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

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

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

	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,		Nine Months Ended June 30,	
	2010	2009 (Adjusted-Note A)	2010	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.

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

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

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

D.R. HORTON, INC. AND SUBSIDIARIES
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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, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 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, 2010	Three Months Ended June 30, 2009	Nine Months Ended June 30, 2010	Nine Months Ended June 30, 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.

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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.

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 Inventory Impairments	2010 Land Option Cost Write-offs (Recoveries)	2010 Total	2009 Inventory Impairments	2009 Land Option Cost Write-offs (Recoveries)	2009 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 Inventory Impairments	2010 Land Option Cost Write-offs (Recoveries)	2010 Total	2009 Inventory Impairments	2009 Land Option Cost Write-offs (Recoveries)	2009 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

		Inventory with Impairment Indicators		Analysis of Communities with Impairment Charges Recorded at June 30, 2010		
	Total Number of Communities (1)	Number of Communities (1)	Carrying Value	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

		Inventory with Impairment Indicators		Analysis of Communities with Impairment Charges Recorded at September 30, 2009		
	Total Number of Communities (1)	Number of Communities (1)	Carrying Value	Number of	Inventory Carrying Value Prior to	
				Sep 30, 2010 USD	Dec 31, 2009 USD	Dec 31, 2008 USD
Shenzhen Aopvision Tech Co., Ltd				$ -0-	$ -0-	$ 7,316
ANV video alarm service Inc				4,235	-0-	-0-
Flybit International Ltd				37,547	-0-	-0-

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(ii) Payables should be paid to related parties:

	Sep 30, 2010 USD	Dec 31, 2009 USD	Dec 31, 2008 USD
Shenyang Angesi Technology Co., Ltd			$ 2,590
Nanjing Aogesi Technology Co., Ltd	-0-	-0-	9,769
Shanghai Xin Angesi Digital Technology Co., Ltd	-0-	-0-	7,494
Changsha Aogesi Electric Technology Co., Ltd	-0-	-0-	27,238
Jinan Sheng Angesi Technology Co., Ltd	-0-	-0-	123,305
Li Tingyi	$ 63,513	$ 223,428	138,356
Wei Ming	30,766	-0-	-0-
ANV Security Technology (Taian) Co., Ltd.	10,755	-0-	-0-
	$ 105,034	$ 223,428	$ 308,752

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Pro Forma Condensed Combined Balance Sheets and Statement of Operations

On September 30, 2010 ANV Security Group Inc. , acquired 100% of outstanding common shares of ANV Security Technology (China) Co. Ltd.

Pro Forma accounting effects of Purchase Agreement are presented in the following tables which presents the combined results of balance sheets and operations as they may have appeared had the acquisition and financing transactions described above occurred as of April 1, 2010 (the effective date of start of accounting fiscal year of the Company) .

The unaudited pro forma condensed combined balance sheet and statement of operations has been derived from and should be read together with the historical financial statements of notes of ANV Security Group Inc. filed as part of 10- K/A of the Company filed with the Securities Exchange Commissions on July 26, 2010 and the historical financial statements of the Company, both prepared in accordance with accounting principles generally accepted in the United States (‘U.S. GAAP”), for the fiscal year March 31, 2010, included elsewhere in the 10-K/A.

ANV Security Group, Inc.

Unaudited Pro Forma Condensed Combined Balance Sheets

	ANV Security Group Inc. As of September 30 2010	ANV Security Technology (China) Co., Ltd. As of September 30 2010	Pro Forma Adjustments	ANV Security Group Inc. As of September 30 2010 Pro Forma
ASSETS				
CURRENT ASSETS				
Cash	$ 5,571,631	$ 110,446	$	$ 5,682,077
Accounts receivable, net of allowance	103,461	2,273,037		2,376,498
Inventory	342,948	3,595,087		3,938,035
Other current assets	6,222,717	651,259		6,873,976
TOTAL CURRENT ASSETS	12,240,757	6,629,829		18,870,586
Property and equipment - net of accumulated depreciation	46,712	530,518		577,230
Other noncurrent assets	7,503,445	780,218		8,283,663
Investment in a subsidiary	4,980,080	-	(4,980,080)	-
TOTAL OTHER ASSETS	12,530,237	1,310,736	(4,980,080)	8,860,893
TOTAL ASSETS	$ 24,770,994	$ 7,940,565	$ (4,980,080)	$ 27,731,479
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)				
CURRENT LIABILITIES				
Accounts payable	$ 655,615	$ 3,810,577	$	$ 4,466,192
Advance from customers and other payable	-	647,926		647,926
Income Tax Payable	-	12,787		12,787
Due to related parties	12,910,191	105,034		13,015,225
TOTAL CURRENT LIABILITIES	13,565,806	4,576,324		18,142,130
STOCKHOLDERS' EQUITY (DEFICIT)				
Common stock	10,765,119	5,119,868	(4,980,080)	10,904,907
Additional paid-in capital	24,836			24,836
Retained earnings (Deficit)	295,121	(1,837,143)		(1,542,022)
Other comprehensive loss - foreign currency translation	120,112	81,516		201,628
TOTAL STOCKHOLDERS' EQUITY	11,205,188	3,364,241	(4,980,080)	9,589,349

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$	24,770,994	$	7,940,565	$	(4,980,080)	$	27,731,479

See Notes to the Financial Statements

ANV Security Group, Inc.
Unaudited Pro Forma Condensed Combined Statements of Operations

	ANV Security Group Inc. April 1 to September 30, 2010	ANV Security Technology (China) Co., Ltd. April 1 to September 30, 2010	Pro Forma Adjustments	ANV Security Group Inc. April 1 to September 30, 2010 Pro Forma
Revenue	$ 135,955	$ 9,011,761	$	$ 9,147,716
TOTAL NET REVENUE	135,955	9,011,761		9,147,716
COST OF REVENUES	109,881	7,873,708		7,983,589
GROSS PROFIT	26,074	1,138,053		1,164,127
OPERATING COSTS				
Operating expenses and depreciation	836,403	2,969,704		3,806,107
Total Operating Costs	836,403	2,969,704		3,806,107
OPERATING INCOME (LOSS)	(810,329)	(1,831,651)		(2,641,980)
OTHER INCOME & (EXPENSES)				
Non operating expense	(1,839)	(5,280)		(7,119)
Non operating income	6,784	8,713		15,497
Total Other Income & (Expenses)	4,945	3,433		8,378
NET INCOME BEFORE INCOME TAX & BENEFIT	(805,384)	(1,828,218)		(2,633,602)
Current income taxes, net of income tax benefits	2,811	441,600		444,411
NET INCOME (LOSS)	$ (802,573)	$ (1,386,618)	$	$ (2,189,191)
COMPREHENSIVE LOSS:				
Unrealized foreign currency translation income	9,753	78,177		87,930
COMPREHENSIVE LOSS	$ (792,820)	$ (1,308,441)	$	$ (2,101,261)

See Notes to the Financial Statements

NOTE 1 – BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma condensed combined balance sheet and statement of operations (“Pro Forma”) of the Company is presented for the period ended September 30, 2010. The unaudited Pro Forma applies the group’s accounting policies over the pro forma period.

No amount has been included in the purchase price allocation for estimated costs to be incurred to achieve savings or other benefits of the transactions. Similarly, the Pro Forma does not reflect any cost savings or other benefits that may be obtained through synergies among the operations of two entities.

Exhibit No.	Description
10.1	Angesi Agreement – English Translation. Filed with original Form 8-K
10.2	Revised Angesi Agreement – Filed Herewith
23.1	Consent of independent public accountant.

SIGNATURES

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

ANV Security Group, Inc.

Weixing Wang

By: /s/ Weixing Wang, CEO

Dated: December 29, 2010
Title: President and CEO