HORTON D R INC /DE/
Form 10-Q
August 03, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2010

OR

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

For the Transition Period From __________ To __________
Commission file number 1-14122
D.R. Horton, Inc.

(Exact name of registrant as specified in its charter)

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

(817) 390-8200
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Accelerated filer o Non-accelerated filer o

Large accelerated filer þ

Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common stock, $.01 par value 318,315,144 shares as of July 28, 2010

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2010	September 30, 2009 (Adjusted-Note A)
	(In millions) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 1,357.1	$ 1,922.8
Marketable securities, available-for-sale	298.2	
Restricted cash	58.8	55.2
Inventories:		
Construction in progress and finished homes	1,416.8	1,446.6
Residential land and lots developed and under development	1,572.9	1,643.3
Land held for development	567.7	562.5
Land inventory not owned	7.6	14.3
	3,565.0	3,666.7
Income taxes receivable	32.6	293.1
Deferred income taxes, net of valuation allowance of $879.2 million and $1,073.9 million at June 30, 2010 and September 30, 2009, respectively		
Property and equipment, net	61.3	57.8
Other assets	417.8	433.0
Goodwill	15.9	15.9
	5,806.7	6,444.5
Financial Services:		
Cash and cash equivalents	35.4	34.5
Mortgage loans held for sale	316.1	220.8
Other assets	53.2	57.0
	404.7	312.3
Total assets	$ 6,211.4	$ 6,756.8
LIABILITIES		
Homebuilding:		
Accounts payable	$ 199.8	$ 216.8

Accrued expenses and other liabilities	950.1	932.0
Notes payable	2,214.7	3,076.6
	3,364.6	4,225.4
Financial Services:		
Accounts payable and other liabilities	57.5	62.1
Mortgage repurchase facility	152.5	68.7
	210.0	130.8
Total liabilities	3,574.6	4,356.2
Commitments and contingencies (Note M)		
EQUITY		
Preferred stock, $.10 par value, 30,000,000 shares authorized, no shares issued		
Common stock, $.01 par value, 1,000,000,000 shares authorized, 321,905,371 shares issued and 318,250,138 shares outstanding at June 30, 2010 and 321,136,119 shares issued and 317,480,886 shares outstanding at September 30, 2009	3.2	3.2
Additional paid-in capital	1,888.1	1,871.1
Retained earnings	831.3	613.2
Treasury stock, 3,655,233 shares at June 30, 2010 and September 30, 2009, at cost	(95.7)	(95.7)
Accumulated other comprehensive income	0.1	
Total stockholders equity	2,627.0	2,391.8
Noncontrolling interests	9.8	8.8
Total equity	2,636.8	2,400.6
Total liabilities and equity	$ 6,211.4	$ 6,756.8

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (Adjusted-Note A)	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009 (Adjusted-Note A)
	(In millions, except per share data) (Unaudited)			
Homebuilding:				
Revenues:				
Home sales	$ 1,378.2	$ 896.6	$ 3,381.1	$ 2,553.1
Land/lot sales	0.1	17.5	2.9	36.6
	1,378.3	914.1	3,384.0	2,589.7
Cost of sales:				
Home sales	1,141.1	795.0	2,793.5	2,211.5
Land/lot sales	0.1	16.7	2.2	32.6
Inventory impairments and land option cost write-offs	30.3	110.8	33.9	215.2
	1,171.5	922.5	2,829.6	2,459.3
Gross profit (loss):				
Home sales	237.1	101.6	587.6	341.6
Land/lot sales		0.8	0.7	4.0
Inventory impairments and land option cost write-offs	(30.3)	(110.8)	(33.9)	(215.2)
	206.8	(8.4)	554.4	130.4
Selling, general and administrative expense	143.2	134.3	400.3	388.2
Interest expense	19.6	21.8	69.3	70.4
Loss (gain) on early retirement of debt, net	8.3	3.9	6.7	(4.4)
Other (income)	(1.7)	(2.2)	(6.5)	(8.7)
	37.4	(166.2)	84.6	(315.1)
Financial Services:				
Revenues, net of recourse and reinsurance expense	27.8	18.8	67.7	39.1
General and administrative expense	21.2	18.1	57.2	58.5
Interest expense	0.7	0.2	1.4	1.2
Interest and other (income)	(3.0)	(2.3)	(7.5)	(8.0)
	8.9	2.8	16.6	(12.6)

Income (loss) before income taxes		46.3		(163.4)		101.2		(327.7)
Benefit from income taxes		(4.2)		(19.6)		(152.7)		(12.8)
Net income (loss)	$	50.5	$	(143.8)	$	253.9	$	(314.9)
Basic net income (loss) per common share	$	0.16	$	(0.45)	$	0.80	$	(0.99)
Net income (loss) per common share assuming dilution	$	0.16	$	(0.45)	$	0.78	$	(0.99)
Cash dividends declared per common share	$	0.0375	$	0.0375	$	0.1125	$	0.1125

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009 (Adjusted-Note A)
	(In millions) (Unaudited)	
OPERATING ACTIVITIES		
Net income (loss)	$ 253.9	$ (314.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	12.7	20.7
Amortization of discounts and fees	22.2	6.5
Stock option compensation expense	9.7	10.0
Income tax benefit from stock option exercises	(2.9)	(0.3)
Deferred income taxes		48.1
Loss (gain) on early retirement of debt, net	6.7	(4.4)
Inventory impairments and land option cost write-offs	33.9	215.2
Changes in operating assets and liabilities:		
Decrease in construction in progress and finished homes	26.6	230.6
Decrease in residential land and lots developed, under development, and held for development	35.9	325.3
Decrease in other assets	16.2	47.1
Decrease in income taxes receivable	260.5	551.3
(Increase) decrease in mortgage loans held for sale	(95.3)	129.4
Increase (decrease) in accounts payable, accrued expenses and other liabilities	7.0	(162.6)
Net cash provided by operating activities	587.1	1,102.0
INVESTING ACTIVITIES		
Purchases of property and equipment	(15.6)	(6.2)
Purchases of marketable securities, available-for-sale	(299.4)	
Increase in restricted cash	(3.6)	(60.0)
Net cash used in investing activities	(318.6)	(66.2)
FINANCING ACTIVITIES		
Proceeds from notes payable	83.8	487.5
Repayment of notes payable	(888.8)	(875.0)
Proceeds from stock associated with certain employee benefit plans	4.6	2.0
Income tax benefit from stock option exercises	2.9	0.3
Cash dividends paid	(35.8)	(35.6)

Net cash used in financing activities		(833.3)		(420.8)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(564.8)		615.0
Cash and cash equivalents at beginning of period		1,957.3		1,387.3
Cash and cash equivalents at end of period	$	1,392.5	$	2,002.3

See accompanying notes to consolidated financial statements.

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
June 30, 2010

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 referred to as the Company, unless the context otherwise requires), as well as certain variable interest entities of which the Company is determined to be the primary beneficiary. All significant 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, all adjustments (consisting of normal, recurring accruals and the asset impairment charges, loss reserves and deferred tax asset valuation allowance discussed below) considered necessary for a fair presentation have been included. These financial statements do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and accompanying notes for the fiscal year ended September 30, 2009 included in the Company s current report on Form 8-K dated February 8, 2010, which updated the Company s annual report on Form 10-K.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Reclassifications/Revisions

Certain reclassifications have been made in the prior year s financial statements to conform to classifications used in the current year. In accordance with the authoritative guidance issued by the Financial Accounting Standards Board (FASB) for noncontrolling interests which was adopted at the beginning of fiscal 2010, the balance sheet at September 30, 2009 has been revised to present minority interests (now referred to as noncontrolling interests) as a component of equity rather than as a liability. Also, the balance sheet at September 30, 2009, the statements of operations for the three and nine months ended June 30, 2009 and the statement of cash flows for the nine months ended June 30, 2009 reflect the change in accounting for convertible debt as described below under Adoption of New Accounting Principle. Additionally, the statement of cash flows for the nine months ended June 30, 2009 has been revised to reflect the reclassification of insurance receivables from a component of accrued expenses and other liabilities to other assets.

Adoption of New Accounting Principle

As described in the Company s current report on Form 8-K dated February 8, 2010, on October 1, 2009, the Company adopted and applied retrospectively the FASB s authoritative guidance for accounting for debt with conversion options, which specifies that issuers of such instruments separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Early adoption of this authoritative guidance was not permitted. As a result, the prior year consolidated financial statements have been retrospectively adjusted for the effects of this change in accounting for the Company s 2% convertible senior notes issued in May 2009. The debt component of the convertible senior notes was recorded at its fair value on the date of issuance of the notes, assuming no conversion features. The remaining value of the equity component of the convertible senior notes was recorded as a reduction in the carrying value of the notes and an increase in additional paid-in capital. The reduction in the carrying value of the notes and the fees related to the notes will be amortized as interest incurred and expensed or capitalized to inventory over the remaining life of the notes. The additional interest expense recognized in fiscal 2009 due to the restatement was $4.5 million, of which $1.5 million was recognized during the three months ended June 30, 2009. The recognition of this additional interest expense increased the Company s diluted net loss per share by $0.01 for the year ended September 30, 2009.

D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

Business

The Company is a national homebuilder that is engaged in the construction and sale of single-family housing in 72 markets and 26 states in the United States at June 30, 2010. The Company designs, builds and sells single-family detached homes on lots it develops and on finished lots purchased ready for home construction. To a lesser extent, the Company also builds and sells attached homes, such as town homes, duplexes, triplexes and condominiums (including some mid-rise buildings), which share common walls and roofs. Periodically, the Company sells land and lots. The Company also provides title agency and mortgage financing services, principally to its homebuyers. The Company generally does not retain or service the mortgages that it originates; rather, it seeks to sell the mortgages and related servicing rights to third-party purchasers.

Seasonality

Historically, the homebuilding industry has experienced seasonal fluctuations; therefore, the operating results for the three and nine-month periods ended June 30, 2010 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2010 or subsequent periods.

NOTE B COMPREHENSIVE INCOME (LOSS)

The following table provides a reconciliation of net income (loss) reported in the consolidated statements of operations to comprehensive income (loss) for the three and nine-month periods ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Net income (loss) (1)	$ 50.5	$ (143.8)	$ 253.9	$ (314.9)
Other comprehensive income:				
Unrealized gain related to available-for-sale securities (see Note C)	0.2		0.1	
Comprehensive income (loss)	$ 50.7	$ (143.8)	$ 254.0	$ (314.9)

(1) Net loss for the three and nine months ended June 30, 2009 has been retrospectively adjusted to reflect the change in accounting for convertible debt as described in Note A.

NOTE C MARKETABLE SECURITIES

During the current year, the Company began to invest a portion of its cash on hand by purchasing marketable securities with maturities in excess of three months. To be considered for investment, securities must meet certain minimum requirements as to their credit ratings, time to maturity and other risk-related criteria as prescribed by the Company s investment policies. The primary objective of these investments is the preservation of capital, with the secondary objectives of attaining higher yields than the Company earns on its cash and cash equivalents and maintaining a high degree of liquidity.

The Company s investment portfolio at June 30, 2010 included U.S. Treasury securities, government agency securities, foreign government securities, corporate debt securities, and certificates of deposit. These investments are held in the custody of a single financial institution. The Company considers its investment portfolio to be available-for-sale. Accordingly, these investments are recorded at fair value. At the end of a reporting period, unrealized gains and losses on these investments, net of tax, are recorded directly to accumulated other comprehensive income (loss) on the consolidated balance sheet. The effect of these investments on other comprehensive income (loss) for the three and nine months ended June 30, 2010 and 2009 is presented in Note B. There were no sales of securities from

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June 30, 2010

inception of the program through June 30, 2010, and therefore, there were no realized gains or losses related to these investments during the period.

The amortized cost, unrealized gains and losses and fair values of available-for-sale investments as of June 30, 2010, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In millions)		
Type of security:				
U.S. Treasury securities	$ 3.5	$	$	$ 3.5
Obligations of U.S. government agencies	131.0	0.1		131.1
Corporate debt securities issued under the FDIC Temporary Liquidity Guarantee Program	106.0			106.0
Domestic corporate debt securities	31.5			31.5
Foreign government securities	16.1			16.1
Total debt securities	288.1	0.1		288.2
Certificates of deposit	10.0			10.0
Total marketable securities, available-for-sale	$ 298.1	$ 0.1	$	$ 298.2

Of the $298.2 million in marketable securities, $269.6 million mature in the next twelve months and $28.6 million mature in one to two years.

NOTE D INVENTORY IMPAIRMENTS AND LAND OPTION COST WRITE-OFFS

At June 30, 2010, when the Company performed its quarterly inventory impairment analysis, the assumptions utilized reflected the Company s expectation of continued challenging conditions and uncertainties in the homebuilding industry and in its markets. The impairment evaluation indicated communities with a combined carrying value of $435.7 million as of June 30, 2010 had indicators of potential impairment, and these communities were evaluated for impairment. The analysis of the large majority of these communities assumed that sales prices in future periods will be equal to or lower than current sales order prices in each community, or in comparable communities, in order to generate an acceptable absorption rate. For a minority of communities that the Company does not intend to develop or operate in current market conditions, slight increases over current sales prices were assumed. While it is difficult to determine a timeframe for a given community in the current market conditions, the remaining lives of these communities were estimated to be in a range from six months to in excess of ten years. In performing this analysis, the Company utilized a range of discount rates for communities of 14% to 20%, which is consistent with the rates used in fiscal 2009. Through this evaluation process, it was determined that communities with a carrying value of $86.8 million as of June 30, 2010 were impaired. As a result, during the three months ended June 30, 2010, impairment charges of $29.1 million were recorded to reduce the carrying value of the impaired communities to their estimated fair value, as compared to $102.9 million in the same period of the prior year. During the nine months ended June 30, 2010 and 2009, impairment charges totaled $33.2 million and $203.0 million, respectively. In the three months ended June 30, 2010, approximately 93% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 7% of the charges were recorded to construction in progress and finished homes inventory, compared to 89% and 11%, respectively, in the same period of 2009. In the nine months ended June 30, 2010, approximately 91% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 9% of the charges were recorded to construction in progress and finished homes inventory, compared to 79% and 21%, respectively, in the same period of 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

The Company s estimate of undiscounted cash flows from communities analyzed may change and could result in a future need to record impairment charges to adjust the carrying value of these assets to their estimated fair value. There are several factors which could lead to changes in the estimates of undiscounted future cash flows for a given community. The most significant of these include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to construct the homes. The pricing and incentive levels are often inter-related with sales pace within a community such that a price reduction can be expected to increase the sales pace. Further, both of these factors are heavily influenced by the competitive pressures facing a given community from both new homes and existing homes, some of which may result from foreclosures. If conditions in the broader economy, homebuilding industry or specific markets in which the Company operates worsen, and as the Company re-evaluates specific community pricing and incentives, construction and development plans, and its overall land sale strategies, it may be required to evaluate additional communities or re-evaluate previously impaired communities for potential impairment. These evaluations may result in additional impairment charges.

At June 30, 2010, the Company had $4.4 million of land held for sale, consisting of land held for development and land under development that met the criteria of land held for sale.

During the three-month periods ended June 30, 2010 and 2009, the Company wrote off $1.2 million and $7.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts which are not expected to be acquired. During the nine-month periods ended June 30, 2010 and 2009, the Company wrote off $0.7 million and $12.2 million, respectively, of such deposits and costs.

NOTE E LAND INVENTORY NOT OWNED

In the ordinary course of its homebuilding business, the Company enters into land and lot option purchase contracts to procure 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 the option purchase contracts, many of the option deposits are not refundable at the Company s discretion.

Certain option purchase contracts result in the creation of a variable interest in the entity holding the land parcel under option. The Company evaluates those land and lot option purchase contracts with variable interest entities to determine whether the Company is the primary beneficiary based upon analysis of the variability of the expected gains and losses of the entity. The expected gains and losses are primarily determined by the amount of deposit required by the contract, the time period or term of the contract, and by analyzing the volatility in home sales prices as well as development and entitlement risk in each specific market. Based on this evaluation, if the Company is the primary beneficiary of an entity with which the Company has entered into a land or lot option purchase contract, the variable interest entity is consolidated.

The consolidation of variable interest entities added $7.6 million in land inventory not owned and noncontrolling interests related to entities not owned to the Company s consolidated balance sheet at June 30, 2010. The Company s obligations related to these land or lot option contracts are guaranteed by deposits, including cash, promissory notes and surety bonds, totaling $0.6 million as of June 30, 2010. Creditors, if any, of these variable interest entities have no recourse against the Company.

For the variable interest entities which are unconsolidated because the Company is not subject to a majority of the risk of loss or entitled to receive a majority of the entities residual returns, the maximum exposure to loss is generally limited to the amounts of the Company s option deposits. At June 30, 2010, the amount of option deposits related to these contracts totaled $7.2 million and is included in homebuilding other assets on the Company s consolidated balance sheet.

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NOTE F NOTES PAYABLE

The Company s notes payable at their principal amounts, net of any unamortized discounts, consist of the following:

	June 30, 2010	September 30, 2009
	(In millions)	
Homebuilding:		
Unsecured:		
4.875% senior notes due 2010, net	$	$ 130.8
9.75% senior notes due 2010	51.9	70.5
9.75% senior subordinated notes due 2010, net	11.3	15.3
6% senior notes due 2011, net	79.5	212.8
7.875% senior notes due 2011, net	125.5	163.3
5.375% senior notes due 2012	146.6	242.1
6.875% senior notes due 2013	174.3	199.5
5.875% senior notes due 2013		96.0
6.125% senior notes due 2014, net	146.0	198.5
2% convertible senior notes due 2014, net (1)	385.7	368.0
5.625% senior notes due 2014, net	147.1	248.8
5.25% senior notes due 2015, net	245.7	298.6
5.625% senior notes due 2016, net	225.5	298.3
6.5% senior notes due 2016, net	437.1	497.0
Other secured	38.5	37.1
	$ 2,214.7	$ 3,076.6
Financial Services:		
Mortgage repurchase facility, maturing 2011	$ 152.5	$ 68.7

(1) The balance of the 2% convertible senior notes at September 30, 2009 has been retrospectively adjusted to reflect the change in accounting for convertible debt as described in Note A.

Homebuilding:

In April 2010, the Board of Directors authorized the early repurchase of up to $500 million of the Company s debt securities, effective from April 29, 2010 to November 30, 2010. At June 30, 2010, $161.3 million of the authorization was remaining.

On January 15, 2010, the Company repaid the remaining $130.9 million principal amount of its 4.875% senior notes which were due on that date. On February 24, 2010, the Company redeemed the remaining $95.0 million principal amount of its 5.875% senior notes due 2013.

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

Following is a summary of the redemption and repurchase activity for the three and nine months ended June 30, 2010:

	Principal Amount	
	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2010
	(In millions)	
Maturities / Early Redemptions:		
4.875% senior notes redeemed upon maturity in January 2010	$	$ 130.9
5.875% senior notes due 2013 redeemed in February 2010		95.0
Repurchases:		
9.75% senior notes due 2010	6.5	18.6
9.75% senior subordinated notes due 2010		4.0
6% senior notes due 2011	125.0	133.4
7.875% senior notes due 2011	28.9	37.9
5.375% senior notes due 2012	34.1	95.5
6.875% senior notes due 2013	25.2	25.2
5.875% senior notes due 2013		1.0
6.125% senior notes due 2014	46.9	53.1
5.625% senior notes due 2014	48.4	102.3
5.25% senior notes due 2015	22.9	53.3
5.625% senior notes due 2016	7.3	73.4
6.5% senior notes due 2016		60.0
	$ 345.2	$ 883.6

These senior notes were redeemed or repurchased for an aggregate purchase price of $352.4 million and $887.6 million, respectively, plus accrued interest, resulting in a net loss on early retirement of debt of $8.3 million and $6.7 million for the three and nine months ended June 30, 2010, respectively. The losses include unamortized discounts and fees written off, as well as a loss of $2.0 million in the nine-month period for the call premium related to the early redemption of the 5.875% senior notes due 2013.

In July 2010, through unsolicited transactions, the Company repurchased $46.3 million principal amount of its 5.25% senior notes due 2015 and $7.0 million principal amount of its 6.5% senior notes due 2016, for an aggregate purchase price of $50.7 million, plus accrued interest.

On July 29, 2010, the Board of Directors authorized the early repurchase of up to $500 million of the Company s debt securities effective through July 31, 2011.

The indentures governing the Company s senior notes and senior subordinated notes impose restrictions on the creation of secured debt and liens. At June 30, 2010, the Company was in compliance with all of the limitations and restrictions that form a part of the public debt obligations.

Financial Services:

The Company s mortgage subsidiary, DHI Mortgage, entered into a mortgage sale and repurchase agreement (the mortgage repurchase facility) on March 28, 2008. The mortgage repurchase facility, which is accounted for as a secured financing, provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which

DHI Mortgage transfers eligible loans to the counterparties against the transfer of funds by the counterparties, thereby becoming purchased loans. 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 120 days in accordance with the terms of the mortgage repurchase facility. In March 2010, through an amendment to

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the repurchase agreement, the capacity of the facility was increased from $100 million to $150 million, with a provision allowing an increase in the capacity to $175 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter. Additionally, the amendment extended the maturity date of the facility to March 4, 2011. Effective July 30, 2010, through an amendment to the repurchase agreement, the capacity of the facility was reduced from $150 million to $100 million, with a provision allowing an increase in the capacity to $125 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter.

As of June 30, 2010, $288.9 million of mortgage loans held for sale were pledged under the repurchase agreement. These mortgage loans had a collateral value of $268.8 million. DHI Mortgage has the option to fund a portion of its repurchase obligations in advance. As a result of advance paydowns totaling $116.3 million, DHI Mortgage had an obligation of $152.5 million outstanding under the mortgage repurchase facility at June 30, 2010 at a 3.8% interest rate.

The mortgage repurchase facility is not guaranteed by either D.R. Horton, Inc. or any of the subsidiaries that guarantee the Company s homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary s minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. At June 30, 2010, the mortgage subsidiary was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

NOTE G HOMEBUILDING INTEREST

The Company capitalizes homebuilding interest costs to inventory during active development and construction. Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. Additionally, the Company writes off a portion of the capitalized interest related to communities for which inventory impairments are recorded. The Company s inventory under active development and construction was lower than its debt level at June 30, 2010 and 2009. Therefore, a portion of the interest incurred is reflected as interest expense.

The following table summarizes the Company s homebuilding interest costs incurred, capitalized, expensed as interest expense, charged to cost of sales and written off during the three and nine-month periods ended June 30, 2010 and 2009:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Capitalized interest, beginning of period (1)	$ 117.2	$ 155.8	$ 128.8	$ 160.6
Interest incurred (1)	41.3	45.7	136.9	152.7
Interest expensed:				
Directly to interest expense (1)	(19.6)	(21.8)	(69.3)	(70.4)
Amortized to cost of sales	(38.3)	(30.3)	(95.6)	(89.1)
Written off with inventory impairments	(0.9)	(3.4)	(1.1)	(7.8)
Capitalized interest, end of period	$ 99.7	$ 146.0	$ 99.7	$ 146.0

(1) The activity during the three and nine-month

periods ended June 30, 2009 and the beginning balance of capitalized interest for the nine-month period ended June 30, 2010 have been retrospectively adjusted to reflect the change in accounting for convertible debt as described in Note A.

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NOTE H MORTGAGE LOANS

To manage the interest rate risk inherent in its mortgage operations, the Company hedges its risk using various derivative instruments, which include forward sales of mortgage-backed securities (MBS), Eurodollar Futures Contracts (EDFC) and put options on both MBS and EDFC. Use of the term hedging instruments in the following discussion refers to these securities collectively, or in any combination. The Company does not enter into or hold derivatives for trading or speculative purposes.

Mortgage Loans Held for Sale

Mortgage loans held for sale consist primarily of single-family residential loans collateralized by the underlying property. Newly originated loans that have been closed but not committed to third-party purchasers are hedged to mitigate the risk of changes in their fair value. Hedged loans are committed to third-party purchasers typically within three days after origination. Approximately 88% of the mortgage loans sold by DHI Mortgage during the nine months ended June 30, 2010 were sold to two major financial institutions pursuant to their loan purchase agreements with DHI Mortgage. At June 30, 2010, mortgage loans held for sale had an aggregate fair value of $316.1 million and an aggregate outstanding principal balance of $307.9 million. During the three months ended June 30, 2010 and 2009, the Company had net gains on sales of loans of $13.9 million and $12.2 million, respectively. During the nine months ended June 30, 2010 and 2009, the Company had net gains on sales of loans of $32.9 million and $15.5 million, respectively, which includes the effect of recording recourse expense of $11.7 million and $24.2 million, respectively, as discussed in the Other Mortgage Loans and Loss Reserves section below.

The notional amounts of the hedging instruments used to hedge mortgage loans held for sale vary in relationship to the underlying loan amounts, depending on the movements in the value of each hedging instrument relative to the value of the underlying mortgage loans. The fair value change related to the hedging instruments generally offsets the fair value change in the mortgage loans held for sale, which for the three and nine months ended June 30, 2010 and 2009 was not significant, and is recognized in current earnings. As of June 30, 2010, the Company had $111.5 million in mortgage loans held for sale not committed to third-party purchasers and the notional amounts of the hedging instruments related to those loans totaled $111.6 million.

Other Mortgage Loans and Loss Reserves

Generally, mortgage loans are sold with limited recourse provisions which include industry-standard representations and warranties, primarily involving the absence of misrepresentations by the borrower or other parties and, depending on the agreement, may include requiring a minimum number of payments to be made by the borrower. The Company generally does not retain any other continuing interest related to mortgage loans sold in the secondary market. Other mortgage loans generally consist of loans repurchased due to these limited recourse obligations. Typically, these loans are impaired and often become real estate owned through the foreclosure process.

Based on historical performance and current housing and credit market conditions, the Company has recorded reserves for estimated losses on other mortgage loans, real estate owned and future loan repurchase obligations due to the limited recourse provisions, all of which are recorded as reductions of financial services revenue. These reserves totaled $39.9 million and $43.6 million at June 30, 2010 and September 30, 2009, respectively, allocated as follows. Other mortgage loans, subject to nonrecurring fair value measurement, totaled $45.9 million and $50.2 million at June 30, 2010 and September 30, 2009, respectively, and had corresponding loss reserves of $9.7 million and $13.1 million, respectively. The Company has established loss reserves for real estate owned of $2.5 million and $2.6 million at June 30, 2010 and September 30, 2009, respectively. The Company s other mortgage loans and real estate owned are included in financial services other assets in the accompanying consolidated balance sheets. Additional loss reserves at June 30, 2010 and September 30, 2009 included liabilities of $27.7 million and $27.9 million, respectively, for expected losses on future loan repurchase obligations due to the limited recourse provisions.

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A subsidiary of the Company reinsured a portion of private mortgage insurance written on loans originated by DHI Mortgage in prior years. At June 30, 2010 and September 30, 2009, reserves for expected future losses under the reinsurance program totaled $11.8 million and $18.7 million, respectively. The mortgage repurchase and reinsurance loss reserves are included in financial services accounts payable and other liabilities in the accompanying consolidated balance sheets. It is possible that future losses may exceed the amount of reserves and, if so, additional charges will be required.

Loan Commitments

The Company is party to interest rate lock commitments (IRLCs) which are extended to borrowers who have applied for loan funding and meet defined credit and underwriting criteria. At June 30, 2010, IRLCs totaled $214.4 million which are accounted for as derivative instruments recorded at fair value.

The Company manages interest rate risk related to its IRLCs through the use of best-efforts whole loan delivery commitments and hedging instruments. These instruments are considered derivatives in an economic hedge and are accounted for at fair value with gains and losses recognized in current earnings. As of June 30, 2010, the Company had approximately $19.2 million of best-efforts whole loan delivery commitments and $172.1 million of hedging instruments related to IRLCs not yet committed to purchasers.

At June 30, 2010, the Company had $25.3 million notional amount of forward sales of MBS which were acquired as part of a program to potentially offer homebuyers a below market interest rate on their home financing. These hedging instruments and the related commitments are accounted for at fair value with gains and losses recognized in current earnings. These gains and losses for the three and nine months ended June 30, 2010 and 2009 were not material.

NOTE I FAIR VALUE MEASUREMENTS

The Company adopted the FASB s authoritative guidance for fair value measurements of financial and non-financial instruments on October 1, 2008 and 2009, respectively. The guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value is defined as the exchange (exit) price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard establishes a three-level hierarchy for fair value measurements based upon the inputs to the valuation of an asset or liability. Observable inputs are those which can be easily seen by market participants while unobservable inputs are generally developed internally, utilizing management s estimates and assumptions.

Level 1 Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.

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

When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and nonperformance risk associated with the Company s counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for the Company s marketable securities, mortgage loans held for sale, IRLCs and other derivative instruments on a recurring basis, and are used for inventories and other mortgage loans on a nonrecurring basis, when events and circumstances indicate that the carrying value may not be recoverable.

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The Company s marketable securities consist of U.S. Treasury securities, government agency securities, corporate debt securities, foreign government securities, and certificates of deposit. The fair value of U.S. Treasury securities is based on quoted prices for identical assets and therefore, they have been classified as a Level 1 valuation. Obligations of government agencies, corporate debt securities, foreign government securities and certificates of deposit are valued using quoted market prices of recent transactions or quoted market prices of transactions in very similar securities and therefore, are classified as Level 2 valuations.

The value of mortgage loans held for sale includes changes in estimated fair value from the date the loan is closed until the date the loan is sold. The fair value of mortgage loans held for sale is generally calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics; therefore, they have been classified as a Level 2 valuation. After consideration of nonperformance risk, no additional adjustments have been made to the fair value measurement of mortgage loans held for sale. Closed mortgage loans are typically sold within 30 days of origination, limiting any nonperformance exposure period. In addition, the Company actively monitors the financial strength of its counterparties and has limited the number of counterparties utilized in loan sale transactions due to the current market volatility in the mortgage and bank environment.

The hedging instruments utilized by the Company to manage its interest rate risk and hedge the changes in the fair value of mortgage loans held for sale are publicly traded derivatives with fair value measurements based on quoted market prices. Exchange-traded derivatives are considered Level 1 valuations because quoted prices for identical assets are used for fair value measurements. Over-the-counter derivatives, such as forward sales of MBS, are classified as Level 2 valuations because quoted prices for similar assets are used for fair value measurements. The Company mitigates exposure to nonperformance risk associated with over-the-counter derivatives by limiting the number of counterparties and actively monitoring their financial strength and creditworthiness while requiring them to be well-known institutions with credit ratings equal to or better than AA- or equivalent. Further, the Company s derivative contracts typically have short-term durations with maturities from one to four months. Accordingly, the Company s risk of nonperformance relative to its derivative positions is also not significant. Nonperformance risk associated with exchange-traded derivatives is considered minimal as these items are traded on the Chicago Mercantile Exchange. After consideration of nonperformance risk, no additional adjustments have been made to the fair value measurement of hedging instruments.

The fair values of IRLCs are also calculated by reference to quoted prices in secondary markets for commitments to sell mortgage loans with similar characteristics; therefore, they have been classified as Level 2 valuations. These valuations do not contain adjustments for expirations as any expired commitments are excluded from the fair value measurement. After consideration of nonperformance risk, no additional adjustments have been made to the fair value measurements of IRLCs. The Company generally only issues IRLCs for products that meet specific purchaser guidelines. Should any purchaser become insolvent, the Company would not be required to close the transaction based on the terms of the commitment. Since not all IRLCs will become closed loans, the Company adjusts its fair value measurements for the estimated amount of IRLCs that will not close.

Inventory held and used is reported at the lower of carrying value or fair value on a nonrecurring basis. The factors considered in determining fair values of the Company s communities are described in the discussion of the Company s inventory impairment analysis (see Note D), and are classified as Level 3 valuations. Inventory held and used measured at fair value represents those communities for which the Company has recorded impairments during the current period.

Other mortgage loans are measured at the lower of carrying value or fair value on a nonrecurring basis and include performing and nonperforming mortgage loans. The fair values of other mortgage loans are determined based on the Company s assessment of the value of the underlying collateral and are classified as Level 3 valuations.

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The following table summarizes the Company s assets and liabilities at June 30, 2010 measured at fair value on a recurring basis:

	Balance Sheet Location	Fair Value at June 30, 2010 Level 1	Level 2	Total
		(In millions)		
Homebuilding:				
Marketable securities, available-for-sale	Marketable securities	$ 3.5	$ 294.7	$ 298.2
Financial Services:				
Mortgage loans held for sale (a)	Mortgage loans held for sale	$	$ 316.1	$ 316.1
Derivatives not designated as hedging instruments (b):				
Interest rate lock commitments	Other assets	$	$ 2.4	$ 2.4
Forward sales of MBS	Other liabilities	$	$ (5.0)	$ (5.0)
Best-efforts commitments	Other liabilities	$	$ (1.2)	$ (1.2)

(a) Mortgage loans held for sale are reflected at full fair value. Interest income earned on mortgage loans held for sale is based on contractual interest rates and included in financial services interest and other income.

(b) Fair value measurements of these derivatives represent changes in fair value since inception. These changes are reflected in the balance sheet and included in financial services revenues on the consolidated statement of operations.

The following table summarizes the Company s assets at June 30, 2010 measured at fair value on a nonrecurring basis:

	Balance Sheet Location	Fair Value at June 30, 2010 Level 3 (In millions)
Homebuilding:		
Inventory held and used (a)	Inventories	$ 57.7
Financial Services:		
Other mortgage loans (a)	Other assets	$ 36.2

(a) The fair values included in the table above represent only those assets whose carrying values were adjusted to fair value in the current quarter.

The carrying amounts of cash and cash equivalents approximate their fair values due to their short-term nature. For senior, convertible senior and senior subordinated notes, the Company determines fair value based on quoted market prices. The aggregate fair value of these notes at June 30, 2010 and September 30, 2009 was $2,269.8 million and $3,187.6 million, respectively, compared to carrying values of $2,176.2 million and $3,039.5 million, respectively. The aggregate fair value of the Company s senior notes includes fair values for the 2% convertible senior notes of $507.5 million and $568.6 million at June 30, 2010 and September 30, 2009, respectively, compared to their carrying values of $385.7 million and $368.0 million, respectively. The carrying value of the equity component of the 2% convertible senior notes was $136.7 million at June 30, 2010 and September 30, 2009. For other secured notes and balances due under the mortgage repurchase facility, the fair values approximate their carrying amounts due to their short maturity or floating interest rate terms, as applicable.

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NOTE J INCOME TAXES

The Company s benefit from income taxes for the three and nine months ended June 30, 2010 was $4.2 million and $152.7 million, respectively, compared to a benefit from income taxes of $19.6 million and $12.8 million in the comparable periods of the prior year. The benefit from income taxes for the nine months ended June 30, 2010 consists of a benefit of $208.0 million from a change in federal tax law which expanded the number of years the Company can carry back net operating losses, offset by a provision for income taxes of $3.0 million for state income taxes and an increase for unrecognized tax benefits of $52.3 million. The Company does not have meaningful effective tax rates for the nine-month period ended June 30, 2010 and the comparable period of the prior year because of losses from operations before taxes in the prior year, the impact of valuation allowances on its net deferred tax assets and the change in tax law in the current year.

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted into law and amended Section 172 of the Internal Revenue Code. This tax law change allows a net operating loss realized in one of the Company s fiscal 2008, 2009 or 2010 years to be carried back up to five years (previously limited to a two-year carryback). The Company elected to carry back its fiscal 2009 net operating loss. This resulted in a benefit from income taxes of $208.0 million during the nine-month period ended June 30, 2010.

The Company had income taxes receivable of $32.6 million and $293.1 million at June 30, 2010 and September 30, 2009, respectively. During the nine months ended June 30, 2010, the Company received income tax refunds totaling $471.5 million which resulted from tax losses generated in fiscal 2008 and 2009. The income taxes receivable at June 30, 2010 relates to additional federal and state income tax refunds the Company expects to receive.

At June 30, 2010 and September 30, 2009, the Company had net deferred income tax assets of $879.2 million and $1,073.9 million, respectively, offset by valuation allowances of $879.2 million and $1,073.9 million, respectively. Tax benefits of $81.4 million for state net operating loss carryforwards that expire (beginning at various times depending on the tax jurisdiction) from fiscal 2013 to fiscal 2029 are included in the amounts. The Company assesses, on a quarterly basis, the realizability of its deferred tax assets and records a valuation allowance sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on the Company s consolidated results of operations or financial position. Changes in existing tax laws also affect actual tax results and the valuation of deferred tax assets over time.

The total amount of unrecognized tax benefits (which includes interest, penalties, and the tax benefit relating to the deductibility of interest and state income taxes) was $76.3 million and $24.0 million as of June 30, 2010 and September 30, 2009, respectively. The increase relates primarily to the Company s election to carryback its fiscal 2009 net operating loss to fiscal 2004 and 2005, thereby fully utilizing the net operating loss which existed at September 30, 2009. It is reasonably possible that, within the next 12 months, the amount of unrecognized tax benefits may decrease as much as $49.7 million as a result of a ruling request filed by the Company with the Internal Revenue Service (IRS) concerning capitalization of inventory costs. If the IRS rules favorably on the ruling request, the Company s unrecognized tax benefits would be reduced, resulting in a benefit from income taxes in the consolidated statement of operations. The Company classifies interest and penalties on income taxes as income tax expense.

The Company is subject to federal income tax and to income tax in multiple states. The statute of limitations for the Company s major tax jurisdictions remains open for examination for fiscal years 2004 through 2010. The Company is currently being audited by various states.

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NOTE K EARNINGS (LOSS) PER SHARE

The following table sets forth the numerators and denominators used in the computation of basic and diluted earnings (loss) per share for the three and nine months ended June 30, 2010 and 2009. For the three and nine months ended June 30, 2010, options to purchase 9.5 million and 9.7 million shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares and, therefore, their effect would have been antidilutive. For the three and nine months ended June 30, 2009, all outstanding stock options and convertible senior notes were excluded from the computation of the loss per share because they were antidilutive due to the net loss recorded during those periods.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Numerator:				
Net income (loss) (1)	$ 50.5	$ (143.8)	$ 253.9	$ (314.9)
Effect of dilutive securities:				
Interest expense and amortization of issuance costs associated with convertible senior notes			23.1	
Numerator for diluted earnings (loss) per share after assumed conversions	$ 50.5	$ (143.8)	$ 277.0	$ (314.9)
Denominator:				
Denominator for basic earnings (loss) per share weighted average common shares	318.2	316.9	318.0	316.8
Effect of dilutive securities:				
Employee stock options	0.9		0.6	
Convertible senior notes			38.3	
Denominator for diluted earnings (loss) per share adjusted weighted average common shares	319.1	316.9	356.9	316.8

(1) Net loss for the three and nine months ended June 30, 2009 has been retrospectively adjusted to reflect the change in accounting for convertible debt

as described in
Note A.

NOTE L STOCKHOLDERS EQUITY

The Company has an automatically effective universal shelf registration statement filed with the SEC in September 2009, registering debt and equity securities that the Company may issue from time to time in amounts to be determined.

In November 2009, the Board of Directors authorized the repurchase of up to $100 million of the Company s common stock. The authorization is effective from December 1, 2009 to November 30, 2010. All of the $100 million authorization was remaining at June 30, 2010, and on July 29, 2010, the Board of Directors extended this authorization through July 31, 2011.

During the three months ended June 30, 2010, the Board of Directors approved a quarterly cash dividend of $0.0375 per common share, which was paid on May 24, 2010 to stockholders of record on May 14, 2010. In July 2010, the Board of Directors approved a quarterly cash dividend of $0.0375 per common share, payable on August 26, 2010 to stockholders of record on August 16, 2010. Quarterly cash dividends of $0.0375 per common share were declared in the comparable quarters of fiscal 2009.

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In January 2010, the Company s stockholders did not approve its Section 382 rights agreement; therefore, the rights agreement will expire by its terms on August 19, 2010 unless earlier terminated by the Board of Directors.

NOTE M COMMITMENTS AND CONTINGENCIES

Warranty Claims

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

At June 30, 2010, the Company had liabilities of $3.3 million for the remaining repair costs of homes in its South Florida and Louisiana markets constructed during 2005 through 2007 which contain or are suspected to contain allegedly defective drywall manufactured in China (Chinese Drywall) that may be responsible for accelerated corrosion of certain metals in the home. The Company first learned of this potential issue during fiscal 2009 through customer inquiries. The Company has identified approximately 90 homes which contain or are suspected to contain Chinese Drywall through a review of the supply channel for its homes constructed in these markets and of the warranty claims received in these markets as well as testing of specific homes. Through June 30, 2010, the Company has spent approximately $4.0 million to remediate these homes. While the Company will seek reimbursement for these remediation costs from various sources, it has not recorded a receivable for potential recoveries as of June 30, 2010 given the early stage of this matter. The Company is continuing its investigation to determine if there are additional homes with the Chinese Drywall in these markets, which if found, would likely require the Company to further increase its warranty reserve for this matter in the future. The remaining costs accrued to complete this remediation are based on the Company s estimate of future repair costs. If the actual costs to remediate the homes differ from the estimated costs, the Company may revise its warranty estimate. As of June 30, 2010, the Company has been named as a defendant in several lawsuits in Louisiana and Florida pertaining to Chinese Drywall. As these actions are still in their early stages, the Company is unable to express an opinion as to the amount of damages, if any.

Changes in the Company s warranty liability during the three and nine-month periods ended June 30, 2010 and 2009 were as follows:

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 2009
	(In millions)			
Warranty liability, beginning of period	$ 49.6	$ 67.0	$ 59.6	$ 83.4
Warranties issued	6.3	4.3	15.5	12.2
Changes in liability for pre-existing warranties	0.6	(1.4)	(6.6)	(12.9)
Settlements made	(7.3)	(5.3)	(19.3)	(18.1)
Warranty liability, end of period	$ 49.2	$ 64.6	$ 49.2	$ 64.6

Insurance and Legal Claims

The Company has been named as defendant in various claims, complaints and other legal actions including construction defect claims on closed homes and other claims and lawsuits incurred in the ordinary course of business, including employment matters, personal injury claims, land development issues, contract disputes and claims related to its mortgage activities. The Company has established reserves for these contingencies, based on the expected costs of the claims. The Company s estimates of such reserves are based on the facts and circumstances of individual pending claims and historical data and trends, including costs relative to revenues, home closings and product types, and include estimates of the costs of construction defect claims incurred but not yet reported. These reserve estimates are subject to ongoing revision as the circumstances of individual pending claims and historical

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data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs. The Company s liabilities for these items were $553.4 million and $534.0 million at June 30, 2010 and September 30, 2009, respectively, and are included in homebuilding accrued expenses and other liabilities in the consolidated balance sheets. Related to the contingencies for construction defect claims and estimates of construction defect claims incurred but not yet reported, and other legal claims and lawsuits incurred in the ordinary course of business, the Company estimates and records insurance receivables for these matters under applicable insurance policies when recovery is probable. Additionally, the Company may have the ability to recover a portion of its legal expenses from its subcontractors when the Company has been named as an additional insured on their insurance policies. Estimates of the Company s insurance receivables related to these matters totaled $240.2 million and $234.6 million at June 30, 2010 and September 30, 2009, respectively, and are included in homebuilding other assets in the consolidated balance sheets. Expenses related to these items were approximately $34.6 million and $33.0 million in the nine months ended June 30, 2010 and 2009, respectively.

Management believes that, while the outcome of such contingencies cannot be predicted with certainty, the liabilities arising from these matters will not have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. To the extent the liability arising from the ultimate resolution of any matter exceeds management s estimates reflected in the recorded reserves relating to these matters, the Company would incur additional charges that could be significant.

Land and Lot Option Purchase Contracts

In the ordinary course of business, the Company enters into land and lot option purchase contracts in order to procure land or lots for the construction of homes. At June 30, 2010, the Company had total deposits of $10.6 million, consisting of cash deposits of $8.8 million, promissory notes of $1.6 million, and letters of credit and surety bonds of $0.2 million, to purchase land and lots with a total remaining purchase price of $921.3 million. Within the land and lot option purchase contracts at June 30, 2010, there were a limited number of contracts, representing $4.0 million of remaining purchase price, subject to specific performance clauses which may require the Company to purchase the land or lots upon the land sellers meeting their obligations. The majority of land and lots under contract are currently expected to be purchased within three years, based on the Company s assumptions as to the extent it will exercise its options to purchase such land and lots.

Other Commitments

In the normal course of its business activities, the Company provides standby letters of credit and surety bonds, issued by third parties, to secure performance under various contracts. At June 30, 2010, the Company had outstanding letters of credit of $56.1 million, all of which were cash collateralized, and surety bonds of $907.9 million. The Company has secured letter of credit agreements with five banks that require it to deposit cash, in an amount approximating the balance of letters of credit outstanding, as collateral with the issuing banks. At June 30, 2010 and September 30, 2009, the amount of cash restricted for this purpose totaled $57.2 million and $53.3 million, respectively, and is included in homebuilding restricted cash on the Company s consolidated balance sheets.

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NOTE N OTHER ASSETS AND ACCRUED EXPENSES AND OTHER LIABILITIES

The Company s homebuilding other assets were as follows:

	June 30, 2010	September 30, 2009
	(In millions)	
Insurance receivables	$ 240.2	$ 234.6
Accounts and notes receivable	22.7	50.7
Prepaid assets (1)	22.1	39.0
Other assets	132.8	108.7
	$ 417.8	$ 433.0

(1) The balance of prepaid assets at September 30, 2009 has been retrospectively adjusted to reflect the change in accounting for convertible debt as described in Note A.

The Company s homebuilding accrued expenses and other liabilities were as follows:

	June 30, 2010	September 30, 2009
	(In millions)	
Construction defect and other litigation liabilities	$ 553.4	$ 534.0
Employee compensation and related liabilities	97.8	98.5
Warranty liability	49.2	59.6
Accrued interest	40.2	53.5
Federal and state income tax liabilities	78.2	24.0
Other liabilities	131.3	162.4
	$ 950.1	$ 932.0

NOTE O RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB revised the authoritative guidance for accounting for transfers of financial assets, which requires enhanced disclosures regarding transfers of financial assets, including securitization transactions, and continuing exposure to the related risks. The guidance eliminates the concept of a qualifying special-purpose entity and changes the requirements for derecognizing financial assets. The guidance is effective for the Company beginning October 1, 2010. The Company is currently evaluating the impact of adopting this guidance; however, it is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In June 2009, the FASB revised the authoritative guidance for consolidating variable interest entities, which changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance. The guidance is effective for the Company beginning October 1, 2010. The Company is currently evaluating the impact of the adoption of this guidance; however, it is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements, which requires additional disclosures about transfers between Levels 1 and 2 of the fair value hierarchy and disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. This guidance was effective for the Company in the current quarter, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. The adoption of this guidance,

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

which is related to disclosure only, will not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

NOTE P SEGMENT INFORMATION

The Company s 31 homebuilding operating divisions and its financial services operation are its operating segments. The homebuilding operating segments are aggregated into six reporting segments and the financial services operating segment is its own reporting segment. The Company s reportable homebuilding segments are: East, Midwest, Southeast, South Central, Southwest and West. These reporting segments have homebuilding operations located in the following states:

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

Homebuilding is the Company s core business, generating 98% and 99% of consolidated revenues during the nine months ended June 30, 2010 and 2009, respectively. The Company s homebuilding segments are primarily engaged in the acquisition and development of land and the construction and sale of residential homes on the land, in 26 states and 72 markets in the United States. The homebuilding segments generate most of their revenues from the sale of completed homes, and to a lesser extent from the sale of land and lots.

The Company s financial services segment provides mortgage financing and title agency services principally to customers of the Company s homebuilding segments. The Company generally does not retain or service the mortgages that it originates; rather, it seeks to sell the mortgages and related servicing rights to third-party purchasers. The financial services segment generates its revenues from originating and selling mortgages and collecting fees for title insurance agency and closing services.

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

The accounting policies of the reporting segments are described throughout Note A included in the Company s current report on Form 8-K dated February 8, 2010, which updated the Company s annual report on Form 10-K for the fiscal year ended September 30, 2009.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Revenues				
Homebuilding revenues:				
East	$ 150.6	$ 84.8	$ 381.8	$ 241.7
Midwest	99.3	76.9	259.2	210.3
Southeast	247.9	146.5	575.8	414.2
South Central	456.8	270.6	1,097.2	747.5
Southwest	118.5	86.8	286.3	307.0
West	305.2	248.5	783.7	669.0
Total homebuilding revenues	1,378.3	914.1	3,384.0	2,589.7
Financial services revenues	27.8	18.8	67.7	39.1
Consolidated revenues	$ 1,406.1	$ 932.9	$ 3,451.7	$ 2,628.8
Inventory Impairments				
East	$ 5.3	$ 9.5	$ 7.4	$ 15.1
Midwest	17.0	18.2	17.0	31.3
Southeast	6.4	19.7	7.9	25.7
South Central	0.2	11.3	0.4	13.6
Southwest		11.9	0.3	19.6
West	0.2	32.3	0.2	97.7
Total inventory impairments	$ 29.1	$ 102.9	$ 33.2	$ 203.0
Income (Loss) Before Income Taxes (1)(2)				
Homebuilding income (loss) before income taxes:				
East	$ (4.3)	$ (22.7)	$ (6.6)	$ (39.4)
Midwest	(18.8)	(41.2)	(23.7)	(74.0)
Southeast	4.3	(30.7)	2.5	(48.1)
South Central	40.3	(6.4)	81.9	6.7
Southwest	7.9	(15.7)	13.0	(24.9)
West	8.0	(49.5)	17.5	(135.4)
Total homebuilding income (loss) before income taxes	37.4	(166.2)	84.6	(315.1)
Financial services income (loss) before income taxes	8.9	2.8	16.6	(12.6)

Consolidated income (loss) before income taxes	$ 46.3	$ (163.4)	$ 101.2	$ (327.7)

(1) Expenses maintained at the corporate level are allocated to each segment based on the segment s average inventory. These expenses consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating the Company s corporate office.

(2) Homebuilding income (loss) before income taxes for the three and nine months ended June 30, 2009 have been retrospectively adjusted to reflect the change in accounting for convertible debt as described in Note A.

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

	June 30, 2010	September 30, 2009
	(In millions)	
Homebuilding Inventories (1)		
East	$ 526.6	$ 535.4
Midwest	314.0	371.1
Southeast	681.8	656.6
South Central	797.2	852.8
Southwest	228.4	255.7
West	901.1	842.5
Corporate and unallocated (2)(3)	115.9	152.6
Total homebuilding inventory	$ 3,565.0	$ 3,666.7

(1) Homebuilding inventories are the only assets included in the measure of segment assets used by the Company s chief operating decision maker, its CEO.

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

(3) Homebuilding inventories at September 30, 2009 have been retrospectively adjusted to reflect the change in accounting for convertible debt

as described in
Note A.

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q SUPPLEMENTAL GUARANTOR INFORMATION

All of the Company s senior, convertible senior and senior subordinated notes are fully and unconditionally guaranteed, on a joint and several basis, by all of the Company s direct and indirect subsidiaries (collectively, Guarantor Subsidiaries), other than financial services subsidiaries and certain insignificant subsidiaries (collectively, Non-Guarantor Subsidiaries). Each of the Guarantor Subsidiaries is wholly-owned. In lieu of providing separate financial statements for the Guarantor Subsidiaries, consolidated condensed financial statements are presented below. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that they are not material to investors.

Consolidating Balance Sheet
June 30, 2010

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
ASSETS					
Cash and cash equivalents	$ 1,302.9	$ 52.1	$ 37.5	$	$ 1,392.5
Marketable securities	298.2				298.2
Restricted cash	58.1	0.7			58.8
Investments in subsidiaries	1,314.5			(1,314.5)	
Inventories	1,103.1	2,435.1	26.8		3,565.0
Income taxes receivable	32.6				32.6
Property and equipment, net	19.1	23.1	19.1		61.3
Other assets	95.1	283.0	92.9		471.0
Mortgage loans held for sale			316.1		316.1
Goodwill		15.9			15.9
Intercompany receivables	968.4			(968.4)	
Total Assets	$ 5,192.0	$ 2,809.9	$ 492.4	$ (2,282.9)	$ 6,211.4
LIABILITIES & EQUITY					
Accounts payable and other liabilities	$ 352.1	$ 722.4	$ 132.9	$	$ 1,207.4
Intercompany payables		932.2	36.2	(968.4)	
Notes payable	2,212.9	1.8	152.5		2,367.2
Total Liabilities	2,565.0	1,656.4	321.6	(968.4)	3,574.6
Total stockholders equity	2,627.0	1,153.5	161.0	(1,314.5)	2,627.0
Noncontrolling interests			9.8		9.8
Total Equity	2,627.0	1,153.5	170.8	(1,314.5)	2,636.8
Total Liabilities & Equity	$ 5,192.0	$ 2,809.9	$ 492.4	$ (2,282.9)	$ 6,211.4

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Balance Sheet
September 30, 2009

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
ASSETS					
Cash and cash equivalents	$ 1,871.2	$ 48.3	$ 37.8	$	$ 1,957.3
Restricted cash	54.5	0.7			55.2
Investments in subsidiaries	1,033.7			(1,033.7)	
Inventories	1,118.2	2,521.7	26.8		3,666.7
Income taxes receivable	293.1				293.1
Property and equipment, net	18.1	19.7	20.0		57.8
Other assets	116.6	275.3	98.1		490.0
Mortgage loans held for sale			220.8		220.8
Goodwill		15.9			15.9
Intercompany receivables	1,280.0			(1,280.0)	
Total Assets	$ 5,785.4	$ 2,881.6	$ 403.5	$ (2,313.7)	$ 6,756.8
LIABILITIES & EQUITY					
Accounts payable and other liabilities	$ 318.1	$ 747.1	$ 145.7	$	$ 1,210.9
Intercompany payables		1,243.9	36.1	(1,280.0)	
Notes payable	3,075.5	1.1	68.7		3,145.3
Total Liabilities	3,393.6	1,992.1	250.5	(1,280.0)	4,356.2
Total stockholders equity	2,391.8	889.5	144.2	(1,033.7)	2,391.8
Noncontrolling interests			8.8		8.8
Total Equity	2,391.8	889.5	153.0	(1,033.7)	2,400.6
Total Liabilities & Equity	$ 5,785.4	$ 2,881.6	$ 403.5	$ (2,313.7)	$ 6,756.8

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended June 30, 2010

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Homebuilding:					
Revenues	$ 370.4	$ 1,005.7	$ 2.2	$	$ 1,378.3
Cost of sales	295.4	875.0	1.1		1,171.5
Gross profit	75.0	130.7	1.1		206.8
Selling, general and administrative expense	57.8	83.9	1.5		143.2
Equity in (income) of subsidiaries	(56.4)			56.4	
Interest expense	19.6				19.6
Loss on early retirement of debt, net	8.3				8.3
Other (income)	(0.6)	(0.3)	(0.8)		(1.7)
	46.3	47.1	0.4	(56.4)	37.4
Financial Services:					
Revenues			27.8		27.8
General and administrative expense			21.2		21.2
Interest expense			0.7		0.7
Interest and other (income)			(3.0)		(3.0)
			8.9		8.9
Income before income taxes	46.3	47.1	9.3	(56.4)	46.3
Benefit from income taxes	(4.2)	(3.2)	(0.1)	3.3	(4.2)
Net income	$ 50.5	$ 50.3	$ 9.4	$ (59.7)	$ 50.5

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Nine Months Ended June 30, 2010

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Homebuilding:					
Revenues	$ 860.8	$ 2,517.7	$ 5.5	$	$ 3,384.0
Cost of sales	688.6	2,138.8	2.2		2,829.6
Gross profit	172.2	378.9	3.3		554.4
Selling, general and administrative expense	163.1	231.1	6.1		400.3
Equity in (income) of subsidiaries	(165.1)			165.1	
Interest expense	69.3				69.3
Loss on early retirement of debt, net	6.7				6.7
Other (income)	(3.0)	(0.8)	(2.7)		(6.5)
	101.2	148.6	(0.1)	(165.1)	84.6
Financial Services:					
Revenues			67.7		67.7
General and administrative expense			57.2		57.2
Interest expense			1.4		1.4
Interest and other (income)			(7.5)		(7.5)
			16.6		16.6
Income before income taxes	101.2	148.6	16.5	(165.1)	101.2
Benefit from income taxes	(152.7)	(115.1)	(3.1)	118.2	(152.7)
Net income	$ 253.9	$ 263.7	$ 19.6	$ (283.3)	$ 253.9

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Three Months Ended June 30, 2009
(Adjusted-Note A)

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Homebuilding:					
Revenues	$ 222.3	$ 686.0	$ 5.8	$	$ 914.1
Cost of sales	241.7	669.5	11.3		922.5
Gross profit (loss)	(19.4)	16.5	(5.5)		(8.4)
Selling, general and administrative expense	56.4	76.1	1.8		134.3
Equity in loss of subsidiaries	63.0			(63.0)	
Interest expense	21.8				21.8
Loss on early retirement of debt, net	3.9				3.9
Other (income)	(1.1)	(0.2)	(0.9)		(2.2)
	(163.4)	(59.4)	(6.4)	63.0	(166.2)
Financial Services:					
Revenues			18.8		18.8
General and administrative expense			18.1		18.1
Interest expense			0.2		0.2
Interest and other (income)			(2.3)		(2.3)
			2.8		2.8
Loss before income taxes	(163.4)	(59.4)	(3.6)	63.0	(163.4)
Benefit from income taxes	(19.6)	(14.8)	(0.4)	15.2	(19.6)
Net loss	$ (143.8)	$ (44.6)	$ (3.2)	$ 47.8	$ (143.8)

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Operations
Nine Months Ended June 30, 2009
(Adjusted-Note A)

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
Homebuilding:					
Revenues	$ 592.5	$ 1,982.1	$ 15.1	$	$ 2,589.7
Cost of sales	594.7	1,844.7	19.9		2,459.3
Gross profit (loss)	(2.2)	137.4	(4.8)		130.4
Selling, general and administrative expense	158.5	225.1	4.6		388.2
Equity in loss of subsidiaries	106.4			(106.4)	
Interest expense	70.4				70.4
Gain on early retirement of debt, net	(4.4)				(4.4)
Other (income)	(5.4)		(3.3)		(8.7)
	(327.7)	(87.7)	(6.1)	106.4	(315.1)
Financial Services:					
Revenues			39.1		39.1
General and administrative expense			58.5		58.5
Interest expense			1.2		1.2
Interest and other (income)			(8.0)		(8.0)
			(12.6)		(12.6)
Loss before income taxes	(327.7)	(87.7)	(18.7)	106.4	(327.7)
Benefit from income taxes	(12.8)	(9.6)	(0.3)	9.9	(12.8)
Net loss	$ (314.9)	$ (78.1)	$ (18.4)	$ 96.5	$ (314.9)

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2010

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
OPERATING ACTIVITIES					
Net cash provided by (used in) operating activities	$ 344.4	$ 323.9	$ (81.2)	$	$ 587.1
INVESTING ACTIVITIES					
Purchases of property and equipment	(6.7)	(8.5)	(0.4)		(15.6)
Purchases of marketable securities, available-for-sale	(299.4)				(299.4)
Increase in restricted cash	(3.6)				(3.6)
Net cash used in investing activities	(309.7)	(8.5)	(0.4)		(318.6)
FINANCING ACTIVITIES					
Net change in notes payable	(888.7)		83.7		(805.0)
Net change in intercompany receivables/payables	314.0	(311.6)	(2.4)		
Proceeds from stock associated with certain employee benefit plans	4.6				4.6
Income tax benefit from stock option exercises	2.9				2.9
Cash dividends paid	(35.8)				(35.8)
Net cash (used in) provided by financing activities	(603.0)	(311.6)	81.3		(833.3)
(Decrease) increase in cash and cash equivalents	(568.3)	3.8	(0.3)		(564.8)
Cash and cash equivalents at beginning of period	1,871.2	48.3	37.8		1,957.3
Cash and cash equivalents at end of period	$ 1,302.9	$ 52.1	$ 37.5	$	$ 1,392.5

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D.R. HORTON, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)
June 30, 2010

NOTE Q - SUPPLEMENTAL GUARANTOR INFORMATION - (Continued)

Consolidating Statement of Cash Flows
Nine Months Ended June 30, 2009

	D.R. Horton, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
			(In millions)		
OPERATING ACTIVITIES					
Net cash provided by operating activities	$ 552.6	$ 398.1	$ 151.3	$	$ 1,102.0
INVESTING ACTIVITIES					
Purchases of property and equipment	(3.3)	(2.8)	(0.1)		(6.2)
(Increase) decrease in restricted cash	(60.4)	0.4			(60.0)
Net cash used in investing activities	(63.7)	(2.4)	(0.1)		(66.2)
FINANCING ACTIVITIES					
Net change in notes payable	(261.4)		(126.1)		(387.5)
Net change in intercompany receivables/payables	465.7	(445.0)	(20.7)		
Proceeds from stock associated with certain employee benefit plans	2.0				2.0
Income tax benefit from stock option exercises	0.3				0.3
Cash dividends paid	(35.6)				(35.6)
Net cash provided by (used in) financing activities	171.0	(445.0)	(146.8)		(420.8)
Increase (decrease) in cash and cash equivalents	659.9	(49.3)	4.4		615.0
Cash and cash equivalents at beginning of period	1,261.5	90.1	35.7		1,387.3
Cash and cash equivalents at end of period	$ 1,921.4	$ 40.8	$ 40.1	$	$ 2,002.3

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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 current report on Form 8-K dated February 8, 2010, which updated our annual report on Form 10-K for the fiscal year ended September 30, 2009. 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

We are one of the largest homebuilding companies in the United States, constructing and selling single-family housing through our operating divisions in 26 states and 72 markets as of June 30, 2010, primarily under the name of D.R. Horton, *America s Builder*. Our homebuilding operations primarily include the construction and sale of single-family homes with sales prices generally ranging from $90,000 to $700,000, with an average closing price of $203,800 during the nine months ended June 30, 2010. Approximately 86% and 81% of home sales revenues were generated from the sale of single-family detached homes in the nine months ended June 30, 2010 and 2009, respectively. The remainder of home sales revenues were generated from the sale of attached homes, such as town homes, duplexes, triplexes and condominiums (including some mid-rise buildings), which share common walls and roofs.

Through our financial services operations, we 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 principally to the purchasers of homes we build. We generally do not retain or service the mortgages we originate; rather, we seek to sell the mortgages and related servicing rights to third-party purchasers. DHI Mortgage originates loans in accordance with purchaser guidelines and historically has sold substantially all of its mortgage production within 30 days of origination. Our subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services, primarily to the purchasers of our homes.

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We conduct our homebuilding operations in all of the geographic regions, states and markets listed below, and we conduct our mortgage and title operations in many of these markets. Our homebuilding operating divisions are aggregated into six reporting segments, which comprise the markets below. Our financial statements contain additional information regarding segment performance.

State	Reporting Region/Market	State	Reporting Region/Market
	East Region		**South Central Region**
Delaware	Central Delaware	**Louisiana**	Baton Rouge
Georgia	Savannah		Lafayette
Maryland	Baltimore	**Oklahoma**	Oklahoma City
	Suburban Washington, D.C.	**Texas**	Austin
New Jersey	North New Jersey		Dallas
	South New Jersey		Fort Worth
North Carolina	Brunswick County		Houston
	Charlotte		Killeen/Temple/Waco
	Greensboro/Winston-Salem		Rio Grande Valley
	Raleigh/Durham		San Antonio
Pennsylvania	Lancaster		
	Philadelphia		**Southwest Region**
South Carolina	Charleston	**Arizona**	Phoenix
	Columbia		Tucson
	Greenville	**New Mexico**	Albuquerque
	Hilton Head		Las Cruces
	Myrtle Beach		
Virginia	Northern Virginia		**West Region**
		California	Bay Area
	Midwest Region		Central Valley
Colorado	Colorado Springs		Imperial Valley
	Denver		Los Angeles County
	Fort Collins		Riverside County
Illinois	Chicago		Sacramento
Minnesota	Minneapolis/St. Paul		San Bernardino County
Wisconsin	Kenosha		San Diego County
			Ventura County
	Southeast Region	**Hawaii**	Hawaii
Alabama	Birmingham		Maui
	Mobile		Oahu
Florida	Daytona Beach	**Idaho**	Boise
	Fort Myers/Naples	**Nevada**	Las Vegas
	Jacksonville		Reno
	Melbourne	**Oregon**	Albany
	Miami/West Palm Beach		Central Oregon
	Orlando		Portland
	Pensacola	**Utah**	Salt Lake City
	Sarasota County	**Washington**	Seattle/Tacoma
	Tampa		Vancouver

Georgia	Atlanta Macon

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OVERVIEW

During the ongoing slowdown in the homebuilding industry that began in 2006, numerous factors have hurt demand for new homes on a pervasive and persistent basis across the United States. These factors include high inventory levels of available homes, elevated sales order cancellation rates, low sales absorption rates and overall weak consumer confidence. The effects of these factors have been magnified by reduced availability of credit in the mortgage markets and high levels of home foreclosures. High levels of foreclosures not only contribute to additional inventory available for sale, but also reduce appraisal valuations for new homes, potentially resulting in lower sales prices. The overall economy remains weak, with a high level of unemployment, substantially reduced consumer spending and low levels of consumer confidence. The turmoil in the housing market has resulted in substantial price reductions in our homes during the course of the slowdown.

During the first half of fiscal 2010 there were indications of some stabilization of housing market conditions. The factors supporting the improved conditions included increased levels of affordability resulting from lower home sales prices; declines in the number of new homes available for sale; a low mortgage interest rate environment; and the federal government s monetary and fiscal policies and programs, including the homebuyer federal tax credit, which encouraged home ownership and home purchases. These market conditions supported our strategy of starting construction on more unsold homes to provide affordable housing and capture demand from first-time and move-up homebuyers. Having additional housing inventory available to close by June 30, 2010 resulted in significant increases in our net sales orders during the first half of fiscal 2010 from the comparable prior year period. During the three and nine-month periods ended June 30, 2010, our home closings and gross profit as a percentage of home sales revenues showed significant increases from the comparable periods in the prior year. These increases resulted in pre-tax income for the three and nine months ended June 30, 2010 of $46.3 million and $101.2 million compared to pre-tax losses in the comparable periods of the prior year.

As we expected, the homebuyer federal tax credit accelerated sales order demand through April 30, 2010, with the strong sales demand we had seen in our March quarter continuing into April. Subsequent to the expiration of the tax credit, we experienced a sharp decline in net sales demand during May and June, and sales demand in July remained weak. The recent decline in demand has created some uncertainty regarding the strength of current market conditions in the homebuilding industry and the timing of a sustainable recovery. We are maintaining our cautious outlook for the homebuilding industry, and will adjust our operating strategy as necessary as we continually assess the level of underlying demand for new homes in our communities.

Our results for the remainder of this fiscal year and for fiscal 2011 could be severely impacted by prolonged weakness in the economy; continued high levels of unemployment; a significant increase in mortgage interest rates; or further tightening of mortgage lending standards, including reductions in the level of closing cost concessions we are able to offer our homebuyers.

Due to these uncertain market conditions, we have continued to evaluate our homebuilding and financial services assets for recoverability. Excluding cash and marketable securities, our assets whose recoverability is most impacted by market conditions include inventory; earnest money deposits and pre-acquisition costs related to land and lot option contracts; tax assets, both on amounts reflected as deferred and as a receivable; and owned mortgage loans. These assets collectively represent approximately 90% of our total non-cash assets at June 30, 2010. Our evaluations reflected our expectation of continued challenges in the homebuilding industry. Based on our evaluations, during the three months ended June 30, 2010, we recorded inventory impairment charges of $29.1 million and recorded additional reserves for losses of $3.1 million associated with mortgage loans held in portfolio and the limited recourse provisions on previously sold mortgage loans. The declines in inventory impairment charges and write-offs of earnest money deposits and pre-acquisition costs from prior years reflect the improvement in gross profit from home closings experienced during the three-month period ended June 30, 2010 compared to prior years. We will evaluate whether further impairment charges, valuation adjustments or write-offs are necessary on these assets in the coming quarters. Additional discussion of these evaluations and charges is presented below.

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STRATEGY

We believe the long-term fundamentals which support housing demand, namely population growth and household formation, remain positive. In the near term, however, it is not possible to predict if current homebuilding industry conditions will improve or if they will deteriorate from current levels. During the downturn we have increased our cash balances by generating substantial cash flow from operations, primarily through reductions in inventory and mortgage loans held for sale, the receipt of tax refunds and by accessing the capital markets. While we will continue to conservatively manage our business, our increased liquidity provides us with flexibility in determining the appropriate operating strategy for each of our communities and markets to strike the best balance between cash flow generation and potential profit. With this flexibility, we are committed to continuing the following initiatives related to our operating strategy in the current homebuilding business environment:

- Maintaining a strong cash balance and overall liquidity position.
- Managing the sales prices and level of sales incentives on our homes as necessary to optimize the balance of sales volumes, profits, returns on inventory investments and cash flows.
- Entering into new lot option contracts to purchase finished lots to potentially increase sales volumes and profitability.
- Renegotiating existing lot option contracts to reduce our lot costs and better match the scheduled lot purchases with new home demand in each community.
- Limiting land development spending and suspending development in communities that require substantial investments of time or capital resources.
- Managing our inventory of homes under construction by selectively starting construction on unsold homes to capture new home demand, while monitoring the number and aging of unsold homes and aggressively marketing unsold, completed homes in inventory.
- Decreasing the cost of goods purchased from both vendors and subcontractors.
- Modifying product offerings to provide more affordable homes.
- Controlling our SG&A infrastructure to match production levels.

These initiatives allowed us to generate significant cash flows from operations during the downturn and achieve improved operating results during the three and nine months ended June 30, 2010. Although we cannot provide any assurances that these initiatives will be successful in the future, we expect that our operating strategy will allow us to continue to maintain a strong balance sheet and liquidity position through fiscal 2010.

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KEY RESULTS

Key financial results as of and for the three months ended June 30, 2010, as compared to the same period of 2009, were as follows:

Homebuilding Operations:

Homebuilding revenues increased 51% to $1.4 billion.

Homes closed increased 60% to 6,805 homes and the average selling price of those homes decreased 4% to $202,500.

Net sales orders decreased 3% to 4,921 homes.

Sales order backlog decreased 15% to $954.4 million.

Home sales gross margins increased 590 basis points to 17.2%.

Inventory impairments and land option cost write-offs were $30.3 million, compared to $110.8 million.

Homebuilding SG&A expenses increased 7% to $143.2 million, but decreased as a percentage of homebuilding revenues by 430 basis points to 10.4%.

Homebuilding pre-tax income was $37.4 million, compared to a pre-tax loss of $166.2 million.

Homes in inventory decreased by 100 from a year ago to 10,800.

Owned lots declined by 1,300 from a year ago to 89,200.

Homebuilding debt decreased by $927.9 million to $2.2 billion.

Net homebuilding debt to total capital decreased 1,320 basis points to 17.5%, and gross homebuilding debt to total capital decreased 860 basis points to 45.6%.

Homebuilding cash and marketable securities totaled $1.7 billion, compared to $2.0 billion.

Financial Services Operations:

Total financial services revenues, net of recourse and reinsurance expenses, increased to $27.8 million from $18.8 million.

Financial services pre-tax income was $8.9 million, compared to pre-tax income of $2.8 million.

Consolidated Results:

Diluted earnings per share was $0.16, compared to net loss per share of $0.45.

Net income was $50.5 million, compared to net loss of $143.8 million.

Total equity decreased slightly to $2.64 billion, from $2.65 billion.

Net cash provided by operations was $159.3 million, compared to $124.1 million.

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Key financial results for the nine months ended June 30, 2010, as compared to the same period of 2009, were as follows:

Homebuilding Operations:

Homebuilding revenues increased 31% to $3.4 billion.

Homes closed increased 40% to 16,594 homes while the average selling price of those homes decreased 5% to $203,800.

Net sales orders increased 28% to 15,396 homes.

Home sales gross margins increased 400 basis points to 17.4%.

Inventory impairments and land option cost write-offs were $33.9 million, compared to $215.2 million.

Homebuilding SG&A expenses increased 3% to $400.3 million, but decreased as a percentage of homebuilding revenues by 320 basis points to 11.8%.

Homebuilding pre-tax income was $84.6 million, compared to a pre-tax loss of $315.1 million.

Financial Services Operations:

Total financial services revenues, net of recourse and reinsurance expenses, increased to $67.7 million from $39.1 million.

Financial services pre-tax income was $16.6 million, compared to a pre-tax loss of $12.6 million.

Consolidated Results:

Diluted earnings per share was $0.78, compared to net loss per share of $0.99.

Net income was $253.9 million, compared to net loss of $314.9 million.

Net cash provided by operations was $587.1 million, compared to $1.1 billion.

RESULTS OF OPERATIONS - HOMEBUILDING

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 nine months ended June 30, 2010 and 2009.

Net Sales Orders (1)

	Three Months Ended June 30,								
	Net Homes Sold			Value (In millions)			Average Selling Price		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
East	512	482	6 %	$ 114.5	$ 115.8	(1)%	$ 223,600	$ 240,200	(7)%
Midwest	250	377	(34)%	71.5	102.5	(30)%	286,000	271,900	5 %
Southeast	1,044	786	33 %	196.6	145.4	35 %	188,300	185,000	2 %
South Central	1,754	1,845	(5)%	307.1	317.6	(3)%	175,100	172,100	2 %
Southwest	426	583	(27)%	73.2	102.6	(29)%	171,800	176,000	(2)%
West	935	1,016	(8)%	262.8	275.2	(5)%	281,100	270,900	4 %
	4,921	5,089	(3)%	$ 1,025.7	$ 1,059.1	(3)%	$ 208,400	$ 208,100	%

	Nine Months Ended June 30,								
	Net Homes Sold			Value (In millions)			Average Selling Price		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
East	1,582	1,024	54 %	$ 367.5	$ 239.4	54 %	$ 232,300	$ 233,800	(1)%
Midwest	821	842	(2)%	233.4	227.0	3 %	284,300	269,600	5 %
Southeast	3,159	2,087	51 %	589.6	379.0	56 %	186,600	181,600	3 %
South Central	5,741	4,319	33 %	998.9	747.6	34 %	174,000	173,100	1 %
Southwest	1,475	1,455	1 %	255.5	249.0	3 %	173,200	171,100	1 %
West	2,618	2,299	14 %	748.6	629.1	19 %	285,900	273,600	4 %
	15,396	12,026	28 %	$ 3,193.5	$ 2,471.1	29 %	$ 207,400	$ 205,500	1 %

Sales Order Cancellations

	Three Months Ended June 30,					
	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2010	2009	2010	2009	2010	2009
East	165	103	$ 34.9	$ 23.5	24%	18%
Midwest	68	50	18.1	13.4	21%	12%
Southeast	430	347	76.2	61.4	29%	31%
South Central	833	731	140.1	123.0	32%	28%
Southwest	191	236	32.5	40.4	31%	29%
West	221	343	62.5	99.2	19%	25%
	1,908	1,810	$ 364.3	$ 360.9	28%	26%

	Nine Months Ended June 30,					
	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2010	2009	2010	2009	2010	2009
East	412	350	$ 92.4	$ 84.6	21%	25%
Midwest	187	186	51.9	50.9	19%	18%
Southeast	1,030	953	179.9	180.3	25%	31%
South Central	2,176	2,215	362.0	372.1	27%	34%
Southwest	588	675	99.2	125.5	29%	32%
West	589	915	168.5	275.9	18%	28%
	4,982	5,294	$ 953.9	$ 1,089.3	24%	31%

(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.

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Net Sales Orders

The value of net sales orders decreased 3%, to $1,025.7 million (4,921 homes) for the three months ended June 30, 2010, from $1,059.1 million (5,089 homes) for the same period of 2009. The value of net sales orders increased 29%, to $3,193.5 million (15,396 homes) for the nine months ended June 30, 2010, from $2,471.1 million (12,026 homes) for the same period of 2009. The number of net sales orders decreased 3% and increased 28% for the three and nine-month periods ended June 30, 2010, respectively. Our sales orders during the three months ended June 30, 2010 were significantly impacted by the expiration of the homebuyer federal tax credit, which occurred on April 30, 2010. We believe that the tax credit accelerated demand during the quarter, and that as a result, our sales orders were higher than normal in April but declined sharply in May and June. Sales demand remained weak in July. If the current weak sales demand persists, our sales volume in the fourth quarter of fiscal 2010 will likely be less than the comparable quarter of the prior year. Although housing affordability remains high, new homes available for sale have declined and the mortgage interest rate environment remains low, the significant decline in demand subsequent to the expiration of the federal tax credit has created uncertainty regarding the strength of current market conditions and the timing of a sustainable recovery.

In comparing the three-month period ended June 30, 2010 to the same period of 2009, the largest percentage increase in net sales orders occurred in our Southeast region, resulting from new communities in our Florida markets. Conversely, our Midwest and Southwest regions experienced significant declines in net sales orders, due to continued weak demand in our Chicago and Phoenix markets. In comparing the nine-month periods, the largest percentage increases in net sales orders occurred in our East, Southeast and South Central regions resulting from new communities in the Carolinas, Florida and Texas, as well as lower cancellation rates achieved in these regions. Our sales volumes in the future will depend on the strength of the overall economy, primarily employment levels, and our ability to successfully implement our operating strategies in each of our markets.

In comparing the three and nine-month periods ended June 30, 2010 to the same periods of 2009, the value of net sales orders fluctuated significantly among the regions, primarily due to the change in the number of homes sold in each respective region, and to a much lesser extent, small fluctuations in the average selling price of those homes.

The average price of our net sales orders in the three months ended June 30, 2010 was $208,400, a slight increase from the $208,100 average in the comparable period of 2009. The average price of our net sales orders in the nine months ended June 30, 2010 was $207,400, an increase of 1% from the $205,500 average in the comparable period of 2009. We will continue our efforts to offer affordable product offerings to our target customer base and will seek to adjust our product mix, geographic mix and pricing within our homebuilding markets to meet market conditions.

Our sales order cancellation rates (cancelled sales orders divided by gross sales orders for the period) during the three and nine months ended June 30, 2010 were 28% and 24%, respectively, compared to 26% and 31% during the same periods of 2009. These cancellation rates continue to be above historical levels. Our ability to reduce them to historical levels depends largely on the strength of the overall economy, and our ability to successfully implement operating strategies in each of our markets. We anticipate that cancellation rates will continue to fluctuate significantly until there is sustained stability in market conditions.

Sales Order Backlog
As of June 30,

	Homes in Backlog			Value (In millions)			Average Selling Price		
	2010	2009	% Change	2010	2009	% Change	2010	2009	% Change
East	511	499	2 %	$ 112.4	$ 117.6	(4)%	$ 220,000	$ 235,700	(7)%
Midwest	270	427	(37)%	79.3	112.0	(29)%	293,700	262,300	12 %
Southeast	980	811	21 %	195.0	151.1	29 %	199,000	186,300	7 %
South Central	1,658	2,087	(21)%	299.7	362.1	(17)%	180,800	173,500	4 %
Southwest	344	643	(47)%	60.6	115.2	(47)%	176,200	179,200	(2)%
West	667	963	(31)%	207.4	267.5	(22)%	310,900	277,800	12 %

4,430	5,430	(18)%	$ 954.4	$ 1,125.5	(15)%	$ 215,400	$ 207,300	4 %

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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, which during the recent housing downturn have been substantial.

Our homes in backlog at June 30, 2010 declined 18% from the prior year as a result of closing homes at a greater rate than our sales pace, especially in the last two months of the June 2010 quarter. Given our lower level of backlog at the beginning of the fourth quarter as compared to last year, if the slower sales pace we experienced in July continues throughout the remainder of the quarter, our fourth quarter closings and revenues will likely be lower than the prior year.

Homes Closed and Home Sales Revenue

	Three Months Ended June 30,								
	Homes Closed			**Value (In millions)**			**Average Selling Price**		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
East	652	351	86%	$ 150.6	$ 83.1	81%	$ 231,000	$ 236,800	(2)%
Midwest	350	274	28%	99.3	76.8	29%	283,700	280,300	1 %
Southeast	1,337	718	86%	247.8	136.6	81%	185,300	190,300	(3)%
South Central	2,661	1,529	74%	456.8	269.3	70%	171,700	176,100	(2)%
Southwest	702	510	38%	118.5	86.8	37%	168,800	170,200	(1)%
West	1,103	858	29%	305.2	244.0	25%	276,700	284,400	(3)%
	6,805	4,240	60%	$ 1,378.2	$ 896.6	54%	$ 202,500	$ 211,500	(4)%

	Nine Months Ended June 30,								
	Homes Closed			**Value (In millions)**			**Average Selling Price**		
	2010	**2009**	**% Change**	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
East	1,630	1,012	61%	$ 381.7	$ 240.0	59%	$ 234,200	$ 237,200	(1)%
Midwest	940	743	27%	259.1	206.5	25%	275,600	277,900	(1)%
Southeast	3,148	2,059	53%	573.6	393.6	46%	182,200	191,200	(5)%
South Central	6,411	4,231	52%	1,096.7	745.0	47%	171,100	176,100	(3)%
Southwest	1,657	1,624	2%	286.3	304.4	(6)%	172,800	187,400	(8)%
West	2,808	2,224	26%	783.7	663.6	18%	279,100	298,400	(6)%
	16,594	11,893	40%	$ 3,381.1	$ 2,553.1	32%	$ 203,800	$ 214,700	(5)%

Home Sales Revenue

Revenues from home sales increased 54%, to $1,378.2 million (6,805 homes closed) for the three months ended June 30, 2010, from $896.6 million (4,240 homes closed) for the comparable period of 2009. Revenues from home sales increased 32%, to $3,381.1 million (16,594 homes closed) for the nine months ended June 30, 2010, from $2,553.1 million (11,893 homes closed) for the comparable period of 2009. The average selling price of homes closed during the three months ended June 30, 2010 was $202,500, down 4% from the $211,500 average for the same period of 2009. The average selling price of homes closed during the nine months ended June 30, 2010 was $203,800, down 5% from the $214,700 average for the same period of 2009. During the three and nine months ended June 30, 2010, home sales revenues increased significantly in most of our market regions, resulting from increases in the number of homes closed.

The number of homes closed in the three and nine months ended June 30, 2010 increased 60% and 40%, respectively, due to increases in all six of our market regions. The increase in home closings reflects the impact of the first-time homebuyer s federal tax credit, which required buyers to close on their home purchase transaction by June 30, 2010, which we believe helped to stimulate demand for home closings during the first nine months of fiscal 2010. We also believe that our operating strategy of selectively starting construction on unsold homes, which made additional housing inventory available to close by June 30, 2010, benefitted our home closings volume by better capturing this demand. In the nine-month period, the Southwest region had only a 2% increase in homes closed due to both weak demand in the Phoenix market and prior year efforts to reduce completed home inventories in that market. As conditions change in the housing markets in which we operate, our ongoing level of net sales orders will determine the number of home closings and amount of revenue we will generate.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues			
	Three Months Ended June 30,		**Nine Months Ended June 30,**	
	2010	**2009**	**2010**	**2009**
Gross profit Home sales	17.2%	11.3%	17.4%	13.4%
Gross profit Land/lot sales	%	4.6%	24.1%	10.9%
Effect of inventory impairments and land option cost write-offs on total homebuilding gross profit	(2.2)%	(12.1)%	(1.0)%	(8.3)%
Gross profit (loss) Total homebuilding	15.0%	(0.9)%	16.4%	5.0%
Selling, general and administrative expense	10.4%	14.7%	11.8%	15.0%
Interest expense	1.4%	2.2%	2.0%	2.7%
Loss (gain) on early retirement of debt, net	0.6%	0.4%	0.2%	(0.2)%
Other (income)	(0.1)%	(0.2)%	(0.2)%	(0.3)%
Income (loss) before income taxes	2.7%	(18.0)%	2.5%	(12.1)%

Home Sales Gross Profit

Gross profit from home sales increased by 133%, to $237.1 million for the three months ended June 30, 2010, from $101.6 million for the comparable period of 2009. As a percentage of home sales revenues, gross profit from home sales increased 590 basis points, to 17.2%. Approximately 510 basis points of the increase in the home sales gross profit percentage was a result of the average cost of our homes declining by more than our average selling prices, caused largely by a reduction in our construction costs on homes closed during the current quarter. The reduction in construction costs primarily results from changes in product design, as well as cost reductions obtained from our suppliers and sub-contractors in prior periods. In addition, the increase in home sales gross profit is partially due to our efforts beginning in fiscal 2009 to acquire lot positions in new communities and construct and close houses from these new projects. Homes closed on these recently acquired finished lots are yielding higher gross profits than those on land and lots acquired in prior years. Approximately 60 basis points of the increase was due to a decrease in the amortization of capitalized interest and property taxes as a percentage of homes sales revenues resulting from reductions in our interest and property taxes incurred and capitalized over the past year and more closings occurring on acquired finished lots, rather than internally developed lots. Approximately 20 basis points of the increase was due to the change in estimated costs of warranty and construction defect claims as a percentage of home sales revenue.

Gross profit from home sales increased by 72%, to $587.6 million for the nine months ended June 30, 2010, from $341.6 million for the comparable period of 2009. As a percentage of home sales revenues, gross profit from home sales increased 400 basis points, to 17.4%. Generally, the factors impacting gross margin for the nine-month period ended June 30, 2010 were similar to those discussed for the three-month period. Specifically, the improvement in our cost of homes as compared to average selling price contributed 360 basis points to the increase and the decrease in the amortization of capitalized interest and property taxes contributed 70 basis points. These increases were partially offset by a decrease of 30 basis points due to the change in estimated costs of warranty and construction defect claims as a percentage of home sales revenue.

Future changes in gross profit percentages are impacted by the use of sales incentives and price adjustments to generate an adequate volume of home closings and are uncertain in the current housing market.

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Land Sales Revenue

Land sales revenues decreased substantially to $0.1 million for the three months ended June 30, 2010, and 92% to $2.9 million for the nine months ended June 30, 2010, from $17.5 million and $36.6 million, respectively, in the comparable periods of 2009. Of the $36.6 million of revenues in the first nine months of fiscal 2009, $24.1 million related to land sale transactions in the fourth quarter of fiscal 2008 for which recognition of the revenue had been deferred due to the terms of the sale. Fluctuations in revenues from land sales are a function of 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, we occasionally purchase land that includes commercially zoned parcels which we typically sell to commercial developers, and we also sell residential lots or land parcels to manage our land and lot supply. Land and lot sales occur at unpredictable intervals and varying degrees of profitability. Therefore, the revenues and gross profit from land sales fluctuate from period to period. As of June 30, 2010, we had $4.4 million of land held for sale which we expect to sell in the next twelve months.

Inventory Impairments and Land Option Cost Write-offs

	Three Months Ended June 30,					
	2010			**2009**		
	Inventory Impairments	**Land Option Cost Write-offs (Recoveries)**	**Total**	**Inventory Impairments**	**Land Option Cost Write-offs (Recoveries)**	**Total**
	(In millions)					
East	$ 5.3	$ 0.2	$ 5.5	$ 9.5	$ 0.5	$ 10.0
Midwest	17.0	0.1	17.1	18.2	7.6	25.8
Southeast	6.4	0.2	6.6	19.7	0.1	19.8
South Central	0.2	0.1	0.3	11.3		11.3
Southwest				11.9	(0.3)	11.6
West	0.2	0.6	0.8	32.3		32.3
	$ 29.1	$ 1.2	$ 30.3	$ 102.9	$ 7.9	$ 110.8

	Nine Months Ended June 30,					
	2010			**2009**		
	Inventory Impairments	**Land Option Cost Write-offs (Recoveries)**	**Total**	**Inventory Impairments**	**Land Option Cost Write-offs (Recoveries)**	**Total**
	(In millions)					
East	$ 7.4	$ (0.2)	$ 7.2	$ 15.1	$ 0.4	$ 15.5
Midwest	17.0	0.1	17.1	31.3	7.6	38.9
Southeast	7.9	0.2	8.1	25.7	0.1	25.8
South Central	0.4	0.3	0.7	13.6	1.7	15.3
Southwest	0.3		0.3	19.6	2.9	22.5
West	0.2	0.3	0.5	97.7	(0.5)	97.2
	$ 33.2	$ 0.7	$ 33.9	$ 203.0	$ 12.2	$ 215.2

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Carrying Values of Potentially Impaired and Impaired Communities at June 30, 2010

	Total Number of Communities (1)	Inventory with Impairment Indicators: Number of Communities (1)	Inventory with Impairment Indicators: Carrying Value	Analysis of Communities with Impairment Charges Recorded at June 30, 2010: Number of Communities (1)	Inventory Carrying Value Prior to Impairment	Fair Value
			(Values in millions)			
East	174	8	$ 54.7	1	$ 12.0	$ 6.7
Midwest	58	13	138.4	5	58.1	41.1
Southeast	272	18	67.3	2	12.2	5.8
South Central	309	14	38.3	1	1.9	1.7
Southwest	97	12	42.4			
West	168	12	94.6	1	2.6	2.4
	1,078	77	$ 435.7	10	$ 86.8	$ 57.7

Carrying Values of Potentially Impaired and Impaired Communities at September 30, 2009

	Total Number of Communities (1)	Inventory with Impairment Indicators: Number of Communities (1)	Inventory with Impairment Indicators: Carrying Value	Analysis of Communities with Impairment Charges Recorded at September 30, 2009: Number of Communities (1)	Inventory Carrying Value Prior to Impairment	Fair Value
			(Values in millions)			
East	129	17	$ 157.8	4	$ 85.1	$ 45.9
Midwest	50	19	143.0	7	47.8	32.8
Southeast	205	27	97.5	15	40.9	29.8
South Central	279	31	106.2	4	17.7	14.2
Southwest	84	21	104.3	8	53.0	36.2
West	152	46	354.3	20	176.8	87.5
	899	161	$ 963.1	58	$ 421.3	$ 246.4

(1) A community may consist of land held for development, residential land and lots developed and under development, and construction in progress and finished homes. A particular community often includes inventory in more than one category. Further, a community may contain multiple parcels with varying product types (e.g. entry level and move-up single family detached, as well as attached product types). Some communities have no homes under construction, finished homes, or current home sales efforts or activity.

Inventory Impairments and Land Option Cost Write-offs

At June 30, 2010, the assumptions utilized in our quarterly impairment evaluation reflected our expectation of continued challenging conditions and uncertainties in the homebuilding industry and in our markets. As we continue to analyze the strength of the economy (measured largely in terms of job growth), the level of underlying demand for new homes and our operating performance, the level of impairments in future quarters will likely fluctuate and may increase.

Our impairment evaluation indicated communities with a combined carrying value of $435.7 million as of June 30, 2010 had indicators of potential impairment, and these communities were evaluated for impairment. The analysis of the large majority of these communities assumed that sales prices in future periods will be equal to or lower than current sales order prices in each community, or in comparable communities, in order to generate an acceptable absorption rate. For a minority of communities that we do not intend to develop or operate in current market conditions, slight increases over current sales prices were assumed. While it is difficult to determine a timeframe for a given community in the current market conditions, we estimated the remaining lives of these communities to range from six months to in excess of ten years. In performing this analysis, we utilized a range of discount rates for communities of 14% to 20%, which is consistent with the rates used in fiscal 2009. Through this evaluation process, we determined that communities with a carrying value of $86.8 million as of June 30, 2010, were impaired. As a result, during the three months ended June 30, 2010, we recorded impairment charges of $29.1 million to reduce the carrying value of the impaired communities to their estimated fair value, as compared to $102.9 million in the same period of the prior year. During the nine months ended June 30, 2010 and 2009, impairment charges totaled $33.2 million and $203.0 million, respectively. In the three months ended June 30, 2010, approximately 93% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 7% of the charges were recorded to construction in progress and finished homes inventory, compared to 89% and 11%, respectively, in the same period of 2009. In the nine months ended June 30, 2010, approximately 91% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 9% of the charges were recorded to construction in progress and finished homes inventory, compared to 79% and 21%, respectively, in the same period of 2009.

Of the remaining $348.9 million carrying value of communities with impairment indicators which were determined not to be impaired at June 30, 2010, the largest concentrations were in California (22%), Illinois (17%), Florida (15%), Arizona (11%) and Texas (10%). It is possible that our estimate of undiscounted cash flows from these communities may change and could result in a future need to record impairment charges to adjust the carrying value of these assets to their estimated fair value. There are several factors which could lead to changes in the estimates of undiscounted future cash flows for a given community. The most significant of these include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to construct the homes. The pricing and incentive levels are often inter-related with sales pace within a community such that a price reduction can be expected to increase the sales pace. Further, both of these factors are heavily influenced by the competitive pressures facing a given community from both new homes and existing homes, some of which may result from foreclosures. If conditions worsen in the broader economy, homebuilding industry or specific markets in which we operate, and as we re-evaluate specific community pricing and incentives, construction and development plans, and our overall land sale strategies, we may be required to evaluate additional communities or re-evaluate previously impaired communities for potential impairment. These evaluations may result in additional impairment charges.

During the three-month periods ended June 30, 2010 and 2009, we wrote off $1.2 million and $7.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts which are not expected to be acquired. During the nine-month periods ended June 30, 2010 and 2009, we wrote off $0.7 million and $12.2 million, respectively, of such deposits and costs. At June 30, 2010, outstanding earnest money deposits and pre-acquisition costs associated with our portfolio of land and lot option purchase contracts totaled $10.6 million and $10.3 million, respectively.

In the three and nine-month periods ended June 30, 2010, inventory impairment charges and write-offs of earnest money deposits and pre-acquisition costs reduced total homebuilding gross profit as a percentage of homebuilding revenues by approximately 220 basis points and 100 basis points, respectively, compared to 1,210 basis points and 830 basis points, respectively, in the same periods of 2009.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities increased by 7% to $143.2 million in the three months ended June 30, 2010, and 3% to $400.3 million in the nine months ended June 30, 2010, from the comparable periods of 2009. As a percentage of homebuilding revenues, SG&A expense decreased 430 basis points, to 10.4% and 320 basis points, to 11.8% in the three and nine-month periods ended June 30, 2010, respectively, from 14.7% and 15.0% in the comparable periods of 2009. The largest component of our homebuilding SG&A expense is employee compensation and related costs, which represented 60% of SG&A costs in the three and nine-month periods ended June 30, 2010, and 55% of SG&A costs in the comparable periods of fiscal 2009. These costs increased by 16%, to $86.5 million in the three months ended June 30, 2010 and by 12%, to $238.3 million in the nine months ended June 30, 2010, from the comparable periods of 2009. Our homebuilding operations employed approximately 2,565 and 2,280 employees at June 30, 2010 and 2009, respectively.

A portion of compensation expense relates to our long-term incentive bonus program, which provides for the Compensation Committee of our Board of Directors to grant performance units to our Chairman of the Board and our Chief Executive Officer. The actual number of performance units earned is based upon our level of performance on defined metrics as compared to a group of our peers. The earned award will have a value equal to the number of earned units multiplied by the closing price of our common stock at the end of the performance period and may be paid in cash, equity or a combination of both. The Compensation Committee has the discretion to reduce the number of performance units awarded from the number of units earned. Performance units were granted in 2008 and 2009 with 33-month performance periods ending on September 30, 2010 and 2011, respectively. Our liability for these awards is based on our performance against the peer group, the elapsed portion of the performance period and our stock price as of each reporting date, and assumes no future reduction of the earned performance units by the Compensation Committee. Because the values of the earned performance units are dependent on our performance and our common stock price, and because the final award can be reduced at the discretion of the Compensation Committee, this liability can be subject to a great deal of volatility. The liability related to the 2008 and 2009 performance unit grants was $16.8 million and $11.3 million at June 30, 2010 and September 30, 2009, respectively. Expenses related to these grants were $0.1 million and $5.6 million for the three and nine months ended June 30, 2010, respectively, and $1.2 million and $3.6 million for the three and nine months ended June 30, 2009, respectively.

Our homebuilding SG&A expense as a percentage of revenues can vary significantly between quarters, depending largely on the fluctuations in quarterly revenue levels. We continually attempt to adjust our SG&A infrastructure to support our expected closings volume; however, we cannot make assurances that our actions will permit us to maintain or improve upon the current SG&A expense as a percentage of revenues. It has become more difficult to reduce SG&A expense as the size of our operations has decreased. If revenues decrease and we are unable to sufficiently adjust our SG&A, future SG&A expense as a percentage of revenues will increase.

Interest Incurred

We capitalize homebuilding interest costs to inventory during active development and construction. Due to the decrease in the size of our operations, our inventory under active development and construction has been lower than our debt level; therefore, a portion of our interest incurred must be expensed. We expensed $19.6 million and $69.3 million of interest incurred during the three and nine-month periods ended June 30, 2010, compared to $21.8 million and $70.4 million in the same periods of 2009.

Interest amortized to cost of sales, excluding interest written off with inventory impairment charges, was 3.4% of total home and land/lot cost of sales in both the three and nine-month periods ended June 30, 2010, compared to 3.7% and 4.0%, respectively, in the same periods of 2009. Interest incurred is related to the average level of our homebuilding debt outstanding during the period. Comparing the three and nine months ended June 30, 2010 with the same periods of 2009, interest incurred related to homebuilding debt decreased 10% to $41.3 million, and 10% to $136.9 million, respectively, primarily due to decreases in our average homebuilding debt.

Gain/Loss on Early Retirement of Debt

We retired $345.2 million and $752.7 million of the principal amounts of our senior and senior subordinated notes prior to their maturity during the three and nine months ended June 30, 2010, respectively, compared to $87.8 million and $308.3 million in the same periods of 2009. We recognized net losses of $8.3 million and $6.7 million in the three and nine months ended June 30, 2010, respectively, related to the early retirement of these notes compared to net gains of $3.7 million and $12.0 million in the comparable periods of 2009. The gains in the 2009 periods were offset by a $7.6 million loss resulting from the write-off of unamortized fees in connection with the early termination of our revolving credit facility in May 2009.

Other Income

Other income, net of other expenses, associated with homebuilding activities was $1.7 million and $6.5 million in the three and nine months ended June 30, 2010, respectively, compared to $2.2 million and $8.7 million in the same periods of 2009. The largest component of other income in all four periods was interest income.

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Homebuilding Results by Reporting Region

	Three Months Ended June 30,					
	2010			2009		
	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues
	(In millions)					
East	$ 150.6	$ (4.3)	(2.9)%	$ 84.8	$ (22.7)	(26.8)%
Midwest	99.3	(18.8)	(18.9)%	76.9	(41.2)	(53.6)%
Southeast	247.9	4.3	1.7%	146.5	(30.7)	(21.0)%
South Central	456.8	40.3	8.8%	270.6	(6.4)	(2.4)%
Southwest	118.5	7.9	6.7%	86.8	(15.7)	(18.1)%
West	305.2	8.0	2.6%	248.5	(49.5)	(19.9)%
	$ 1,378.3	$ 37.4	2.7%	$ 914.1	$ (166.2)	(18.2)%

	Nine Months Ended June 30,					
	2010			2009		
	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues
	(In millions)					
East	$ 381.8	$ (6.6)	(1.7)%	$ 241.7	$ (39.4)	(16.3)%
Midwest	259.2	(23.7)	(9.1)%	210.3	(74.0)	(35.2)%
Southeast	575.8	2.5	0.4%	414.2	(48.1)	(11.6)%
South Central	1,097.2	81.9	7.5%	747.5	6.7	0.9%
Southwest	286.3	13.0	4.5%	307.0	(24.9)	(8.1)%
West	783.7	17.5	2.2%	669.0	(135.4)	(20.2)%
	$ 3,384.0	$ 84.6	2.5%	$ 2,589.7	$ (315.1)	(12.2)%

(1) Expenses maintained at the corporate level are allocated to each segment based on the segment s average

inventory. These expenses 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.

East Region Homebuilding revenues increased 78% and 58% in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009, primarily due to increases in the number of homes closed, with the largest increases occurring in our New Jersey and Carolina markets. The region reported losses before income taxes of $4.3 million and $6.6 million in the three and nine months ended June 30, 2010, compared to losses of $22.7 million and $39.4 million for the same periods of 2009. The results were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $5.5 million and $7.2 million in the three and nine months ended June 30, 2010, respectively, and $10.0 million and $15.5 million in the comparable periods of 2009. The region s gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased 740 basis points and 390 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009. These increases were a result of a reduction in the construction costs of our homes closed during the three and nine-month periods. In the current year three and nine-month periods, the reduction in the region s SG&A as a percentage of homebuilding revenues contributed 630 basis points and 520 basis points, respectively, to the region s improvement in losses before income taxes as a percentage of homebuilding revenues, as the region s additional closing volume helped leverage these SG&A expenses.

Midwest Region Homebuilding revenues increased 29% and 23% in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009, primarily due to increases in the number of homes closed in all of our markets. The region reported losses before income taxes of $18.8 million and $23.7 million in the three and nine months ended June 30, 2010, respectively, compared to losses of $41.2 million and $74.0 million for the same periods of 2009. The results were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $17.1 million in the three and nine months ended June 30, 2010, and $25.8 million and $38.9 million in the comparable periods of 2009. The region s home sales gross profit percentage increased 1,190 basis points and 900 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009. The increases were a result of higher margins, primarily in our Denver market, which also benefitted from lower warranty costs on previously closed homes. In the current year three and nine-month periods, the reduction in the region s SG&A as a percentage of homebuilding revenues contributed 540 basis points and 460 basis points, respectively, to the region s improvement in losses before income taxes as a percentage of homebuilding revenues. Although these results reflect improvements over the prior year periods, we experienced a significant decline in net sales orders in this region during the current quarter. This decline was due to continued weak demand in our Chicago market, and we expect conditions in this market to remain challenging in the near-term.

Southeast Region Homebuilding revenues increased 69% and 39% in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009, primarily due to increases in the number of homes closed, with the largest increases occurring in our central Florida and Atlanta markets. The region reported income before income taxes of $4.3 million and $2.5 million in the three and nine months ended June 30, 2010, respectively, compared to losses before income taxes of $30.7 million and $48.1 million for the same periods of 2009. The results were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $6.6 million and $8.1 million in the three and nine months ended June 30, 2010, respectively, and $19.8 million and $25.8 million in the comparable periods of 2009. The region s home sales gross profit percentage increased 680 basis points and 460 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009. The increases were a result of higher margins on homes closed in the majority of the region s markets, led by our south and central Florida markets. The increases in homes sales gross profit percentage were a result of construction costs declining at a faster rate than the decline in average selling price on homes closed during the three and nine months ended June 30, 2010. In addition, the increase in home sales gross profit is partially due to our efforts since the beginning of fiscal 2009 to acquire lot positions in new communities and construct and close houses from these new projects. Homes closed on these recently acquired finished lots are yielding higher gross profits than those on land and lots acquired in prior years. In the current year three and nine-month periods, the reduction in the region s SG&A as a percentage of homebuilding revenues contributed 430 basis points and 250 basis points, respectively, to the region s improvement in income before income taxes as a percentage of homebuilding revenues.

South Central Region Homebuilding revenues increased 69% and 47% in the three and nine months ended June 30, 2010, respectively, from the comparable period of 2009, primarily due to increases in the number of homes closed, with the largest increases occurring in our Austin, Houston and Dallas/Fort Worth markets. The region reported income before income taxes of $40.3 million and $81.9 million in the three and nine months ended June 30, 2010, respectively, compared to a loss of $6.4 million and income of $6.7 million for the same periods of 2009. The improvement was due in large part to the increase in revenue, combined with the region s home sales gross profit percentage increasing 350 basis points and 310 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009 due to higher margins on homes closed in the majority of our markets. These higher margins were primarily attributable to reductions in construction costs of our homes. Additionally, a decrease in inventory impairment charges and earnest money and pre-acquisition cost write-offs, which were $0.3 million and $0.7 million in the three and nine months ended June 30, 2010, respectively, compared to $11.3 million and $15.3 million in the same periods of 2009, contributed to the region s increase in income before income taxes.

Southwest Region Homebuilding revenues increased 37% and decreased 7% in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009, due to decreases in the number of homes closed and in the average selling price of those homes. The decreases in revenues and homes closed were due to continuing weakness in the Phoenix market. The region reported income before income taxes of $7.9 million and $13.0 million in the three and nine months ended June 30, 2010, respectively, compared to losses of $15.7 million and $24.9 million for the same periods of 2009. The losses in 2009 were due in large part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $11.6 million and $22.5 million in the three and nine months ended

June 30, 2009, respectively. The region s home sales gross profit percentage increased 550 basis points and 300 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009. The increases were a result of the average cost of the region s homes declining by more than the average selling prices, driven in large part by reductions in home construction costs. In addition, the increase in

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home sales gross profit is partially due to our recent efforts to acquire lot positions in new communities and construct and close houses from these projects.

West Region Homebuilding revenues increased 23% and 17% in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009, due to increases in the number of homes closed which were partially offset by decreases in the average selling price of those homes. For the nine-month period ended June 30, 2010, the largest increases in homes closed occurred in our Seattle and Southern California markets. The region reported income before income taxes of $8.0 million and $17.5 million in the three and nine months ended June 30, 2010, respectively, compared to losses of $49.5 million and $135.4 million for the same periods of 2009. The losses in 2009 were due in large part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $32.3 million and $97.2 million in the three and nine months ended June 30, 2009, respectively. The region s home sales gross profit percentage increased 540 basis points and 350 basis points in the three and nine months ended June 30, 2010, respectively, compared to the same periods of 2009. The increases were a result of higher margins on homes closed in the majority of the region s markets, driven in large part by reductions in home construction costs. In the current year three and nine-month periods, the reduction in the region s SG&A as a percentage of homebuilding revenues contributed 390 basis points and 430 basis points, respectively, to the region s improvement in income before income taxes as a percentage of homebuilding revenues as a result of absolute reductions in SG&A expenses, as well as the additional revenue providing more leverage against these costs.

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LAND AND LOT POSITION AND HOMES IN INVENTORY

The following is a summary of our land and lot position and homes in inventory at June 30, 2010 and September 30, 2009:

	As of June 30, 2010				As of September 30, 2009			
	Land/Lots Owned	Lots Controlled Under Lot Option and Similar Contracts (1)	Total Land/Lots Owned and Controlled	Homes in Inventory	Land/Lots Owned	Lots Controlled Under Lot Option and Similar Contracts (1)	Total Land/Lots Owned and Controlled	Homes in Inventory
East	10,700	4,200	14,900	1,400	11,000	2,000	13,000	1,400
Midwest	6,000	500	6,500	800	6,500	500	7,000	800
Southeast	23,500	9,000	32,500	2,300	21,000	5,000	26,000	2,200
South Central	21,300	9,300	30,600	3,500	22,500	9,000	31,500	4,400
Southwest	5,800	1,800	7,600	900	6,000	1,000	7,000	1,100
West	21,900	2,500	24,400	1,900	22,500	2,000	24,500	1,700
	89,200	27,300	116,500	10,800	89,500	19,500	109,000	11,600
	77%	23%	100%		82%	18%	100%	

(1) Excludes approximately 6,300 and 7,000 lots at June 30, 2010 and September 30, 2009, respectively, representing lots controlled under lot option contracts for which we do not expect to exercise our option to purchase the land or lots, and have reserved the deposits related to these contracts but the underlying

contract has not yet been terminated.

At June 30, 2010, we owned or controlled approximately 116,500 lots, compared to approximately 109,000 lots at September 30, 2009. Of the 116,500 total lots, we controlled approximately 27,300 lots (23%), with a total remaining purchase price of approximately $921.3 million, through land and lot option purchase contracts with a total of $10.6 million in earnest money deposits. At June 30, 2010, approximately 22,200 of our owned lots were finished.

We had a total of approximately 10,800 homes in inventory, including approximately 1,200 model homes at June 30, 2010, compared to approximately 11,600 homes in inventory, including approximately 1,100 model homes at September 30, 2009. Of our total homes in inventory, approximately 6,100 and 5,800 were unsold at June 30, 2010 and September 30, 2009, respectively. At June 30, 2010, approximately 3,200 of our unsold homes were completed, of which approximately 700 homes had been completed for more than six months. At September 30, 2009, approximately 2,200 of our unsold homes were completed, of which approximately 800 homes had been completed for more than six months.

Our current strategy is to take advantage of market opportunities by entering into new lot option contracts to purchase finished lots in selected communities to potentially increase sales volumes and profitability. We will renegotiate existing lot option contracts as necessary to reduce our lot costs and better match the scheduled lot purchases with new home demand in each community. We also will continue to manage our inventory of homes under construction by selectively starting construction on unsold homes to capture new home demand, while monitoring the number and aging of unsold homes and aggressively marketing our unsold, completed homes in inventory.

RESULTS OF OPERATIONS FINANCIAL SERVICES

The following tables set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the three and nine-month periods ended June 30, 2010 and 2009:

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	4,119	2,925	41 %	10,106	8,020	26 %
Number of homes closed by D.R. Horton	6,805	4,240	60 %	16,594	11,893	40 %
DHI Mortgage capture rate	61%	69%		61%	67%	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	4,141	2,950	40 %	10,166	8,093	26 %
Total number of loans originated or brokered by DHI Mortgage	4,443	3,704	20 %	11,046	9,948	11 %
Captive business percentage	93%	80%		92%	81%	
Loans sold by DHI Mortgage to third parties	3,984	3,469	15 %	10,450	10,475	%

	Three Months Ended June 30,			Nine Months Ended June 30,		
	2010	2009	% Change	2010	2009	% Change
			(In millions)			
Loan origination fees	$ 5.2	$ 4.5	16 %	$ 13.4	$ 14.3	(6)%

Sale of servicing rights and gains from sale of mortgages		17.0		16.6	2 %		44.6		39.7	12 %
Recourse expense		(3.1)		(4.4)	(30)%		(11.7)		(24.2)	(52)%
Sale of servicing rights and gains from sale of mortgages, net		13.9		12.2	14 %		32.9		15.5	112 %
Other revenues		2.4		2.0	20 %		5.6		6.4	(13)%
Reinsurance expense		(0.6)		(4.8)	(88)%		(1.4)		(10.5)	(87)%
Other revenues, net		1.8		(2.8)	164 %		4.2		(4.1)	202 %
Total mortgage operations revenues		20.9		13.9	50 %		50.5		25.7	96 %
Title policy premiums, net		6.9		4.9	41 %		17.2		13.4	28 %
Total revenues		27.8		18.8	48 %		67.7		39.1	73 %
General and administrative expense		21.2		18.1	17 %		57.2		58.5	(2)%
Interest expense		0.7		0.2	250 %		1.4		1.2	17 %
Interest and other (income)		(3.0)		(2.3)	30 %		(7.5)		(8.0)	(6)%
Income (loss) before income taxes	$	8.9	$	2.8	218 %	$	16.6	$	(12.6)	232 %

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues (1)			
	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	**2009**	**2010**	**2009**

Recourse and reinsurance expense	11.7 %	32.9 %	16.2 %	47.0 %
General and administrative expense	67.3 %	64.6 %	70.8 %	79.3 %
Interest expense	2.2 %	0.7 %	1.7 %	1.6 %
Interest and other (income)	(9.5)%	(8.2)%	(9.3)%	(10.8)%
Income (loss) before income taxes	28.3 %	10.0 %	20.5 %	(17.1)%

(1) Excludes the effects of recourse and reinsurance charges on financial services revenues

Mortgage Loan Activity

In the three and nine-month periods ended June 30, 2010, total first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased by 41% and 26%, respectively, compared to the comparable prior year periods. The percentage increases in loans originated was lower than the percentage increases in the number of homes closed by our homebuilding operations during the same periods due to decreases in our mortgage capture rate (the percentage of total home closings by our homebuilding operations for which DHI Mortgage handled the homebuyers financing).

Home closings from our homebuilding operations constituted 93% and 92% of DHI Mortgage loan originations in the three and nine-month periods ended June 30, 2010, respectively, compared to 80% and 81% in the comparable periods of 2009. These consistently high rates reflect DHI Mortgage s continued focus on supporting the captive business provided by our homebuilding operations. The relatively higher captive percentages in the current year periods reflect a lower level of refinancing activity than in the prior year.

The number of loans sold to third-party purchasers increased by 15% in the three-month period ended June 30, 2010, as compared to the same period in 2009, and were essentially unchanged between the nine-month periods ended June 30, 2010 and 2009. Loans are typically sold within 30 days of origination. Fluctuations in the volume of loans sold for a given period may not correspond to the change in loan origination volume because of the timing of loan sales, which for any quarter generally represents the loans originated in the last month of the prior quarter plus the first two months of the current quarter. Virtually all of the mortgage loans originated during the nine months ended June 30, 2010 and mortgage loans held for sale on June 30, 2010 were eligible for sale to the Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) or Government National Mortgage Association (GNMA). Approximately 88% of the mortgage loans sold by DHI Mortgage during the nine months ended June 30, 2010 were sold to two major financial institutions pursuant to their loan purchase agreements with DHI Mortgage. If we are unable to sell our mortgages to these or other purchasers, our ability to originate and sell mortgage loans could be significantly reduced and the profitability of our financial services operations could be negatively impacted.

Financial Services Revenues and Expenses

Loan origination fees increased 16% and decreased 6%, to $5.2 million and $13.4 million in the three and nine months ended June 30, 2010, respectively, from $4.5 million and $14.3 million in the comparable periods of 2009. The decrease in loan origination fees during the nine-month period relates to the adoption of the FASB s authoritative guidance for fair value measurements of certain financial instruments on October 1, 2008. The authoritative guidance required net origination costs and fees associated with mortgage loans to be recognized at origination and no longer deferred until the time of sale. Therefore, during the three months ended December 31, 2008, we recognized $2.4 million of loan origination fees and $5.0 million of general and administrative (G&A) costs related to prior period loan originations. Revenues from the sale of servicing rights and gains from sale of mortgages increased 2% and 12%, to $17.0 million and $44.6 million in the three and nine months ended June 30, 2010, from $16.6 million and $39.7 million in the comparable periods of 2009. Comparing the three months ended June 30, 2010 to the same period of 2009, the increase in revenue from the sale of servicing rights and gains from sale of mortgages was less than the increase in loans sold primarily due to lower service release premiums resulting from a declining interest rate environment during the quarter ended June 30, 2010. Comparing the nine months ended June 30, 2010 to the same period of 2009, the increase in revenue from the sale of servicing rights and gains from sale of mortgages was greater than the relatively constant loan sales volume primarily due to increases in the net cumulative fair value adjustments related to our written loan commitments and closed mortgage loans. Charges related to recourse obligations were $3.1 million and $11.7 million in the three and nine-month periods ended June 30, 2010, respectively, compared to $4.4 million and $24.2 million in the same periods of 2009. The calculation of our required repurchase loss reserve is based upon an analysis of repurchase requests received, our actual repurchases and losses through the disposition of such loans, discussions with our mortgage purchasers and analysis of the mortgages we originated. While we believe that we have adequately reserved for losses on known and projected repurchase requests, if either actual repurchases or the losses incurred resolving those repurchases exceed our expectations, additional recourse expense may be incurred. Also, a subsidiary of ours reinsured a portion of private mortgage insurance written on loans originated by

DHI Mortgage in prior years. Charges to increase reserves for expected losses on the reinsured loans were $0.6 million and $1.4 million in the three and nine-month periods ended June 30, 2010, compared to $4.8 million and $10.5 million in the same periods of 2009.

G&A expense associated with financial services increased 17% and decreased 2%, to $21.2 million and $57.2 million in the three and nine months ended June 30, 2010, respectively, from the comparable periods of 2009. The largest component of our financial services G&A expense is employee compensation and related costs, which represented 80% and 78% of G&A costs in the three and nine-month periods of fiscal 2010, respectively, compared to 75% in the same periods of fiscal 2009. These costs increased 25%, to $17.0 million and 3%, to $44.8 million in the three and nine months ended June 30, 2010, respectively, compared to the respective prior year periods. The increase in the current quarter was due to an increase in the number of financial services employees to 690 at June 30, 2010, from 570 at June 30, 2009 to support our increased volume and higher mortgage purchaser underwriting guidelines. Comparing the nine-month periods, the effect of the increase in the number of employees on compensation expense in the current year period was largely offset by the recognition of additional compensation expense in the prior year period due to the adoption of the FASB s authoritative guidance for fair value measurements of certain financial instruments. The adoption of this guidance resulted in the recognition of an additional $5.0 million of compensation expense related to prior period loan originations during the three months ended December 31, 2008.

As a percentage of financial services revenues, excluding the effects of recourse and reinsurance expense, G&A expense in the three and nine-month periods ended June 30, 2010 increased to 67.3% and decreased to 70.8%, respectively, from 64.6% and 79.3% in the comparable periods of 2009. The decrease in the nine-month period was primarily due to the adoption of the FASB s authoritative guidance for fair value measurements of certain financial instruments as discussed above. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur as some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

RESULTS OF OPERATIONS CONSOLIDATED

Income (Loss) before Income Taxes

Income before income taxes for the three months ended June 30, 2010 was $46.3 million, compared to a loss before income taxes of $163.4 million for the same period of 2009. Income before income taxes for the nine months ended June 30, 2010 was $101.2 million, compared to a loss before income taxes of $327.7 million for the same period of 2009. The difference in our operating results for the three and nine months ended June 30, 2010 compared to a year ago is primarily due to the higher volume of homes closed which resulted in higher revenues, a higher gross profit from home sales revenues and lower inventory impairment charges.

Income Taxes

The benefit from income taxes for the three and nine months ended June 30, 2010 was $4.2 million and $152.7 million, respectively, compared to a benefit from income taxes of $19.6 million and $12.8 million in the comparable periods of the prior year. The benefit from income taxes for the nine months ended June 30, 2010 consists of a benefit of $208.0 million from a change in federal tax law which expanded the number of years we can carry back net operating losses, offset by a provision for income taxes of $3.0 million for state income taxes and an increase for unrecognized tax benefits of $52.3 million. We do not have meaningful effective tax rates for the nine-month period ended June 30, 2010 and the comparable period of the prior year because of losses from operations before taxes in the prior year, the impact of valuation allowances on our net deferred tax assets and the change in tax law in the current year.

On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 was enacted into law and amended Section 172 of the Internal Revenue Code. This tax law change allows a net operating loss realized in one of our fiscal 2008, 2009 or 2010 years to be carried back up to five years (previously limited to a two-year carryback). We elected to carry back our fiscal 2009 net operating loss. This resulted in a benefit from income taxes of $208.0 million during the nine-month period ended June 30, 2010.

We had income taxes receivable of $32.6 million and $293.1 million at June 30, 2010 and September 30, 2009, respectively. During the nine months ended June 30, 2010, we received income tax refunds totaling $471.5 million which resulted from tax losses generated in fiscal 2008 and 2009. The income taxes receivable at June 30, 2010 relate to additional federal and state income tax refunds we expect to receive.

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At June 30, 2010 and September 30, 2009, we had net deferred income tax assets of $879.2 million and $1,073.9 million, respectively, offset by valuation allowances of $879.2 million and $1,073.9 million, respectively. Tax benefits of $81.4 million for state net operating loss carryforwards that expire (beginning at various times depending on the tax jurisdiction) from fiscal 2013 to fiscal 2029 are included in the amounts. We assess, on a quarterly basis, the realizability of our deferred tax assets and record a valuation allowance sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized. The accounting for deferred taxes is based upon an estimate of future results. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated results of operations or financial position. Changes in existing tax laws also affect actual tax results and the valuation of deferred tax assets over time.

The total amount of unrecognized tax benefits (which includes interest, penalties, and the tax benefit relating to the deductibility of interest and state income taxes) was $76.3 million and $24.0 million as of June 30, 2010 and September 30, 2009, respectively. The increase relates primarily to our election to carryback our fiscal 2009 net operating loss to fiscal 2004 and 2005, thereby fully utilizing the net operating loss which existed at September 30, 2009. It is reasonably possible that, within the next 12 months, the amount of unrecognized tax benefits may decrease as much as $49.7 million as a result of a ruling request filed by us with the Internal Revenue Service (IRS) concerning capitalization of inventory costs. If the IRS rules favorably on the ruling request, our unrecognized tax benefits would be reduced, resulting in a benefit from income taxes in our consolidated statement of operations. We classify interest and penalties on income taxes as income tax expense.

We are subject to federal income tax and to income tax in multiple states. The statute of limitations for our major tax jurisdictions remains open for examination for fiscal years 2004 through 2010. We are currently being audited by various states.

CAPITAL RESOURCES AND LIQUIDITY

We have historically funded our homebuilding and financial services operations with cash flows from operating activities, borrowings under our bank credit facilities and the issuance of new debt securities. During the challenging homebuilding market conditions experienced over the past few years, we have been operating with a primary focus to generate cash flows through reductions in assets and tax refunds. The generation of cash flow has allowed us to increase our liquidity and strengthen our balance sheet and has placed us in a position to be able to invest in market opportunities as they arise. We do not expect to generate as much cash from asset reductions in fiscal 2010 as we have in the past three fiscal years. Depending upon future homebuilding market conditions and our expectations for these conditions, we may use a portion of our cash balances to increase our assets. We intend to maintain adequate liquidity and balance sheet strength, and we will continue to evaluate opportunities to access the capital markets as they become available.

At June 30, 2010, our ratio of net homebuilding debt to total capital was 17.5%, compared to 30.7% at June 30, 2009 and 32.5% at September 30, 2009. Net homebuilding debt to total capital consists of homebuilding notes payable net of cash and marketable securities divided by total capital net of cash and marketable securities (homebuilding notes payable net of cash and marketable securities plus total equity). The decrease in our ratio of net homebuilding debt to total capital at June 30, 2010 as compared to the ratio a year earlier was primarily due to our lower debt balance at June 30, 2010, which resulted from redemptions and repurchases of senior notes. As compared to the ratio at September 30, 2009, the decrease in our ratio was primarily due to our lower debt balance at June 30, 2010, collection of income tax receivables and net income for the period. Our ratio of net homebuilding debt to total capital remains well within our target operating range of below 45%. We believe that our strong balance sheet and liquidity position will allow us to be flexible in reacting to changing market conditions. However, future period-end net homebuilding debt to total capital ratios may be higher than the 17.5% ratio achieved at June 30, 2010.

We believe that the ratio of net homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing us with other homebuilders. We exclude the debt of our financial services business because it is separately capitalized and its obligation under its repurchase agreement is substantially collateralized and not guaranteed by our parent company or any of our homebuilding entities. Because of its capital function, we include homebuilding cash and marketable securities as a reduction of our homebuilding debt and total capital. For comparison to our ratios of net homebuilding debt to capital above, at June 30, 2010 and 2009, and at

September 30, 2009, our ratios of homebuilding debt to total capital, without netting cash and marketable securities balances, were 45.6%, 54.2% and 56.2%, respectively.

We believe that we will be able to fund our near-term working capital needs and debt obligations from existing cash resources and our mortgage repurchase facility. For our longer-term capital requirements, we will evaluate the need to issue new debt or equity securities through the public capital markets or obtain additional bank financing as market conditions may permit.

Homebuilding Capital Resources

Cash and Cash Equivalents At June 30, 2010, we had available homebuilding cash and cash equivalents of $1.4 billion.

Marketable Securities At June 30, 2010, we had marketable securities of $298.2 million. Our marketable securities consist of U.S. Treasury securities, government agency securities, foreign government securities, corporate debt securities, and certificates of deposit.

Secured Letter of Credit Agreements Concurrent with the termination of our revolving credit facility in May 2009, we entered into secured letter of credit agreements with the three banks that had issued letters of credit under the facility. The effect of these agreements was to remove the outstanding letters of credit from the facility, which required us to deposit cash, in an amount approximating the balance of letters of credit outstanding, as collateral with the issuing banks. During the three months ended June 30, 2010, we entered into secured letter of credit agreements with two additional banks, which also require the deposit of cash as collateral. At June 30, 2010 and September 30, 2009, the amount of cash restricted for this purpose totaled $57.2 million and $53.3 million, respectively, and is included in homebuilding restricted cash on our consolidated balance sheets.

Public Unsecured Debt The indentures governing our senior notes and senior subordinated notes impose restrictions on the creation of secured debt and liens. At June 30, 2010, we were in compliance with all of the limitations and restrictions that form a part of the public debt obligations.

Shelf Registration Statement We have an automatically effective universal shelf registration statement filed with the SEC in September 2009, registering debt and equity securities which we may issue from time to time in amounts to be determined.

Financial Services Capital Resources

Cash and Cash Equivalents At June 30, 2010, the amount of financial services cash and cash equivalents was $35.4 million.

Mortgage Repurchase Facility Our mortgage subsidiary entered into a mortgage sale and repurchase agreement (the mortgage repurchase facility) on March 28, 2008. The mortgage repurchase facility, which is accounted for as a secured financing, provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparty against the transfer of funds by the counterparty, thereby becoming purchased loans. 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 120 days in accordance with the terms of the mortgage repurchase facility. On March 4, 2010, through an amendment to the repurchase agreement, the capacity of the facility was increased from $100 million to $150 million, with a provision allowing an increase in the capacity to $175 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter. Additionally, the amendment extended the maturity date of the facility to March 4, 2011. Effective July 30, 2010, through an amendment to the repurchase agreement, the capacity of the facility was reduced from $150 million to $100 million, with a provision allowing an increase in the capacity to $125 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter.

As of June 30, 2010, $288.9 million of mortgage loans held for sale were pledged under the repurchase agreement. These mortgage loans had a collateral value of $268.8 million. DHI Mortgage has the option to fund a portion of its repurchase obligations in advance. As a result of advance paydowns totaling $116.3 million, DHI Mortgage had an obligation of $152.5 million outstanding under the mortgage repurchase facility at June 30, 2010 at a 3.8% interest rate.

The mortgage repurchase facility is not guaranteed by either D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary s minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported monthly. At June 30, 2010, our mortgage subsidiary was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

In the past, we have been able to renew or extend our mortgage credit facilities on satisfactory terms prior to their maturities, and obtain temporary additional commitments through amendments to the credit agreements during periods of higher than normal volumes of mortgages held for sale. The liquidity of our financial services business depends upon its continued ability to renew and extend the mortgage repurchase facility or to obtain other additional financing in sufficient capacities.

Operating Cash Flow Activities

For the nine months ended June 30, 2010, net cash provided by our operating activities was $587.1 million compared to $1,102.0 million during the comparable period of the prior year. During the nine-month period ended June 30, 2010, a significant portion of the net cash provided by our operating activities was due to federal income tax refunds. Also, contributing to operating cash flows was the profit we generated during the current period. During the nine-month period ended June 30, 2009, a significant portion of the net cash provided by our operating activities was due to federal income tax refunds and the generation of cash flows through the reduction of our inventories during the period. The net cash provided by our operating activities during the past three fiscal years has resulted in substantial liquidity and allows the flexibility to determine the appropriate operating strategy for each of our communities and to take advantage of opportunities in the market. While we have substantially limited our purchases of undeveloped land and our development spending on land we own, we are purchasing or contracting to purchase finished lots in many markets to potentially increase sales and home closing volumes and return to sustainable profitability. We plan to continue to manage our inventories by monitoring the number and aging of unsold homes and aggressively marketing our unsold, completed homes in inventory. As we work toward these goals, we expect to generate less cash flow from asset reductions than we have over the past three fiscal years. Depending upon future homebuilding market conditions and our expectations for these conditions, we may use a portion of our cash balances to increase our inventories.

Investing Cash Flow Activities

For the nine months ended June 30, 2010, net cash used in our investing activities was $318.6 million. Of this amount, $299.4 million was used to purchase marketable securities during the current period. Additionally, we used $15.6 million to invest in purchases of property and equipment, primarily model home furniture and office equipment. Changes in restricted cash are primarily due to fluctuations in the balance of our outstanding letters of credit, which are cash collateralized under the terms of our secured letter of credit agreements.

Financing Cash Flow Activities

During the last two years, the majority of our short-term financing needs have been funded with cash generated from operations and borrowings available under our financial services credit facility. Long-term financing needs of our homebuilding operations have generally been funded with the issuance of new senior unsecured debt securities through the public capital markets. During the nine months ended June 30, 2010, we repaid, through maturities, redemptions and repurchases, a total of $883.6 million principal amount of various issues of senior notes for an aggregate purchase price of $887.6 million, plus accrued interest. During the nine months ended June 30, 2009, we repaid, through maturities and repurchases, a total of $761.2 million principal amount of various issues of senior notes for an aggregate purchase price of $748.5 million, plus accrued interest. Also, during the nine months ended June 30, 2009, we issued $500 million principal amount of 2% convertible senior notes due 2014. Our homebuilding senior, convertible senior and senior subordinated notes are guaranteed by substantially all of our wholly-owned subsidiaries other than our financial services subsidiaries and certain insignificant subsidiaries.

During the three months ended June 30, 2010, our Board of Directors approved a quarterly cash dividend of $0.0375 per common share, which was paid on May 24, 2010 to stockholders of record on May 14, 2010. In July 2010, our Board of Directors approved a quarterly cash dividend of $0.0375 per common share, payable on August 26, 2010 to stockholders of record on August 16, 2010. Quarterly cash dividends of $0.0375 per common share were declared in the comparable quarters of fiscal 2009. The declaration of future cash dividends is at the discretion

of our Board of Directors and will depend upon, among other things, future earnings, cash flows, capital requirements, our financial condition and general business conditions.

Changes in Capital Structure

On October 1, 2009, we adopted and applied retrospectively the FASB s authoritative guidance for accounting for debt with conversion options, which specifies that issuers of such instruments separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. Early adoption of this authoritative guidance was not permitted. As a result, the prior year consolidated financial statements have been retrospectively adjusted for the effects of this change in accounting for our 2% convertible senior notes issued in May 2009. We recorded the debt component of the convertible senior notes at its fair value on the date of issuance of the notes, assuming no conversion features. The remaining value of the equity component of the convertible senior notes was recorded as a reduction in the carrying value of the notes and an increase in additional paid-in capital. The reduction in the carrying value of the notes and the fees related to the notes will be amortized as interest incurred and expensed or capitalized to inventory over the remaining life of the notes. The additional interest expense recognized in fiscal 2009 due to the restatement was $4.5 million, of which $1.5 million was recognized during the three months ended June 30, 2009. The recognition of this additional interest expense increased our diluted net loss per share by $0.01 for the year ended September 30, 2009.

In November 2009, our Board of Directors authorized the repurchase of up to $100 million of our common stock and in April 2010, they authorized the repurchase of up to $500 million of debt securities. The authorizations are effective through November 30, 2010. Repurchases of senior notes through June 30, 2010 reduced the debt repurchase authorization to $161.3 million.

On January 15, 2010, we repaid the remaining $130.9 million principal amount of our 4.875% senior notes which were due on that date. On February 24, 2010, we redeemed the remaining $95.0 million principal amount of our 5.875% senior notes due 2013. During the nine months ended June 30, 2010, primarily through unsolicited transactions, we repurchased a total of $657.7 million principal amount of various issues of senior notes for an aggregate purchase price of $659.8 million, plus accrued interest. These repayments of public unsecured debt were made from our cash balance.

In July 2010, through unsolicited transactions, we repurchased $46.3 million principal amount of our 5.25% senior notes due 2015 and $7.0 million principal amount of our 6.5% senior notes due 2016, which further reduced the remaining debt repurchase authorization.

On July 29, 2010, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $100 million of our common stock. These authorizations are effective through July 31, 2011.

In January 2010, our stockholders did not approve our Section 382 rights agreement; therefore, it will expire by its terms on August 19, 2010 unless earlier terminated by our Board of Directors.

In fiscal 2009, our primary non-operating uses of our available capital were the repayment of debt, dividend payments and the cash collateralization of our outstanding letters of credit. For the remainder of fiscal 2010, we will continue to evaluate our alternatives for future non-operating sources and uses of our available capital, including the amounts of debt repayments, dividend payments or common stock repurchases, and the level of our cash balances, based on market conditions and other circumstances, and within the constraints of our balance sheet leverage targets and our liquidity targets.

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

Our primary contractual cash obligations for our homebuilding and financial services segments are payments under our debt agreements and lease payments under operating leases. Purchase obligations of our homebuilding segment represent specific performance requirements under lot option purchase agreements that may require us to purchase land contingent upon the land seller meeting certain obligations. We expect to fund our contractual obligations in the ordinary course of business through a combination of our existing cash resources, cash flows generated from operations, renewed or amended mortgage repurchase facilities and, if needed or believed

advantageous, the issuance of new debt or equity securities through the public capital markets as market conditions may permit.

At June 30, 2010, our homebuilding operations had outstanding letters of credit of $56.1 million, all of which were cash collateralized, and surety bonds of $907.9 million, issued by third parties, to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

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

In the ordinary course of business, we enter into land and lot option purchase contracts to procure land or lots for the construction of homes. Lot option contracts enable us to control significant lot positions with limited capital investment and substantially reduce the risks associated with land ownership and development. Within the land and lot option purchase contracts at June 30, 2010, there were a limited number of contracts, representing $4.0 million of remaining purchase price, subject to specific performance clauses which may require us to purchase the land or lots upon the land sellers meeting their obligations. Also, we consolidated certain variable interest entities for which we are deemed to be the primary beneficiary, with assets of $7.6 million related to some of our outstanding land and lot option purchase contracts. Creditors, if any, of these variable interest entities have no recourse against us. Further discussion of our land option contracts is provided in the Land and Lot Position and Homes in Inventory section included herein.

CRITICAL ACCOUNTING POLICIES

As disclosed in our current report on Form 8-K dated February 8, 2010, which updated our annual report on Form 10-K for the fiscal year ended September 30, 2009, our most critical accounting policies relate to revenue recognition, inventories and cost of sales, land and lot option purchase contracts, goodwill, warranty and insurance claim costs and self-insurance, income taxes and stock-based compensation. Since September 30, 2009, there have been no significant changes to those critical accounting policies and estimates.

SEASONALITY

We have typically experienced seasonal variations in our quarterly operating results and capital requirements. Prior to the current downturn in the homebuilding industry, we generally had more homes under construction, closed more homes and had greater revenues and operating income in the third and fourth quarters of our fiscal year. This seasonal activity increased our working capital requirements for our homebuilding operations during the third and fourth fiscal quarters and increased our funding requirements for the mortgages we originated in our financial services segment at the end of these quarters. As a result of seasonal activity, our quarterly results of operations and our financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

In contrast to our typical seasonal results, the weakness in homebuilding market conditions during the past three years has mitigated our historical seasonal variations. Also, in fiscal 2010 the expiration of the homebuyer federal tax credit impacted the timing of our construction activities, home sales and closing volumes. Given the pace of recent home sales and our backlog of orders at June 30, 2010, we will close significantly fewer homes in the fourth quarter of fiscal 2010 than we closed during the current quarter. Although we may experience our typical historical seasonal pattern in the future, given the current weak market conditions and the impact of changes in federal government programs and policies on the homebuilding industry, we can make no assurances as to when or whether this pattern will recur.

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, estimate, expect, forecast intend, objective, plan, predict, projection, seek, strategy, target, will or other words of similar mean 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 continuing downturn in the homebuilding industry, including further deterioration in industry or broader economic conditions;
- the continuing constriction of the credit markets, which could limit our ability to access capital and increase our costs of capital;
- the reduction in availability of mortgage financing, increases in mortgage interest rates and the effects of expiring government programs, such as the homebuyer federal tax credit;
- the limited success of our strategies in responding to adverse conditions in the industry;
- a return of an inflationary environment;
- changes in general economic, real estate and other business conditions;
- the risks associated with our inventory ownership position in changing market conditions;
- supply risks for land, materials and labor;
- changes in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding operations;
- the effects of governmental regulation on our financial services operations;
- the uncertainties inherent in home warranty and construction defect claims matters;
- our substantial debt and our ability to comply with related debt covenants, restrictions and limitations;
- competitive conditions within our industry;
- our ability to effect any future growth strategies successfully;
- our ability to realize our deferred tax asset; and

the utilization of our tax losses could be substantially limited if we experienced an ownership change as defined in the Internal Revenue Code.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in Item 1A. Risk Factors under Part II of this report, our current report on Form 8-K dated February 8, 2010, and our annual report on Form 10-K for the fiscal year ended September 30, 2009, which were filed with the Securities and Exchange Commission.

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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 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. We generally 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), Eurodollar Futures Contracts (EDFC) and put options on MBS and EDFC. Use of the term hedging instruments in the following discussion refers to these securities collectively, or in any combination. 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 current earnings. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in current earnings, 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 and the fair value change, which for the three and nine months ended June 30, 2010 and 2009 was not significant, is recognized in current earnings. At June 30, 2010, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled $283.7 million. Uncommitted IRLCs, the duration of which are generally less than six months, totaled approximately $195.2 million, and uncommitted mortgage loans held for sale totaled approximately $111.5 million at June 30, 2010.

At June 30, 2010, we had $25.3 million notional amount of forward sales of MBS which were acquired as part of a program to potentially offer homebuyers a below market interest rate on their home financing. These hedging instruments and the related commitments are accounted for at fair value with gains and losses recognized in current earnings. These gains and losses for the three and nine months ended June 30, 2010 and 2009 were not material.

The following table sets forth principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value of our debt obligations as of June 30, 2010. The interest rate for our variable rate debt represents the interest rate on our mortgage repurchase facility. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale which are typically sold within 60 days, its outstanding balance is included as a variable rate maturity in the most current period presented.

	Three Months Ending September 30, 2010	Fiscal Year Ending September 30, 2011	2012	2013	2014	2015	Thereafter	Total	Fair value at June 30, 2010
	($ amounts in millions)								
Debt:									
Fixed rate	$ 87.2	$ 205.2	$ 161.1	$ 174.3	$ 794.6	$ 246.7	$ 664.3	$ 2,333.4	$ 2,308.3
Average interest rate	9.4%	7.3%	5.4%	7.0%	8.1%	5.4%	6.3%	7.0%	
Variable rate	$ 152.5	$	$	$	$	$	$	$ 152.5	$ 152.5
	3.8%							3.8%	

Average
interest rate

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ITEM 4. 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 were effective in providing reasonable assurance that information required to be disclosed in the reports the Company files, furnishes, submits or otherwise provides the Securities and Exchange Commission 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 June 30, 2010 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.

On March 24, 2008, a putative class action, *James Wilson, et al. v. D.R. Horton, Inc., et al.,* was filed by five customers of Western Pacific Housing, Inc., one of our wholly-owned subsidiaries, against us, Western Pacific Housing, Inc., and our affiliated mortgage company subsidiary, in the United States District Court for the Southern District of California. The complaint sought certification of a class alleged to include persons who, within the four years preceding the filing of the suit, purchased a home from us, or any of our subsidiaries, and obtained a mortgage for such purchase from our affiliated mortgage company subsidiary. The complaint alleged that we violated Section 1 of the Sherman Antitrust Act and Sections 16720, 17200 and 17500 of the California Business and Professions Code by effectively requiring our homebuyers to apply for a loan through our affiliated mortgage company. In June 2009 the complaint was amended to limit the putative class to California customers only and the claims asserted were limited to alleged violations of the California Business and Professions Code. The complaint alleged that the homebuyers were either deceived about loan costs charged by our affiliated mortgage company or coerced into using our affiliated mortgage company, or both, and that discounts and incentives offered by us or our subsidiaries to buyers who obtained financing from our affiliated mortgage company were illusory. The action sought treble damages in an unspecified amount and injunctive relief. We believed the claims alleged in this action were without merit. In January 2010, the plaintiffs agreed to dismiss their lawsuit in exchange for a waiver of costs. On April 8, 2010, the lawsuit was dismissed with prejudice by the court.

ITEM 1A. RISK FACTORS

In addition to the risk factors previously identified in our annual report on Form 10-K for the year ended September 30, 2009, we are updating the following risk factors related to mortgage availability and governmental regulation of our financial services operations and the utilization of our tax losses as affected by our stockholders non-approval of the Section 382 rights agreement.

The reduction in availability of mortgage financing has adversely affected our business, and the duration and ultimate severity of the effects are uncertain.

During the last three fiscal years, the mortgage lending industry has experienced significant instability, beginning with increased defaults on subprime loans and other nonconforming loans and compounded by expectations of increasing interest payment requirements and further defaults. This in turn resulted in a decline in the market value of many mortgage loans and related securities. Lenders, regulators and others questioned the adequacy of lending standards and other credit requirements for several loan products and programs offered in recent years. Credit requirements tightened, and investor demand for mortgage loans and mortgage-backed securities declined. The deterioration in credit quality has caused almost all lenders to eliminate subprime mortgages and most other loan products that are not eligible for sale to Fannie Mae or Freddie Mac or loans that do not meet FHA and VA requirements. Fewer loan products, tighter loan qualifications and a reduced willingness of lenders to make loans in turn have made it more difficult for many buyers to finance the purchase of our homes. These factors have served to reduce the pool of qualified homebuyers and made it more difficult to sell to first-time and move-up buyers which have long made up a substantial part of our customers. These reductions in demand have adversely affected our business and financial results, and the duration and severity of the effects are uncertain.

We believe that the liquidity provided by Fannie Mae and Freddie Mac to the mortgage industry has been very important to the housing market. These entities have required substantial injections of capital from the federal government and may require additional government support in the future. Any reduction in the availability of the financing provided by these institutions could adversely affect interest rates, mortgage availability and our sales of new homes and mortgage loans.

Because of the decline in the availability of other mortgage products, FHA and VA mortgage financing support has become a more important factor in marketing our homes. The American Housing Rescue and Foreclosure Prevention Act of 2008, however, increased a buyer s down payment requirement for FHA insured loans. Also, in the near future, further limitations are expected to be placed on seller paid closing costs and concessions on FHA insured loans. Additionally, effective in December 2009, guidelines on FHA insured loans on condominiums have become significantly more restrictive. In addition, increased demands on the FHA have resulted in a reduction of its cash reserves. These factors or further increases in down payment requirements or limitations or restrictions on the availability of FHA and VA financing support could adversely affect interest rates, mortgage availability and our sales of new homes and mortgage loans.

In recent years many of our homebuyers used down payment assistance programs, which allowed them to receive gift funds from non-profit corporations as a down payment. Homebuilders had been a source of funding for these programs. However, the American Housing Rescue and Foreclosure Prevention Act of 2008 eliminated seller-funded down payment assistance on FHA-insured loans approved on or after October 1, 2008. With the elimination of these gift fund programs, these customers have been required to seek other down payment programs or other sources for 100% financing, such as that offered by the United States Department of Agriculture (USDA). There can be no assurance that such alternative programs will continue to be available or will be as attractive to our customers as the programs previously offered, which could cause our sales to suffer.

Even if potential customers do not need financing, changes in the availability of mortgage products may make it harder for them to sell their current homes to potential buyers who need financing.

If interest rates increase, the costs of owning a home will be affected and could result in further reductions in the demand for our homes.

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

Our financial services operations are subject to numerous federal, state and local laws and regulations. These include eligibility requirements for participation in federal loan programs, compliance with consumer lending and similar requirements such as disclosure requirements, prohibitions against discrimination and real estate settlement procedures. They may also subject our operations to examination by the applicable agencies. These factors may limit our ability to provide mortgage financing or title services to potential purchasers of our homes.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (H.R.4173) was signed into law. The timeline and specifics involved in this Act will become known in the near future. If this or any other legislation requires mortgage securitizers or originators to retain additional risk, the pricing and availability of mortgage products our customers rely on to purchase our homes may be adversely affected, and the risk profile of our financial services business and its support of our homebuilding business could be adversely affected.

The turmoil caused by the increasing number of defaults in subprime and other mortgages has encouraged consumer lawsuits and the investigation of financial services industry practices by governmental authorities. These investigations could include the examination of consumer lending practices, sales of mortgages to financial institutions and other investors and the practices in the financial services segments of homebuilding companies. We are unable to assess whether these governmental inquiries will result in changes in government regulation, homebuilding industry practices or adversely affect the costs or potential profitability of homebuilding companies.

The utilization of our tax losses could be substantially limited if we experienced an ownership change as defined in the Internal Revenue Code.

We will likely experience tax net operating losses through fiscal 2010 and have potential unrealized built-in losses. To the extent these losses are not carried back to prior periods, they have the potential to reduce future income tax obligations if we realize taxable income in the future. However, Section 382 of the Internal Revenue Code contains rules that limit the ability of a company that undergoes an ownership change to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. Under the rules, such an ownership change is generally any change in ownership of more than 50% of its stock within a rolling three-year period, as calculated in accordance with the rules. The rules generally operate by focusing on changes in ownership among stockholders considered by the rules as owning directly or indirectly 5% or more of the stock of the company and any change in ownership arising from new issuances of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, our ability to use any of our net operating loss carryforwards, tax credit carryforwards or net unrealized built-in losses at the time of ownership change would be subject to the limitations of Section 382 on their use against future taxable income. The limitation may affect the amount of our deferred income tax asset and, depending on the limitation, a portion of our built-in losses, any net operating loss carryforwards or tax credit carryforwards could expire before we would be able to use them. This could adversely affect our financial position, results of operations and cash flow.

We believe that we have not experienced such an ownership change as of June 30, 2010; however, the amount by which our ownership may change in the future could be affected by purchases and sales of stock by 5% stockholders and the conversion of our outstanding convertible senior notes, over which we have no control, and new issuances of stock by us, should we choose to do so. In August 2009, our Board of Directors adopted a Section 382 rights agreement as a measure intended to deter such an ownership change while in effect in order to preserve these tax attributes. The Section 382 rights agreement, however, may not prevent an ownership change. While the Section 382 rights agreement is in effect, it could discourage or prevent a merger, tender offer, proxy contest or accumulations of substantial blocks of shares for which some stockholders might receive a premium above market value. It could also adversely affect the liquidity of the market for our shares. In January 2010, our stockholders did not approve our Section 382 rights agreement when it was submitted to them at our annual meeting of stockholders; therefore, it will expire by its terms on August 19, 2010 unless earlier terminated by our Board of Directors.

ITEM 5. OTHER INFORMATION

Mortgage Repurchase Facility Our mortgage subsidiary entered into a mortgage sale and repurchase agreement (the mortgage repurchase facility) on March 28, 2008. The mortgage repurchase facility, which is accounted for as a secured financing, provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparty against the transfer of funds by the counterparty, thereby becoming purchased loans. 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 120 days in accordance with the terms of the mortgage repurchase facility. On March 4, 2010, through an amendment to the repurchase agreement, the capacity of the facility was increased from $100 million to $150 million, with a provision allowing an increase in the capacity to $175 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter. Additionally, the amendment extended the maturity date of the facility to March 4, 2011.

Effective July 30, 2010, through the Fourth Amendment to the repurchase agreement, the capacity of the facility was reduced from $150 million to $100 million, with a provision allowing an increase in the capacity to $125 million during the last five business days of any fiscal quarter and the first seven business days of the following fiscal quarter.

ITEM 6. EXHIBITS

(a) Exhibits.

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. (1)
3.2	Certificate of Designation, Preferences, and Rights of Series A Junior Participating Preferred Stock of the Company. (2)
3.3	Amended and Restated Bylaws of the Company. (3)
10.1	Fourth Amendment to Master Repurchase Agreement, dated July 30, 2010, by and between DHI Mortgage Company, Ltd. and U.S. Bank National Association, as Administrative Agent, Syndication Agent and a Buyer. (*)
12.1	Statement of Computation of Ratio of Earnings to Fixed Charges. (*)
31.1	Certificate of Chief Executive Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (*)
31.2	Certificate of Chief Financial Officer provided pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002. (*)
32.1	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company s Chief Executive Officer. (*)
32.2	Certificate provided pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Company s Chief Financial Officer. (*)
101	The following financial statements from D.R. Horton, Inc. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, filed on August 3, 2010, formatted in XBRL (Extensible Business Reporting Language); (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text. (**)

* Filed herewith.

** In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

(1) 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.

(2) Incorporated herein by reference from Exhibit 3.1 to the Company s Report on Form 8-A filed with the SEC on August 20, 2009.

(3) Incorporated by reference from Exhibit 3.1 to the Company s Current Report on Form 8-K dated July 30, 2009, filed with the SEC on August 5, 2009.

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SIGNATURE

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

D.R. HORTON, INC.

Date: August 3, 2010

By: /s/ Bill W. Wheat

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

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