the terms of the Indenture and the Guarantee).

A Default as described in subclause (3) above will not be deemed an Event of Default until the Trustee notifies the Company, or the Holders of at least 25 percent in principal amount of the then outstanding Notes notify the Company and the Trustee, of the Default and (except in the case of a default with respect to the covenants described under "Repurchase of Notes upon Change of Control Triggering Event" and "Limitations on Mergers, Consolidations and Sales of Assets") the Company does not cure the Default within 60 days after receipt of the notice. The notice must specify the Default, demand that it be remedied and state that the notice is a "Notice of Default." If such a Default is cured within such time period, it ceases to exist, without any action by the Trustee or any other Person.

If an Event of Default (other than an Event of Default with respect to the Company resulting from subclauses (6) or (7) above), shall have occurred and be continuing under the Indenture, the Trustee by notice to the Company, or the Holders of at least 25 percent in principal amount of the Notes then outstanding by notice to the Company and the Trustee, may declare all such Notes to be due and payable immediately. Upon such declaration of acceleration, the amounts due and payable on such Notes will be due and payable immediately. If an Event of Default with respect to the Company specified in subclauses (6) or (7) above occurs, such an amount will *ipso facto* become and be immediately due and payable without any declaration, notice or other act on the part of the Trustee and the Company or any Holder.

The Holders of a majority in principal amount of the Notes then outstanding by written notice to the Trustee may waive an existing Default or Event of Default and its consequences with respect to the Notes, other than any Default or Event of Default in payment of principal or interest. Holders of a majority in principal amount of the then outstanding Notes may rescind an acceleration and its consequence (except an acceleration due to nonpayment of principal or interest on such Notes) if the rescission would not conflict with any judgment or decree and if all existing Events of Default (other than the non-payment of accelerated principal) have been cured or waived.

The Holders may not enforce the provisions of the Indenture, the Notes or the Guarantees except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power, *provided, however,* that such direction does not conflict with the terms of the Indenture. The Trustee may withhold from the Holders notice of any continuing Default or Event of Default (except any Default or Event of Default in payment of principal or interest on the Notes or that resulted from the failure to comply with the covenant entitled "Repurchase of Notes upon Change of Control Triggering Event") if the Trustee determines that withholding such notice is in the Holders' interest.

The Company is required to deliver to the Trustee an annual officers' certificate stating whether or not the signers know of any continuing Default by the Company in performing any of its obligations under the Indenture. In addition, the Company is required to deliver to the Trustee written notice of the occurrence of any Default or Event of Default within 30 days after a senior officer of the Company obtains knowledge of such Default or Event of Default.

Defeasance

The Indenture permits us and the Guarantors to terminate all our respective obligations under the Indenture as they relate to the Notes, other than the obligation to pay interest, if any, on and the principal of the Notes and certain other obligations, at any time by:

- depositing in trust with the Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and interest, if any, on the Notes to their maturity or redemption; and
- complying with other conditions, including delivery to the Trustee of an opinion of counsel to the effect that Holders will not recognize income, gain or loss for federal income tax purposes as a result of our exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

The Indenture also permits us and the Guarantors to terminate all of our respective obligations under the Indenture as they relate to the Notes, including the obligations to pay interest, if any, on and the principal of the Notes and certain other obligations, at any time by:

- depositing in trust with the Trustee, under an irrevocable trust agreement, money or U.S. government obligations in an amount sufficient to pay principal of and interest, if any, on the Notes to their maturity or redemption; and
- complying with other conditions, including delivery to the Trustee of an opinion of counsel to the effect that (A) we have received from, or there has been published by, the Internal Revenue Service a ruling, or (B) since the date the Notes were originally issued, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall state that, Holders will not recognize income, gain or loss for federal income tax purposes as a result of our exercise of such right and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case otherwise.

In addition, the Indenture permits us and the Guarantors to terminate substantially all our respective obligations under the Indenture as they relate to the Notes by depositing with the Trustee money or U.S. government obligations sufficient to pay all principal and interest on the Notes at their maturity or redemption date if the Notes will become due and payable at maturity within one year or are to be called for redemption within one year of the deposit.

Amendment, Supplement and Waiver

Without notice to or the consent of any Holder, we and the Trustee may amend or supplement the Indenture or the Notes to:

- cure any ambiguity, omission, defect or inconsistency;
- comply with the provisions of the Indenture regarding the consolidation, merger, sale, lease, conveyance or other disposition of all or substantially all of the assets of us or any Guarantor of the Notes;
- provide that specific provisions of the Indenture shall not apply to a series of debt securities not previously issued or to make a change to specific provisions of the Indenture that only applies to any series of debt securities not previously issued or to additional debt securities of a series not previously issued;
- create a series and establish its terms;
- provide for uncertificated Notes in addition to or in place of certificated Notes;
- delete a Guarantor which, in accordance with the terms of the Indenture, ceases to be liable on its Guarantee of the Notes;
- add a Guarantor in respect of the Notes;
- comply with requirements of the SEC in order to effect or maintain the qualification of the Indenture under the Trust Indenture Act; or
- make any change that does not adversely affect the rights of any Holder.

With the exceptions discussed below, we and the Trustee may amend or supplement the Indenture or the Notes with the written consent of the Holders of at least a majority in principal amount of the Notes then outstanding. In addition, the Holders of a majority in principal amount of the Notes then outstanding may waive any existing default under, or compliance with, any provision of the Notes or of the Indenture relating to the Notes, other than any event of default in payment of interest or principal. These consents and waivers may be obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes.

Without the consent of each Holder affected, we and the Trustee may not:

- reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- reduce the rate of or change the time for payment of interest, including defaulted interest;
- reduce the principal of or change the fixed maturity of any Note or alter the provisions with respect to redemptions of the Notes;
- modify the ranking or priority of the Notes or any Guarantee;
- release any Guarantor from any of its obligations under its Guarantee or the Indenture except in accordance with the Indenture;
- make any change to any provision of the Indenture relating to the waiver of existing defaults, the rights of Holders to receive payment of principal and interest on the Notes, or to the provisions regarding amending or supplementing the Indenture or the Notes with the written consent of the Holders of such Notes;
- waive a continuing default or event of default in the payment of principal of or interest on the Notes; or
- make any Note payable at a place or in money other than that stated in the Note, or impair the right of any Holder of a Note to bring suit as permitted by the Indenture.

The right of any Holder to participate in any consent required or sought pursuant to any provision of the Indenture, and our obligation to obtain any such consent otherwise required from such Holder, may be subject to the requirement that such Holder shall have been the Holder of record of Notes with respect to which such consent is required or sought as of a record date fixed by us in accordance with the Indenture.

Concerning the Trustee

In the ordinary course of its business, the Trustee provides, and may continue to provide, service to us as transfer agent for our common stock and trustee under indentures relating to our senior notes. The Indenture contains limitations on the rights of the Trustee, should it become our creditor, to obtain payment of claims in specified cases or to realize on property received in respect of any such claim as security or otherwise. The Indenture permits the Trustee to engage in other transactions; however, if it acquires any conflicting interest, it must eliminate such conflict or resign.

The Indenture provides that in case an event of default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of such person's own affairs. The Trustee may refuse to perform any duty or exercise any right or power under the Indenture, unless it receives indemnity satisfactory to it against any loss, liability or expense.

Governing Law

The laws of the State of New York govern the Indenture, the Notes and the Guarantees.

Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all terms used in the Indenture.

"Additional Notes" has the meaning set forth in "-General."

"Attributable Debt" means, in respect of a Sale and Leaseback Transaction, the present value (discounted at the weighted average effective interest cost *per annum* of the outstanding debt of the Company, compounded semiannually) of the obligation of the lessee for rental payments during the remaining term of the lease included in such transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended or, if earlier, until the earliest date on which the lessee may terminate such lease upon payment of a penalty (in which case the obligation of the lessee for rental payments shall include such penalty), after excluding all amounts required to be paid on account of maintenance and repairs, insurance, taxes, assessments, water and utility rates and similar charges.

"Bankruptcy Law" means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated) of or in such Person's capital stock or other equity interests.

"Capitalized Lease Obligations" of any Person means, at the time any determination thereof is to be made, the obligations of such Person to pay rent or other amounts under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP, and the amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

"Change of Control" means:

(1) any sale, lease or other transfer (in one transaction or a series of transactions) of all or substantially all of the consolidated assets of the Company and its Subsidiaries to any Person (other than a Subsidiary of the Company); *provided*, *however*, that a transaction where the holders of all classes of Voting Stock of the Company immediately prior to such transaction own, directly or indirectly, Voting Stock representing more than 50% of the voting power of all Voting Stock of such Person immediately after such transaction shall not be a Change of Control;

(2) a "person" or "group" (within the meaning of Section 13(d) of the Exchange Act (other than (x) the Company or (y) Donald R. Horton, Terrill J. Horton, or their respective wives, children, grandchildren and other descendants, or any trust or other entity formed or controlled by any of such individuals (each an "Excluded Person"))) publicly discloses, including, without limitation, by filing a Schedule 13D or Schedule TO, or the Company or any of its Subsidiaries publicly discloses, including without limitation, by filing any other schedule, form or report under the Exchange Act (including, without limitation, a Current Report on Form 8-K) disclosing facts indicating that such person or group has become the ultimate "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of Voting Stock of the Company representing more than 50% of the voting power of the Voting Stock of the Company; or

(3) the stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company; *provided*, *however*, that a liquidation or dissolution of the Company which is part of a transaction that does not constitute a Change of Control under the proviso contained in clause (1) above shall not constitute a Change of Control.

Any person or group whose acquisition of beneficial ownership constitutes a Change of Control under clause (2) of the foregoing definition in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Excluded Person.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and a Ratings Downgrade Event.

"Comparable Treasury Issue" means the United States Treasury security selected by at least two Reference Treasury Dealers as having a maturity comparable to the remaining term of the Notes that would be utilized at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes.

"Comparable Treasury Price" means, with respect to any redemption date, (a) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third business day preceding such redemption date, as set forth in the daily statistical release (or any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities" or (b) if such release (or any successor release) is not published or does not contain such price on such business day, (i) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (ii) if the Trustee obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Consolidated Adjusted Tangible Assets” of the Company as of any date means the Consolidated Tangible Assets of the Company and the Guarantors at the end of the fiscal quarter immediately preceding such date *less* (a) the book value of any assets securing any Non-Recourse Indebtedness, and (b) all short term liabilities of the Company and the Guarantors, except for liabilities payable by their terms more than one year from the date of determination (or renewable or extendible at the option of the obligor to a maturity date more than one year after such date) and liabilities in respect of retiree benefits other than persons for which the Company or the Guarantors are required to accrue pursuant to Accounting Standards Codification 715-60 (or any successor provision), in each case as determined in accordance with GAAP.

“Consolidated Tangible Assets” of the Company as of any date means the book value of the total assets of the Company and the Guarantors (less applicable reserves) on a consolidated basis at the end of the fiscal quarter immediately preceding such date, less (1) Intangible Assets and (2) appropriate adjustments on account of minority interests of other Persons holding equity investments in Guarantors, in each case as determined in accordance with GAAP.

“Credit Facilities” means, collectively, each of the credit facilities and lines of credit of the Company or one or more Guarantors in existence on the date of the Indenture and one or more future facilities or lines of credit among or between the Company or one or more Guarantors and one or more lenders pursuant to which the Company or any Guarantor may incur indebtedness for working capital and general corporate purposes (including acquisitions), as any such facility or line of credit may be amended, restated, supplemented or otherwise modified from time to time, and includes any agreement extending the maturity of, increasing the amount of, or restructuring, all or any portion of the Indebtedness under such facility or line of credit or any successor facilities or lines of credit and includes any facility or line of credit with one or more lenders refinancing or replacing all or any portion of the Indebtedness under such facility or line of credit or any successor facility or line of credit; *provided*, in each case, that such credit facility shall provide for commitments, or there shall be loans or other extensions of credit outstanding thereunder, in each case in excess of $50 million.

“Currency Agreement” of any Person means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in currency values.

“Custodian” means any receiver, trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

“Default” means any event, act or condition that is, or after notice or the passage of time or both would be, an Event of Default.

“Event of Default” has the meaning set forth in “-Events of Default.”

“Fitch” means Fitch Ratings.

“GAAP” means generally accepted accounting principles set forth in the accounting standards codification of the Financial Accounting Standards Board or in such other statements by such or any other entity as may be approved by a significant segment of the accounting profession of the United States, as in effect on the Issue Date.

“Guarantee” means the guarantee of the Notes by each Guarantor under the Indenture.

“Guarantors” means (i) the Existing Guarantors and Additional Guarantors as defined in the Eleventh Supplemental Indenture and (ii) each of the Company’s Subsidiaries that becomes a guarantor of the Notes pursuant to the provisions of the Indenture, in each case until subsequently released from its Guarantee pursuant to the provisions of the Indenture.

“Holder” means the Person in whose name a Note is registered in the books of the registrar for the Notes.

"Indebtedness" of any Person means, without duplication,

(1) any liability of such Person (a) for borrowed money or under any reimbursement obligation relating to a letter of credit or other similar instruments (other than any standby letter of credit or similar instrument issued for the account of, or any surety, performance, completion or payment bond, earnest money note or similar purpose undertaking or indemnification agreement issued or entered into by or for the account of, such Person in the ordinary course of business), (b) evidenced by a bond, note, debenture or similar instrument (including a purchase money obligation) given in connection with the acquisition of any businesses, properties or assets of any kind or with services incurred in connection with expenditures that constitute capital expenditures in accordance with GAAP (other than any obligation to pay a contingent purchase price as long as such obligation remains contingent), or (c) in respect of Capitalized Lease Obligations,

(2) any Indebtedness of others described in clause (1) above that such Person has guaranteed to the extent of the guarantee, and

(3) all Indebtedness of others described in clause (1) above secured by a Lien on any property of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of the Indebtedness of such Person shall be the lesser of (a) the fair market value of such property; and (b) the amount of such Indebtedness of such other Persons;

provided, that Indebtedness shall not include accounts payable, liabilities to trade creditors of such Person or other accrued expenses arising in the ordinary course of business or obligations under Currency Agreements or Interest Protection Agreements.

"Intangible Assets" means with respect to the Notes, all unamortized debt discount and expense, unamortized deferred charges, goodwill, patents, trademarks, service marks, trade names, copyrights, write-ups of assets over their prior carrying value (other than write-ups which occurred prior to the Issue Date and other than, in connection with the acquisition of an asset, the write-up of the value of such asset (within one year of its acquisition) to its fair market value in accordance with GAAP) and all other items which would be treated as intangibles on the consolidated balance sheet of the Company and the Guarantors prepared in accordance with GAAP.

"Interest Protection Agreement" of any Person means any interest rate swap agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such Person or any of its Subsidiaries against fluctuations in interest rates with respect to Indebtedness.

"Investment Grade" means a rating of Baa3 or better by Moody's (or its equivalent under any successor rating categories of Moody's); a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); and the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies selected by the Company.

"Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Lien" means, with respect to any property, any mortgage, deed of trust, lien, pledge, charge, hypothecation, security interest or encumbrance of any kind in respect of such property. For purposes of this definition, a Person shall be deemed to own, subject to a Lien, any property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such property.

"Moody's" means Moody's Investors Service, Inc.

"Non-Guarantor Subsidiary" means any Subsidiary that is not a Guarantor.

"Non-Recourse Indebtedness" with respect to any Person means Indebtedness of such Person for which (1) the sole legal recourse for collection of principal and interest on such Indebtedness is against the specific property identified in the instruments evidencing or securing such Indebtedness (and any accessions thereto and proceeds thereof) and such property was acquired with the proceeds of such Indebtedness or such Indebtedness was incurred within 180 days after the acquisition of such property and (2) no other assets of such Person may be realized upon in collection of principal or interest on such Indebtedness. Indebtedness which is otherwise Non-Recourse Indebtedness will not lose its character as Non-Recourse Indebtedness because there is recourse to the borrower, any guarantor or any other Person for (a) environmental or tax warranties and indemnities and such other representations, warranties, covenants and indemnities as are customarily required in such transactions, or (b) indemnities for and liabilities arising from fraud, misrepresentation, misapplication or non-payment of rents, profits, insurance and condemnation proceeds and other sums actually received by the borrower from secured assets to be paid to the lender, waste and mechanics' liens.

"Permitted Liens" means any Lien:

(1) incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, development obligations, progress payments, government contracts, utility services, developer's or other obligations to make on-site or off-site improvements and other obligations of like nature (exclusive of obligations for the payment of borrowed money but including the items referred to in the parenthetical in clause (1)(a) of the definition of "Indebtedness"), in each case incurred in the ordinary course of business of the Company and the Guarantors,

(2) constituting attachment or judgment liens,

(3) securing Non-Recourse Indebtedness of the Company or any Guarantor; *provided*, that it applies only to the property financed out of the net proceeds of such Non-Recourse Indebtedness (and any accessions thereto and proceeds thereof),

(4) securing Purchase Money Indebtedness; *provided*, that it applies only to the property acquired, constructed or improved with the proceeds of such Purchase Money Indebtedness (and any accessions thereto and proceeds thereof),

(5) constituting purchase money Liens (including Capitalized Lease Obligations); *provided*, that it applies only to the property acquired (and any accessions thereto and proceeds thereof) and the related Indebtedness is incurred within 180 days after the acquisition of such property,

(6) constituting the right of a lender or lenders to which the Company or a Guarantor may be indebted to offset against, or appropriate and apply to the payment of such, Indebtedness any and all balances, credits, deposits, accounts or money of the Company or a Guarantor with or held by such lender or lenders or its affiliates,

(7) constituting the pledge or deposit of cash or other property in conjunction with obtaining surety, performance, completion or payment bonds and letters of credit or other similar instruments or providing earnest money obligations, escrows or similar purpose undertakings or indemnifications in the ordinary course of business of the Company and the Guarantors,

(8) incurred in connection with pollution control, industrial revenue, water, sewage or other public improvement bonds or any similar bonds,

(9) statutory Liens of landlords and carriers', warehousemen's, mechanics', suppliers', materialmen's, repairmen's or other Liens imposed by law and arising in the ordinary course of business,

(10) leases or subleases granted to others not materially interfering with the ordinary course of business of the Company and the Guarantors taken as a whole,

(11) Liens securing community development district bonds or similar bonds issued by any governmental authority to accomplish similar purposes,

(12) Liens on assets and properties of joint ventures or limited partnerships that are not wholly-owned Subsidiaries of the Company or any of the Guarantors, and

(13) Liens securing the Company's or the Guarantors' obligations to third parties, in connection with joint development agreements with such third parties, to perform and/or pay for or reimburse the costs of construction and/or development related to or benefiting Company's or the Guarantors' property and property belonging to such third parties.

"Person" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Publicly Traded Debt Securities" means any issue of debt securities of the Company or any of the Guarantors originally issued in a public offering registered with the SEC or in an offering pursuant to Rule 144A under the Securities Act and of which issue at least $50.0 million aggregate principal amount is outstanding.

"Purchase Money Indebtedness" means Indebtedness of the Company or any Guarantor incurred for the purpose of financing all or any part of the purchase price, or the cost of construction or improvement, of any property to be used in the ordinary course of business by the Company and the Guarantors; *provided, however,* that (1) the aggregate principal amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred no later than 180 days after the acquisition of such property or completion of such construction or improvement.

"Rating Agency" means (1) each of Moody's, Fitch and S&P; or (2) if any of Moody's, Fitch or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available (for reasons outside of the Company's control), a "nationally recognized statistical rating organization" as defined under Section 3(a)(62) of the Exchange Act, selected by the Company (as certified by a resolution of the Company's Board of Directors) as a replacement Rating Agency for Moody's, Fitch or S&P, or all three, as the case may be.

"Ratings Downgrade Event" means the rating on the Notes is lowered independently by each of the Rating Agencies and the Notes are rated below Investment Grade by all three Rating Agencies on any date from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies); *provided* that a Ratings Downgrade Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Ratings Downgrade Event for purposes of the definition of Change of Control Triggering Event) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Trustee in writing at the Company's request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Ratings Downgrade Event).

"Reference Treasury Dealers" means (a) Deutsche Bank Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC, RBS Securities Inc. and Wells Fargo Securities, LLC (or any of their respective affiliates which are Primary Treasury Dealers), and their respective successors; *provided, however* that if any of the foregoing shall cease to be a primary U.S. Government securities dealer in the United States of America (a "Primary Treasury Dealer"), the Company will substitute therefor another Primary Treasury Dealer, and (b) any other Primary Treasury Dealer(s) selected by the Company.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Trustee by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

"Remaining Scheduled Payments" means, with respect to any Note, the remaining scheduled payments of the principal thereof to be redeemed and interest thereon that would be due after the related redemption date but for such redemption; *provided however* that if such redemption date is not an Interest Payment Date with respect to such Note, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to the date of such redemption.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Sale and Leaseback Transaction” means a sale or transfer made by the Company or a Guarantor of any property which is either (a) a manufacturing facility, project club house, amenity center and common area, office building, warehouse or distribution facility whose book value equals or exceeds 1% of Consolidated Adjusted Tangible Assets as of the date of determination or (b) another property which exceeds 5% of Consolidated Adjusted Tangible Assets as of the date of determination, if such sale or transfer is made with the agreement, commitment or intention of leasing such property to the Company or a Guarantor, *provided* that “Sale and Leaseback Transaction” shall not include (1) a sale and leaseback transaction relating to a property entered into within 180 days after the later of (i) the date of acquisition of such property by the Company or a Guarantor and (ii) the date of the completion of construction or commencement of full operations on such property, whichever is later, (2) a sale and leaseback transaction which has a lease of no more than three years in length or (3) a sale or transfer made to the Company or another Guarantor.

“Secured Debt” means any Indebtedness of the Company or any Guarantor which is secured by (a) a Lien in any property of the Company or a Guarantor (other than property excluded in clause (b)) or (b) a Lien on Capital Stock owned directly or indirectly by the Company or a Guarantor in a corporation or other entity (other than a Non-Guarantor Subsidiary) or in the rights of the Company or a Guarantor in respect of Indebtedness of a corporation or other entity (other than a Non-Guarantor Subsidiary) in which the Company or a Guarantor owns Capital Stock. The securing in the foregoing manner of any such Indebtedness which immediately prior thereto was not Secured Debt shall be deemed to be the creation of Secured Debt at the time security is given. For the avoidance of doubt, cash collateralized letters of credit under our revolving credit facility will not constitute Secured Debt.

“SEC” means the Securities and Exchange Commission or any successor agency performing the duties now assigned to it under the Trust Indenture Act.

“Significant Subsidiary” means any Subsidiary of the Company which would constitute a “significant subsidiary” as defined in Rule 1-02 of Regulation S-X under the Securities Act and the Exchange Act.

“Subsidiary” of any Person means any corporation or other entity of which a majority of the Capital Stock having ordinary voting power to elect a majority of the board of directors of such entity or other persons performing similar functions is at the time directly or indirectly owned or controlled by such Person.

“Successor” has the meaning set forth in “-Certain Covenants-Limitations on Mergers, Consolidations and Sales of Assets.”

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Trustee” means the party named as such above until a successor replaces such party in accordance with the applicable provisions of the Indenture and thereafter means the successor serving hereunder.

“Voting Stock” of any specified “person” (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

Book Entry, Delivery and Form

The Notes were issued in the form of a fully registered Global Note (the “Global Note”). The Global Note was delivered on or about the Issue Date with the Trustee, on behalf of The Depository Trust Company (the “Depositary”) and registered in the name of Cede & Co., as nominee of the Depositary (such nominee being referred to herein as the “Global Note Holder”).

The Depositary is a limited-purpose trust company which was created to hold securities for its participating organizations (collectively, the “Participants” or the “Depositary’s Participants”) and to facilitate the clearance and settlement of transactions in such securities between Participants through electronic book-entry changes in accounts of its Participants. The Depositary’s Participants include securities brokers and dealers (including the underwriters), banks and trust companies, clearing corporations and certain other organizations. Access to the Depositary’s system is also available to other entities such as banks, brokers, dealers and trust companies (collectively, the “Indirect Participants” or the “Depositary’s Indirect Participants”) that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not Participants may beneficially own securities held by or on behalf of the Depositary only through the Depositary’s Participants or the Depositary’s Indirect Participants.

So long as the Global Note Holder is the registered owner of any Notes, the Global Note Holder will be considered the sole owner or Holder of such Notes outstanding under the Indenture. Except as provided below, beneficial owners of Notes will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive form, and will not be considered the Holders thereof under the Indenture for any purpose, including with respect to the giving of any directions, instructions or approvals to the Trustee thereunder. As a result, the ability of a Person having a beneficial interest in Notes represented by the Global Note to pledge such interest to Persons or entities that do not participate in the Depositary’s system or to otherwise take actions in respect of such interest may be affected by the lack of a physical certificate evidencing such interest.

None of the Company, the Trustee, the paying agent and the registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of Notes by the Depositary, or for maintaining, supervising or reviewing any records of the Depositary relating to such Notes.

Payments in respect of the principal, premium, if any, and interest on any Notes registered in the name of a Global Note Holder on the applicable record date will be payable by the paying agent to such Global Note Holder in its capacity as the registered Holder under the Indenture.

Under the terms of the Indenture, the Company and the Trustee may treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving such payments and for any and all other purposes whatsoever. Consequently, neither the Company nor the Trustee has or will have any responsibility or liability for the payment of such amounts to beneficial owners of Notes (including principal, premium, if any, and interest).

The Company believes, however, that it is currently the policy of the Depositary to immediately credit the accounts of the relevant Participants with such payment, in amounts proportionate to their respective holdings in principal amount of beneficial interests in the relevant security as shown on the records of the Depositary. Payments by the Depositary’s Participants and the Depositary’s Indirect Participants to the beneficial owner of Notes will be governed by standing instructions and customary practice and will be the responsibility of the Depositary’s Participants or the Depositary’s Indirect Participants.

As long as the Notes are represented by a Global Note, the Depositary’s nominee will be the Holder of the Notes and therefore will be the only entity that can exercise a right to repayment or repurchase of the Notes. Notice by Participants or Indirect Participants or by owners of beneficial interests in a Global Note held through such Participants or Indirect Participants of the exercise of the option to elect repayment of beneficial interests in Notes represented by a Global Note must be transmitted to the Depositary in accordance with its procedures on a form required by the Depositary and provided to Participants. In order to ensure that the Depositary’s nominee will timely exercise a right to repayment with respect to a particular Note, the beneficial owner of such Note must instruct the broker or the Participant or Indirect Participant through which it holds an interest in such Note to notify the Depositary of its desire to exercise a right to repayment. Different firms have cut-off times for accepting instructions from their customers and, accordingly, each beneficial owner should consult the broker or other Participant or Indirect Participant through which it holds an interest in a Note in order to ascertain the cut-off time by which such an instruction must be given in order for timely notice to be delivered to the Depositary. The Company will not be liable for any delay in delivery of notices of the exercise of the option to elect repayment.

Certificated Securities

Subject to certain conditions, any Person having a beneficial interest in a Global Note may, upon request to the Company or the Trustee, exchange such beneficial interest for Notes in the form of certificated securities. Upon any such issuance, the Trustee is required to authenticate and deliver such Notes to such Person or Persons (or the nominee of any thereof). In addition, if (i) the Depositary notifies the Company that it is unwilling or unable to continue as Depositary for the Global Note and a successor depository is not appointed by the Company within 90 days of such notice or (ii) an Event of Default has occurred and is continuing and the registrar has received a request from the Depositary to issue certificated securities, then, upon surrender by the relevant Global Note Holder of its Global Note, certificated Notes will be issued to each Person that such Global Note Holder and the Depositary identify as the beneficial owner of such Notes.

Neither the Company nor the Trustee shall be liable for any delay by the related Global Note Holder or the Depositary in identifying the beneficial owners of Notes and each such Person may conclusively rely on and shall be protected in relying on, instructions from the Global Note Holder or of the Depositary for all purposes (including with respect to the registration and delivery, and the respective principal amounts of the Notes to be issued).

Same-day Settlement and Payment

Payments in respect of the Notes (including principal, premium, if any, and interest) will be made by wire transfer of immediately available funds to the accounts specified by the Global Note Holders. The Company expects that secondary trading in the certificated Notes also will be settled in immediately available funds.

Transfer and Exchange

A Holder may transfer or exchange the Notes in accordance with the procedures set forth in the Indenture. The registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents, and to pay any taxes and fees required by law or permitted by the Indenture. The registrar is not required to transfer or exchange any Note selected for redemption. Also, the registrar is not required to transfer or exchange any Note for a period of 15 days before a selection of the Notes to be redeemed.

The registered Holder of a Note will be treated as the owner of it for all purposes.

Exhibit 10.23

Executive Compensation Notification
Chairman, Chief Executive Officer and Chief Operating Officer

Fiscal 2020 Compensation Program of Chairman, Chief Executive Officer and Chief Operating Officer

Fiscal 2020 Base Salaries and Annual Incentive Bonus: The table below sets forth the fiscal 2020 base salaries and bonuses for Mr. Horton, Mr. Auld and Mr. Murray.

Name	Office	Annual Base Salary Fiscal 2020	Annual Incentive Bonus Fiscal 2020
Donald R. Horton	Chairman of the Board	$1,000,000	See Below
David V. Auld	President and CEO	$700,000	See Below
Michael J. Murray	Executive Vice President and COO	$500,000	See Below

Fiscal 2020 Annual Incentive Bonus: On November 6, 2019, the Compensation Committee approved performance-based goals for measuring short-term performance bonuses that may be earned by Mr. Horton, Mr. Auld and Mr. Murray during fiscal 2020. The fiscal 2020 performance goals were established under the Company's 2018 Incentive Bonus Plan. The fiscal 2020 performance goals for Mr. Horton, Mr. Auld and Mr. Murray relates to achieving positive consolidated pre-tax income as set forth below.

Annual Incentive Bonus – Performance Related to Pre-Tax Income:

Mr. Horton. Under the fiscal 2020 incentive bonus program, Mr. Horton has the opportunity to earn the following performance-based bonus:

(1) Up to 0.6% of Pre-Tax Income of the Company for the six-month period ending March 31, 2020, and

(2) Up to 0.6% of Pre-Tax Income of the Company for the six-month period ending September 30, 2020.

Mr. Auld. Under the fiscal 2020 incentive bonus program, Mr. Auld has the opportunity to earn the following performance-based bonus:

(1) Up to 0.4% of Pre-Tax Income of the Company for the six-month period ending March 31, 2020, and

(2) Up to 0.4% of Pre-Tax Income of the Company for the six-month period ending September 30, 2020.

Mr. Murray. Under the fiscal 2020 incentive bonus program, Mr. Murray has the opportunity to earn the following performance-based bonus:

(1) Up to 0.15% of Pre-Tax Income of the Company for the six-month period ending March 31, 2020, and

(2) Up to 0.15% of Pre-Tax Income of the Company for the six-month period ending September 30, 2020.

"Pre-Tax Income" shall mean income before income taxes, as publicly reported by the Company in its quarterly or annual financial statements, as applicable, prepared in accordance with generally accepted accounting principles. The financial statements shall mean the consolidated financial statements of the Company.

At the end of fiscal 2020, based on the performance of the Company, the Compensation Committee may use its sole discretion to adjust downward, in part or in whole, the Annual Incentive Bonus earned by the participant. Provided that, for the fiscal year ending September 30, 2020 no more than 0.6% of Pre-Tax Income for the year shall be paid to Mr. Horton, no more than 0.4% of Pre-Tax Income for the year shall be paid to Mr. Auld and no more than 0.15% of Pre-Tax Income for the year shall be paid to Mr. Murray.

Performance Restricted Stock Units: On November 6, 2019, the Compensation Committee approved an award of performance restricted stock units *("Performance RSUs")* pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated *("2006 Plan")*, to the following executive officers and in the following amounts:

Name	Office	Target Number of Performance Restricted Stock Units
Donald R. Horton	Chairman of the Board	200,000
David V. Auld	President and CEO	100,000
Michael J. Murray	Executive Vice President and COO	30,000

The Performance RSUs relate to a three-year performance period beginning on October 1, 2019 and ending on September 30, 2022 *(the "2022 Performance Period")*. The Performance RSUs will vest if four performance goals are satisfied. The four performance goals are relative total shareholder return *("TSR"),* relative return on investment *("ROI"),* relative selling, general and administrative expense containment *("SG&A")* and relative gross profit *("GP") (collectively, the "Performance Goals")*. Each Performance Goal is weighted twenty-five percent (25%) of the target number of Performance RSUs. The target number of Performance RSUs may be increased to a maximum number of 400,000 for Mr. Horton, 200,000 for Mr. Auld and 60,000 for Mr. Murray upon maximum achievement of each of the four Performance Goals and decreased to a minimum number of zero upon minimum achievement of each of the four Performance Goals based on relative performance to the Company's peer group or the S&P 500 Index TSR, as applicable.

Additional terms related to the Compensation Programs herewithin are consistent with the programs previously reported by the Company in the Proxy Statement for the Annual Meeting held in January 2019.

Other Long-Term Benefits.

Mr. Horton, Mr. Auld and Mr. Murray may participate in two separate deferred compensation plans. The first plan allows the executive to make voluntary income deferrals. The second plan is a promise by the Company to pay benefits to the executive. If the executive is employed by the Company on the last day of the fiscal year (for example September 30, 2020), then the Company will establish a liability equal to 10% of his annual base salary as of the first day of the fiscal year (for example October 1, 2019). This liability will accrue earnings in future years at a rate established by the administrative committee.

Exhibit 10.25

Executive Compensation Notification
Chief Financial Officer

<u>Fiscal 2020 Compensation Program of Chief Financial Officer</u>

Fiscal 2020 Base Salary and Other Compensation: The table below sets forth the fiscal 2020 base salary and bonus for Mr. Wheat.

Name	Office	Annual Base Salary Fiscal 2020	Discretionary Bonus Fiscal 2020
Bill W. Wheat	Executive Vice President and CFO	$500,000	See Below

Discretionary Bonus and Other Long-Term Benefits: The Board of Directors may award discretionary bonuses to Mr. Wheat based on his performance in fiscal 2020. In addition, Mr. Wheat may participate in two separate deferred compensation plans. The first plan allows the executive to make voluntary income deferrals. The second plan is a promise by the Company to pay benefits to the executive. If the executive is employed by the Company on the last day of the fiscal year (for example September 30, 2020), then the Company will establish a liability equal to 10% of his annual base salary as of the first day of the fiscal year (for example October 1, 2019). This liability will accrue earnings in future years at a rate established by the administrative committee.

Performance Restricted Stock Units: On November 6, 2019, the Compensation Committee approved an award of performance restricted stock units *("Performance RSUs")* pursuant to the Company's 2006 Stock Incentive Plan, as amended and restated ("2006 Plan"), to Mr. Wheat in the following amount:

Name	Office	Target Number of Performance Restricted Stock Units
Bill W. Wheat	Executive Vice President and CFO	30,000

The Performance RSUs relate to a three-year performance period beginning on October 1, 2019 and ending on September 30, 2022 *(the "2022 Performance Period").* The Performance RSUs will vest if four performance goals are satisfied. The four performance goals are relative total shareholder return *("TSR"),* relative return on investment *("ROI"),* relative selling, general and administrative expense containment *("SG&A")* and relative gross profit *("GP") (collectively, the "Performance Goals")*. Each Performance Goal is weighted twenty-five percent (25%) of the target number of Performance RSUs. The target number of Performance RSUs may be increased to a maximum number of 60,000 for Mr. Wheat upon maximum achievement of each of the four Performance Goals and decreased to a minimum number of zero upon minimum achievement of each of the four Performance Goals based on relative performance to the Company's peer group or the S&P 500 Index TSR, as applicable.

Exhibit 10.27

Summary of Director, Committee and Chairperson Compensation

On November 6, 2019, the Board of Directors of the Company approved cash director fees, committee member fees and chairperson fees to be paid to non-management directors of the Company in fiscal 2020. Director fees, committee fees and chairperson fees are only paid to non-management directors as summarized below:

Each non-management director will receive a director fee of $15,000 per Board meeting attended in person or by teleconference, paid quarterly and not to exceed $60,000 per year.

Each non-management director who serves on a committee of the Board of Directors will receive a fee of $1,250 per committee meeting attended in person or by teleconference, paid quarterly and not to exceed $5,000 per year.

Each non-management director who serves as the chairperson of a committee of the Board of Directors shall receive a fee of $625 per committee meeting attended in person or by teleconference, paid quarterly and not to exceed $2,500 per year.

Exhibit 10.44

SEVENTH AMENDMENT TO
SECOND AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT

THIS SEVENTH AMENDMENT TO SECOND AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT (this "***Amendment***"), dated as of March 26, 2019 is by and between DHI Mortgage Company, Ltd., a Texas limited partnership (the "***Seller***"), the Buyers party to the Repurchase Agreement (defined below) (the "***Buyers***"), and U.S. Bank National Association, a national banking association, as administrative agent for the Buyers (the "***Administrative Agent***").

RECITALS

A. The Seller, the Buyers, and the Administrative Agent are parties to a Second Amended and Restated Master Repurchase Agreement dated as of February 27, 2015, a First Amendment to Second Amended and Restated Master Repurchase Agreement dated as of February 26, 2016, a Second Amendment to Second Amended and Restated Master Repurchase Agreement dated as of June 24, 2016, a Third Amendment to Second Amended and Restated Master Repurchase Agreement dated as of September 23, 2016, a Fourth Amendment to Second Amended and Restated Master Repurchase Agreement dated as of February 24, 2017, a Fifth Amendment to Second Amended and Restated Master Repurchase Agreement dated as of February 23, 2018, and a Sixth Amendment to Second Amended and Restated Master Repurchase Agreement dated as of February 22, 2019 (as amended, restated, or otherwise modified from time to time, the "***Repurchase Agreement***").

B. The parties hereto desire to amend the Repurchase Agreement as provided herein.

AGREEMENT

In consideration of the premises herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Definitions. Capitalized terms used and not otherwise defined in this Amendment have the meanings specified in the Repurchase Agreement.

Section 2. Amendments.

2.1 Transaction Sublimits. Section 4.2(b) of the Repurchase Agreement is amended and restated in its entirety as follows:

> (b) The outstanding Purchase Prices of all Purchased Loans that are Wet Loans shall not exceed (x) 65% of the Maximum Aggregate Commitment for the last five Business Days of March 2019 and the first five Business Days of April 2019; (y) 55% of the Maximum Aggregate Commitment on any of the first five and last five Business Days of any other months; or (z) 35% of the Maximum Aggregate Commitment on any other day (the "*Wet Loans Sublimit*").

2.2 Schedules. Schedule BC to the Repurchase Agreement is amended and restated to read in its entirety as set forth on Schedule BC hereto.

Section 3. Effectiveness. This Amendment shall become effective as of the date first above written upon the Seller's fulfillment of the following conditions precedent:

3.1 The Administrative Agent shall have received (or be satisfied that it will receive by such deadline as the Administrative Agent shall specify) the following, all of which must be satisfactory in form and content to the Administrative Agent:

(a) this Amendment, duly executed by the Seller, the Required Buyers, and the Administrative Agent;

(b) a fee letter, duly executed by the Seller and the Administrative Agent; and

(c) a certificate of the General Partner's corporate secretary or assistant secretary or other authorized officer dated as of the date hereof as to (i) the incumbency of the officers of the Seller executing this Amendment and all other Repurchase Documents executed or to be executed by or on behalf of the Seller, (ii) the authenticity of their signatures, and specimens of their signatures shall be included in such certificate or set forth on an exhibit attached to it (the Administrative Agent, the Buyers and the Custodian shall be entitled to rely on that certificate until the Seller has furnished a new certificate to the Administrative Agent), (iii) resolutions of the General Partner's board of directors, authorizing the execution, delivery and performance by the Seller of this Amendment and all other Repurchase Documents to be delivered by the Seller pursuant to this Amendment and (iv) copies of the Seller's (1) limited partnership agreement, (2) certificate of limited partnership issued by the state of Texas, (3) articles of incorporation certified by the Secretary of State of the State of the General Partner, and (4) bylaws and all amendments, or certification that there have been no changes to such documents since a true and correct copy thereof was delivered to the Administrative Agent and that such documents are in full force and effect.

3.2 Payment to the Administrative Agent or the Custodian, as applicable, of all fees and expenses (including the disbursements and reasonable fees of the Administrative Agent's attorneys) of the Administrative Agent and the Buyers payable by Seller pursuant to Section 9 of the Repurchase Agreement accrued and billed for to the date of the Seller's execution and delivery of this Agreement.

Section 4. Miscellaneous.

4.1 Ratifications. This Amendment shall modify and supersede all terms and provisions set forth in the Repurchase Documents that are inconsistent with this Amendment, and the terms and provisions of the Repurchase Documents are ratified and confirmed and shall continue in full force and effect.

4.2 Seller Representations and Warranties. The Seller hereby represents and warrants that the representations and warranties set forth in Section 15 of the Repurchase Agreement are true and correct in all material respects with the same force and effect on and as of the date hereof as though made as of the date hereof.

4.3 Survival. The representations and warranties made by the Seller in this Amendment shall survive the execution and delivery of this Amendment.

4.4 Reference to Repurchase Agreement. Each of the Repurchase Documents, including the Repurchase Agreement and any and all other agreements, documents, or instruments now or hereafter executed and delivered pursuant to the terms hereof or pursuant to the terms of the Repurchase Agreement as amended hereby, is hereby amended so that any reference in such Repurchase Document to the Repurchase Agreement shall refer to the Repurchase Agreement as amended and modified hereby.

4.5 Applicable Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York as applicable to the Repurchase Agreement.

4.6 Successors and Assigns. This Amendment is binding upon and shall inure to the benefit of the Seller, the Buyers, the Administrative Agent, and their respective successors and assigns, except that the Seller may not assign or transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and, to the extent required by the Repurchase Agreement, the Buyers.

4.7 Counterparts. This Amendment may be executed in one or more counterparts, each of which when so executed shall be deemed an original, but all of which when taken together shall constitute one and the same instrument.

4.8 Headings. The headings, captions, and arrangements used in this Amendment are for convenience only and shall not affect the interpretation of this Amendment.

4.9 ENTIRE AGREEMENT. THIS AMENDMENT AND THE OTHER REPURCHASE DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES THERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

[*Signature Pages Follow*]

IN WITNESS WHEREOF the parties have caused this Amendment to be executed as of the date first set forth above.

DHI MORTGAGE COMPANY, LTD.,
as Seller and Servicer

By: DHI Mortgage Company GP, Inc.
Its General Partner

By: /s/ MARK C. WINTER
Name: Mark C. Winter
Title: Executive Vice President

U.S. BANK NATIONAL ASSOCIATION,
as Administrative Agent and a Buyer

By: /s/ EDWIN D. JENKINS
Name: Edwin D. Jenkins
Title: Senior Vice President

ASSOCIATED BANK, N.A., as a Buyer

By: /s/ THOMAS J. CONNALLY
Name: Thomas J. Connally
Title: Senior Vice President

BRANCH BANKING & TRUST COMPANY, as a Buyer

By: /s/ SAMUEL W. BRYAN
Name: Samuel W. Bryan
Title: Senior Vice President

COMERICA BANK, as a Buyer

By: /s/ ART SHAFER
Name: Art Shafer
Title: Senior Vice President

TIAA, FSB, formerly known as EVERBANK, as a Buyer

By: /s/ E.R. MOORE
Name: E.R. Moore
Title: Vice President

BMO HARRIS BANK N.A., as a Buyer

By: /s/ BOB BOMBEN
Name: Bob Bomben
Title: Director

STERLING NATIONAL BANK, as a Buyer

By: /s/ EDDIE OTHMAN
Name: Eddie Othman
Title: Senior Vice President

**SCHEDULE BC TO SEVENTH AMENDMENT
TO SECOND AMENDED AND RESTATED
MASTER REPURCHASE AGREEMENT**

**SCHEDULE BC
TO SECOND AMENDED AND RESTATED MASTER REPURCHASE AGREEMENT**

THE BUYERS' COMMITTED SUMS

Buyer	Except as provided in the below chart, Committed Sum for each period from and including the following dates in any calendar year to and including the following dates in any calendar year: January 21 - March 21 April 23 - June 20 July 23 - December 19	Except as provided in the below chart, Committed Sum for each period from and including the following dates in any calendar year to and including the following dates in any calendar year: June 21 - July 22 December 20 - January 20
U.S. Bank National Association	$ 206,250,000	$ 249,218,750
Associated Bank, N.A.	$ 37,500,000	$ 45,312,500
Branch Banking & Trust Company	$ 105,000,000	$ 126,875,000
Comerica Bank	$ 105,000,000	$ 126,875,000
TIAA, FSB, f/k/a EverBank	$ 90,000,000	$ 108,750,000
BMO Harris Bank N.A.	$ 28,125,000	$ 33,984,375
Sterling National Bank	$ 28,125,000	$ 33,984,375
Maximum Aggregate Commitment	$ 600,000,000	$ 725,000,000

Buyer	Committed Sum for March 22, 2019 through and including April 22, 2019
U.S. Bank National Association	$ 324,218,750
Associated Bank, N.A.	$ 45,312,500
Branch Banking & Trust Company	$ 126,875,000
Comerica Bank	$ 126,875,000
TIAA, FSB, f/k/a EverBank	$ 108,750,000
BMO Harris Bank N.A.	$ 33,984,375
Sterling National Bank	$ 33,984,375
Maximum Aggregate Commitment	$ 800,000,000

Buyer	Committed Sum for September 20, 2019 through and including November 5, 2019
U.S. Bank National Association	$ 275,000,000
Associated Bank, N.A.	$ 50,000,000
Branch Banking & Trust Company	$ 140,000,000
Comerica Bank	$ 140,000,000
TIAA, FSB, f/k/a EverBank	$ 120,000,000
BMO Harris Bank N.A.	$ 37,500,000
Sterling National Bank	$ 37,500,000
Maximum Aggregate Commitment	$ 800,000,000

Exhibit 21.1

SUBSIDIARIES OF D.R. HORTON, INC.

As of September 30, 2019

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
ANN & 215, LLC	Delaware	
Austin Data, Inc.	Texas	
BP456, Inc.	Delaware	
C. Richard Dobson Builders, Inc.	Virginia	Dobson Builders
Cane Island, LLC	Delaware	
CH Funding, LLC	Delaware	
CH Investments of Texas, Inc.	Delaware	
CHI Construction Company	Arizona	
CHM Partners, L.P.	Texas	
CHTEX of Texas, Inc.	Delaware	
The Club at Cobblestone, LLC	Delaware	
The Club at Hidden River, LLC	Delaware	
Continental Homes, Inc.	Delaware	Astante Luxury Communities; Astante Luxury Homes; D.R. Horton - Astante Series; D.R. Horton - Continental Series; Traditions; Traditions - D.R. Horton
Continental Homes of Texas, L.P.	Texas	D.R. Horton Homes; D.R. Horton America's Builder; Emerald Homes; Express Homes; Freedom Homes
Continental Residential, Inc.	California	Continental Homes; D.R. Horton America's Builder; Horton Continental; Emerald Homes; Freedom Homes
Continental Traditions, LLC	Arizona	
Crown Operating Company, Inc.	Delaware	
CV Mountain View 25 Inv, LLC	Delaware	
Cypress Road, L.P.	California	
DBC54, LLC	Delaware	
Deer Valley Office Park, LLC	Delaware	
Desert Ridge Phase I Partners	Arizona	
DHI Commercial, Inc.	Delaware	
DHI Commercial - Lakeview, LLC	Delaware	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
DHI Commercial - Tamarron, LLC	Delaware	
DHI Communities, Inc.	Delaware	DHI Communities
DHI Communities II, LLC	Delaware	DHI Communities
DHI Communities Construction, LLC	Delaware	
DHI Communities Construction of Arizona, LLC	Delaware	
DHI Communities Construction of Florida, LLC	Delaware	
DHI Communities Construction of Iowa, LLC	Delaware	
DHI Communities Construction of Texas, LLC	Delaware	
DHI Engineering, LLC	Delaware	
DHI Insurance, Inc.	Vermont	
DHI Mortgage Company	Colorado	CH Mortgage Company
DHI Mortgage Company GP, Inc.	Delaware	
DHI Mortgage Company LP, Inc.	Delaware	
DHI Mortgage Company, Ltd.	Texas	CH Mortgage I, Ltd., CH Mortgage Company I, Limited Partnership.; CH Mortgage Company I, Ltd., L.P.; DHI Mortgage Company Ltd., Limited; DHI Mortgage Company Ltd., Limited Partnership; DHI Mortgage, Limited Partnership
DHI Ranch, Ltd.	Texas	
DHI Title GP, Inc.	Texas	
DHI Title LP, Inc.	Delaware	
DHI Title of Alabama, Inc.	Alabama	DHI Title of Mississippi
DHI Title of Arizona, Inc.	Arizona	DHI Title Agency
DHI Title of Florida, Inc.	Florida	
DHI Title of Minnesota, Inc.	Delaware	DHI Title of Louisiana
DHI Title of Nevada, Inc.	Delaware	
DHI Title of Texas, Ltd.	Texas	
DHI Title of Washington, Inc.	Delaware	
DHI Verandah South Shores Communities, LLC	Delaware	D.R. Horton
DHIC, LLC	Delaware	
DHIC - Bridges, LLC	Delaware	DHI Communities
DHIC - Brittmore, LLC	Delaware	DHI Communities
DHIC - Desert Peak, LLC	Delaware	DHI Communities
DHIC - Freestone, LLC	Delaware	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
DHIC - Jacob’s Reserve, LLC	Delaware	Ascend at 95; DHI Communities
DHIC - Hammock Landing, LLC	Delaware	DHI Communities
DHIC - Heritage, LLC	Delaware	
DHIC - Lakeview, LLC	Delaware	DHI Communities
DHIC - Lipoma, LLC	Delaware	DHI Communities
DHIC - Minton Cove, LLC	Delaware	DHI Communities
DHIC - Naco, LLC	Delaware	
DHIC - Prairie Village, LLC	Delaware	DHI Communities
DHIC - South Creek, LLC	Delaware	DHI Communities
DHIC - Tamarron, LLC	Delaware	DHI Communities
DHIC - Waterleigh, LLC	Delaware	DHI Communities
DHIC - Waterleigh II, LLC	Delaware	DHI Communities
DHIC - Waterleigh III, LLC	Delaware	DHI Communities
DHIC - Westridge, LLC	Delaware	DHI Communities
D.R. Horton - CHAustin, LLC	Delaware	
D.R. Horton - Colorado, LLC	Delaware	
D.R. Horton - Crown, LLC	Delaware	Crown Communities
D.R. Horton - Emerald, Ltd.	Texas	
D.R. Horton - Georgia, LLC	Delaware	
D.R. Horton - Highland, LLC	Delaware	
D.R. Horton - Indiana, LLC	Delaware	Westport Homes
D.R. Horton - Iowa, LLC	Delaware	Classic Builders
D.R. Horton - MV, LLC	Delaware	
D.R. Horton - Permian, LLC	Delaware	
D.R. Horton - Regent, LLC	Delaware	
D.R. Horton - Schuler Homes, LLC	Delaware	Emerald Homes; Express Homes; Freedom Homes
D.R. Horton - Terramor, LLC	Delaware	Terramor Homes
D.R. Horton - Texas, Ltd.	Texas	D.R. Horton - Texas, Ltd. LP; Emerald Homes; Express Homes
D.R. Horton - WPH, LLC	Delaware	
D.R. Horton, Inc. - Birmingham	Alabama	Express Homes
D.R. Horton, Inc. - Chicago	Delaware	
D.R. Horton, Inc. - Denver	Delaware	Trimark Communities; D.R. Horton - Trimark Series

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
D.R. Horton, Inc. - Dietz-Crane	Delaware	
D.R. Horton, Inc. - Greensboro	Delaware	
D.R. Horton, Inc. - Gulf Coast	Delaware	
D.R. Horton, Inc. - Huntsville	Delaware	Emerald Homes; Express Homes
D.R. Horton, Inc. - Jacksonville	Delaware	Continental Homes; Continental Homes - Jacksonville; Emerald Homes; Express Homes; Freedom Homes
D.R. Horton, Inc. - Louisville	Delaware	
D.R. Horton, Inc. - Midwest	California	Cambridge Homes; Emerald Homes; Express Homes; Express Homes of Illinois; Freedom Homes; Freedom Homes of Illinois
D.R. Horton, Inc. - Minnesota	Delaware	Emerald Homes; Express Homes; Freedom Homes
D.R. Horton, Inc. - New Jersey	Delaware	D.R. Horton; D.R. Horton, Northeast Division; D.R. Horton, Mid-Atlantic Division; Emerald Homes; Emerald Homes of Pennsylvania; Express Homes; Express Homes of Pennsylvania; Freedom Homes; Freedom Homes of Pennsylvania
D.R. Horton, Inc. - NNV	Delaware	
D.R. Horton, Inc. - Portland	Delaware	D.R. Horton America's Builder; Express Homes of Oregon; Freedom Homes
D.R. Horton, Inc. - Torrey	Delaware	Torrey Homes
D.R. Horton, Inc. Foundation	Texas	
D.R. Horton BAY, Inc.	Delaware	D.R. Horton America's Builder; Emerald Homes; Express Homes
D.R. Horton CA2, Inc.	California	D.R. Horton America's Builder; Emerald Homes; Express Homes
D.R. Horton CA3, Inc.	Delaware	D.R. Horton America's Builder; Emerald Homes; Express Homes; Freedom Homes
D.R. Horton CA4, LLC	Delaware	
D.R. Horton Commercial, Inc.	Delaware	
D.R. Horton Cruces Construction, Inc.	Delaware	
D.R. Horton Insurance Agency, Inc.	Texas	
D.R. Horton LA North, Inc.	Delaware	
D.R. Horton Life Insurance Agency, Inc.	Texas	
D.R. Horton Los Angeles Holding Company, Inc.	California	D.R. Horton America's Builder; Emerald Homes; Express Homes; Freedom Homes; Seabridge Marina
D.R. Horton Management Company, Ltd.	Texas	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
D.R. Horton Materials, Inc.	Delaware	
D.R. Horton Realty, LLC	Delaware	
D.R. Horton Realty of Central Florida, LLC	Delaware	
D.R. Horton Realty of Georgia, Inc.	Delaware	
D.R. Horton Realty of Melbourne, LLC	Delaware	
D.R. Horton Realty of Northwest Florida, LLC	Delaware	
D.R. Horton Realty of Southeast Florida, LLC	Delaware	
D.R. Horton Realty of Southwest Florida, LLC	Delaware	
D.R. Horton Realty of Tampa, LLC	Delaware	
D.R. Horton Seabridge Marina, Inc.	Delaware	
D.R. Horton Serenity Construction, LLC	Delaware	
D.R. Horton Urban Renewal, LLC	New Jersey	
D.R. Horton VEN, Inc.	California	D.R. Horton America's Builder; Emerald Homes
DRH - ARK, LLC	Delaware	
DRH - ASG, LLC	Delaware	
DRH - HWY 114, LLC	Delaware	
DRH Cambridge Homes, LLC	Delaware	
DRH Capital Trust I	Delaware	
DRH Capital Trust II	Delaware	
DRH Capital Trust III	Delaware	
DRH Colorado Realty, Inc.	Delaware	
DRH Construction, Inc.	Delaware	
DRH Energy, Inc.	Colorado	
DRH Land Opportunities I, Inc.	Delaware	
DRH Land Opportunities II, Inc.	Delaware	
DRH FS Mortgage Reinsurance, Ltd.	Turks & Caicos	
DRH Mountain View, LLC	Delaware	
DRH Oil & Gas, Inc.	Delaware	
DRH Opportunities I, Inc.	Delaware	
DRH Properties, Inc.	Arizona	
DRH Realty Capital, LLC	Delaware	
DRH Realty Company, Inc.	California	CH Realty
DRH Realty of Iowa, LLC	Delaware	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
DRH Regrem VII, LP	Texas	
DRH Regrem XII, LP	Texas	
DRH Regrem XIV, Inc.	Delaware	
DRH Regrem XV, Inc.	Delaware	
DRH Regrem XVI, Inc.	Delaware	
DRH Regrem XVII, Inc.	Delaware	
DRH Regrem XVIII, Inc.	Delaware	
DRH Regrem XIX, Inc.	Delaware	
DRH Regrem XX, Inc.	Delaware	
DRH Regrem XXI, Inc.	Delaware	
DRH Regrem XXII, Inc.	Delaware	
DRH Regrem XXIII, Inc.	Delaware	
DRH Regrem XXIV, Inc.	Delaware	
DRH Regrem XXV, Inc.	Delaware	
DRH Regrem XLII, LLC	Delaware	
DRH Regrem XLIII, LLC	Delaware	
DRH Regrem XLIV, LLC	Delaware	
DRH Regrem XLV, LLC	Delaware	
DRH Regrem XLVI, LLC	Delaware	
DRH Regrem XLVII, LLC	Delaware	
DRH Regrem XLVIII, LLC	Delaware	
DRH Regrem XLIX, LLC	Delaware	
DRH Regrem L, LLC	Delaware	
DRH Regrem LI, LLC	Delaware	
DRH Regrem LII, LLC	Delaware	
DRH Regrem LIII, LLC	Delaware	
DRH Regrem LIV, LLC	Delaware	
DRH Regrem LV, LLC	Delaware	
DRH Southwest Construction, Inc.	California	
DRH Tucson Construction, Inc.	Delaware	
DRHI, Inc.	Delaware	Express Homes
Emerald Creek No. 4, L.P.	Texas	
Emerald Realty of Alabama, LLC	Delaware	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
Emerald Realty of Central Florida, LLC	Delaware	
Emerald Realty of North Florida, LLC	Delaware	
Emerald Realty of Northwest Florida, LLC	Delaware	
Emerald Realty of Southeast Florida, LLC	Delaware	
Emerald Realty of Southwest Florida, LLC	Delaware	
Emerald Realty of Tampa, LLC	Delaware	
Encore II, Inc.	Arizona	
Encore Venture Partners, L.P.	Delaware	
Encore Venture Partners II (California), L.P.	Delaware	
Encore Venture Partners II (Texas), L.P.	Delaware	
Express Homes Realty of Alabama, LLC	Delaware	
Express Realty of Central Florida, LLC	Delaware	
Express Realty of North Florida, LLC	Delaware	
Express Realty of Northwest Florida, LLC	Delaware	
Express Realty of Southeast Florida, LLC	Delaware	
Express Realty of Southwest Florida, LLC	Delaware	
Express Realty of Tampa, LLC	Delaware	
Forestar Group Inc.	Delaware	
Founders Oil & Gas, LLC	Delaware	
Founders Oil & Gas II, LLC	Delaware	
Founders Oil & Gas III, LLC	Delaware	
Founders Oil & Gas IV, LLC	Delaware	
Founders Oil & Gas Operating, LLC	Delaware	
Freedom Realty of Tampa, LLC	Delaware	
Georgetown Data, Inc.	Texas	
Germann & McQueen, L.L.C.	Arizona	
GP-Encore, Inc.	Arizona	
Grande Realty Incorporated	New Jersey	D.R. Horton Realty, Inc.
Grande Realty of Pennsylvania, LLC	Delaware	D.R. Horton Realty of Pennsylvania
Grand Title Agency, LLC	New Jersey	
Greywes, LLC	California	D.R. Horton America’s Builder
Hadian, LLC	Delaware	
Haskell Canyon Partners, L.P.	California	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
Haskell Canyon Partners II, L.P.	California	
HPH Homebuilders 2000 L.P.	California	
Iao Partners	Hawaii	
Kaomalo LLC	Hawaii	
KDB Homes, Inc.	Delaware	Continental Homes; Continental Welcome Home; D.R. Horton - Continental Series; D.R. Horton America’s Builder
Lexington Homes - DRH, LLC	Delaware	D.R. Horton America’s Builder; Emerald Homes; Express Homes; Lexington Homes
Martin Road Lake Forest, LLC	Colorado	
McQueen & Willis, LLC	Arizona	
Meadows I, Ltd.	Delaware	
Meadows II, Ltd.	Delaware	
Meadows VIII, Ltd.	Delaware	
Meadows IX, Inc.	New Jersey	
Meadows X, Inc.	New Jersey	
Melody Homes, Inc.	Delaware	D.R. Horton - Melody Series; D. Jensen Homes, Inc.; D.R. Horton America’s Builder; Emerald Homes; Express Homes; Freedom Homes
Metro Title, LLC	Virginia	
MRLF, LLC	Colorado	
Pacific Ridge - DRH, LLC	Delaware	D.R. Horton; Pacific Ridge; Pacific Ridge - DRH
Rielly Carlsbad LLC	Delaware	
Rielly Homes Madison, LLC	Delaware	
SFTEN, LLC	Delaware	
Schuler Homes of Arizona LLC	Delaware	D.R. Horton - Continental Series; D.R. Horton - Schuler Series
Schuler Homes of California, Inc.	California	
Schuler Homes of Oregon, Inc.	Oregon	
Schuler Homes of Washington, Inc.	Washington	Keys & Schuler Homes; Schuler Homes Northwest
SGS Communities at Grand Quay L.L.C	New Jersey	
SHA Construction LLC	Delaware	
SHLR of California, Inc.	California	
SHLR of Nevada, Inc.	Nevada	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
SHLR of Washington, Inc.	Washington	
SRHI LLC	Delaware	D.R. Horton America’s Builder
SSHI LLC	Delaware	D.R. Horton; D.R. Horton Custom Homes; DR Horton; DR Horton Custom Homes; Emerald Homes; Express Homes; Stafford Custom Homes; Stafford Homes
Summerlin Pkwy & Cimarron, LLC	Delaware	
Surprise Village North, LLC	Arizona	Arizona Tradition
Tierra Financial Advisors, LLC	Delaware	
Travis County Title Company	Texas	DHI Title Agency; DHI Title of Georgia; DHI Title of Central Texas; DHI Title of New Mexico; DHI Title of North Carolina
Treasure Assets, LLC	Delaware	
Venture Management of South Carolina, LLC	South Carolina	
Vertical Construction Corporation	Delaware	
Walker Drive, LLC	Delaware	
Western Pacific Brea Development, LLC	Delaware	
Western Pacific Housing, Inc.	Delaware	D.R. Horton America’s Builder; Emerald Homes; Express Homes; Freedom Homes
Western Pacific Housing-Antigua, LLC	Delaware	
Western Pacific Housing-Broadway, LLC	Delaware	
Western Pacific Housing-Canyon Park, LLC	Delaware	
Western Pacific Housing-Carrillo, LLC	Delaware	
Western Pacific Housing-Communications Hill, LLC	Delaware	
Western Pacific Housing-Copper Canyon, LLC	Delaware	
Western Pacific Housing - Coto Venture, L.P.	California	
Western Pacific Housing-Creekside, LLC	Delaware	
Western Pacific Housing-Lomas Verdes, LLC	Delaware	
Western Pacific Housing-Lyons Canyon Partners, LLC	Delaware	
Western Pacific Housing Management, Inc.	California	D.R. Horton America’s Builder; Emerald Homes; Express Homes
Western Pacific Housing-McGonigle Canyon, LLC	Delaware	
Western Pacific Housing - Mountaingate, L.P.	California	
Western Pacific Housing-Norco Estates, LLC	Delaware	
Western Pacific Housing-Pacific Park II, LLC	Delaware	
Western Pacific Housing-Park Avenue East, LLC	Delaware	

NAME	STATE OF INCORPORATION OR ORGANIZATION	DOING BUSINESS AS
Western Pacific Housing-Park Avenue West, LLC	Delaware	
Western Pacific Housing-Playa Vista, LLC	Delaware	
Western Pacific Housing-River Ridge, LLC	Delaware	
Western Pacific Housing - SDG, LLC	California	
Western Pacific Housing-Terra Bay Duets, LLC	Delaware	
Western Pacific Housing-Torrey Meadows, LLC	Delaware	
Western Pacific Housing-Torrey Village Center, LLC	Delaware	
Western Pacific Housing - Westlake II, L.P.	California	
Western Pacific Housing-Windemere, LLC	Delaware	
WPH-Camino Ruiz, LLC	Delaware	
WPH-Copper Canyon, LLC	Delaware	
WPH-Copper Canyon II, LLC	Delaware	
WPHD/Camarillo, LLC	California	
WPHD/Ventura, LLC	California	
10700 Pecan Park Austin, Inc.	Delaware	
11241 Slater Avenue NE, LLC	Delaware	
2 C Development Company LLC	California	
8800 Roswell Road Bldg. B, LLC	Delaware	
91st Avenue & Happy Valley, L.L.C.	Arizona	

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-226644) and the Registration Statements on Form S-8 (Nos. 333-72423, 333-69694, 333-90988, 333-89346, 333-133948, 333-208116) of D.R. Horton, Inc. of our report dated November 16, 2018 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Fort Worth, Texas
November 25, 2019

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-226644) of D.R. Horton, Inc.;

(2) Registration Statement (Form S-8 No. 333-72423) pertaining to the D.R. Horton, Inc. 1999 Employee Stock Purchase Plan;

(3) Registration Statement (Form S-8 No. 333-69694) pertaining to the D.R. Horton, Inc. 1991 Stock Incentive Plan;

(4) Registration Statement (Form S-8 No. 333-90988) pertaining to the D.R. Horton Deferred Compensation Plan;

(5) Registration Statement (Form S-8 No. 333-89346) pertaining to the D.R. Horton, Inc. 1991 Stock Incentive Plan;

(6) Registration Statement (Form S-8 No. 333-133948) pertaining to the D.R. Horton, Inc. 2006 Stock Incentive Plan; and

(7) Registration Statement (Form S-8 No. 333-208116) pertaining to the D.R. Horton, Inc. 2006 Stock Incentive Plan, as Amended & Restated.

of our reports dated November 25, 2019, with respect to the consolidated financial statements of D.R. Horton, Inc. and the effectiveness of internal control over financial reporting of D.R. Horton, Inc. included in this Annual Report (Form 10-K) of D.R. Horton, Inc. for the year ended September 30, 2019.

/s/ Ernst & Young LLP

Fort Worth, Texas
November 25, 2019

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, David V. Auld, certify that:

1. I have reviewed this Annual Report on Form 10-K of D.R. Horton, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 25, 2019

/s/ DAVID V. AULD

By: David V. Auld
President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302(a)
OF THE SARBANES-OXLEY ACT OF 2002**

I, Bill W. Wheat, certify that:

1. I have reviewed this Annual Report on Form 10-K of D.R. Horton, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 25, 2019

/s/ BILL W. WHEAT

By: Bill W. Wheat
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of D.R. Horton, Inc. (the "Company") on Form 10-K for the year ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David V. Auld, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 25, 2019

/s/ DAVID V. AULD

By: David V. Auld
President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of D.R. Horton, Inc. (the “Company”) on Form 10-K for the year ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Bill W. Wheat, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 25, 2019

/s/ BILL W. WHEAT

By: Bill W. Wheat
Executive Vice President and
Chief Financial Officer