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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended December 31, 2021

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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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 January 28, 2022, there were 354,358,165 shares of the registrant's common stock, par value $.01 per share, outstanding.

D.R. HORTON, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	December 31, 2021	September 30, 2021
	(In millions) (Unaudited)	
ASSETS		
Cash and cash equivalents	$ 2,442.1	$ 3,210.4
Restricted cash	22.5	26.8
Total cash, cash equivalents and restricted cash	2,464.6	3,237.2
Inventories:		
Construction in progress and finished homes	8,742.9	7,739.2
Residential land and lots — developed and under development	8,162.4	7,781.8
Land held for development	131.4	110.9
Land held for sale	24.8	25.4
Rental properties	1,141.0	821.8
Total inventory	18,202.5	16,479.1
Mortgage loans held for sale	1,833.3	2,027.3
Deferred income taxes, net of valuation allowance of $4.1 million and $4.2 million at December 31, 2021 and September 30, 2021, respectively	137.6	155.3
Property and equipment, net	410.4	392.9
Other assets	1,787.5	1,560.6
Goodwill	163.5	163.5
Total assets	$ 24,999.4	$ 24,015.9
LIABILITIES		
Accounts payable	$ 1,150.7	$ 1,177.0
Accrued expenses and other liabilities	2,580.0	2,210.3
Notes payable	5,255.3	5,412.4
Total liabilities	8,986.0	8,799.7
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, 398,162,095 shares issued and 354,277,601 shares outstanding at December 31, 2021 and 397,190,100 shares issued and 356,015,843 shares outstanding at September 30, 2021	4.0	4.0
Additional paid-in capital	3,282.7	3,274.8
Retained earnings	14,705.8	13,644.3
Treasury stock, 43,884,494 shares and 41,174,257 shares at December 31, 2021 and September 30, 2021, respectively, at cost	(2,314.8)	(2,036.6)
Stockholders' equity	15,677.7	14,886.5
Noncontrolling interests	335.7	329.7
Total equity	16,013.4	15,216.2
Total liabilities and equity	$ 24,999.4	$ 24,015.9

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31,	
	2021	2020
	(In millions, except per share data) (Unaudited)	
Revenues	$ 7,053.4	$ 5,933.4
Cost of sales	4,905.7	4,332.5
Selling, general and administrative expense	665.9	585.9
Gain on sale of assets	—	(14.0)
Other (income) expense	(15.5)	(5.3)
Income before income taxes	1,497.3	1,034.3
Income tax expense	351.5	239.1
Net income	1,145.8	795.2
Net income attributable to noncontrolling interests	4.2	3.4
Net income attributable to D.R. Horton, Inc.	$ 1,141.6	$ 791.8
Basic net income per common share attributable to D.R. Horton, Inc.	$ 3.21	$ 2.17
Weighted average number of common shares	356.1	364.4
Diluted net income per common share attributable to D.R. Horton, Inc.	$ 3.17	$ 2.14
Adjusted weighted average number of common shares	360.1	370.0

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) (Unaudited)					
Balances at September 30, 2021 (356,015,843 shares)	$ 4.0	$ 3,274.8	$ 13,644.3	$ (2,036.6)	$ 329.7	$ 15,216.2
Net income	—	—	1,141.6	—	4.2	1,145.8
Exercise of stock options (244,182 shares)	—	5.8	—	—	—	5.8
Stock issued under employee benefit plans (727,813 shares)	—	11.4	—	—	—	11.4
Cash paid for shares withheld for taxes	—	(33.0)	—	—	—	(33.0)
Stock-based compensation expense	—	23.7	—	—	—	23.7
Cash dividends declared ($0.225 per share)	—	—	(80.1)	—	—	(80.1)
Repurchases of common stock (2,710,237 shares)	—	—	—	(278.2)	—	(278.2)
Change of ownership interest in Forestar	—	—	—	—	1.8	1.8
Balances at December 31, 2021 (354,277,601 shares)	$ 4.0	$ 3,282.7	$ 14,705.8	$ (2,314.8)	$ 335.7	$ 16,013.4

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-controlling Interests	Total Equity
	(In millions, except common stock share data) (Unaudited)					
Balances at September 30, 2020 (363,999,982 shares)	$ 3.9	$ 3,240.9	$ 9,757.8	$ (1,162.6)	$ 281.5	$ 12,121.5
Net income	—	—	791.8	—	3.4	795.2
Exercise of stock options (42,950 shares)	—	0.9	—	—	—	0.9
Stock issued under employee benefit plans (604,947 shares)	0.1	—	—	—	—	0.1
Cash paid for shares withheld for taxes	—	(26.3)	—	—	—	(26.3)
Stock-based compensation expense	—	21.7	—	—	—	21.7
Cash dividends declared ($0.20 per share)	—	—	(72.9)	—	—	(72.9)
Repurchases of common stock (1,000,000 shares)	—	—	—	(69.8)	—	(69.8)
Distributions to noncontrolling interests	—	—	—	—	(0.1)	(0.1)
Change of ownership interest in Forestar	—	(0.3)	—	—	0.3	—
Balances at December 31, 2020 (363,647,879 shares)	$ 4.0	$ 3,236.9	$ 10,476.7	$ (1,232.4)	$ 285.1	$ 12,770.3

See accompanying notes to consolidated financial statements.

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

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 1,145.8	$ 795.2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	19.4	22.9
Stock-based compensation expense	23.7	21.7
Deferred income taxes	17.7	2.9
Inventory and land option charges	4.8	8.3
Gain on sale of assets	—	(14.0)
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes	(1,003.7)	(591.2)
Increase in residential land and lots – developed, under development, held for development and held for sale	(340.7)	(716.8)
Increase in rental properties	(319.5)	—
Increase in other assets	(221.8)	(125.8)
Decrease in mortgage loans held for sale	194.0	90.1
Increase in accounts payable, accrued expenses and other liabilities	306.2	254.6
Net cash used in operating activities	(174.1)	(252.1)
INVESTING ACTIVITIES		
Expenditures for property and equipment	(30.9)	(16.3)
Proceeds from sale of assets	—	31.8
Expenditures related to rental properties	—	(86.2)
Payments related to business acquisitions	—	(23.0)
Other investing activities	4.4	2.3
Net cash used in investing activities	(26.5)	(91.4)
FINANCING ACTIVITIES		
Proceeds from notes payable	—	494.1
Repayment of notes payable	(0.6)	(400.1)
Payments on mortgage repurchase facility, net	(234.6)	(163.5)
Proceeds from stock associated with certain employee benefit plans	17.2	0.9
Cash paid for shares withheld for taxes	(33.0)	(26.3)
Cash dividends paid	(80.1)	(72.9)
Repurchases of common stock	(303.8)	(53.8)
Net proceeds from issuance of Forestar common stock	0.1	—
Other financing activities	62.8	(0.1)
Net cash used in financing activities	(572.0)	(221.7)
Net decrease in cash, cash equivalents and restricted cash	(772.6)	(565.2)
Cash, cash equivalents and restricted cash at beginning of period	3,237.2	3,040.1
Cash, cash equivalents and restricted cash at end of period	$ 2,464.6	$ 2,474.9
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:		
Notes payable issued for inventory	$ 64.3	$ 12.5
Stock issued under employee incentive plans	$ 66.2	$ 44.7
Repurchase of common stock not settled	$ —	$ 16.0

See accompanying notes to consolidated financial statements.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
December 31, 2021

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its 100% owned, majority-owned and controlled subsidiaries, which are collectively referred to as the Company, unless the context otherwise requires. Noncontrolling interests represent the proportionate equity interests in consolidated entities that are not 100% owned by the Company. As of December 31, 2021, the Company owns a 63% controlling interest in Forestar Group Inc. (Forestar) and therefore is required to consolidate 100% of Forestar within its consolidated financial statements, and the 37% interest the Company does not own is accounted for as noncontrolling interests. All intercompany accounts, transactions and balances have been eliminated in consolidation.

The financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these financial statements reflect all adjustments considered necessary to fairly state the results for the interim periods shown, including normal recurring accruals and other items. These financial statements, including the consolidated balance sheet as of September 30, 2021, which was derived from audited financial statements, do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2021.

Reclassifications

During the fourth quarter of fiscal 2021, the Company changed its internal organization and reporting of its operating segments and reportable segments to combine its single-family rental operations and its multi-family rental operations into a new reporting segment and realigned the aggregation of its homebuilding operating segments into six new reportable segments to better allocate its homebuilding operating segments across geographic reporting regions. The prior year presentation of the Company's segment information in Note B and in Management's Discussion and Analysis of Financial Condition and Results of Operations has been conformed to the current presentation for all periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three months ended December 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2022 or subsequent periods.

Pending Accounting Standards

In March 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-04, "Reference Rate Reform," which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform - Scope," which clarified the scope and application of the original guidance. The Company will adopt these standards when LIBOR is discontinued and does not expect them to have a material impact on its consolidated financial statements or related disclosures.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this quarterly report and with our annual report on Form 10-K for the fiscal year ended September 30, 2021. Some of the information contained in this discussion and analysis constitutes forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those described in the "Forward-Looking Statements" section following this discussion.

BUSINESS

D.R. Horton, Inc. is the largest homebuilding company in the United States as measured by number of homes closed. We construct and sell homes through our operating divisions in 102 markets across 32 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 business operations consist of homebuilding, a majority-owned residential lot development company, financial services, rental and other activities. Our homebuilding operations are our core business and primarily include the construction and sale of single-family homes with sales prices generally ranging from $150,000 to more than $1,000,000, with an average closing price of $361,800 during the three months ended December 31, 2021. Approximately 91% of our home sales revenue in the three months ended December 31, 2021 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. Our product offerings include a broad range of homes for entry-level, move-up, active adult and luxury buyers. Our entry-level homes at affordable price points have experienced very strong demand from homebuyers, as this segment of the new home market remains under-served, with low inventory levels relative to demand.

At December 31, 2021, we owned 63% of the outstanding shares of Forestar Group Inc. (Forestar), a publicly traded residential lot development company listed on the New York Stock Exchange under the ticker symbol "FOR." Forestar is a key part of our homebuilding strategy to enhance operational and capital efficiency and returns by expanding relationships with land developers and increasing the portion of our land and lot position controlled through land purchase contracts. Forestar has made significant investments in land acquisition and development over the last few years to expand its business across our homebuilding operating footprint.

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 sells substantially all of 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 after origination. Our 100% owned subsidiary title companies serve as title insurance agents by providing title insurance policies, examination, underwriting and closing services, primarily related to our homebuilding transactions.

Our rental segment consists of multi-family and single-family rental operations. The multi-family rental operations develop, construct, lease and sell residential rental properties. The single-family rental operations primarily construct and lease single-family homes and then market the community for a bulk sale of rental homes.

In addition to our homebuilding, Forestar, financial services and rental operations, we engage in other business activities through our subsidiaries. We conduct insurance-related operations, own non-residential real estate including ranch land and improvements and own and operate energy-related assets. The results of these operations are immaterial for separate reporting and therefore are grouped together and presented as other.

RESULTS OF OPERATIONS – FINANCIAL SERVICES

The following tables and related discussion set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three months ended December 31, 2021 and 2020.

	Three Months Ended December 31,		
	2021	2020	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	12,089	12,722	(5)%
Number of homes closed by D.R. Horton	18,396	18,739	(2)%
Percentage of D.R. Horton homes financed by DHI Mortgage	66 %	68 %	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	12,111	12,738	(5)%
Total number of loans originated or brokered by DHI Mortgage	12,414	13,073	(5)%
Captive business percentage	98 %	97 %	
Loans sold by DHI Mortgage to third parties	13,071	13,458	(3)%

	Three Months Ended December 31,		
	2021	2020	% Change
		(In millions)	
Loan origination and other fees	$ 9.5	$ 11.1	(14)%
Gains on sale of mortgage loans and mortgage servicing rights	134.1	138.9	(3)%
Servicing income	0.5	2.4	(79)%
Total mortgage operations revenues	144.1	152.4	(5)%
Title policy premiums	40.2	34.8	16 %
Total revenues	184.3	187.2	(2)%
General and administrative expense	125.3	109.5	14 %
Other (income) expense	(8.1)	(6.4)	27 %
Financial services pre-tax income	$ 67.1	$ 84.1	(20)%

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues	
	Three Months Ended December 31,	
	2021	2020
General and administrative expense	68.0 %	58.5 %
Other (income) expense	(4.4)%	(3.4)%
Financial services pre-tax income	36.4 %	44.9 %

Mortgage Loan Activity

The volume of loans originated by our mortgage operations is directly related to the number of homes closed by our homebuilding operations. In the three months ended December 31, 2021, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers decreased 5% from the prior year period due to a decrease in the number of homes closed by our homebuilding operations and in the percentage of homes closed for which DHI Mortgage handled our homebuyers' financing.

Homes closed by our homebuilding operations constituted 98% and 97% of DHI Mortgage loan originations in the three months ended December 31, 2021 and 2020, respectively. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold decreased 3% in the three months ended December 31, 2021 compared to the prior year period. Virtually all of the mortgage loans held for sale on December 31, 2021 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). During the three months ended December 31, 2021, approximately 61% of our mortgage loans were sold directly to Fannie Mae, Freddie Mac or into securities backed by Ginnie Mae, and 30% were sold to one other major financial entity. Changes in market conditions could result in a greater concentration of our mortgage sales in future periods to fewer financial entities and directly to Fannie Mae, Freddie Mac or Ginnie Mae, and we may need to make other adjustments to our mortgage operations.

Financial Services Revenues and Expenses

Revenues from our mortgage operations decreased 5% to $144.1 million in the three months ended December 31, 2021 from $152.4 million in the prior year period, primarily due to the decrease in mortgage loan originations. Revenues from our title operations increased 16% to $40.2 million in the three months ended December 31, 2021 from $34.8 million in the prior year period, primarily due to an increase in the average premium collected on closing transactions.

General and administrative (G&A) expense related to our financial services operations increased 14% to $125.3 million in the three months ended December 31, 2021 from $109.5 million in the prior year period. As a percentage of financial services revenues, G&A expense was 68.0% in the three months ended December 31, 2021 compared to 58.5% in the prior year period. The increase was primarily due to an increase in the number of employees to support increased volume in the fourth quarter of fiscal 2021 and expected increased volume for the remainder of fiscal 2022. Additionally, fluctuations in financial services G&A expense as a percentage of revenues can occur because some components of revenue 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. Our financial services operations employed 2,942 and 2,403 people at December 31, 2021 and 2020, respectively.

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

As a result of the revenue decrease from a lower volume of mortgage originations and an increase in employee related G&A expenses, pre-tax income from our financial services operations decreased 20% to $67.1 million in the three months ended December 31, 2021 from $84.1 million in the prior year period.

RESULTS OF OPERATIONS - RENTAL

Our rental segment consists of multi-family and single-family rental operations. The multi-family rental operations develop, construct, lease and sell residential rental properties. We primarily focus on constructing garden style multi-family rental communities, which typically accommodate 200 to 400 dwelling units, in high growth suburban markets. The single-family rental operations primarily construct and lease single-family homes and then market the community for a bulk sale of rental homes. Multi-family and single-family rental property sales are recognized as revenues, and rental income is recognized as other income. Results of operations for the rental segment for the three months ended December 31, 2021 and 2020 were as follows:

	Three Months Ended December 31,	
	2021	2020
	(In millions)	
Revenues		
Single-family rental	$ 80.3	$ 31.8
Multi-family rental	76.2	—
Total revenues	156.5	31.8
Cost of sales		
Single-family rental	36.4	17.8
Multi-family rental	36.4	—
Total cost of sales	72.8	17.8
Selling, general and administrative expense	18.5	9.3
Other (income) expense	(4.9)	(3.9)
Income before income taxes	$ 70.1	$ 8.6

During the three months ended December 31, 2021, we sold one multi-family rental property for $76.2 million (350 total units). There were no sales of multi-family rental properties during the prior year quarter. During the three months ended December 31, 2021, we sold two single-family rental properties (225 total homes) for $80.3 million compared to one property sold (124 total homes) for $31.8 million in the prior year quarter.

At December 31, 2021, our rental property inventory of $1.2 billion included $519.2 million of inventory related to our multi-family rental operations and $641.9 million of inventory related to our single-family rental operations. At December 31, 2021, we had 16 multi-family rental properties, consisting of 4,870 units, under active construction and one community, consisting of 130 units, that was substantially complete and in the lease-up phase. At December 31, 2021, our single-family rental properties (74 total communities) included 4,800 homes and finished lots, of which 1,100 homes were completed, and 3,400 expected lots that were unimproved or under development.

At September 30, 2021, our rental property inventory of $840.9 million included $425.1 million of assets related to our multi-family rental operations and $415.8 million of assets related to our single-family rental operations. At September 30, 2021, we had 15 multi-family rental properties, consisting of 4,340 units, under active construction and one community, consisting of 350 units, that was substantially complete and in the lease-up phase. At September 30, 2021, our single-family rental properties (55 total communities) included 2,650 homes and finished lots, of which 865 homes were completed, and 3,200 expected lots that were unimproved or under development.

RESULTS OF OPERATIONS - OTHER BUSINESSES

In addition to our homebuilding, Forestar, financial services and rental operations, we engage in other business activities through our subsidiaries. We conduct insurance-related operations, own non-residential real estate including ranch land and improvements and own and operate energy-related assets. The pre-tax income of all of our subsidiaries engaged in other business activities was $10.7 million in the three months ended December 31, 2021 compared to $6.2 million in the prior year period.

RESULTS OF OPERATIONS - CONSOLIDATED

Income before Income Taxes

Pre-tax income for the three months ended December 31, 2021 was $1.5 billion compared to $1.0 billion in the prior year period. The increase was primarily due to an increase in pre-tax income generated by our homebuilding operations as a result of higher revenues from increased average selling prices and an increase in home sales gross margin.

Income Taxes

Our income tax expense for the three months ended December 31, 2021 and 2020 was $351.5 million and $239.1 million, respectively. Our effective tax rate was 23.5% for the three months ended December 31, 2021 compared to 23.1% in the prior year period. The effective tax rates for both periods include an expense for state income taxes and tax benefits related to stock-based compensation and the federal energy efficient homes tax credit. The federal energy efficient homes tax credit expires for homes closed after December 31, 2021.

Our deferred tax assets, net of deferred tax liabilities, were $141.7 million at December 31, 2021 compared to $159.5 million at September 30, 2021. We have a valuation allowance of $4.1 million and $4.2 million at December 31, 2021 and September 30, 2021, respectively, related to state deferred tax assets for net operating loss (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.

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.

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 economic and market conditions.

We have continued to increase our investments in homebuilding inventories and single-family and multi-family rental properties to expand our operations and grow our revenues and profitability. We are also returning capital to our shareholders through dividend payments and repurchases of our common stock. We are maintaining significant homebuilding cash balances to support the increased scale and level of activity in our business and to provide flexibility to adjust to changing conditions and opportunities.

As of December 31, 2021, we had outstanding notes payable with varying maturities totaling an aggregate principal amount of $5.3 billion, with $1.8 billion payable within 12 months, including $1.3 billion outstanding under the mortgage repurchase facility. At December 31, 2021, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 25.1% compared to 26.7% at September 30, 2021 and 25.3% at December 31, 2020. Our net debt to total capital (notes payable net of cash divided by stockholders' equity plus notes payable net of cash) was 15.2% at December 31, 2021 compared to 12.9% at September 30, 2021 and 12.4% and December 31, 2020.

At December 31, 2021, our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 17.3% compared to 17.8% at September 30, 2021 and 17.3% at December 31, 2020. Our net homebuilding debt to total capital (homebuilding notes payable net of cash divided by stockholders' equity plus homebuilding notes payable net of cash) was 6.9% at December 31, 2021 compared to 1.7% at September 30, 2021 and 3.9% at December 31, 2020. Over the long term, we intend to maintain our ratio of homebuilding debt to total capital below 30%, and we expect it to remain significantly lower than 30% throughout fiscal 2022. 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.

At December 31, 2021, we had outstanding letters of credit of $253.5 million and surety bonds of $2.4 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.

We regularly assess our projected capital requirements to fund growth in our business, repay debt obligations, pay dividends, repurchase our common stock and maintain sufficient cash levels to support our other operational needs, and we regularly evaluate our opportunities to raise additional capital. D.R. Horton has an automatically effective universal shelf registration statement filed with the Securities and Exchange Commission (SEC) in July 2021, 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 October 2021, registering $750 million of equity securities, of which $300 million was reserved for sales under its at-the-market equity offering program that became effective in November 2021. At December 31, 2021, $748.2 million remained available for issuance under Forestar's shelf registration statement, of which $298.2 million was reserved for sales under its at-the-market equity offering program. 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 or obtain additional bank financing will provide sufficient liquidity to fund our near-term working capital needs and debt obligations.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At December 31, 2021, cash and cash equivalents of our homebuilding segment totaled $2.1 billion.

Bank Credit Facility — We have a $2.19 billion senior unsecured homebuilding revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $3.0 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to 100% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is April 20, 2026. At December 31, 2021, there were no borrowings outstanding and $187.2 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $2.0 billion.

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 December 31, 2021, we were in compliance with all of the covenants, limitations and restrictions of our homebuilding revolving credit facility.

Public Unsecured Debt — We have $3.15 billion principal amount of homebuilding senior notes outstanding as of December 31, 2021 that mature from September 2022 through October 2027. The indentures governing our senior notes impose restrictions on the creation of secured debt and liens. At December 31, 2021, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Debt and Stock Repurchase Authorizations — In July 2019, our Board of Directors authorized the repurchase of up to $500 million of debt securities. In April 2021, our Board of Directors authorized the repurchase of up to $1.0 billion of our common stock, replacing the prior authorization. During the three months ended December 31, 2021, we repurchased 2.7 million shares of our common stock for $278.2 million. At December 31, 2021, the full amount of the debt repurchase authorization was remaining, and $268.0 million of the stock repurchase authorization was remaining. These authorizations have no expiration date.

Capital Resources - Forestar

The achievement of Forestar’s 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. At December 31, 2021, Forestar’s ratio of debt to total capital (notes payable divided by stockholders’ equity plus notes payable) was 40.0% compared to 41.0% at September 30, 2021 and 42.3% at December 31, 2020. Forestar’s ratio of net debt to total capital (notes payable net of cash divided by stockholders’ equity plus notes payable net of cash) was 33.9% compared to 35.2% at September 30, 2021 and 31.8% at December 31, 2020.

Cash and Cash Equivalents — At December 31, 2021, Forestar had cash and cash equivalents of $162.5 million.

Bank Credit Facility — Forestar has a $410 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $600 million, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to the greater of $100 million and 50% of the revolving credit commitment. Borrowings under the revolving credit facility are subject to a borrowing base calculation based on Forestar’s book value of its real estate assets and unrestricted cash. Letters of credit issued under the facility reduce the available borrowing capacity. The maturity date of the facility is April 16, 2025. At December 31, 2021, there were no borrowings outstanding and $66.3 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $343.7 million.

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.

Unsecured Debt — As of December 31, 2021, Forestar had $700 million principal amount of senior notes issued pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended, which represent unsecured obligations of Forestar. These notes include $400 million principal amount of 3.85% senior notes that mature in May 2026 and $300 million principal amount of 5.0% senior notes that mature in March 2028.

Forestar's revolving credit facility and its senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. At December 31, 2021, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and senior note obligations.

Debt Repurchase Authorization — In April 2020, Forestar's Board of Directors authorized the repurchase of up to $30 million of Forestar's debt securities. All of the $30 million authorization was remaining at December 31, 2021, and the authorization has no expiration date.

Issuance of Common Stock — During the three months ended December 31, 2021, Forestar issued 84,547 shares of common stock under its at-the-market equity offering program for proceeds of $1.7 million, net of commissions and other issuance costs totaling $0.1 million. At December 31, 2021, $748.2 million remained available for issuance under Forestar's shelf registration statement, of which $298.2 million was reserved for sales under its at-the-market equity offering program.

Capital Resources - Financial Services

Cash and Cash Equivalents — At December 31, 2021, cash and cash equivalents of our financial services operations totaled $88.2 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 $1.4 billion; however, the capacity automatically increases during certain higher volume periods and can be further increased through additional commitments. The total capacity of the facility at December 31, 2021 was $1.633 billion, and its maturity date is February 18, 2022. DHI Mortgage expects to renew and extend the maturity date of the facility.

As of December 31, 2021, $1.7 billion of mortgage loans held for sale with a collateral value of $1.7 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $436.5 million, DHI Mortgage had an obligation of $1.3 billion outstanding under the mortgage repurchase facility at December 31, 2021 at a 2.1% 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 December 31, 2021, 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.

Capital Resources - Rental

Cash and Cash Equivalents — At December 31, 2021, cash and cash equivalents of our rental operations segment totaled $44.2 million. During fiscal 2021 and through the first quarter of fiscal 2022, we substantially increased the investment in our rental operations. The inventory in our rental segment totaled $1.2 billion at December 31, 2021 compared to $840.9 million at September 30, 2021 and $385.6 million at December 31, 2020. To date, we have funded our rental operations with capital from our homebuilding operations. Our rental operations had no debt outstanding at December 31, 2021; however, we are currently exploring bank debt financing to fund a portion of the expected future growth. Over the longer term, as our rental operations continue to grow, we plan to evaluate additional capital sources to fund future growth opportunities.

Operating Cash Flow Activities

In the three months ended December 31, 2021, net cash used in operating activities was $174.1 million compared to $252.1 million in the prior year period. Cash used in operating activities in the current year period primarily consisted of $255.9 million and $114.7 million of cash used in our rental and homebuilding segments, respectively, partially offset by $247.5 million and $5.8 million of cash provided by our financial services and Forestar segments. The most significant source of cash provided by operating activities in both periods was net income.

Cash used to increase construction in progress and finished home inventory was $1.0 billion in the current year period compared to $591.2 million in the prior year period. In both periods, the expenditures were made to increase our homes in inventory in response to the strength of homebuyer demand. Cash used to increase residential land and lots was $340.7 million in the current year period compared to $716.8 million in the prior year period. Of these amounts, $55.5 million and $218.5 million, respectively, related to Forestar.

During the three months ended December 31, 2021, we increased our single-family and multi-family rental properties by $319.5 million, which is reflected as cash used in operating activities. Prior to the change in presentation of rental operations, as discussed in Note A to the accompanying financial statements, cash activities related to rental properties were presented as investing activities. During the three month period ended December 31, 2020, expenditures related to rental properties were $86.2 million and are reflected as cash used in investing activities.

Investing Cash Flow Activities

In the three months ended December 31, 2021, net cash used in investing activities was $26.5 million compared to $91.4 million in the prior year period. In the current year period, uses of cash included purchases of property and equipment totaling $30.9 million. In the prior year period, uses of cash included expenditures related to our rental operations totaling $86.2 million, the acquisition of the homebuilding operations of Braselton Homes for $23.0 million and purchases of property and equipment totaling $16.3 million, partially offset by proceeds from the sale of a single-family rental community for $31.8 million.

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 our operations may be funded with the issuance of senior unsecured debt securities or equity securities through the capital markets.

During the three months ended December 31, 2021, net cash used in financing activities was $572.0 million, consisting primarily of cash used to repurchase shares of our common stock of $303.8 million, net payments of $234.6 million on our mortgage repurchase facility and payment of cash dividends totaling $80.1 million.

During the three months ended December 31, 2020, net cash used in financing activities was $221.7 million, consisting primarily of repayment of $400 million principal amount of our 2.55% homebuilding senior notes at maturity, net payments of $163.5 million on our mortgage repurchase facility, payment of cash dividends totaling $72.9 million and cash used to repurchase shares of our common stock of $53.8 million. These uses of cash were partially offset by note proceeds from our issuance of $500 million principal amount of 1.4% homebuilding senior notes.

During the three months ended December 31, 2021, our Board of Directors approved a quarterly cash dividend of $0.225 per common share, which was paid on December 15, 2021 to stockholders of record on December 6, 2021. In January 2022, our Board of Directors approved a quarterly cash dividend of $0.225 per common share, payable on February 25, 2022 to stockholders of record on February 17, 2022. Cash dividends of $0.20 per common share were approved and paid in each quarter of fiscal 2021. 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.

SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

As of December 31, 2021, D.R. Horton, Inc. had $3.15 billion principal amount of homebuilding senior notes outstanding due through October 2027 and no amounts outstanding on its homebuilding revolving credit facility.

All of the 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. (Guarantors or Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is 100% owned, directly or indirectly, by D.R. Horton, Inc. Our subsidiaries associated with the Forestar lot development operations, financial services operations, multi-family residential construction and certain other subsidiaries do not guarantee the homebuilding senior notes or the homebuilding revolving credit facility (collectively, Non-Guarantor Subsidiaries). The guarantees are senior unsecured obligations of each Guarantor and rank equal with all existing and future senior debt of such Guarantor and senior to all subordinated debt of such Guarantor. The guarantees are effectively subordinated to any secured debt of such Guarantor to the extent of the value of the assets securing such debt. The guarantees will be structurally subordinated to indebtedness and other liabilities of Non-Guarantor Subsidiaries of the Guarantors.

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 ours; (2) the sale or other disposition of all or substantially all of its assets (other than to us or another Guarantor); (3) its merger or consolidation with an entity other than us or another Guarantor; or (4) its ceasing to guarantee any of our publicly traded debt securities and ceasing to guarantee any of our obligations under our homebuilding revolving credit facility.

The enforceability of the obligations of the Guarantor Subsidiaries under their guarantees may be subject to review under applicable federal or state laws relating to fraudulent conveyance or transfer, voidable preference and similar laws affecting the rights of creditors generally. In certain circumstances, a court could void the guarantees, subordinate amounts owing under the guarantees or order other relief detrimental to the holders of our guaranteed obligations. The indentures governing our homebuilding senior notes contain a “savings clause,” which limits the liability of each Guarantor on its guarantee to the maximum amount that such Guarantor can incur without risk that its guarantee will be subject to avoidance as a fraudulent transfer. This provision may not be effective to protect such guarantees from fraudulent transfer challenges or, if it does, it may reduce such Guarantor’s obligation such that the remaining amount due and collectible under the guarantees would not suffice, if necessary, to pay the notes in full when due.

The following tables present summarized financial information for D.R. Horton, Inc. and the Guarantor Subsidiaries on a combined basis after intercompany transactions and balances have been eliminated among D.R. Horton, Inc. and the Guarantor Subsidiaries, as well as their investment in, and equity in earnings from the Non-Guarantor Subsidiaries.

D.R. Horton, Inc. and Guarantor Subsidiaries

Summarized Balance Sheet Data	**December 31, 2021**	**September 30, 2021**
	(In millions)	
Assets		
Cash	$ 2,073.2	$ 2,893.3
Inventories	15,683.3	14,203.2
Amount due from Non-Guarantor Subsidiaries	704.4	592.4
Total assets	20,710.2	19,724.9
Liabilities & Stockholders' Equity		
Notes payable	$ 3,226.7	$ 3,214.0
Total liabilities	6,493.5	6,157.4
Stockholders' equity	14,216.7	13,567.5

Summarized Statement of Operations Data	**Three Months Ended December 31, 2021**	**Year Ended September 30, 2021**
	(In millions)	
Revenues	$ 6,676.1	$ 26,566.8
Cost of sales	4,853.3	19,824.1
Selling, general and administrative expense	483.5	1,889.4
Income before income taxes	1,337.1	4,825.6
Net income	1,023.8	3,786.5

CRITICAL ACCOUNTING POLICIES

As disclosed in our annual report on Form 10-K for the fiscal year ended September 30, 2021, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, warranty and legal claims and insurance. Since September 30, 2021, there have been no significant changes to those critical accounting policies.

As disclosed in our critical accounting policies in our Form 10-K for the fiscal year ended September 30, 2021, our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. At December 31, 2021 and September 30, 2021, we had reserves for approximately 410 and 380 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the three months ended December 31, 2021, we established reserves for approximately 70 new construction defect claims and resolved 40 construction defect claims for a total cost of $4.3 million. At December 31, 2020 and September 30, 2020, we had reserves for approximately 270 and 260 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the three months ended December 31, 2020, we established reserves for approximately 30 new construction defect claims and resolved 20 construction defect claims for a total cost of $2.3 million.

SEASONALITY

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and pre-tax income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in the working capital requirements for our homebuilding, lot development, financial services and rental 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.

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, lot development and rental housing industries and changes in economic, real estate or 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, lot and rental inventory;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the impact of an inflationary, deflationary or higher interest rate environment;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- the effects of public health issues such as a major epidemic or pandemic, including the impact of COVID-19 on the economy and our businesses;
- the effects of weather conditions and natural disasters on our business and financial results;
- home warranty and construction defect claims;
- the effects of health and safety incidents;
- 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;
- competitive conditions within the industries in which we operate;
- our ability to manage and service our debt and comply with related debt covenants, restrictions and limitations;
- the effects of negative publicity;
- the effects of the loss of key personnel;
- actions by activist stockholders; and
- information technology failures, data security breaches and our ability to satisfy privacy and data protection laws and regulations.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in our annual report on Form 10-K for the fiscal year ended September 30, 2021, including the section entitled "Risk Factors," which is filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities (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 three months ended December 31, 2021 and 2020 was not significant, is recognized in current earnings. At December 31, 2021, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of $2.8 billion. Uncommitted IRLCs totaled a notional amount of approximately $1.7 billion and uncommitted mortgage loans held for sale totaled a notional amount of approximately $1.1 billion at December 31, 2021.

We also use hedging instruments as part of a program to offer below market interest rate financing to our homebuyers. At December 31, 2021 and September 30, 2021, we had MBS totaling $1.2 billion and $834.6 million, respectively, that did not yet have IRLCs or closed loans created or assigned and recorded an asset of $1.3 million and $1.1 million, respectively, 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 December 31, 2021. 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 December 31, 2021.

	Nine Months Ending September 30, 2022	Fiscal Year Ending September 30,							Fair Value at December 31, 2021
		2023	2024	2025	2026	2027	Thereafter	Total	
	($ in millions)								
Debt:									
Fixed rate	$505.8	$700.3	$13.2	$500.4	$900.4	$600.4	$800.0	$4,020.5	$4,070.7
Average interest rate	4.1%	5.4%	3.9%	2.7%	3.4%	1.5%	3.0%	3.4%	
Variable rate	$1,260.0	$—	$—	$—	$—	$—	$—	$1,260.0	$1,260.0
Average interest rate	2.1%	—%	—%	—%	—%	—%	—%	2.1%	

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of December 31, 2021 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

With respect to administrative or judicial proceedings involving the environment, we have determined that we will disclose any such proceeding if we reasonably believe such proceeding will result in monetary sanctions, exclusive of interest and costs, at or in excess of $1 million.

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

Issuer Purchases of Equity Securities

We may repurchase shares of our common stock from time to time pursuant to our common stock repurchase authorization. The following table sets forth information concerning our common stock repurchases during the three months ended December 31, 2021. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934.

	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)
October 1, 2021 - October 31, 2021	—	$ —	—	$ 546.2
November 1, 2021 - November 30, 2021	563,568	97.85	563,568	491.1
December 1, 2021 - December 31, 2021	2,146,669	103.91	2,146,669	268.0
Total	2,710,237	$ 102.65	2,710,237	$ 268.0

(1) Effective April 20, 2021, our Board of Directors authorized the repurchase of $1.0 billion of our common stock, replacing the prior authorization. The authorization has no expiration date. During the three months ended December 31, 2021, we repurchased 2.7 million shares of our common stock for $278.2 million. At December 31, 2021, there was $268.0 million remaining on the repurchase authorization.

ITEM 6. EXHIBITS

(a) Exhibits.

2.1		Agreement and Plan of Merger dated June 29, 2017 by and among D.R. Horton, Inc., Force Merger Sub, Inc. and Forestar Group Inc. (incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K 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 of the Company (incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 8, 2017).
10.1	†	Summary Compensation Term Sheet - Paul J. Romanowski (incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 1, 2021).
22.1		List of Guarantor Subsidiaries (incorporated by reference from Exhibit 22.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 2021, filed with the SEC on November 18, 2021).
31.1	*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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	**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	**	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101).

*	Filed or furnished herewith.
**	Submitted electronically herewith.
†	Management contract or compensatory plan arrangement.

SIGNATURES

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

	D.R. HORTON, INC.
Date: February 2, 2022	By: /s/ Bill W. Wheat
	Bill W. Wheat Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date: February 2, 2022	By: /s/ Aron M. Odom
	Aron M. Odom Vice President and Controller (Principal Accounting Officer)