

**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 March 31, 2022**

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®**

*America's Builder*

**D.R. Horton, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**75-2386963**

(I.R.S. Employer Identification No.)

**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:**

<b>Title of Each Class</b>	<b>Trading Symbol</b>	<b>Name of Each Exchange on Which Registered</b>
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 April 22, 2022, there were 352,030,251 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**

	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	<b>(In millions) (Unaudited)</b>	
<b>ASSETS</b>		
Cash and cash equivalents .....	\$ 1,663.9	\$ 3,210.4
Restricted cash .....	25.2	26.8
Total cash, cash equivalents and restricted cash .....	1,689.1	3,237.2
Inventories:		
Construction in progress and finished homes .....	9,876.6	7,739.2
Residential land and lots — developed and under development .....	8,346.1	7,781.8
Land held for development .....	124.8	110.9
Land held for sale .....	21.6	25.4
Rental properties .....	1,477.4	821.8
Total inventory .....	19,846.5	16,479.1
Mortgage loans held for sale .....	2,242.8	2,027.3
Deferred income taxes, net of valuation allowance of \$4.0 million and \$4.2 million at March 31, 2022 and September 30, 2021, respectively .....	131.7	155.3
Property and equipment, net .....	434.0	392.9
Other assets .....	2,177.7	1,560.6
Goodwill .....	163.5	163.5
Total assets .....	<u>\$ 26,685.3</u>	<u>\$ 24,015.9</u>
<b>LIABILITIES</b>		
Accounts payable .....	\$ 1,378.6	\$ 1,177.0
Accrued expenses and other liabilities .....	2,618.9	2,210.3
Notes payable .....	5,570.0	5,412.4
Total liabilities .....	<u>9,567.5</u>	<u>8,799.7</u>
Commitments and contingencies (Note K)		
<b>EQUITY</b>		
Preferred stock, \$.10 par value, 30,000,000 shares authorized, no shares issued .....	—	—
Common stock, \$.01 par value, 1,000,000,000 shares authorized, 398,939,929 shares issued and 351,955,435 shares outstanding at March 31, 2022 and 397,190,100 shares issued and 356,015,843 shares outstanding at September 30, 2021 .....	4.0	4.0
Additional paid-in capital .....	3,288.7	3,274.8
Retained earnings .....	16,063.0	13,644.3
Treasury stock, 46,984,494 shares and 41,174,257 shares at March 31, 2022 and September 30, 2021, respectively, at cost .....	(2,580.8)	(2,036.6)
Stockholders' equity .....	16,774.9	14,886.5
Noncontrolling interests .....	342.9	329.7
Total equity .....	<u>17,117.8</u>	<u>15,216.2</u>
Total liabilities and equity .....	<u>\$ 26,685.3</u>	<u>\$ 24,015.9</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions, except per share data) (Unaudited)			
Revenues .....	\$ 7,999.0	\$ 6,446.9	\$ 15,052.4	\$ 12,380.3
Cost of sales .....	5,429.9	4,650.9	10,335.6	8,983.5
Selling, general and administrative expense .....	695.1	621.5	1,361.0	1,207.4
Gain on sale of assets .....	—	—	—	(14.0)
Other (income) expense .....	(9.3)	(5.4)	(24.8)	(10.8)
Income before income taxes .....	1,883.3	1,179.9	3,380.6	2,214.2
Income tax expense .....	441.0	246.0	792.5	485.1
Net income .....	1,442.3	933.9	2,588.1	1,729.1
Net income attributable to noncontrolling interests .....	6.0	4.4	10.2	7.8
Net income attributable to D.R. Horton, Inc. ....	<u>\$ 1,436.3</u>	<u>\$ 929.5</u>	<u>\$ 2,577.9</u>	<u>\$ 1,721.3</u>
Basic net income per common share attributable to D.R. Horton, Inc. ....	<u>\$ 4.07</u>	<u>\$ 2.57</u>	<u>\$ 7.27</u>	<u>\$ 4.74</u>
Weighted average number of common shares .....	<u>353.1</u>	<u>362.3</u>	<u>354.6</u>	<u>363.4</u>
Diluted net income per common share attributable to D.R. Horton, Inc. ....	<u>\$ 4.03</u>	<u>\$ 2.53</u>	<u>\$ 7.20</u>	<u>\$ 4.67</u>
Adjusted weighted average number of common shares .....	<u>356.3</u>	<u>367.2</u>	<u>358.2</u>	<u>368.6</u>

See accompanying notes to consolidated financial statements.

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

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Non- controlling Interests</u>	<u>Total Equity</u>
(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) .....	<u>\$ 4.0</u>	<u>\$ 3,282.7</u>	<u>\$ 14,705.8</u>	<u>\$ (2,314.8)</u>	<u>\$ 335.7</u>	<u>\$ 16,013.4</u>
Net income .....	—	—	1,436.3	—	6.0	1,442.3
Exercise of stock options (4,533 shares) .....	—	0.1	—	—	—	0.1
Stock issued under employee benefit plans (773,301 shares) .....	—	4.9	—	—	—	4.9
Cash paid for shares withheld for taxes .....	—	(28.7)	—	—	—	(28.7)
Stock-based compensation expense .....	—	30.9	—	—	—	30.9
Cash dividends declared (\$0.225 per share) .....	—	—	(79.1)	—	—	(79.1)
Repurchases of common stock (3,100,000 shares) .....	—	—	—	(266.0)	—	(266.0)
Change of ownership interest in Forestar .....	—	(1.2)	—	—	1.2	—
Balances at March 31, 2022 (351,955,435 shares) .....	<u>\$ 4.0</u>	<u>\$ 3,288.7</u>	<u>\$ 16,063.0</u>	<u>\$ (2,580.8)</u>	<u>\$ 342.9</u>	<u>\$ 17,117.8</u>

See accompanying notes to consolidated financial statements.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF TOTAL EQUITY (Continued)**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Non- controlling Interests</u>	<u>Total Equity</u>
	(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) .....	<u>\$ 4.0</u>	<u>\$ 3,236.9</u>	<u>\$ 10,476.7</u>	<u>\$ (1,232.4)</u>	<u>\$ 285.1</u>	<u>\$ 12,770.3</u>
Net income .....	—	—	929.5	—	4.4	933.9
Exercise of stock options (391,047 shares) .....	—	1.4	—	—	—	1.4
Stock issued under employee benefit plans (916,209 shares) .....	—	3.2	—	—	—	3.2
Cash paid for shares withheld for taxes .....	—	(56.6)	—	—	—	(56.6)
Stock-based compensation expense .....	—	25.4	—	—	—	25.4
Cash dividends declared (\$0.20 per share) .....	—	—	(72.7)	—	—	(72.7)
Repurchases of common stock (4,475,624 shares) .....	—	—	—	(350.4)	—	(350.4)
Change of ownership in Forestar and other .....	—	(1.9)	—	—	23.4	21.5
Balances at March 31, 2021 (360,479,511 shares) .....	<u>\$ 4.0</u>	<u>\$ 3,208.4</u>	<u>\$ 11,333.5</u>	<u>\$ (1,582.8)</u>	<u>\$ 312.9</u>	<u>\$ 13,276.0</u>

See accompanying notes to consolidated financial statements.

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

	<b>Six Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>
	<b>(In millions)</b> <b>(Unaudited)</b>	
<b>OPERATING ACTIVITIES</b>		
Net income .....	\$ 2,588.1	\$ 1,729.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization .....	39.3	44.1
Stock-based compensation expense .....	54.6	47.1
Deferred income taxes .....	23.6	2.6
Inventory and land option charges .....	20.0	12.1
Gain on sale of assets .....	—	(14.0)
Changes in operating assets and liabilities:		
Increase in construction in progress and finished homes .....	(2,137.4)	(1,295.8)
Increase in residential land and lots – developed, under development, held for development and held for sale .....	(528.4)	(975.2)
Increase in rental properties .....	(655.9)	—
Increase in other assets .....	(616.7)	(296.2)
Increase in mortgage loans held for sale .....	(215.5)	(226.8)
Increase in accounts payable, accrued expenses and other liabilities .....	593.7	818.1
Net cash used in operating activities .....	<u>(834.6)</u>	<u>(154.9)</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures for property and equipment .....	(72.5)	(30.5)
Proceeds from sale of assets .....	—	31.8
Expenditures related to rental properties .....	—	(173.9)
Payments related to business acquisitions .....	—	(24.2)
Other investing activities .....	3.8	0.7
Net cash used in investing activities .....	<u>(68.7)</u>	<u>(196.1)</u>
<b>FINANCING ACTIVITIES</b>		
Proceeds from notes payable .....	750.0	494.1
Repayment of notes payable .....	(750.8)	(400.1)
Advances on mortgage repurchase facility, net .....	84.3	70.9
Proceeds from stock associated with certain employee benefit plans .....	22.2	5.6
Cash paid for shares withheld for taxes .....	(61.7)	(82.9)
Cash dividends paid .....	(159.2)	(145.6)
Repurchases of common stock .....	(569.8)	(420.2)
Net proceeds from issuance of Forestar common stock .....	1.7	23.3
Net other financing activities .....	38.5	(2.3)
Net cash used in financing activities .....	<u>(644.8)</u>	<u>(457.2)</u>
Net decrease in cash, cash equivalents and restricted cash .....	(1,548.1)	(808.2)
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 .....	<u>\$ 1,689.1</u>	<u>\$ 2,231.9</u>
<b>SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:</b>		
Notes payable issued for inventory .....	<u>\$ 64.3</u>	<u>\$ 12.5</u>
Stock issued under employee incentive plans .....	<u>\$ 124.4</u>	<u>\$ 114.5</u>

See accompanying notes to consolidated financial statements.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**  
**March 31, 2022**

**NOTE A – BASIS OF PRESENTATION**

The accompanying unaudited, consolidated financial statements include the accounts of D.R. Horton, Inc. and all of its wholly-owned, majority-owned and controlled subsidiaries, which are 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 March 31, 2022, 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.

***Use of Estimates***

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

***Seasonality***

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and six months ended March 31, 2022 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

In October 2021, the FASB issued ASU 2021-08, which requires application of ASC 606, “Revenue from Contracts with Customers,” to recognize and measure contract assets and liabilities from contracts with customers acquired in a business combination. ASU 2021-08 creates an exception to the general recognition and measurement principle in ASC 805 and will result in recognition of contract assets and contract liabilities consistent with those recorded by the acquiree immediately before the acquisition date. The guidance is effective for the Company beginning October 1, 2023, with early adoption permitted. The Company is currently evaluating the impact of this guidance, and it is not expected to have a material impact on its consolidated financial position, results of operations or cash flows.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE B – SEGMENT INFORMATION**

The Company is a national homebuilder that is primarily engaged in the acquisition and development of land and the construction and sale of residential homes, with operations in 104 markets across 32 states. The Company's operating segments are its 77 homebuilding divisions, its majority-owned Forestar residential lot development operations, its financial services operations, its rental operations and its other business activities. The Company's reporting segments are its homebuilding reporting segments, its Forestar lot development segment, its financial services segment and its rental operations segment.

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 to reflect the method by which the chief operating decision makers manage the business, evaluate internal results and allocate financial resources. Additionally, during the fourth quarter of fiscal 2021, the Company realigned the aggregation of its homebuilding operating segments into six new reportable segments to better allocate its homebuilding operating segments across geographic reporting regions. Segment information for the three and six months ended March 31, 2021 has been reclassified to conform to the current presentation.

***Homebuilding***

Based on the aggregation of the homebuilding operating segments, the Company's six reporting segments and the states in which it has homebuilding operations are as follows:

Northwest:	Colorado, Oregon, Utah and Washington
Southwest:	Arizona, California, Hawaii, Nevada and New Mexico
South Central:	Oklahoma and Texas
Southeast:	Alabama, Florida, Louisiana and Mississippi
East:	Georgia, North Carolina, South Carolina and Tennessee
North:	Delaware, Illinois, Indiana, Iowa, Kentucky, Maryland, Minnesota, Nebraska, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia

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

***Forestar***

The Forestar segment is a residential lot development company with operations in 53 markets across 23 states. Forestar has made significant investments in land acquisition and development to expand its business across the United States. 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.

***Financial Services***

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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

***Rental***

The Company's 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.

***Other***

In addition to its homebuilding, Forestar, financial services and rental operations, the Company engages in other business activities through its subsidiaries. The Company conducts insurance-related operations, owns non-residential real estate including ranch land and improvements and owns and operates energy-related assets. The results of these operations are immaterial for separate reporting and therefore are grouped together and presented in the Eliminations and Other column in the tables that follow.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

The accounting policies of the reporting segments are described throughout Note A included in the Company’s annual report on Form 10-K for the fiscal year ended September 30, 2021. Financial information relating to the Company’s reporting segments is as follows:

	<b>March 31, 2022</b>					
	<b>Homebuilding</b>	<b>Forestar (1)</b>	<b>Financial Services</b>	<b>Rental</b>	<b>Eliminations and Other (2)</b>	<b>Consolidated</b>
	(In millions)					
<b>Assets</b>						
Cash and cash equivalents .....	\$ 1,167.9	\$ 233.7	\$ 102.1	\$ 141.1	\$ 19.1	\$ 1,663.9
Restricted cash .....	14.9	—	9.5	0.8	—	25.2
<b>Inventories:</b>						
Construction in progress and finished homes .....	10,047.5	—	—	—	(170.9)	9,876.6
Residential land and lots — developed and under development ..	6,550.8	1,861.7	—	—	(66.4)	8,346.1
Land held for development .....	26.0	98.8	—	—	—	124.8
Land held for sale .....	21.6	—	—	—	—	21.6
Rental properties .....	—	—	—	1,500.1	(22.7)	1,477.4
	16,645.9	1,960.5	—	1,500.1	(260.0)	19,846.5
Mortgage loans held for sale .....	—	—	2,242.8	—	—	2,242.8
Deferred income taxes, net .....	134.9	—	—	—	(3.2)	131.7
Property and equipment, net .....	332.9	5.0	3.9	1.0	91.2	434.0
Other assets .....	1,920.1	32.4	310.1	14.3	(99.2)	2,177.7
Goodwill .....	134.3	—	—	—	29.2	163.5
	\$ 20,350.9	\$ 2,231.6	\$ 2,668.4	\$ 1,657.3	\$ (222.9)	\$ 26,685.3
<b>Liabilities</b>						
Accounts payable .....	\$ 1,220.8	\$ 55.6	\$ —	\$ 184.6	\$ (82.4)	\$ 1,378.6
Accrued expenses and other liabilities ...	2,085.5	363.3	319.5	9.6	(159.0)	2,618.9
Notes payable .....	3,286.3	705.3	1,578.9	—	(0.5)	5,570.0
	\$ 6,592.6	\$ 1,124.2	\$ 1,898.4	\$ 194.2	\$ (241.9)	\$ 9,567.5

- (1) Amounts are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the balances of the Company’s other businesses, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

	<b>September 30, 2021</b>					
	<b>Homebuilding</b>	<b>Forestar (1)</b>	<b>Financial Services</b>	<b>Rental</b>	<b>Eliminations and Other (2)</b>	<b>Consolidated</b>
	(In millions)					
<b>Assets</b>						
Cash and cash equivalents .....	\$ 2,950.1	\$ 153.6	\$ 79.0	\$ 16.8	\$ 10.9	\$ 3,210.4
Restricted cash .....	8.4	—	18.0	0.4	—	26.8
<b>Inventories:</b>						
Construction in progress and finished homes .....	7,848.0	—	—	—	(108.8)	7,739.2
Residential land and lots — developed and under development ..	6,004.0	1,824.7	—	—	(46.9)	7,781.8
Land held for development .....	30.4	80.5	—	—	—	110.9
Land held for sale .....	25.4	—	—	—	—	25.4
Rental properties .....	—	—	—	840.9	(19.1)	821.8
	13,907.8	1,905.2	—	840.9	(174.8)	16,479.1
Mortgage loans held for sale .....	—	—	2,027.3	—	—	2,027.3
Deferred income taxes, net .....	159.2	—	—	—	(3.9)	155.3
Property and equipment, net .....	303.3	2.9	3.5	0.6	82.6	392.9
Other assets .....	1,468.7	40.0	107.6	6.3	(62.0)	1,560.6
Goodwill .....	134.3	—	—	—	29.2	163.5
	\$ 18,931.8	\$ 2,101.7	\$ 2,235.4	\$ 865.0	\$ (118.0)	\$ 24,015.9
<b>Liabilities</b>						
Accounts payable .....	\$ 1,073.7	\$ 47.4	\$ —	\$ 55.9	\$ —	\$ 1,177.0
Accrued expenses and other liabilities ...	1,941.3	333.9	88.6	15.0	(168.5)	2,210.3
Notes payable .....	3,214.0	704.5	1,494.6	—	(0.7)	5,412.4
	\$ 6,229.0	\$ 1,085.8	\$ 1,583.2	\$ 70.9	\$ (169.2)	\$ 8,799.7

- (1) Amounts are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the balances of the Company’s other businesses, the elimination of intercompany transactions and, to a lesser extent, purchase accounting adjustments related to the Forestar acquisition.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**Three Months Ended March 31, 2022**

	<u>Homebuilding</u>	<u>Forestar (1)</u>	<u>Financial Services</u>	<u>Rental</u>	<u>Eliminations and Other (2)</u>	<u>Consolidated</u>
	(In millions)					
<b>Revenues</b>						
Home sales .....	\$ 7,499.2	\$ —	\$ —	\$ —	\$ —	\$ 7,499.2
Land/lot sales and other .....	7.6	421.6	—	—	(374.4)	54.8
Rental property sales .....	—	—	—	222.9	—	222.9
Financial services .....	—	—	222.1	—	—	222.1
	<u>7,506.8</u>	<u>421.6</u>	<u>222.1</u>	<u>222.9</u>	<u>(374.4)</u>	<u>7,999.0</u>
<b>Cost of sales</b>						
Home sales (3) .....	5,335.2	—	—	—	(43.7)	5,291.5
Land/lot sales and other .....	3.3	328.7	—	—	(307.0)	25.0
Rental property sales .....	—	—	—	102.5	(4.3)	98.2
Inventory and land option charges .....	9.8	5.4	—	—	—	15.2
	<u>5,348.3</u>	<u>334.1</u>	<u>—</u>	<u>102.5</u>	<u>(355.0)</u>	<u>5,429.9</u>
Selling, general and administrative expense .....	507.3	24.3	138.0	22.8	2.7	695.1
Other (income) expense .....	(1.6)	—	(8.7)	(4.9)	5.9	(9.3)
Income before income taxes .....	<u>\$ 1,652.8</u>	<u>\$ 63.2</u>	<u>\$ 92.8</u>	<u>\$ 102.5</u>	<u>\$ (28.0)</u>	<u>\$ 1,883.3</u>

- (1) Results are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the results of the Company’s other businesses and the elimination of intercompany transactions.
- (3) Amount in the Eliminations and Other column represents the recognition of 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**Six Months Ended March 31, 2022**

	<u>Homebuilding</u>	<u>Forestar (1)</u>	<u>Financial Services</u>	<u>Rental</u>	<u>Eliminations and Other (2)</u>	<u>Consolidated</u>
	(In millions)					
<b>Revenues</b>						
Home sales .....	\$ 14,155.6	\$ —	\$ —	\$ —	\$ —	\$ 14,155.6
Land/lot sales and other .....	30.5	829.2	—	—	(748.7)	111.0
Rental property sales .....	—	—	—	379.4	—	379.4
Financial services .....	—	—	406.4	—	—	406.4
	<u>14,186.1</u>	<u>829.2</u>	<u>406.4</u>	<u>379.4</u>	<u>(748.7)</u>	<u>15,052.4</u>
<b>Cost of sales</b>						
Home sales (3) .....	10,169.1	—	—	—	(81.3)	10,087.8
Land/lot sales and other .....	20.4	662.3	—	—	(624.8)	57.9
Rental property sales .....	—	—	—	175.0	(5.1)	169.9
Inventory and land option charges .....	13.7	6.0	—	0.3	—	20.0
	<u>10,203.2</u>	<u>668.3</u>	<u>—</u>	<u>175.3</u>	<u>(711.2)</u>	<u>10,335.6</u>
Selling, general and administrative expense .....	1,004.9	45.8	263.2	41.4	5.7	1,361.0
Other (income) expense .....	(7.9)	(1.6)	(16.7)	(9.8)	11.2	(24.8)
Income before income taxes .....	<u>\$ 2,985.9</u>	<u>\$ 116.7</u>	<u>\$ 159.9</u>	<u>\$ 172.5</u>	<u>\$ (54.4)</u>	<u>\$ 3,380.6</u>
<b>Summary Cash Flow Information</b>						
Depreciation and amortization .....	<u>\$ 30.9</u>	<u>\$ 1.3</u>	<u>\$ 0.9</u>	<u>\$ 0.2</u>	<u>\$ 6.0</u>	<u>\$ 39.3</u>
Cash provided by (used in) operating activities .....	<u>\$ (416.2)</u>	<u>\$ 76.6</u>	<u>\$ (63.0)</u>	<u>\$ (409.1)</u>	<u>\$ (22.9)</u>	<u>\$ (834.6)</u>

- (1) Results are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the results of the Company’s other businesses and the elimination of intercompany transactions.
- (3) Amount in the Eliminations and Other column represents the recognition of 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

<b>Three Months Ended March 31, 2021</b>						
	<b>Homebuilding</b>	<b>Forestar (1)</b>	<b>Financial Services</b>	<b>Rental</b>	<b>Eliminations and Other (2)</b>	<b>Consolidated</b>
	(In millions)					
<b>Revenues</b>						
Home sales .....	\$ 6,170.4	\$ —	\$ —	\$ —	\$ —	\$ 6,170.4
Land/lot sales and other .....	15.4	287.1	—	—	(251.1)	51.4
Financial services .....	—	—	225.1	—	—	225.1
	<u>6,185.8</u>	<u>287.1</u>	<u>225.1</u>	<u>—</u>	<u>(251.1)</u>	<u>6,446.9</u>
<b>Cost of sales</b>						
Home sales (3) .....	4,652.0	—	—	—	(35.6)	4,616.4
Land/lot sales and other .....	12.7	233.2	—	—	(215.2)	30.7
Inventory and land option charges .....	3.2	0.6	—	—	—	3.8
	<u>4,667.9</u>	<u>233.8</u>	<u>—</u>	<u>—</u>	<u>(250.8)</u>	<u>4,650.9</u>
Selling, general and administrative expense .....	467.6	16.3	123.7	11.6	2.3	621.5
Other (income) expense .....	(1.8)	(0.6)	(6.3)	(5.2)	8.5	(5.4)
Income before income taxes .....	<u>\$ 1,052.1</u>	<u>\$ 37.6</u>	<u>\$ 107.7</u>	<u>\$ (6.4)</u>	<u>\$ (11.1)</u>	<u>\$ 1,179.9</u>

- (1) Results are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the results of the Company’s other businesses, reconciling amounts between segment and consolidated balances and the elimination of intercompany transactions.
- (3) Amount in the Eliminations and Other column represents the recognition of 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**Six Months Ended March 31, 2021**

	<u>Homebuilding</u>	<u>Forestar (1)</u>	<u>Financial Services</u>	<u>Rental</u>	<u>Eliminations and Other (2)</u>	<u>Consolidated</u>
	(In millions)					
<b>Revenues</b>						
Home sales .....	\$ 11,869.1	\$ —	\$ —	\$ —	\$ —	\$ 11,869.1
Land/lot sales and other .....	33.3	594.2	—	—	(528.6)	98.9
Rental property sales .....	—	—	—	31.8	(31.8)	—
Financial services .....	—	—	412.3	—	—	412.3
	<u>11,902.4</u>	<u>594.2</u>	<u>412.3</u>	<u>31.8</u>	<u>(560.4)</u>	<u>12,380.3</u>
<b>Cost of sales</b>						
Home sales (3) .....	8,977.1	—	—	—	(63.3)	8,913.8
Land/lot sales and other .....	26.3	495.8	—	—	(464.5)	57.6
Rental property sales .....	—	—	—	17.8	(17.8)	—
Inventory and land option charges .....	11.2	0.9	—	—	—	12.1
	<u>9,014.6</u>	<u>496.7</u>	<u>—</u>	<u>17.8</u>	<u>(545.6)</u>	<u>8,983.5</u>
Selling, general and administrative expense .....	917.0	31.8	233.3	20.9	4.4	1,207.4
Gain on sale of assets .....	—	—	—	—	(14.0)	(14.0)
Other (income) expense .....	(3.9)	(1.1)	(12.8)	(9.1)	16.1	(10.8)
Income before income taxes .....	<u>\$ 1,974.7</u>	<u>\$ 66.8</u>	<u>\$ 191.8</u>	<u>\$ 2.2</u>	<u>\$ (21.3)</u>	<u>\$ 2,214.2</u>
<b>Summary Cash Flow Information</b>						
Depreciation and amortization .....	<u>\$ 32.0</u>	<u>\$ 1.5</u>	<u>\$ 0.8</u>	<u>\$ 5.1</u>	<u>\$ 4.7</u>	<u>\$ 44.1</u>
Cash provided by (used in) operating activities .....	<u>\$ 190.5</u>	<u>\$ (249.5)</u>	<u>\$ (32.3)</u>	<u>\$ (216.7)</u>	<u>\$ 153.1</u>	<u>\$ (154.9)</u>

- (1) Results are presented on Forestar’s historical cost basis, consistent with the manner in which management evaluates segment performance.
- (2) Amounts include the results of the Company’s other businesses, reconciling amounts between segment and consolidated balances and the elimination of intercompany transactions.
- (3) Amount in the Eliminations and Other column represents the recognition of 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

<b>Homebuilding Inventories by Reporting Segment (1)</b>	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	(In millions)	
Northwest .....	\$ 1,567.0	\$ 1,307.5
Southwest .....	2,885.8	2,445.6
South Central .....	4,084.4	3,479.3
Southeast .....	3,804.2	3,178.6
East .....	2,434.3	1,919.6
North .....	1,663.8	1,368.9
Corporate and unallocated (2) .....	206.4	208.3
	<u>\$ 16,645.9</u>	<u>\$ 13,907.8</u>

- (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 homebuilding capitalized interest and property taxes.

<b>Homebuilding Results by Reporting Segment</b>	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In millions)			
<b>Revenues</b>				
Northwest .....	\$ 637.0	\$ 548.5	\$ 1,205.9	\$ 1,096.5
Southwest .....	1,135.1	912.9	2,046.7	1,751.5
South Central .....	1,838.4	1,384.7	3,532.7	2,748.2
Southeast .....	1,946.5	1,720.7	3,757.5	3,185.7
East .....	1,219.5	1,070.9	2,294.3	2,078.6
North .....	730.3	548.1	1,349.0	1,041.9
	<u>\$ 7,506.8</u>	<u>\$ 6,185.8</u>	<u>\$ 14,186.1</u>	<u>\$ 11,902.4</u>
<b>Income before Income Taxes</b>				
Northwest .....	\$ 148.2	\$ 93.9	\$ 260.0	\$ 180.7
Southwest .....	226.6	130.5	385.9	245.7
South Central .....	416.0	251.9	770.3	491.9
Southeast .....	482.2	317.2	897.7	564.4
East .....	265.9	185.2	468.2	355.9
North .....	113.9	73.4	203.8	136.1
	<u>\$ 1,652.8</u>	<u>\$ 1,052.1</u>	<u>\$ 2,985.9</u>	<u>\$ 1,974.7</u>

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE C – INVENTORIES**

At the end of each quarter, the Company reviews the performance and outlook for all of its communities and land inventories for indicators of potential impairment and performs detailed impairment evaluations and analyses when necessary. As a result of this review, Forestar recorded a \$3.8 million impairment charge related to one land development project during the three and six months ended March 31, 2022. There were no impairment charges recorded in the prior year quarter and \$5.6 million of impairment charges recorded in the six months ended March 31, 2021.

During the three and six months ended March 31, 2022, earnest money and pre-acquisition cost write-offs related to land purchase contracts that the Company has terminated or expects to terminate were \$11.4 million and \$16.2 million, respectively, compared to \$3.8 million and \$6.5 million in the same periods of fiscal 2021. Inventory impairments and land option charges are included in cost of sales in the consolidated statements of operations.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE D – NOTES PAYABLE**

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

	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	<b>(In millions)</b>	
<b>Homebuilding</b>		
Unsecured:		
Revolving credit facility .....	\$ —	\$ —
4.375% senior notes due 2022 (1) .....	349.8	349.6
4.75% senior notes due 2023 (1) .....	299.7	299.5
5.75% senior notes due 2023 (1) .....	399.3	399.1
2.5% senior notes due 2024 (1) .....	497.7	497.3
2.6% senior notes due 2025 (1) .....	496.7	496.2
1.3% senior notes due 2026 (1) .....	595.0	594.5
1.4% senior notes due 2027 (1) .....	495.3	494.9
Other secured notes (2) .....	152.3	82.2
	3,285.8	3,213.3
<b>Forestar</b>		
Unsecured:		
Revolving credit facility .....	—	—
3.85% senior notes due 2026 (3) .....	396.0	395.5
5.0% senior notes due 2028 (3) .....	296.8	296.5
Other secured notes .....	12.5	12.5
	705.3	704.5
<b>Financial Services</b>		
Mortgage repurchase facility .....	1,578.9	1,494.6
<b>Rental</b>		
Unsecured:		
Revolving credit facility .....	—	—
Total (4) .....	\$ 5,570.0	\$ 5,412.4

- (1) Debt issuance costs that were deducted from the carrying amounts of the homebuilding senior notes totaled \$14.3 million and \$16.5 million at March 31, 2022 and September 30, 2021, respectively.
- (2) Homebuilding other secured notes excludes \$0.5 million and \$0.7 million of earnest money notes payable to Forestar at March 31, 2022 and September 30, 2021, respectively. These intercompany notes are eliminated in consolidation.
- (3) Debt issuance costs that were deducted from the carrying amount of Forestar's senior notes totaled \$7.2 million and \$8.0 million at March 31, 2022 and September 30, 2021, respectively.
- (4) The fair value of notes payable at March 31, 2022 totaled \$5.4 billion, of which \$3.7 billion was measured using Level 2 inputs and \$1.7 billion was measured using Level 3 inputs. The fair value of notes payable at September 30, 2021 totaled \$5.5 billion, of which \$3.9 billion was measured using Level 2 inputs and \$1.6 billion was measured using Level 3 inputs.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

***Homebuilding***

The Company has 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 total revolving credit commitments. Letters of credit issued under the facility reduce the available borrowing capacity. The maturity date of the facility is April 20, 2026. Borrowings and repayments under the facility totaled \$750 million each during the six months ended March 31, 2022. At March 31, 2022, there were no borrowings outstanding and \$175.6 million of letters of credit issued under the revolving credit facility, resulting in available capacity of \$2.0 billion.

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 indentures governing the senior notes also impose restrictions on the creation of secured debt and liens. At March 31, 2022, the Company was in compliance with all of the covenants, limitations and restrictions of its homebuilding revolving credit facility and public debt obligations.

The Company's homebuilding revolving credit facility is guaranteed by D.R. Horton, Inc.'s significant wholly-owned homebuilding subsidiaries.

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

In July 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 March 31, 2022.

***Forestar***

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 total revolving credit commitments. Borrowings under the revolving credit facility are subject to a borrowing base calculation based on the book value of Forestar's 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 March 31, 2022, there were no borrowings outstanding and \$60.5 million of letters of credit issued under the revolving credit facility, resulting in available capacity of \$349.5 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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

Forestar's revolving credit facility and its senior notes are not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the debt of the Company's homebuilding, financial services or rental operations. At March 31, 2022, Forestar was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility and senior note obligations.

In April 2020, Forestar's Board of Directors authorized the repurchase of up to \$30 million of Forestar's debt securities. The authorization has no expiration date. All of the \$30 million authorization was remaining at March 31, 2022.

***Financial Services***

The Company's mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2022, the mortgage repurchase facility was amended to increase its capacity and extend its maturity date to February 17, 2023. The total capacity of the facility is \$1.6 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 March 31, 2022 was \$2.1 billion.

As of March 31, 2022, \$2.2 billion of mortgage loans held for sale with a collateral value of \$2.2 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling \$619.9 million, DHI Mortgage had an obligation of \$1.6 billion outstanding under the mortgage repurchase facility at March 31, 2022 at a 1.9% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the debt of the Company's homebuilding, Forestar or rental operations. 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 March 31, 2022, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

***Rental***

On March 4, 2022, the Company's rental subsidiary, DRH Rental, entered into a \$625 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.25 billion, subject to certain conditions and availability of additional bank commitments. On March 17, 2022, DRH Rental utilized the accordion feature and increased the size of the facility to \$750 million through an additional commitment. 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 total revolving credit commitments. Availability under the revolving credit facility is subject to a borrowing base calculation based on the book value of DRH Rental's real estate assets and unrestricted cash. At March 31, 2022, the borrowing base limited the available capacity under the facility to \$486 million and there were no borrowings outstanding or letters of credit issued under the facility. The maturity date of the facility is March 4, 2026.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require DRH Rental to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. At March 31, 2022, DRH Rental was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

DRH Rental's revolving credit facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the debt of the Company's homebuilding, Forestar or financial services operations.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE E – CAPITALIZED INTEREST**

The Company capitalizes interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. During periods in which the Company’s active inventory is lower than its debt level, a portion of the interest incurred is reflected as interest expense in the period incurred. During the first six months of fiscal 2022 and fiscal 2021, the Company’s active inventory exceeded its debt level, and all interest incurred was capitalized to inventory.

The following table summarizes the Company’s interest costs incurred, capitalized and expensed during the three and six months ended March 31, 2022 and 2021:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Capitalized interest, beginning of period .....	\$ 221.3	\$ 215.1	\$ 217.7	\$ 207.7
Interest incurred (1) .....	36.7	37.9	73.6	78.3
Interest charged to cost of sales .....	(34.7)	(34.4)	(68.0)	(67.4)
Capitalized interest, end of period .....	\$ 223.3	\$ 218.6	\$ 223.3	\$ 218.6

(1) Interest incurred includes interest on the Company's mortgage repurchase facility of \$3.0 million and \$7.0 million in the three and six months ended March 31, 2022, respectively, and \$3.8 million and \$8.3 million in the same periods of fiscal 2021. Also included in interest incurred is Forestar interest of \$8.1 million and \$16.2 million in the three and six months ended March 31, 2022, respectively, and \$11.5 million and \$23.0 million in the same periods of fiscal 2021.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE F – MORTGAGE LOANS**

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. The Company typically sells the servicing rights for the majority of loans when the loans are sold. Servicing rights retained are typically sold within six months of loan origination. At March 31, 2022, mortgage loans held for sale of \$2.24 billion had an aggregate outstanding principal balance of \$2.27 billion. At September 30, 2021, mortgage loans held for sale of \$2.03 billion had an aggregate outstanding principal balance of \$1.97 billion. Mortgage loans held for sale at both dates were primarily composed of mortgage loans measured at fair value on a recurring basis using Level 2 inputs.

During the six months ended March 31, 2022 and 2021, mortgage loans originated totaled \$8.4 billion and \$7.3 billion, respectively, and mortgage loans sold totaled \$8.1 billion and \$7.0 billion, respectively. The Company had gains on sales of loans and servicing rights of \$168.0 million and \$302.0 million during the three and six months ended March 31, 2022, respectively, compared to \$178.6 million and \$317.4 million in the prior year periods. Net gains on sales of loans and servicing rights are included in revenues in the consolidated statements of operations. During the six months ended March 31, 2022, approximately 68% of the Company's mortgage loans were sold directly to the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or into securities backed by the Government National Mortgage Association (Ginnie Mae), and 24% were sold to one other major financial entity.

The Company also uses hedging instruments as part of a program to offer below market interest rate financing to its homebuyers. At March 31, 2022 and September 30, 2021, the Company had mortgage-backed securities (MBS) totaling \$784.2 million and \$834.6 million, respectively, that did not yet have interest rate lock commitments (IRLCs) or closed loans created or assigned and recorded an asset of \$9.8 million and \$1.1 million, respectively, for the fair value of such MBS position.

The Company is party to IRLCs, which are extended to borrowers who have applied for loan funding and meet defined credit and underwriting criteria. At March 31, 2022 and September 30, 2021, the notional amount of IRLCs, which are accounted for as derivative instruments recorded at fair value using Level 2 inputs, totaled \$3.7 billion and \$1.5 billion, respectively.

**NOTE G – INCOME TAXES**

The Company's income tax expense for the three and six months ended March 31, 2022 was \$441.0 million and \$792.5 million, respectively, compared to \$246.0 million and \$485.1 million in the prior year periods. The effective tax rate was 23.4% for both the three and six months ended March 31, 2022 compared to 20.8% and 21.9%, respectively, in the prior year periods. The effective tax rates for all 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 expired for homes closed after December 31, 2021.

The Company's deferred tax assets, net of deferred tax liabilities, were \$135.7 million at March 31, 2022 compared to \$159.5 million at September 30, 2021. The Company has a valuation allowance of \$4.0 million and \$4.2 million at March 31, 2022 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. The Company will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to the remaining state NOL carryforwards. Any reversal of the valuation allowance in future periods will impact the Company's effective tax rate.

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

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE H – EARNINGS PER SHARE**

The following table sets forth the numerators and denominators used in the computation of basic and diluted earnings per share.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Numerator:				
Net income attributable to D.R. Horton, Inc. ....	\$ 1,436.3	\$ 929.5	\$ 2,577.9	\$ 1,721.3
Denominator:				
Denominator for basic earnings per share — weighted average common shares .....	353.1	362.3	354.6	363.4
Effect of dilutive securities:				
Employee stock awards .....	3.2	4.9	3.6	5.2
Denominator for diluted earnings per share — adjusted weighted average common shares .....	356.3	367.2	358.2	368.6
Basic net income per common share attributable to D.R. Horton, Inc. ....	\$ 4.07	\$ 2.57	\$ 7.27	\$ 4.74
Diluted net income per common share attributable to D.R. Horton, Inc. ....	\$ 4.03	\$ 2.53	\$ 7.20	\$ 4.67

**NOTE I – STOCKHOLDERS’ EQUITY**

D.R. Horton has an automatically effective universal shelf registration statement, filed with the SEC in July 2021, registering debt and equity securities that it may issue from time to time in amounts to be determined.

In April 2021, the Board of Directors authorized the repurchase of up to \$1.0 billion of the Company’s common stock. During the six months ended March 31, 2022, the Company repurchased 5.8 million shares of its common stock for \$544.2 million. At March 31, 2022, there was \$2.0 million remaining on the repurchase authorization. In April 2022, the Board of Directors authorized the repurchase of up to \$1.0 billion of the Company’s common stock, replacing the prior authorization. The authorization has no expiration date.

During each of the first two quarters of fiscal 2022, the Board of Directors approved a quarterly cash dividend of \$0.225 per common share, the most recent of which was paid on February 25, 2022 to stockholders of record on February 17, 2022. In April 2022, the Board of Directors approved a quarterly cash dividend of \$0.225 per common share, payable on May 18, 2022 to stockholders of record on May 9, 2022. Cash dividends of \$0.20 per common share were approved and paid in each quarter of fiscal 2021.

Forestar 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. During the six months ended March 31, 2022, 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 March 31, 2022, \$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.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE J – EMPLOYEE BENEFIT PLANS**

*Restricted Stock Units (RSUs)*

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

In October 2021, the Company granted 390,000 performance-based RSUs to its executive officers. In March 2022, the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") approved an amendment and restatement of this award to increase the RSUs granted from 390,000 to 430,000. Also in March 2022, the Compensation Committee amended the executive officer short-term performance bonus plan to reduce the amount of the award that could be earned by four of its executive officers. The 430,000 performance-based RSU equity awards vest at the end of a three-year performance period ending September 30, 2024. 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; selling, general and administrative expense containment; and gross profit. The grant date fair value of these equity awards was \$80.58 per unit. Compensation expense related to this grant was \$4.1 million and \$8.3 million in the three and six months ended March 31, 2022, respectively, based on an estimate of the Company's performance against its peer group, the elapsed portion of the performance period and the grant date fair value of the award.

During the three months ended March 31, 2022, the Company granted approximately 1.2 million time-based RSUs to approximately 1,200 recipients, including executive officers, other key employees and non-management directors. The weighted average grant date fair value of these equity awards was \$74.96 per unit, and they vest annually in equal installments over periods of three to five years. Compensation expense related to these grants was \$8.5 million in both the three and six months ended March 31, 2022, which primarily related to expense recognized for employees that were retirement eligible on the date of grant.

Total stock-based compensation expense related to the Company's performance-based and time-based RSUs was \$28.9 million and \$50.9 million during the three and six months ended March 31, 2022, respectively, compared to \$24.0 million and \$45.2 million during the three and six months ended March 31, 2021.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE K – COMMITMENTS AND CONTINGENCIES**

***Warranty Claims***

The Company provides its homebuyers with a ten-year limited warranty for major defects in structural elements such as framing components and foundation systems, a two-year limited warranty on major mechanical systems and a one-year limited warranty on other construction components. The Company’s warranty liability is based upon historical warranty cost experience in each market in which it operates and is adjusted to reflect qualitative risks associated with the types of homes built and the geographic areas in which they are built.

Changes in the Company’s warranty liability during the three and six months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Warranty liability, beginning of period .....	\$ 390.0	\$ 324.0	\$ 376.3	\$ 310.2
Warranties issued .....	43.6	36.3	82.5	69.7
Changes in liability for pre-existing warranties .....	3.0	1.1	7.3	3.7
Settlements made .....	(28.8)	(20.7)	(58.3)	(42.9)
Warranty liability, end of period .....	<u>\$ 407.8</u>	<u>\$ 340.7</u>	<u>\$ 407.8</u>	<u>\$ 340.7</u>

***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 \$617.1 million and \$577.5 million at March 31, 2022 and September 30, 2021, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheets. Approximately 99% of these reserves related to construction defect matters at both March 31, 2022 and September 30, 2021. Expenses related to the Company’s legal contingencies were \$44.1 million and \$37.3 million in the six months ended March 31, 2022 and 2021, respectively.

Changes in the Company’s legal claims reserves during the six months ended March 31, 2022 and 2021 were as follows:

	Six Months Ended March 31,	
	2022	2021
	(In millions)	
Reserves for legal claims, beginning of period .....	\$ 577.5	\$ 473.8
Increase in reserves .....	55.7	56.2
Payments .....	(16.1)	(5.6)
Reserves for legal claims, end of period .....	<u>\$ 617.1</u>	<u>\$ 524.4</u>

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

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. However, because the self-insured retentions under these policies are significant, the Company anticipates it will largely be self-insured. The Company's estimated insurance receivables from estimated losses for pending legal claims and anticipated future claims related to previously closed homes totaled \$112.0 million, \$109.5 million and \$90.5 million at March 31, 2022, September 30, 2021 and March 31, 2021, respectively, and are included in other assets in the consolidated balance sheets. 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 estimation of losses related to these reserves and the related estimates of recoveries from insurance policies are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to the Company's markets and the types of products built, claim frequency, claim settlement costs and patterns, insurance industry practices and legal interpretations, among others. Due to the high degree of judgment required in establishing reserves for these contingencies, actual future costs and recoveries from insurance could differ significantly from current estimated amounts, and it is not possible for the Company to make a reasonable estimate of the possible loss or range of loss in excess of its reserves.

***Land and Lot Purchase Contracts***

The Company enters into land and lot purchase contracts to acquire land or lots for the construction of homes. Under these contracts, the Company will fund a stated deposit in consideration for the right, but not the obligation, to purchase land or lots at a future point in time with predetermined terms. Under the terms of many of the purchase contracts, the deposits are not refundable in the event the Company elects to terminate the contract. Land 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.

At March 31, 2022, the Company had total deposits of \$1.4 billion, consisting of cash deposits of \$1.3 billion and promissory notes and surety bonds of \$86.1 million, related to contracts to purchase land and lots with a total remaining purchase price of approximately \$18.7 billion. The majority of land and lots under contract are currently expected to be purchased within three years. Of these amounts, \$137.7 million of the deposits related to contracts with Forestar to purchase land and lots with a remaining purchase price of \$1.5 billion. A limited number of the homebuilding land and lot purchase contracts at March 31, 2022, representing \$91.1 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 \$91.1 million remaining purchase price subject to specific performance provisions, \$64.8 million related to contracts between the homebuilding segment and Forestar.

During the three and six months ended March 31, 2022, Forestar reimbursed the homebuilding segment \$2.7 million and \$5.4 million, respectively, for previously paid earnest money and \$16.2 million and \$37.8 million, respectively, for pre-acquisition and other due diligence costs related to land purchase contracts whereby the homebuilding segment assigned its rights under contract to Forestar. During the three and six months ended March 31, 2021, Forestar reimbursed the homebuilding segment \$8.0 million and \$24.2 million, respectively, for previously paid earnest money and \$7.3 million and \$28.2 million, respectively, for pre-acquisition and other due diligence costs.

***Other Commitments***

At March 31, 2022, the Company had outstanding surety bonds of \$2.5 billion and letters of credit of \$236.1 million to secure performance under various contracts. Of the total letters of credit, \$175.6 million were issued under the homebuilding revolving credit facility and \$60.5 million were issued under Forestar's revolving credit facility.

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

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

The Company’s other assets at March 31, 2022 and September 30, 2021 were as follows:

	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	(In millions)	
Earnest money and refundable deposits .....	\$ 1,440.8	\$ 1,079.8
Insurance receivables .....	112.0	109.5
Other receivables .....	151.5	153.6
Prepaid assets .....	77.2	51.6
Contract assets - insurance agency commissions .....	64.8	58.6
Lease right of use assets .....	41.7	35.6
Interest rate lock commitments .....	56.6	17.9
Mortgage servicing rights .....	5.0	4.1
Mortgage hedging instruments and commitments .....	171.4	—
Other .....	56.7	49.9
	<u>\$ 2,177.7</u>	<u>\$ 1,560.6</u>

The Company’s accrued expenses and other liabilities at March 31, 2022 and September 30, 2021 were as follows:

	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	(In millions)	
Reserves for legal claims .....	\$ 617.1	\$ 577.5
Employee compensation and related liabilities .....	466.3	492.1
Warranty liability .....	407.8	376.3
Customer deposits .....	283.4	193.4
Inventory related accruals .....	315.5	261.2
Broker deposits related to hedging instruments .....	139.3	—
Federal and state income tax liabilities .....	85.4	88.2
Accrued property taxes .....	30.9	51.0
Lease liabilities .....	43.2	37.0
Accrued interest .....	34.1	31.5
Interest rate lock commitments .....	89.0	—
Mortgage hedging instruments and commitments .....	9.8	1.7
Other .....	97.1	100.4
	<u>\$ 2,618.9</u>	<u>\$ 2,210.3</u>

**D.R. HORTON, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) – (Continued)**  
**March 31, 2022**

**NOTE M – SUBSEQUENT EVENT**

In April 2022, D.R. Horton and Vidler Water Resources, Inc. (Nasdaq: VWTR) (Vidler) entered into a definitive merger agreement pursuant to which D.R. Horton will acquire Vidler for \$15.75 per share in an all-cash transaction. Upon successful completion of the tender offer and following completion of the merger, the common stock of Vidler will no longer be listed for trading on the Nasdaq Stock Market. The total equity value of the transaction is approximately \$291 million, and the transaction is expected to close during the second calendar quarter of 2022, subject to customary closing conditions.

## 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 104 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 \$370,300 during the six months ended March 31, 2022. Approximately 91% of our home sales revenue in the six months ended March 31, 2022 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 March 31, 2022, 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 wholly-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 wholly-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.

## OVERVIEW

During the six months ended March 31, 2022, the number of our net sales orders decreased 3%, while the value of those sales orders increased 18% compared to the prior year period. Our number of homes closed decreased 1%, while our home sales revenues increased 19% compared to the prior year period. Our consolidated revenues increased 22% to \$15.1 billion compared to \$12.4 billion in the prior year period. Our pre-tax income was \$3.4 billion in the six months ended March 31, 2022 compared to \$2.2 billion in the prior year period, and our pre-tax operating margin was 22.5% compared to 17.9%. Net income was \$2.6 billion in the six months ended March 31, 2022 compared to \$1.7 billion in the prior year period, and our diluted earnings per share was \$7.20 compared to \$4.67.

In the trailing twelve months ended March 31, 2022, our return on equity (ROE) was 34.0% compared to 27.1% in the prior year period, and our homebuilding return on inventory (ROI) was 40.3% compared to 31.1%. ROE is calculated as net income attributable to D.R. Horton for the trailing twelve months divided by average stockholders' equity, where average stockholders' equity is the sum of ending stockholders' equity balances of the trailing five quarters divided by five. Homebuilding ROI is calculated as homebuilding pre-tax income for the trailing twelve months divided by average inventory, where average inventory is the sum of ending homebuilding inventory balances for the trailing five quarters divided by five.

During the first half of fiscal 2022, demand for our homes remained strong despite increased inflationary pressures and increases in interest rates on mortgage loans. We believe demand for our homes is supported by the limited supply of homes at affordable price points across most of our markets. We are well-positioned to meet this demand with our affordable product offerings, lot supply and housing inventory. However, multiple disruptions in the supply chain have resulted in shortages in certain building materials, which, together with tightness in the labor market, has caused our construction cycle to lengthen. We have slowed our home sales pace to more closely align with our production levels, and we are selling homes later in the construction cycle when we have more certainty regarding the home close date for our homebuyers. Based on the current availability of labor and materials, the stage of completion of our current homes in inventory, production schedules and capacity, we expect to continue restricting the pace of our sales orders in most of our communities in the near term to match our production levels.

Within our homebuilding land and lot portfolio, our lots controlled through purchase contracts represent 77% of the lots owned and controlled at March 31, 2022 compared to 76% and 75% at September 30, 2021 and March 31, 2021, respectively. Our relationship with Forestar and expanded relationships with other land developers across the country have allowed us to continue to increase the controlled portion of our lot pipeline.

We believe our strong balance sheet and liquidity position provide us with the flexibility to operate effectively through changing economic conditions. We plan to continue to generate strong cash flows from our homebuilding operations and manage our product offerings, incentives, home pricing, sales pace and inventory levels to optimize the return on our inventory investments in each of our communities based on local housing market conditions.

## STRATEGY

Our operating strategy focuses on enhancing long-term value to our shareholders by leveraging our financial and competitive position to maximize the returns on our inventory investments and generate strong profitability and cash flows, while managing risk and maintaining financial flexibility to navigate changing economic conditions. Our strategy remains consistent and 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 significant cash balance and strong overall liquidity position while 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 market relative to the local new home demand.
- Continuing to seek opportunities to expand the portion of our land and finished lots controlled through purchase contracts with Forestar and other land developers.
- 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.
- Increasing our investments in the construction and leasing of single-family and multi-family rental properties to meet rental demand in high growth suburban markets and selling these properties profitably.
- Opportunistically evaluating potential acquisitions to enhance our operating platform.

We believe our operating strategy, which has produced positive results in recent years, will allow us to successfully operate through changing economic conditions to maintain and improve our financial and competitive position. However, we cannot provide any assurances that the initiatives listed above will continue to be successful, and we may need to adjust parts of our strategy to meet future market conditions.

## KEY RESULTS

Key financial results as of and for the three months ended March 31, 2022, as compared to the same period of 2021, were as follows:

### *Homebuilding:*

- Homebuilding revenues increased 21% to \$7.5 billion compared to \$6.2 billion.
- Homes closed increased 1% to 19,828 homes, and the average closing price of those homes increased 21% to \$378,200.
- Net sales orders decreased 10% to 24,340 homes, while the value of net sales orders increased 10% to \$9.7 billion.
- Sales order backlog decreased 6% to 33,859 homes, while the value of sales order backlog increased 15% to \$13.3 billion.
- Home sales gross margin was 28.9% compared to 24.6%.
- Homebuilding SG&A expense was 6.8% of homebuilding revenues compared to 7.6%.
- Homebuilding pre-tax income was \$1.7 billion compared to \$1.1 billion.
- Homebuilding pre-tax income was 22.0% of homebuilding revenues compared to 17.0%.
- Homebuilding cash and cash equivalents totaled \$1.2 billion compared to \$3.0 billion and \$1.9 billion at September 30, 2021 and March 31, 2021, respectively.
- Homebuilding inventories totaled \$16.6 billion compared to \$13.9 billion and \$12.9 billion at September 30, 2021 and March 31, 2021, respectively.
- Homes in inventory totaled 59,800 compared to 47,800 and 46,100 at September 30, 2021 and March 31, 2021, respectively.
- Owned lots totaled 131,200 compared to 127,800 and 121,500 at September 30, 2021 and March 31, 2021, respectively. Lots controlled through purchase contracts increased to 442,800 from 402,500 and 365,200 at September 30, 2021 and March 31, 2021, respectively.
- Homebuilding debt was \$3.3 billion compared to \$3.2 billion and \$2.6 billion at September 30, 2021 and March 31, 2021, respectively.
- Homebuilding debt to total capital was 16.4% compared to 17.8% and 16.8% at September 30, 2021 and March 31, 2021, respectively. Net homebuilding debt to total capital was 11.2% compared to 1.7% and 5.3% at September 30, 2021 and March 31, 2021, respectively.

### *Forestar:*

- Forestar's revenues increased 47% to \$421.6 million compared to \$287.1 million. Revenues in the current and prior year quarters included \$389.7 million and \$268.3 million, respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar's lots sold increased 61% to 5,788 compared to 3,588. Lots sold to D.R. Horton totaled 4,771 compared to 3,358.
- Forestar's pre-tax income was \$63.2 million compared to \$37.6 million.
- Forestar's pre-tax income was 15.0% of revenues compared to 13.1%.
- Forestar's cash and cash equivalents totaled \$233.7 million compared to \$153.6 million and \$167.2 million at September 30, 2021 and March 31, 2021, respectively.

- Forestar's inventories totaled \$2.0 billion compared to \$1.9 billion and \$1.7 billion at September 30, 2021 and March 31, 2021, respectively.
- Forestar's owned and controlled lots totaled 96,500 compared to 97,000 and 84,500 at September 30, 2021 and March 31, 2021, respectively. Of these lots, 36,700 were under contract to sell to or subject to a right of first offer with D.R. Horton compared to 39,200 and 37,100 at September 30, 2021 and March 31, 2021, respectively.
- Forestar's debt was \$705.3 million compared to \$704.5 million and \$654.6 million at September 30, 2021 and March 31, 2021, respectively.
- Forestar's debt to total capital was 38.9% compared to 41.0% at both September 30, 2021 and March 31, 2021. Forestar's net debt to total capital was 29.9% compared to 35.2% and 34.1% at September 30, 2021 and March 31, 2021, respectively.

***Financial Services:***

- Financial services revenues decreased 1% to \$222.1 million compared to \$225.1 million.
- Financial services pre-tax income decreased 14% to \$92.8 million compared to \$107.7 million.
- Financial services pre-tax income was 41.8% of financial services revenues compared to 47.8%.

***Rental:***

- Rental revenues were \$222.9 million compared to no revenue in the prior year quarter.
- Rental pre-tax income was \$102.5 million compared to a pre-tax loss of \$6.4 million.
- Rental inventory totaled \$1.5 billion compared to \$840.9 million and \$543.5 million at September 30, 2021 and March 31, 2021, respectively.
- Rental units closed totaled 494 compared to none closed in the prior year quarter.

***Consolidated Results:***

- Consolidated revenues increased 24% to \$8.0 billion compared to \$6.4 billion.
- Consolidated pre-tax income increased 60% to \$1.9 billion compared to \$1.2 billion.
- Consolidated pre-tax income was 23.5% of consolidated revenues compared to 18.3%.
- Income tax expense was \$441.0 million compared to \$246.0 million, and our effective tax rate was 23.4% compared to 20.8%.
- Net income attributable to D.R. Horton increased 55% to \$1.4 billion compared to \$929.5 million.
- Diluted net income per common share attributable to D.R. Horton increased 59% to \$4.03 compared to \$2.53.
- Stockholders' equity was \$16.8 billion compared to \$14.9 billion and \$13.0 billion at September 30, 2021 and March 31, 2021, respectively.
- Book value per common share increased to \$47.66 compared to \$41.81 and \$35.96 at September 30, 2021 and March 31, 2021, respectively.
- Debt to total capital was 24.9% compared to 26.7% and 25.7% at September 30, 2021 and March 31, 2021, respectively. Net debt to total capital was 18.9% compared to 12.9% and 14.9% at September 30, 2021 and March 31, 2021, respectively.

Key financial results for the six months ended March 31, 2022, as compared to the same period of 2021, were as follows:

***Homebuilding:***

- Homebuilding revenues increased 19% to \$14.2 billion compared to \$11.9 billion.
- Homes closed decreased 1% to 38,224 homes, while the average closing price of those homes increased 20% to \$370,300.
- Net sales orders decreased 3% to 45,862 homes, while the value of net sales orders increased 18% to \$18.0 billion.
- Home sales gross margin was 28.2% compared to 24.4%.
- Homebuilding SG&A expense was 7.1% of homebuilding revenues compared to 7.7%.
- Homebuilding pre-tax income was \$3.0 billion compared to \$2.0 billion.
- Homebuilding pre-tax income was 21.0% of homebuilding revenues compared to 16.6%.
- Net cash used by homebuilding operations was \$416.2 million compared to net cash provided by homebuilding operations of \$190.5 million.

***Forestar:***

- Forestar's revenues increased 40% to \$829.2 million compared to \$594.2 million. Revenues in the current and prior year periods included \$719.8 million and \$562.5 million, respectively, of revenue from land and lot sales to our homebuilding segment.
- Forestar's lots sold increased 44% to 10,304 compared to 7,155. Lots sold to D.R. Horton totaled 8,785 compared to 6,747.
- Forestar's pre-tax income was \$116.7 million compared to \$66.8 million.
- Forestar's pre-tax income was 14.1% of revenues compared to 11.2%.

***Financial Services:***

- Financial services revenues decreased 1% to \$406.4 million compared to \$412.3 million.
- Financial services pre-tax income decreased 17% to \$159.9 million compared to \$191.8 million.
- Financial services pre-tax income was 39.3% of financial services revenues compared to 46.5%.

***Rental:***

- Rental revenues were \$379.4 million compared to \$31.8 million.
- Rental pre-tax income was \$172.5 million compared to \$2.2 million.
- Rental units closed totaled 1,071 compared to 124.

***Consolidated Results:***

- Consolidated revenues increased 22% to \$15.1 billion compared to \$12.4 billion.
- Consolidated pre-tax income increased 53% to \$3.4 billion compared to \$2.2 billion.
- Consolidated pre-tax income was 22.5% of consolidated revenues compared to 17.9%.
- Income tax expense was \$792.5 million compared to \$485.1 million, and our effective tax rate was 23.4% compared to 21.9%.
- Net income attributable to D.R. Horton increased 50% to \$2.6 billion compared to \$1.7 billion.
- Diluted net income per common share attributable to D.R. Horton increased 54% to \$7.20 compared to \$4.67.
- Net cash used in operations was \$834.6 million compared to \$154.9 million.

## **RESULTS OF OPERATIONS - HOMEBUILDING**

We conduct our homebuilding operations in the geographic regions, states and markets listed below, and we conduct our financial services operations in most 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.

<u>State</u>	<u>Reporting Region/Market</u>	<u>State</u>	<u>Reporting Region/Market</u>
	<b><u>Northwest Region</u></b>		<b><u>South Central Region</u></b>
<b>Colorado</b>	Colorado Springs	<b>Oklahoma</b>	Oklahoma City
	Denver		Tulsa
	Fort Collins	<b>Texas</b>	Austin
<b>Oregon</b>	Bend		Beaumont
	Eugene/Springfield		Bryan/College Station
	Portland/Salem		Corpus Christi
<b>Utah</b>	Salt Lake City		Dallas
	St. George		Fort Worth
<b>Washington</b>	Central Washington		Houston
	Seattle/Tacoma/Everett/Olympia		Killeen/Temple/Waco
	Spokane		Lubbock
	Vancouver		Midland/Odessa
			New Braunfels/San Marcos
			San Antonio
	<b><u>Southwest Region</u></b>		<b><u>East Region</u></b>
<b>Arizona</b>	Phoenix		Atlanta
	Tucson	<b>Georgia</b>	Augusta
<b>California</b>	Bakersfield		Savannah
	Bay Area		Asheville
	Fresno/Tulare	<b>North Carolina</b>	Charlotte
	Los Angeles County		Greensboro/Winston-Salem
	Modesto/Merced/Stockton		New Bern/Greenville
	Riverside County		Raleigh/Durham
	Sacramento		Wilmington
	San Bernardino County	<b>South Carolina</b>	Charleston
	San Diego County		Columbia
<b>Hawaii</b>	Oahu		Greenville/Spartanburg
<b>Nevada</b>	Las Vegas		Hilton Head
	Reno		Myrtle Beach
<b>New Mexico</b>	Albuquerque	<b>Tennessee</b>	Chattanooga
			Knoxville
			Memphis
			Nashville
	<b><u>Southeast Region</u></b>		<b><u>North Region</u></b>
<b>Alabama</b>	Birmingham	<b>Delaware</b>	Central Delaware
	Huntsville		Northern Delaware
	Mobile/Baldwin County	<b>Illinois</b>	Chicago
	Montgomery	<b>Indiana</b>	Fort Wayne
	Tuscaloosa		Indianapolis
<b>Florida</b>	Fort Myers/Naples		Northwest Indiana
	Gainesville	<b>Iowa</b>	Des Moines
	Jacksonville		Iowa City/Cedar Rapids
	Lakeland	<b>Kentucky</b>	Louisville
	Melbourne/Vero Beach	<b>Maryland</b>	Baltimore
	Miami/Fort Lauderdale		Suburban Washington, D.C.
	Ocala		Western Maryland
	Orlando	<b>Minnesota</b>	Minneapolis/St. Paul
	Pensacola/Panama City	<b>Nebraska</b>	Omaha
	Port St. Lucie	<b>New Jersey</b>	Northern New Jersey
	Tallahassee		Southern New Jersey
	Tampa/Sarasota	<b>Ohio</b>	Cincinnati
	Volusia County		Columbus
	West Palm Beach	<b>Pennsylvania</b>	Central Pennsylvania
<b>Louisiana</b>	Baton Rouge		Philadelphia
	Lake Charles/Lafayette	<b>Virginia</b>	Northern Virginia
<b>Mississippi</b>	Gulf Coast		Southern Virginia
		<b>West Virginia</b>	Eastern West Virginia

The following tables and related discussion set forth key operating and financial data for our homebuilding operations by reporting segment as of and for the three and six months ended March 31, 2022 and 2021. During the fourth quarter of fiscal 2021, we reassessed our operating segments and reportable segments and realigned the aggregation of our homebuilding operating segments into six new reportable segments to better allocate our homebuilding operating segments across geographic reporting regions. Segment information for the three and six months ended March 31, 2021 has been reclassified to conform to the current presentation.

**Net Sales Orders (1)**  
**Three Months Ended March 31,**

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Northwest	1,342	1,475	(9)%	\$ 768.1	\$ 716.3	7 %	\$ 572,400	\$ 485,600	18 %
Southwest	2,595	2,966	(13)%	1,403.2	1,246.6	13 %	540,700	420,300	29 %
South Central	7,328	7,698	(5)%	2,511.9	2,180.5	15 %	342,800	283,300	21 %
Southeast	6,849	8,642	(21)%	2,640.9	2,635.8	— %	385,600	305,000	26 %
East	3,765	4,397	(14)%	1,413.1	1,367.4	3 %	375,300	311,000	21 %
North	2,461	1,881	31 %	1,012.2	702.4	44 %	411,300	373,400	10 %
	<u>24,340</u>	<u>27,059</u>	<u>(10)%</u>	<u>\$ 9,749.4</u>	<u>\$ 8,849.0</u>	<u>10 %</u>	<u>\$ 400,600</u>	<u>\$ 327,000</u>	<u>23 %</u>

**Six Months Ended March 31,**

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Northwest	2,570	2,472	4 %	\$ 1,425.3	\$ 1,187.1	20 %	\$ 554,600	\$ 480,200	15 %
Southwest	4,896	5,194	(6)%	2,587.0	2,153.3	20 %	528,400	414,600	27 %
South Central	13,190	13,870	(5)%	4,458.0	3,856.3	16 %	338,000	278,000	22 %
Southeast	13,243	14,572	(9)%	4,925.7	4,363.2	13 %	371,900	299,400	24 %
East	7,745	8,075	(4)%	2,868.0	2,486.2	15 %	370,300	307,900	20 %
North	4,218	3,294	28 %	1,741.8	1,218.9	43 %	412,900	370,000	12 %
	<u>45,862</u>	<u>47,477</u>	<u>(3)%</u>	<u>\$ 18,005.8</u>	<u>\$ 15,265.0</u>	<u>18 %</u>	<u>\$ 392,600</u>	<u>\$ 321,500</u>	<u>22 %</u>

**Sales Order Cancellations**

**Three Months Ended March 31,**

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2022	2021	2022	2021	2022	2021
Northwest	139	149	\$ 73.3	\$ 71.8	9 %	9 %
Southwest	446	355	206.4	135.2	15 %	11 %
South Central	1,450	1,424	476.3	382.0	17 %	16 %
Southeast	1,397	1,769	481.6	515.1	17 %	17 %
East	718	948	249.9	282.0	16 %	18 %
North	358	272	141.2	92.5	13 %	13 %
	<u>4,508</u>	<u>4,917</u>	<u>\$ 1,628.7</u>	<u>\$ 1,478.6</u>	<u>16 %</u>	<u>15 %</u>

**Six Months Ended March 31,**

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2022	2021	2022	2021	2022	2021
Northwest	287	316	\$ 150.5	\$ 149.0	10 %	11 %
Southwest	889	754	411.7	282.1	15 %	13 %
South Central	2,789	2,729	910.0	724.6	17 %	16 %
Southeast	2,480	3,200	842.6	916.6	16 %	18 %
East	1,379	1,811	475.2	528.7	15 %	18 %
North	604	515	238.8	175.2	13 %	14 %
	<u>8,428</u>	<u>9,325</u>	<u>\$ 3,028.8</u>	<u>\$ 2,776.2</u>	<u>16 %</u>	<u>16 %</u>

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

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

**Net Sales Orders**

The number of net sales orders decreased 10% and 3% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods. The value of net sales orders increased 10% to \$9.7 billion (24,340 homes) and 18% to \$18.0 billion (45,862 homes) for the three and six months ended March 31, 2022, respectively, compared to \$8.8 billion (27,059 homes) and \$15.3 billion (47,477 homes) in the prior year periods, due to the increase in our average selling price. The average selling price of net sales orders during the three and six months ended March 31, 2022 was \$400,600 and \$392,600, respectively, up 23% and 22% from the prior year periods.

Demand for our homes during the first half of fiscal 2022 remained strong. However, multiple disruptions in the supply chain, combined with the strong demand for new homes, have resulted in shortages in certain building materials, which, together with tightness in the labor market, has caused our construction cycle to lengthen. As a result, we have slowed our home sales pace to more closely align with our production levels, and we are selling homes later in the construction cycle when we have more certainty regarding the home close date for our homebuyers. Based on the stage of completion of our current homes in inventory, production schedules and capacity, we expect to continue restricting the pace of our sales orders as necessary in our communities in the near term to match our production levels. Although these challenges may persist to some degree for some time, we currently expect to close more homes in fiscal 2022 than we closed in fiscal 2021.

The number of net sales orders decreased 10% in the three months ended March 31, 2022 compared to the prior year period. In regions with a decrease in sales order volume, the markets contributing most to the decreases were: the Seattle and Denver markets in the Northwest; the Phoenix market in the Southwest; the Fort Worth market in the South Central; the Louisiana, Tampa and Orlando markets in the Southeast; and the Charlotte, Greenville and Atlanta markets in the East. The markets contributing most to the increase in sales order volume in the North were the Indianapolis, Ohio and Chicago markets.

The number of net sales orders decreased 3% in the six months ended March 31, 2022 compared to the prior year period. In regions with a decrease in sales order volume, the markets contributing most to the decreases were: the Arizona markets in the Southwest; the Fort Worth market in the South Central; the Louisiana and Orlando markets in the Southeast; and the Atlanta and Charlotte markets in the East. In regions with an increase in sales order volume, the markets contributing most to the increases were: the Portland and Salt Lake City markets in the Northwest and the Indianapolis, Chicago and Iowa markets in the North.

Our sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 16% in both the three and six months ended March 31, 2022 compared to 15% and 16% in the prior year periods.

**Sales Order Backlog  
As of March 31,**

	Homes in Backlog			Value (In millions)			Average Selling Price		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Northwest .....	1,353	1,648	(18)%	\$ 737.6	\$ 784.5	(6)%	\$ 545,200	\$ 476,000	15 %
Southwest .....	4,069	4,534	(10)%	2,036.4	1,756.3	16 %	500,500	387,400	29 %
South Central ...	10,876	10,777	1 %	3,754.6	3,046.9	23 %	345,200	282,700	22 %
Southeast .....	9,734	10,269	(5)%	3,703.9	3,156.9	17 %	380,500	307,400	24 %
East .....	5,365	5,845	(8)%	2,045.9	1,838.9	11 %	381,300	314,600	21 %
North .....	2,462	2,772	(11)%	1,034.9	1,029.9	— %	420,300	371,500	13 %
	<u>33,859</u>	<u>35,845</u>	<u>(6)%</u>	<u>\$13,313.3</u>	<u>\$11,613.4</u>	<u>15 %</u>	<u>\$ 393,200</u>	<u>\$ 324,000</u>	<u>21 %</u>

**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

#### Three Months Ended March 31,

	Homes Closed			Value (In millions)			Average Selling Price		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Northwest .....	1,146	1,161	(1)%	\$ 636.5	\$ 548.5	16 %	\$ 555,400	\$ 472,400	18 %
Southwest .....	2,321	2,260	3 %	1,135.0	909.4	25 %	489,000	402,400	22 %
South Central .....	5,610	5,210	8 %	1,836.4	1,383.5	33 %	327,300	265,500	23 %
Southeast .....	5,504	5,967	(8)%	1,946.3	1,710.7	14 %	353,600	286,700	23 %
East .....	3,469	3,590	(3)%	1,216.8	1,070.7	14 %	350,800	298,200	18 %
North .....	1,778	1,513	18 %	728.2	547.6	33 %	409,600	361,900	13 %
	<u>19,828</u>	<u>19,701</u>	<u>1 %</u>	<u>\$ 7,499.2</u>	<u>\$ 6,170.4</u>	<u>22 %</u>	<u>\$ 378,200</u>	<u>\$ 313,200</u>	<u>21 %</u>

#### Six Months Ended March 31,

	Homes Closed			Value (In millions)			Average Selling Price		
	2022	2021	% Change	2022	2021	% Change	2022	2021	% Change
Northwest .....	2,171	2,368	(8)%	\$ 1,185.4	\$ 1,095.7	8 %	\$ 546,000	\$ 462,700	18 %
Southwest .....	4,265	4,402	(3)%	2,046.5	1,738.4	18 %	479,800	394,900	21 %
South Central .....	11,047	10,431	6 %	3,528.8	2,746.0	29 %	319,400	263,300	21 %
Southeast .....	10,828	11,225	(4)%	3,756.5	3,174.9	18 %	346,900	282,800	23 %
East .....	6,597	7,087	(7)%	2,291.5	2,073.8	10 %	347,400	292,600	19 %
North .....	3,316	2,927	13 %	1,346.9	1,040.3	29 %	406,200	355,400	14 %
	<u>38,224</u>	<u>38,440</u>	<u>(1)%</u>	<u>\$14,155.6</u>	<u>\$11,869.1</u>	<u>19 %</u>	<u>\$ 370,300</u>	<u>\$ 308,800</u>	<u>20 %</u>

#### Home Sales Revenue

Revenues from home sales increased 22% to \$7.5 billion (19,828 homes closed) for the three months ended March 31, 2022 from \$6.2 billion (19,701 homes closed) in the prior year period. Revenues from home sales increased 19% to \$14.2 billion (38,224 homes closed) for the six months ended March 31, 2022 from \$11.9 billion (38,440 homes closed) in the prior year period. Although home closings in recent quarters have been negatively impacted by supply chain disruptions, home sales revenues increased in all of our regions due to an increase in average selling price.

The number of homes closed increased 1% in the three months ended March 31, 2022 compared to the prior year period. In regions with an increase in closings volume, the markets contributing most to the increases were: the Phoenix market in the Southwest; the Dallas and Houston markets in the South Central; and the Chicago, Iowa and New Jersey markets in the North. In regions with a decrease in closings volume, the markets contributing most to the decreases were: the Seattle market in the Northwest; the Orlando market in the Southeast; and the Atlanta market in the East.

The number of homes closed decreased 1% in the six months ended March 31, 2022 compared to the prior year period. In regions with a decrease in closings volume, the markets contributing most to the decreases were: the Seattle market in the Northwest; the Las Vegas market in the Southwest; the Orlando market in the Southeast; and the Atlanta market in the East. In regions with an increase in closings volume, the markets contributing most to the increases were: the Dallas and Fort Worth markets in the South Central and the Chicago and New Jersey markets in the North.

## Homebuilding Operating Margin Analysis

	Percentages of Related Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
Gross profit – home sales .....	28.9 %	24.6 %	28.2 %	24.4 %
Gross profit – land/lot sales and other .....	56.6 %	17.5 %	33.1 %	21.0 %
Inventory and land option charges .....	(0.1)%	(0.1)%	(0.1)%	(0.1)%
Gross profit – total homebuilding .....	28.8 %	24.5 %	28.1 %	24.3 %
Selling, general and administrative expense .....	6.8 %	7.6 %	7.1 %	7.7 %
Other (income) expense .....	— %	— %	(0.1)%	— %
Homebuilding pre-tax income .....	22.0 %	17.0 %	21.0 %	16.6 %

### ***Home Sales Gross Profit***

Gross profit from home sales increased to \$2.2 billion in the three months ended March 31, 2022 from \$1.5 billion in the prior year period and increased 430 basis points to 28.9% as a percentage of home sales revenues. The percentage increase resulted from improvements of 420 basis points due to the average selling price of our homes closed increasing by more than the average cost of those homes and 20 basis points due to a decrease in the amortization of capitalized interest, partially offset by increased warranty and construction defect costs of 10 basis points.

Gross profit from home sales increased to \$4.0 billion in the six months ended March 31, 2022 from \$2.9 billion in the prior year period and increased 380 basis points to 28.2% as a percentage of home sales revenues. The percentage increase resulted from improvements of 380 basis points due to the average selling price of our homes closed increasing by more than the average cost of those homes and 10 basis points due to a decrease in the amortization of capitalized interest, partially offset by increased warranty and construction defect costs of 10 basis points.

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. If new home demand declines from current levels, we would expect our gross profit margins to also decline.

### ***Land/Lot Sales and Other Revenues***

Land/lot sales and other revenues from our homebuilding operations were \$7.6 million and \$30.5 million in the three and six months ended March 31, 2022, respectively, and \$15.4 million and \$33.3 million in the comparable periods of fiscal 2021.

We continually evaluate our land and lot supply, and fluctuations in revenues and profitability from land sales occur based on how we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, some of the land that we purchase includes commercially zoned parcels that we may sell to commercial developers. We may also sell residential lots or land parcels to manage our supply or for other strategic reasons. As of March 31, 2022, our homebuilding operations had \$21.6 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, we review the performance and outlook for all of our communities and land inventories for indicators of potential impairment and perform detailed impairment evaluations and analyses when necessary. As a result of this review, there were no impairments recorded in our homebuilding segment during the three and six months ended March 31, 2022. There were no impairment charges recorded in the prior year quarter and \$5.6 million of impairment charges recorded in our homebuilding segment in the six months ended March 31, 2021.

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. If the housing market or economic conditions are adversely affected for a prolonged period, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges which could be significant.

During the three and six months ended March 31, 2022, earnest money and pre-acquisition cost write-offs related to land purchase contracts that we have terminated or expect to terminate were \$9.8 million and \$13.7 million, respectively, compared to \$3.2 million and \$5.6 million in the same periods of fiscal 2021.

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

SG&A expense from homebuilding activities increased 8% to \$507.3 million and 10% to \$1.0 billion in the three and six months ended March 31, 2022, respectively, from \$467.6 million and \$917.0 million in the prior year periods. SG&A expense as a percentage of homebuilding revenues was 6.8% and 7.1% in the three and six months ended March 31, 2022, respectively, compared to 7.6% and 7.7% in the prior year periods.

Employee compensation and related costs were \$420.4 million and \$830.1 million in the three and six months ended March 31, 2022, respectively, compared to \$382.3 million and \$738.3 million in the same periods of fiscal 2021. Employee compensation and related costs represented 83% of SG&A costs in both the three and six months ended March 31, 2022 compared to 82% and 81%, respectively, in the prior year periods. These costs increased 10% and 12% in the three and six months ended March 31, 2022, respectively, from the prior year periods. Our homebuilding operations employed 9,160 and 7,916 people at March 31, 2022 and 2021, 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 was \$25.6 million and \$50.4 million in the three and six months ended March 31, 2022, respectively, compared to \$22.6 million and \$47.0 million in the prior year periods. Interest charged to cost of sales was 0.7% of total cost of sales (excluding inventory and land option charges) in both the three and six months ended March 31, 2022 compared to 0.7% and 0.8% in the prior year periods.

### ***Other Income***

Other income, net of other expenses, included in our homebuilding operations was \$1.6 million and \$7.9 million in the three and six months ended March 31, 2022, respectively, compared to \$1.8 million and \$3.9 million in the prior year periods. Other income consists of interest 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.

**Homebuilding Results by Reporting Region**

	<b>Three Months Ended March 31,</b>					
	<b>2022</b>			<b>2021</b>		
	<b>Homebuilding Revenues</b>	<b>Homebuilding Pre-tax Income (1)</b>	<b>% of Revenues</b>	<b>Homebuilding Revenues</b>	<b>Homebuilding Pre-tax Income (1)</b>	<b>% of Revenues</b>
	(In millions)					
Northwest.....	\$ 637.0	\$ 148.2	23.3 %	\$ 548.5	\$ 93.9	17.1 %
Southwest.....	1,135.1	226.6	20.0 %	912.9	130.5	14.3 %
South Central.....	1,838.4	416.0	22.6 %	1,384.7	251.9	18.2 %
Southeast.....	1,946.5	482.2	24.8 %	1,720.7	317.2	18.4 %
East.....	1,219.5	265.9	21.8 %	1,070.9	185.2	17.3 %
North.....	730.3	113.9	15.6 %	548.1	73.4	13.4 %
	<u>\$ 7,506.8</u>	<u>\$ 1,652.8</u>	<u>22.0 %</u>	<u>\$ 6,185.8</u>	<u>\$ 1,052.1</u>	<u>17.0 %</u>
	<b>Six Months Ended March 31,</b>					
	<b>2022</b>			<b>2021</b>		
	<b>Homebuilding Revenues</b>	<b>Homebuilding Pre-tax Income (1)</b>	<b>% of Revenues</b>	<b>Homebuilding Revenues</b>	<b>Homebuilding Pre-tax Income (1)</b>	<b>% of Revenues</b>
	(In millions)					
Northwest.....	\$ 1,205.9	\$ 260.0	21.6 %	\$ 1,096.5	\$ 180.7	16.5 %
Southwest.....	2,046.7	385.9	18.9 %	1,751.5	245.7	14.0 %
South Central.....	3,532.7	770.3	21.8 %	2,748.2	491.9	17.9 %
Southeast.....	3,757.5	897.7	23.9 %	3,185.7	564.4	17.7 %
East.....	2,294.3	468.2	20.4 %	2,078.6	355.9	17.1 %
North.....	1,349.0	203.8	15.1 %	1,041.9	136.1	13.1 %
	<u>\$ 14,186.1</u>	<u>\$ 2,985.9</u>	<u>21.0 %</u>	<u>\$ 11,902.4</u>	<u>\$ 1,974.7</u>	<u>16.6 %</u>

- (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.

*Northwest Region* — Homebuilding revenues increased 16% and 10% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, due to increases in the average selling price of homes closed in all markets. The region generated pre-tax income of \$148.2 million and \$260.0 million in the three and six months ended March 31, 2022, respectively, compared to \$93.9 million and \$180.7 million in the prior year periods. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased by 560 and 530 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 60 and 10 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

*Southwest Region* — Homebuilding revenues increased 24% and 17% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to increases in the average selling price of homes closed in most markets. The region generated pre-tax income of \$226.6 million and \$385.9 million in the three and six months ended March 31, 2022, respectively, compared to \$130.5 million and \$245.7 million in the prior year periods. Home sales gross profit percentage increased by 440 and 400 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 120 and 80 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

*South Central Region* — Homebuilding revenues increased 33% and 29% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to increases in the average selling price of homes closed in all markets. The region generated pre-tax income of \$416.0 million and \$770.3 million in the three and six months ended March 31, 2022, respectively, compared to \$251.9 million and \$491.9 million in the prior year periods. Home sales gross profit percentage increased by 360 and 310 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 100 and 90 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

*Southeast Region* — Homebuilding revenues increased 13% and 18% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, due to the increases in the average selling price of homes closed in most markets. The region generated pre-tax income of \$482.2 million and \$897.7 million in the three and six months ended March 31, 2022, respectively, compared to \$317.2 million and \$564.4 million in the prior year periods. Home sales gross profit percentage increased by 550 and 510 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 70 and 80 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

*East Region* — Homebuilding revenues increased 14% and 10% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, due to increases in the average selling price of homes closed in all markets. The region generated pre-tax income of \$265.9 million and \$468.2 million in the three and six months ended March 31, 2022, respectively, compared to \$185.2 million and \$355.9 million in the prior year periods. Home sales gross profit percentage increased by 420 and 310 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 50 and 20 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

*North Region* — Homebuilding revenues increased 33% and 29% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to increases in the average selling price of homes closed in all markets. The region generated pre-tax income of \$113.9 million and \$203.8 million in the three and six months ended March 31, 2022, respectively, compared to \$73.4 million and \$136.1 million in the prior year periods. Home sales gross profit percentage increased by 170 and 180 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the average selling price of homes closed increasing by more than the average cost of those homes. As a percentage of homebuilding revenues, SG&A expenses decreased by 60 and 30 basis points in the three and six months ended March 31, 2022, respectively, compared to the prior year periods, primarily due to the increase in homebuilding revenues.

## 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 March 31, 2022 and September 30, 2021 are summarized as follows:

<b>As of March 31, 2022</b>					
	<b>Construction in Progress and Finished Homes</b>	<b>Residential Land/Lots Developed and Under Development</b>	<b>Land Held for Development</b>	<b>Land Held for Sale</b>	<b>Total Inventory</b>
(In millions)					
Northwest .....	\$ 726.7	\$ 838.6	\$ —	\$ 1.7	\$ 1,567.0
Southwest .....	1,521.0	1,338.9	7.0	18.9	2,885.8
South Central .....	2,547.0	1,536.4	0.3	0.7	4,084.4
Southeast .....	2,526.4	1,264.7	13.1	—	3,804.2
East .....	1,492.7	941.6	—	—	2,434.3
North .....	1,107.2	551.3	5.3	—	1,663.8
Corporate and unallocated (1) .....	126.5	79.3	0.3	0.3	206.4
	<u>\$ 10,047.5</u>	<u>\$ 6,550.8</u>	<u>\$ 26.0</u>	<u>\$ 21.6</u>	<u>\$ 16,645.9</u>
<b>As of September 30, 2021</b>					
	<b>Construction in Progress and Finished Homes</b>	<b>Residential Land/Lots Developed and Under Development</b>	<b>Land Held for Development</b>	<b>Land Held for Sale</b>	<b>Total Inventory</b>
(In millions)					
Northwest .....	\$ 609.6	\$ 685.4	\$ —	\$ 12.5	\$ 1,307.5
Southwest .....	1,113.5	1,315.8	6.9	9.4	2,445.6
South Central .....	1,977.4	1,501.5	0.4	—	3,479.3
Southeast .....	2,002.4	1,160.1	16.1	—	3,178.6
East .....	1,124.6	792.3	1.3	1.4	1,919.6
North .....	901.4	460.4	5.3	1.8	1,368.9
Corporate and unallocated (1) .....	119.1	88.5	0.4	0.3	208.3
	<u>\$ 7,848.0</u>	<u>\$ 6,004.0</u>	<u>\$ 30.4</u>	<u>\$ 25.4</u>	<u>\$ 13,907.8</u>

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

Our land and lot position and homes in inventory at March 31, 2022 and September 30, 2021 are summarized as follows:

<b>As of March 31, 2022</b>				
	<b>Land/Lots Owned (1)</b>	<b>Lots Controlled Through Land and Lot Purchase Contracts (2)(3)</b>	<b>Total Land/Lots Owned and Controlled</b>	<b>Homes in Inventory (4)</b>
Northwest .....	10,500	32,200	42,700	3,100
Southwest .....	22,300	38,000	60,300	7,200
South Central .....	41,400	68,600	110,000	17,500
Southeast .....	26,200	131,900	158,100	17,100
East .....	20,200	107,000	127,200	9,200
North .....	10,600	65,100	75,700	5,700
	<u>131,200</u>	<u>442,800</u>	<u>574,000</u>	<u>59,800</u>
	<u>23 %</u>	<u>77 %</u>	<u>100 %</u>	
<b>As of September 30, 2021</b>				
	<b>Land/Lots Owned (1)</b>	<b>Lots Controlled Through Land and Lot Purchase Contracts (2)(3)</b>	<b>Total Land/Lots Owned and Controlled</b>	<b>Homes in Inventory (4)</b>
Northwest .....	9,000	31,400	40,400	2,600
Southwest .....	22,800	34,300	57,100	5,500
South Central .....	42,800	79,000	121,800	14,000
Southeast .....	26,700	125,500	152,200	13,600
East .....	17,300	83,100	100,400	7,300
North .....	9,200	49,200	58,400	4,800
	<u>127,800</u>	<u>402,500</u>	<u>530,300</u>	<u>47,800</u>
	<u>24 %</u>	<u>76 %</u>	<u>100 %</u>	

- (1) Land/lots owned included approximately 30,200 and 30,800 owned lots that are fully developed and ready for home construction at March 31, 2022 and September 30, 2021, respectively. Land/lots owned also included land held for development representing 600 and 1,300 lots at March 31, 2022 and September 30, 2021, respectively.
- (2) The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2022 and September 30, 2021 was \$18.7 billion and \$15.5 billion, respectively, secured by earnest money deposits of \$1.4 billion and \$1.1 billion, respectively. The total remaining purchase price of lots controlled through land and lot purchase contracts at March 31, 2022 and September 30, 2021 included \$1.5 billion and \$1.6 billion, respectively, related to lot purchase contracts with Forestar, secured by \$137.7 million and \$151.0 million, respectively, of earnest money.
- (3) Lots controlled at March 31, 2022 included approximately 36,700 lots owned or controlled by Forestar, 19,100 of which our homebuilding divisions have under contract to purchase and 17,600 of which our homebuilding divisions have a right of first offer to purchase. Of these, approximately 15,500 lots were in our Southeast region, 6,300 lots were in our East region, 5,400 lots were in our Southwest region, 4,600 lots were in our South Central region, 3,600 lots were in our North region and 1,300 lots were in our Northwest region. Lots controlled at September 30, 2021 included approximately 39,200 lots owned or controlled by Forestar, 21,000 of which our homebuilding divisions had under contract to purchase and 18,200 of which our homebuilding divisions had a right of first offer to purchase.
- (4) Approximately 26,000 and 21,700 of our homes in inventory were unsold at March 31, 2022 and September 30, 2021, respectively. At March 31, 2022, approximately 600 of our unsold homes were completed, of which approximately 60 homes had been completed for more than six months. At September 30, 2021, approximately 900 of our unsold homes were completed, of which approximately 100 homes had been completed for more than six months. Homes in inventory exclude approximately 1,800 model homes at both March 31, 2022 and September 30, 2021.

**RESULTS OF OPERATIONS – FORESTAR**

In fiscal 2018, we acquired 75% of the outstanding shares of Forestar and at March 31, 2022, we owned 63% of its outstanding shares. Forestar is a publicly traded residential lot development company with operations in 53 markets across 23 states as of March 31, 2022. Forestar’s segment results are presented on their historical cost basis, consistent with the manner in which management evaluates segment performance. (See Note B to the accompanying financial statements for additional Forestar segment information.)

Results of operations for the Forestar segment for the three and six months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Total revenues .....	\$ 421.6	\$ 287.1	\$ 829.2	\$ 594.2
Cost of land/lot sales and other .....	328.7	233.2	662.3	495.8
Inventory and land option charges .....	5.4	0.6	6.0	0.9
Total cost of sales .....	\$ 334.1	\$ 233.8	\$ 668.3	\$ 496.7
Selling, general and administrative expense .....	24.3	16.3	45.8	31.8
Other (income) expense .....	—	(0.6)	(1.6)	(1.1)
Income before income taxes .....	\$ 63.2	\$ 37.6	\$ 116.7	\$ 66.8

Revenues are primarily derived from sales of single-family residential lots to local, regional and national homebuilders. During the three and six months ended March 31, 2022, Forestar sold 5,788 and 10,304 single-family lots, respectively, compared to 3,588 and 7,155 single-family lots in the prior year periods. Of the total lots sold, Forestar sold 4,771 lots to D.R. Horton for \$389.7 million and 8,785 lots for \$719.8 million during the three and six months ended March 31, 2022, respectively, compared to 3,358 lots for \$265.3 million and 6,747 lots for \$559.5 million in the prior year periods.

SG&A expense for the three and six months ended March 31, 2022 included charges of \$1.0 million and \$2.0 million, respectively, related to the shared services agreement between Forestar and D.R. Horton whereby D.R. Horton provides Forestar with certain administrative, compliance, operational and procurement services. Shared services charges were \$0.9 million and \$2.0 million, respectively, in the same periods of fiscal 2021.

At March 31, 2022, Forestar owned directly or controlled through land and lot purchase contracts approximately 96,500 residential lots, of which 5,100 are fully developed. Approximately 36,700 of these lots are under contract to sell to D.R. Horton or subject to a right of first offer under the master supply agreement with D.R. Horton, and 1,000 of these lots are under contract to sell to other builders.

**RESULTS OF OPERATIONS – FINANCIAL SERVICES**

The following tables and related discussion set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and six months ended March 31, 2022 and 2021.

	Three Months Ended March 31,			Six Months Ended March 31,		
	2022	2021	% Change	2022	2021	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers ....	13,551	13,227	2 %	25,640	25,949	(1)%
Number of homes closed by D.R. Horton .....	19,828	19,701	1 %	38,224	38,440	(1)%
Percentage of D.R. Horton homes financed by DHI Mortgage .....	68 %	67 %		67 %	68 %	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers .....	13,571	13,240	3 %	25,682	25,978	(1)%
Total number of loans originated or brokered by DHI Mortgage .....	13,777	13,553	2 %	26,191	26,626	(2)%
Captive business percentage .....	99 %	98 %		98 %	98 %	
Loans sold by DHI Mortgage to third parties .....	12,527	12,371	1 %	25,598	25,829	(1)%

	Three Months Ended March 31,			Six Months Ended March 31,		
	2022	2021	% Change	2022	2021	% Change
	(In millions)					
Loan origination and other fees .....	\$ 11.4	\$ 11.7	(3)%	\$ 20.9	\$ 22.9	(9)%
Gains on sale of mortgage loans and mortgage servicing rights .....	168.0	178.6	(6)%	302.0	317.4	(5)%
Servicing income .....	0.5	—	— %	1.1	2.4	(54)%
Total mortgage operations revenues .....	179.9	190.3	(5)%	324.0	342.7	(5)%
Title policy premiums .....	42.2	34.8	21 %	82.4	69.6	18 %
Total revenues .....	222.1	225.1	(1)%	406.4	412.3	(1)%
General and administrative expense .....	138.0	123.7	12 %	263.2	233.3	13 %
Other (income) expense .....	(8.7)	(6.3)	38 %	(16.7)	(12.8)	30 %
Financial services pre-tax income .....	\$ 92.8	\$ 107.7	(14)%	\$ 159.9	\$ 191.8	(17)%

**Financial Services Operating Margin Analysis**

	Percentages of Financial Services Revenues			
	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
General and administrative expense .....	62.1 %	55.0 %	64.8 %	56.6 %
Other (income) expense .....	(3.9)%	(2.8)%	(4.1)%	(3.1)%
Financial services pre-tax income .....	41.8 %	47.8 %	39.3 %	46.5 %

### ***Mortgage Loan Activity***

The volume of loans originated by our mortgage operations is directly related to the number of homes closed by our homebuilding operations. In the three and six months ended March 31, 2022, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased 2% and decreased 1%, respectively, from the prior year periods corresponding to the change in the number of homes closed by our homebuilding operations.

Homes closed by our homebuilding operations constituted 99% and 98% of DHI Mortgage loan originations in the three and six months ended March 31, 2022, respectively, compared to 98% in both prior year periods. These percentages reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 1% and decreased 1% in the three and six months ended March 31, 2022, respectively, compared to the prior year periods. Virtually all of the mortgage loans held for sale on March 31, 2022 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 six months ended March 31, 2022, approximately 68% of our mortgage loans were sold directly to Fannie Mae, Freddie Mac or into securities backed by Ginnie Mae, and 24% 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 \$179.9 million and \$324.0 million in the three and six months ended March 31, 2022, respectively, from \$190.3 million and \$342.7 million in the prior year periods, primarily due to competitive pricing pressure in the secondary mortgage market. Revenues from our title operations increased 21% to \$42.2 million and 18% to \$82.4 million in the three and six months ended March 31, 2022, respectively, from \$34.8 million and \$69.6 million in the prior year periods, 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 12% to \$138.0 million and 13% to \$263.2 million in the three and six months ended March 31, 2022, respectively, from \$123.7 million and \$233.3 million in the prior year periods. As a percentage of financial services revenues, G&A expense was 62.1% and 64.8% in the three and six months ended March 31, 2022, respectively, compared to 55.0% and 56.6% in the prior year periods. The increase was primarily due to an increase in the number of employees to support 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 2,990 and 2,578 people at March 31, 2022 and 2021, 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 competitive pricing pressure in the secondary mortgage market and an increase in employee related G&A expenses, pre-tax income from our financial services operations decreased 17% to \$159.9 million in the six months ended March 31, 2022 from \$191.8 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, with a primary focus on constructing garden style multi-family rental communities typically accommodating 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 and six months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2022	2021	2022	2021
	(In millions)			
Revenues				
Single-family rental .....	\$ 172.9	\$ —	\$ 253.2	\$ 31.8
Multi-family rental .....	50.0	—	126.2	—
Total revenues .....	222.9	—	379.4	31.8
Cost of sales				
Single-family rental .....	77.5	—	113.8	17.8
Multi-family rental .....	25.0	—	61.5	—
Total cost of sales .....	102.5	—	175.3	17.8
Selling, general and administrative expense .....	22.8	11.6	41.4	20.9
Other (income) expense .....	(4.9)	(5.2)	(9.8)	(9.1)
Income before income taxes .....	\$ 102.5	\$ (6.4)	\$ 172.5	\$ 2.2

During the three months ended March 31, 2022, we sold one multi-family rental property (126 total units) for \$50.0 million, and during the six months ended March 31, 2022, we sold two multi-family rental properties (477 total units) for \$126.2 million. There were no sales of multi-family rental properties during the prior year periods. During the three months ended March 31, 2022, we sold three single-family rental properties (368 total homes) for \$172.9 million, and during the six months ended March 31, 2022, we sold five single-family rental properties (594 total homes) for \$253.2 million. There were no sales of single-family rental properties during the prior year quarter and one property (124 total homes) sold for \$31.8 million in the prior year six month period.

At March 31, 2022, our rental property inventory of \$1.5 billion included \$597.4 million of inventory related to our multi-family rental operations and \$902.7 million of inventory related to our single-family rental operations. At March 31, 2022, we had 16 multi-family rental properties, consisting of 4,830 units, under active construction and one community, consisting of 300 units, that was substantially complete and in the lease-up phase. At March 31, 2022, we had 98 single-family rental properties that included 6,350 homes and finished lots, of which 1,300 homes were completed, and 4,000 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, we had 55 single-family rental properties that 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 \$13.6 million and \$24.3 million in the three and six months ended March 31, 2022, respectively, compared to \$6.5 million and \$12.7 million in the prior year periods.

## RESULTS OF OPERATIONS - CONSOLIDATED

### *Income before Income Taxes*

Pre-tax income for the three and six months ended March 31, 2022 was \$1.9 billion and \$3.4 billion, respectively, compared to \$1.2 billion and \$2.2 billion in the prior year periods. 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 and six months ended March 31, 2022 was \$441.0 million and \$792.5 million, respectively, compared to \$246.0 million and \$485.1 million in the prior year periods. Our effective tax rate was 23.4% for both the three and six months ended March 31, 2022 compared to 20.8% and 21.9%, respectively, in the prior year periods. The effective tax rates for all 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 expired for homes closed after December 31, 2021.

Our deferred tax assets, net of deferred tax liabilities, were \$135.7 million at March 31, 2022 compared to \$159.5 million at September 30, 2021. We have a valuation allowance of \$4.0 million and \$4.2 million at March 31, 2022 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 March 31, 2022, we had outstanding notes payable with varying maturities totaling an aggregate principal amount of \$5.6 billion, with \$2.4 billion payable within 12 months, including \$1.6 billion outstanding under the mortgage repurchase facility. At March 31, 2022, our ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 24.9% compared to 26.7% at September 30, 2021 and 25.7% at March 31, 2021. Our net debt to total capital (notes payable net of cash divided by stockholders' equity plus notes payable net of cash) was 18.9% at March 31, 2022 compared to 12.9% at September 30, 2021 and 14.9% at March 31, 2021.

At March 31, 2022, our ratio of homebuilding debt to total capital (homebuilding notes payable divided by stockholders' equity plus homebuilding notes payable) was 16.4% compared to 17.8% at September 30, 2021 and 16.8% at March 31, 2021. 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 11.2% at March 31, 2022 compared to 1.7% at September 30, 2021 and 5.3% at March 31, 2021. 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 March 31, 2022, we had outstanding letters of credit of \$236.1 million and surety bonds of \$2.5 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 March 31, 2022, \$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 March 31, 2022, cash and cash equivalents of our homebuilding segment totaled \$1.2 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 total revolving credit commitments. Letters of credit issued under the facility reduce the available borrowing capacity. The maturity date of the facility is April 20, 2026. Borrowings and repayments under the facility totaled \$750 million each during the six months ended March 31, 2022. At March 31, 2022, there were no borrowings outstanding and \$175.6 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 March 31, 2022, 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 March 31, 2022 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 March 31, 2022, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Our homebuilding revolving credit facility and senior notes are guaranteed by D.R. Horton, Inc.'s significant wholly-owned homebuilding subsidiaries.

*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. During the six months ended March 31, 2022, we repurchased 5.8 million shares of our common stock for \$544.2 million. At March 31, 2022, the full amount of the debt repurchase authorization was remaining, and \$2.0 million of the stock repurchase authorization was remaining. In April 2022, our Board of Directors authorized the repurchase of up to \$1.0 billion of our common stock, replacing the prior stock repurchase authorization. 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 March 31, 2022, Forestar's ratio of debt to total capital (notes payable divided by stockholders' equity plus notes payable) was 38.9% compared to 41.0% at both September 30, 2021 and March 31, 2021. 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 29.9% compared to 35.2% at September 30, 2021 and 34.1% at March 31, 2021.

*Cash and Cash Equivalents* — At March 31, 2022, Forestar had cash and cash equivalents of \$233.7 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 total revolving credit commitments. Borrowings under the revolving credit facility are subject to a borrowing base calculation based on the book value of Forestar's 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 March 31, 2022, there were no borrowings outstanding and \$60.5 million of letters of credit issued under the revolving credit facility, resulting in available capacity of \$349.5 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 March 31, 2022, 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 the debt of our homebuilding, financial services or rental operations. At March 31, 2022, 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 March 31, 2022, and the authorization has no expiration date.

*Issuance of Common Stock* — During the six months ended March 31, 2022, 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 March 31, 2022, \$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 March 31, 2022, cash and cash equivalents of our financial services operations totaled \$102.1 million.

*Mortgage Repurchase Facility* — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties upon receipt of funds from the counterparties. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2022, the mortgage repurchase facility was amended to increase its capacity and extend its maturity date to February 17, 2023. The total capacity of the facility is \$1.6 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 March 31, 2022 was \$2.1 billion.

As of March 31, 2022, \$2.2 billion of mortgage loans held for sale with a collateral value of \$2.2 billion were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling \$619.9 million, DHI Mortgage had an obligation of \$1.6 billion outstanding under the mortgage repurchase facility at March 31, 2022 at a 1.9% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the debt of our homebuilding, Forestar or rental operations. 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 March 31, 2022, 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 March 31, 2022, cash and cash equivalents of our rental operations segment totaled \$141.1 million. During fiscal 2021 and through the first half of fiscal 2022, we substantially increased the investment in our rental operations. The inventory in our rental segment totaled \$1.5 billion at March 31, 2022 compared to \$840.9 million at September 30, 2021 and \$543.5 million at March 31, 2021. To date, we have funded our rental operations with capital from our homebuilding operations.

*Bank Credit Facility* — In March 2022, our rental subsidiary, DRH Rental, entered into a \$625 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to \$1.25 billion, subject to certain conditions and availability of additional bank commitments. On March 17, 2022, DRH Rental utilized the accordion feature and increased the size of the facility to \$750 million through an additional commitment. 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 total revolving credit commitments. Availability under the revolving credit facility is subject to a borrowing base calculation based on the book value of DRH Rental's real estate assets and unrestricted cash. At March 31, 2022, the borrowing base limited the available capacity under the facility to \$486 million and there were no borrowings outstanding or letters of credit issued under the facility. The maturity date of the facility is March 4, 2026.

The revolving credit facility includes customary affirmative and negative covenants, events of default and financial covenants. The financial covenants require DRH Rental to maintain a minimum level of tangible net worth, a minimum level of liquidity and a maximum allowable leverage ratio. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. At March 31, 2022, DRH Rental was in compliance with all of the covenants, limitations and restrictions of its revolving credit facility.

DRH Rental's revolving credit facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee the debt of our homebuilding, Forestar or financial services operations.

### ***Operating Cash Flow Activities***

In the six months ended March 31, 2022, net cash used in operating activities was \$834.6 million compared to \$154.9 million in the prior year period. Cash used in operating activities in the current year period primarily consisted of \$416.2 million, \$409.1 million and \$63.0 million of cash used in our homebuilding, rental and financial services segments, respectively, partially offset by \$76.6 million of cash provided by our Forestar segment.

Cash used to increase construction in progress and finished home inventory was \$2.1 billion in the current year period compared to \$1.3 billion in the prior year period, reflecting an increase in our homes in inventory in the current period. Cash used to increase residential land and lots was \$528.4 million in the current year period compared to \$975.2 million in the prior year period. Of these amounts, \$61.1 million and \$377.2 million, respectively, related to Forestar.

During the six months ended March 31, 2022, cash used to increase our single-family and multi-family rental properties was \$655.9 million and is reflected as cash used in operating activities. Prior to the third quarter of fiscal 2021, cash activities related to rental properties were presented as investing activities. During the six month period ended March 31, 2021, expenditures related to rental properties were \$173.9 million.

### ***Investing Cash Flow Activities***

In the six months ended March 31, 2022, net cash used in investing activities was \$68.7 million compared to \$196.1 million in the prior year period. In the current year period, uses of cash included purchases of property and equipment totaling \$72.5 million. In the prior year period, uses of cash included expenditures related to our rental operations totaling \$173.9 million, the acquisition of the homebuilding operations of Braselton Homes for \$23.0 million and purchases of property and equipment totaling \$30.5 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 six months ended March 31, 2022, net cash used in financing activities was \$644.8 million, consisting primarily of repayments of amounts drawn on our homebuilding revolving credit facility totaling \$750 million, cash used to repurchase shares of our common stock of \$569.8 million and payment of cash dividends totaling \$159.2 million. These uses of cash were partially offset by draws on our homebuilding revolving credit facility of \$750 million and net advances of \$84.3 million on our mortgage repurchase facility.

During the six months ended March 31, 2021, net cash used in financing activities was \$457.2 million, consisting primarily of repayment of \$400 million principal amount of our 2.55% homebuilding senior notes at maturity, cash used to repurchase shares of our common stock of \$420.2 million and payment of cash dividends totaling \$145.6 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 and net advances of \$70.9 million on our mortgage repurchase facility.

During each of the first two quarters of fiscal 2022, our Board of Directors approved a quarterly cash dividend of \$0.225 per common share, the most recent of which was paid on February 25, 2022 to stockholders of record on February 17, 2022. In April 2022, our Board of Directors approved a quarterly cash dividend of \$0.225 per common share, payable on May 18, 2022 to stockholders of record on May 9, 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 March 31, 2022, 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 and single-family rental operations 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**

<b>Summarized Balance Sheet Data</b>	<b>March 31, 2022</b>	<b>September 30, 2021</b>
	<b>(In millions)</b>	
<b>Assets</b>		
Cash .....	\$ 1,106.3	\$ 2,893.3
Inventories .....	17,247.6	14,203.2
Amount due from Non-Guarantor Subsidiaries .....	763.9	592.4
Total assets .....	21,611.3	19,724.9
<b>Liabilities &amp; Stockholders' Equity</b>		
Notes payable .....	\$ 3,222.0	\$ 3,214.0
Total liabilities .....	6,463.1	6,157.4
Stockholders' equity .....	15,148.2	13,567.5
<b>Summarized Statement of Operations Data</b>	<b>Six Months Ended March 31, 2022</b>	<b>Year Ended September 30, 2021</b>
	<b>(In millions)</b>	
Revenues .....	\$ 14,180.7	\$ 26,566.8
Cost of sales .....	10,200.6	19,824.1
Selling, general and administrative expense .....	977.0	1,889.4
Income before income taxes .....	2,995.1	4,825.6
Net income .....	2,294.5	3,786.5

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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 March 31, 2022 and September 30, 2021, we had reserves for approximately 455 and 380 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2022, we established reserves for approximately 180 new construction defect claims and resolved 105 construction defect claims for a total cost of \$12.8 million. At March 31, 2021 and September 30, 2020, we had reserves for approximately 320 and 260 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During the six months ended March 31, 2021, we established reserves for approximately 115 new construction defect claims and resolved 55 construction defect claims for a total cost of \$6.2 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 and six months ended March 31, 2022 and 2021 was not significant, is recognized in current earnings. At March 31, 2022, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of \$4.8 billion. Uncommitted IRLCs totaled a notional amount of approximately \$3.7 billion and uncommitted mortgage loans held for sale totaled a notional amount of approximately \$1.4 billion at March 31, 2022.

We also use hedging instruments as part of a program to offer below market interest rate financing to our homebuyers. At March 31, 2022 and September 30, 2021, we had MBS totaling \$784.2 million and \$834.6 million, respectively, that did not yet have IRLCs or closed loans created or assigned and recorded an asset of \$9.8 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 March 31, 2022. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale that are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at March 31, 2022.

	Six Months Ending September 30, 2022	Fiscal Year Ending September 30,						Total	Fair Value at March 31, 2022
		2023	2024	2025	2026	2027	Thereafter		
(\$ in millions)									
<b>Debt:</b>									
Fixed rate.....	\$436.0	\$764.6	\$13.0	\$500.4	\$900.4	\$600.4	\$800.0	\$4,014.8	\$3,862.7
Average interest rate.....	4.2%	5.2%	4.0%	2.7%	3.4%	1.5%	3.0%	3.4%	
Variable rate.....	\$1,578.9	\$—	\$—	\$—	\$—	\$—	\$—	\$1,578.9	\$1,578.9
Average interest rate.....	1.9%	—%	—%	—%	—%	—%	—%	1.9%	

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***Evaluation of Disclosure Controls and Procedures***

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures as of March 31, 2022 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the SEC under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that information required to be disclosed in reports filed by the Company under the Exchange Act is accumulated and communicated to the Company's management, including the CEO and CFO, in such a manner as to allow timely decisions regarding the required disclosure.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2022 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 March 31, 2022. All share repurchases were made in accordance with the safe harbor provisions of Rule 10b-18 under the Securities Exchange Act of 1934.

	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs (1) (In millions)</b>
January 1, 2022 - January 31, 2022 .....	—	\$ —	—	\$ 268.0
February 1, 2022 - February 28, 2022 .....	3,100,000	85.82	3,100,000	2.0
March 1, 2022 - March 31, 2022 .....	—	—	—	2.0
Total .....	<u>3,100,000</u>	<u>\$ 85.82</u>	<u>3,100,000</u>	<u>\$ 2.0</u>

- (1) Effective April 20, 2021, our Board of Directors authorized the repurchase of \$1.0 billion of our common stock. During the three months ended March 31, 2022, we repurchased 3.1 million shares of our common stock for \$266.0 million. At March 31, 2022, there was \$2.0 million remaining on the repurchase authorization. In April 2022, our Board of Directors authorized the repurchase of up to \$1.0 billion of our common stock, replacing the prior authorization. The authorization has no expiration date.

**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 [Fourth Amended and Restated Master Repurchase Agreement, dated February 18, 2022, 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 \(incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on February 18, 2022\).](#)
- 10.2 [Credit Agreement, dated March 4, 2022, among DRH Rental, Inc., the lenders party thereto and Mizuho Bank, Ltd., as Administrative Agent \(incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on March 7, 2022\).](#)
- 10.3 † [Executive Compensation Notice and Summary – Chairman, CEO and Co-COOs \(incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on March 29, 2022\).](#)
- 10.4 † [Form of Performance Restricted Stock Unit Agreement – Named Executive Officers \(incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on March 29, 2022\).](#)
- 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: April 27, 2022

By: /s/ Bill W. Wheat

Bill W. Wheat  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: April 27, 2022

By: /s/ Aron M. Odom

Aron M. Odom  
Vice President and Controller  
(Principal Accounting Officer)