THE STAHL REPORT

May 10, 2011

D.R. Horton, Inc.

(BUY)

Price:	$11.81	**Ticker:**	DHI
52-Week Range:	$9.41-$14.38	**Dividend:**	$0.15
Shares Outstanding:	319.9m*	**Yield:**	1.3%
Market Capitalization:	$3,778m		

Data as of 5/9/2011
Valuations within this text are based on a $12 share price
**On a fully-diluted basis, or considering the possible equity conversion of the company's $500 million 2% convertible notes outstanding, the share count would be 358.1 million.*

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HORIZON

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Investment Thesis

The current state of the residential housing market need not be remarked upon in great detail for one to understand the difficulties encountered by the homebuilders presently. Based on the most recent data released by the U.S. Census, the sale of new homes through March of this year was 300,000 units on a seasonally adjusted annual basis. Since this data was first reported beginning in 1963, the current rate of home sales is the lowest on record, even below the high inflation/interest rate period of 1980-1982 in which mortgage rates were at the now almost unimaginable level of 10%-15%. It should not surprise the reader, then, that D.R. Horton, as one of the largest U.S. homebuilders, has been a direct casualty of the industry's collapse. The company has produced losses in three of the last four years, and has suffered a diminution in market value of over 70% since 2005.

The Housing Bubble has been well documented since the peak of this cycle was reached in 2006. Of course, bubbles create disequilibrium within an industry, though this is often temporary rather than permanent. The current level of homebuilding activity, as will be demonstrated throughout this report, appears to be at unsustainably low levels.

For instance, the U.S. Census reported that there were 117.5 million households in 2010, with households being defined as single family houses, mobile homes, and apartment dwellings. Since 1981, the rate of household expansion has been 1.2% per annum, or roughly equivalent to the rate of population growth. Notably, the number of U.S. households has never declined since the data was first recorded in 1981. By multiplying the number of households by the average annual expansion rate, one might expect that normalized new creation is approximately 1.4 million households.

Roughly two thirds of these households own their homes. During the 1960-2002 period, the average homeownership rate was 64.5%, which excludes 2003-2010 data to account for unreasonably high homeownership rates during the Housing Bubble. As a result, approximately 909, 744 of owned residences are created annually. In addition, since 1963 the median number of new houses purchased each year has been 650,000 units. Thus, about 71.5% of the new residences are single-family houses. At the current level of home sales, that percentage is closer to 33%, which is an historical anomaly.

Given nearly five decades of government statistics, these having been recorded throughout various recessions and housing market conditions, one might conclude that 650,000 new home sales is an equilibrium point for the residential housing industry. This should be compared to the current 300,000 level. While there are many reasons for this low level, not the least of which are oversupply and declining home prices, the homeownership rate has been very consistent throughout history. The desire by the population to own their home does not change dramatically. Moreover, homes also experience a certain rate of wastage, in that these structures can succumb to natural disasters, or merely to maintenance neglect. Thus, there is always a so-called "organic" demand for new home construction.

If one were to assume that such demand, on average, were 650,000 units per annum, then current homebuilding activity could well double over time. While it is nearly impossible to offer much in the way of predictive accuracy, one merely needs to accept a long-term proposition that the restoration of the housing industry equilibrium that has been demonstrated over the past several decades is likely to occur. D.R. Horton, which is present in nearly all major U.S. markets, would benefit enormously from this mean reversion situation.

Importantly, as well, for one to experience success in the D.R. Horton shares, a restoration to the bubble-era levels is not required, for such an assumption certainly would be foolhardy. Much more modest assumptions can still produce rather attractive outcomes.

For example, prior to 2003, D.R. Horton routinely produced a 4%-6% net profit margin, which is a reasonable level that can be verified through the margin experience of other homebuilders, such as Lennar. This year, D.R. Horton is estimated to realize $3.8 billion of revenues, clearly reflecting the depressed environment. By way of reference, the company recorded revenues of $15 billion in 2006.

Perhaps one might consider the period in 2002, which many would conclude was recessionary, and in which D.R. Horton generated $6.739 billion of revenues, and a 6% net income margin. Simplistically, by multiplying the company's current $3.8 billion of revenues by a factor of two to account for a possible doubling of homebuilding activity over time, one would arrive at a figure not egregiously higher than this $6.7 billion. Therefore, the application of the 6% historical net margin to $6.739 billion of revenues produces approximately $405 million of profit. It could be asserted, then, that in a more normal, yet still somewhat depressed market, the company could earn $1.13 per share.

By other measures, such as the return on equity, one might approach a mean earnings reversion hypothesis with some care. Since it is conducted mostly through sub-contractors, homebuilding is a business that requires few assets. As such, the return on equity is uniquely high during periods of cyclically high earnings. For instance, D.R. Horton was capable of maintaining a 20% ROE during the pre-2006 period. While it is generally very difficult for any company to sustain this level of ROE, merely for the sake of comparison to the above example, if one were to apply this profit measure to the company's current book value of $2.6 billion, the resulting earnings per share would be $1.46.

Further assuming that D.R. Horton should trade at a modest equity valuation, say a 12.5x p/e ratio, these two scenarios produce share prices of $15.75 and $18.22, suggesting that the success outcome could be a 18%-52% cumulative return. It is worth noting that, at the current market capitalization of $3.839 billion, and a presumed normalized 12.5x p/e ratio, the investment community is suggesting that the company will, over the nearer term, produce about $307 million of net income, or $0.86 per share. Hence, while the share price has clearly recovered from the low of $4 reached in 2008, and some level of normal earnings has been reflected in the valuation, the shares still do not reflect a more reasonable and likely earnings outcome from an anticipated cyclical recovery in home construction. Accordingly, purchase is recommended.

Company Description

Background

Donald R. Horton founded his homebuilding business in 1978. During the company's early history, he orchestrated both the formation and acquisition of several small homebuilding franchises, mostly concentrated in the Dallas and Fort Worth areas, which were ultimately consolidated into one operating entity in 1991. In 1992, D.R. Horton undertook an initial public offering that was followed by over 16 acquisitions that extended the company's geographical presence to other metropolitan areas. Mr. Horton remains a large shareholder of his company, currently owning approximately 8.6% of the shares outstanding. Though chief executive officer duties are performed by Donald Tomnitz, Mr. Horton might be considered an "owner-operator", or one who has a considerable vested financial interest in the success of his company, as he still holds the position of Chairman of the Board.

Homebuilding Operating Characteristics

D.R. Horton currently operates in 26 states and 72 metropolitan areas. The company acquires the land upon which its homes are built that range in size from 1,000 to 4,000 square feet. At the lower end, the company's homes can cost as little as $90,000, which generally are marketed to first-time homebuyers. D.R. Horton also constructs premium single family homes that are priced in the range of $700,000, thereby providing a variety of home purchase options for the buyer in its markets.

At this point in the introductory section, one might remark upon the basic business model of the homebuilder, and D.R. Horton in particular. While capital allocation and corporate administrative functions are performed centrally, D.R. Horton essentially represents a collection of regional homebuilding franchises, all of which are mostly managed independently according to local market demographics. The company's homebuilding activities are almost exclusively performed by subcontractors, and its homes generally built to order, which reduces the capital requirements of the business. In reality, the only substantial assets on the balance sheet of a homebuilder are land and in-progress home inventory. As a basic premise, then, these companies are essentially owners and developers of land.

HORIZON

Explained by its Texas origins, D.R. Horton generates a substantial amount of its revenues from the South Central region of the U.S., currently representing about 30% of the company's total. It also has a large presence in the Western region, generating about 22% of total revenues from these operations. In the table below, the revenue dispersion by geography is exhibited.

Table 1: D.R. Horton Revenues by Geographic Region

Region	Revenues	*% of Total*
East	$194.3	*13.0%*
Midwest	$112.7	*7.5%*
Southeast	$290.6	*19.4%*
South Central	$457.9	*30.5%*
Southwest	$108.1	*7.2%*
West	$336.5	*22.4%*
Total	$1,500.1	

($ in millions)

For the six month period ending 3/31/2011

In addition to this diversification, D.R. Horton is one of the largest homebuilders in the U.S. In 2010, the company sold 19,375 homes. The U.S. Census reported that 323,000 homes were sold in total last year, which suggests a 6% market share position for D.R. Horton. Clearly, the homebuilding industry is still rather fragmented in terms of market share, and heavily populated by small, local builders.

Given the size and scope of its operations, D.R. Horton might serve as a barometer of sorts for the entire industry. The recent misfortunes of the industry can therefore be viewed through the company's operational statistics. At its peak in 2005, the company sold 53,232 homes at an average price of $275,100. In 2010, its new home construction fell to 19,375 units at an average price of $207,000. Hence, not only has the company suffered a 64% decline in volume, but the price of its homes has fallen a rather dramatic 25% during this time. This may be observed in the table below.

Table 2: D.R. Horton Home Sales, 2000-2010

	D.R. Horton		U.S.
Year	Net Homes Sold	Avg. Selling Price	Median Selling Price
2010	19,375	$207,000	$221,800
2009	17,034	$205,400	$216,700
2008	21,251	$220,100	$232,100
2007	33,687	$244,300	$247,900
2006	51,980	$267,300	$246,500
2005	53,232	$275,100	$240,900
2004	45,263	$252,000	$221,000
2003	38,725	$236,600	$195,000
2002	31,491	$218,700	$187,600
2001	22,179	$203,000	$175,200
2000	19,223	$191,300	$169,000

As severe as the downturn has been, D.R. Horton might actually fare worse in 2011 than in 2010. The company notes that the expiration of the federal homebuyer tax credit has caused a sharp decline in sales thus far in 2011. Of course, one could assert that the tax credit artificially inflated sales. Nevertheless, the company has closed 7,153 homes during the first six months of the 2011 fiscal year (ending September 30), which is a 27% decline from the 9,789 homes closed in the 2010 period. It is quite possible that, in terms of unit volume, the company could report sales volume this year that is below the recent low reached in 2009.

Despite the conditions of the last four years, D.R. Horton has preserved its balance sheet and remains in a fundamentally strong liquidity position. Presently, the company has $1.357 billion of cash, $1.959 billion of debt, and $2.61 billion of book value. Thus, the net debt-to-equity ratio is 23.1%. Furthermore, during the past two years, D.R. Horton has either refinanced or repaid a considerable quantity of its debt, with repayment continuing rather aggressively. Through 2015, it has $1.339 billion of debt maturing, which when compared to the $1.357 billion cash position, suggests that the company will not face any liquidity constraints over the next four years, assuming it remains profitable on an operating basis. Therefore, at least in the balance sheet sense, D.R. Horton can comfortably withstand an even more prolonged housing construction downturn than has already occurred.

On a final balance sheet note, in 2009 the company issued $500 million of 2% convertible notes due 2014. The conversion price is $13.06, or only 8.8% higher than the current price. Given the likelihood of a conversion trigger being struck prior to maturity, the diluted share count that is used throughout the valuation assumptions of this report includes the potential issuance of 38.2 million shares (319.9 + 38.2 = 358.1 fully diluted shares). Naturally, D.R. Horton could utilize its liquidity position and repay these notes in cash as well.

The Mortgage Operations

Like most homebuilders, D.R. Horton maintains a captive finance subsidiary. DHI Mortgage provides mortgage financing to purchasers of the company's homes. This is a similar approach to that taken by automobile manufacturers, with the difference being D.R. Horton generally sells all of its mortgage originations in the secondary market, notably to Fannie Mae or Freddie Mac. Thus, the company does not maintain much of a loan book, or at least the duration of the loan holding period is short, typically less than 30 days, such that there is little credit risk to the balance sheet.

Nevertheless, D.R. Horton earns loan origination fees, as well as title search and insurance revenue from its finance company. These sales are rather insignificant to the company's total revenue base, recently accounting for 2.5% of revenues during the first half of the 2011 fiscal year.

The Degree To Which The Housing Industry Is Presently Dislocated

An appropriate preface to the current discussion is to present the relevant revenue declines that have been experienced by the largest homebuilders over the last five years. The state of the housing market can be interpreted through the following figures.

Table 3: Homebuilder Revenue Experience, 2006-2010

	2010	2006	*% Change*
Lennar	$3,074	$16,267	*-81.1%*
DR Horton	$4,401	$15,052	*-70.8%*
NVR Inc.	$3,042	$6,133	*-50.4%*
Beazer Homes	$1,010	$4,545	*-77.8%*
Toll Brothers	$1,495	$6,115	*-75.6%*
KB Home	$1,582	$9,360	*-83.1%*

($ in millions)

The bursting of the Housing Bubble clearly had severe implications for the homebuilders. In terms of construction activity, new home sales reached a peak of 1.283 million in 2005, falling subsequently to the current level of 300,000, representing a 76.6% decline. Logically, this is nearly identical to the contraction in revenues of the homebuilders. However, historically, the median number of new homes sold since 1963 has been 650,000, as shown below.

Table 4: U.S. New Home Sales

Year	Homes Sold	Year	Homes Sold	Year	Homes Sold
2011 (1)	300	1989	650	1967	487
2010	323	1988	676	1966	461
2009	375	1987	671	1965	575
2008	485	1986	750	1964	565
2007	776	1985	688	1963	560
2006	1,051	1984	639		
2005	1,283	1983	623		
2004	1,203	1982	412		
2003	1,086	1981	436		
2002	973	1980	545		
2001	908	1979	709		
2000	877	1978	817		
1999	880	1977	819		
1998	886	1976	646		
1997	804	1975	549		
1996	757	1974	519		
1995	667	1973	634		
1994	670	1972	718		
1993	666	1971	656		
1992	610	1970	485		
1991	509	1969	448		
1990	534	1968	490		

Median	**650**
Average	**670**

(1) Seasonally adjusted annual rate calculated through March

In thousands

If the sale of new homes does not improve during the remainder of the year, 2011 will mark the lowest level of home sales ever recorded. Of course, new home sales could decline even further, which some predict is quite likely if the interest rate environment becomes less accommodative for the home buyer in the next few years. However, the precise timing of the inevitable bottom in home buying activity is far less important than the natural equilibrium of the industry since 1963. Housing is a cyclical business, and quite economically sensitive. Despite these volatile periods, though, the empirical evidence suggests that about 650,000 homes purchased per year is sufficient to maintain historical trends of homeownership and household formation rates.

In 1981, there were 82.368 million households. Over the course of the next few decades, the population created households at a rate of 1.2% per annum, such that there are now approximately 117.538 million households. The U.S. Census defines a household as those individuals who occupy a house, an apartment, a mobile home, or even separate living quarters. While the historical average growth rate has been 1.2%, the rate of household formation has slowed markedly during the past two years, as demonstrated below.

Table 5: U.S. Historical Household Formation

Year	Number of Households	*% change*	Year	Number of Households	*% change*
2010	117,538	*0.3%*	1995	98,990	*1.9%*
2009	117,181	*0.3%*	1994	97,107	*0.7%*
2008	116,783	*0.7%*	1993	96,426	*0.8%*
2007	116,011	*1.4%*	1992	95,669	*1.4%*
2006	114,384	*0.9%*	1991	94,312	*1.0%*
2005	113,343	*1.2%*	1990	93,347	*0.6%*
2004	112,000	*0.6%*	1989	92,830	*1.9%*
2003	111,278	*1.8%*	1988	91,124	*1.8%*
2002	109,297	*1.0%*	1987	89,479	*1.2%*
2001	108,209	*3.3%*	1986	88,458	*1.9%*
2000	104,705	*0.8%*	1985	86,789	*1.8%*
1999	103,874	*1.3%*	1984	85,290	*1.6%*
1998	102,528	*1.5%*	1983	83,918	*0.5%*
1997	101,018	*1.4%*	1982	83,527	*1.4%*
1996	99,627	*0.6%*	1981	82,368	

In order to evaluate the historical demand for homeownership, since households are a broad measure, one must concentrate on the actual homeownership level. When the data were first tabulated in 1960, the homeownership rate was 62.1%. Subsequently, the rate gradually increased to a fairly consistent level of 64%-66%. This does not necessarily represent an unsustainable trend; rather, that the formation of government sponsored mortgage companies such as Fannie Mae and Freddie Mac clearly made it more possible, through the secondary mortgage market, to obtain financing for a home purchase. While the ultimate fate of these two entities is unclear at the moment, it is hard to imagine that drastic measures will be taken that would have the consequence of lowering home ownership even further. In fact, the government is presently expending considerable quantities of money to provide means that will allow borrowers to remain in their homes.

If one were to assume that a 66% homeownership rate is fairly normal, if even at the high end, then the 69% reached in 2004 was obviously unsustainable. Since that time, homeownership has fallen to 66.9%, which is depicted in the following table.

Table 6: U.S. Historical Homeownership Rate

Year	Ownership Rate	Year	Ownership Rate	Year	Ownership Rate
2010	66.9%	1992	64.1%	1974	64.6%
2009	67.4%	1991	64.1%	1973	64.5%
2008	67.8%	1990	63.9%	1972	64.4%
2007	68.1%	1989	63.9%	1971	64.2%
2006	68.8%	1988	63.8%	1970	64.2%
2005	68.9%	1987	64.0%	1969	64.3%
2004	69.0%	1986	63.8%	1968	63.9%
2003	68.3%	1985	63.9%	1967	63.6%
2002	67.9%	1984	64.5%	1966	63.4%
2001	67.8%	1983	64.6%	1965	63.3%
2000	67.4%	1982	64.8%	1964	63.1%
1999	66.8%	1981	65.4%	1963	63.1%
1998	66.3%	1980	65.6%	1962	63.0%
1997	65.7%	1979	65.6%	1961	62.4%
1996	65.4%	1978	65.0%	1960	62.1%
1995	64.7%	1977	64.8%		
1994	64.0%	1976	64.7%		
1993	64.0%	1975	64.6%		

10-yr Averages:	
2001-2010	68.1%
1991-2000	65.3%
1981-1990	64.3%
1971-1980	64.8%
1960-1970	63.3%

Of all the housing statistics that are available from both government and private organizations, perhaps the two broadest measures that might be employed to estimate normal home buying demand are the homeownership and household formation rates. Therefore, let us proceed to the following analysis.

Multiplying the current 117.5 million households by the 1.2% historical growth rate results in a normalized household creation rate of 1,410,456 units. The average homeownership rate during the 1960-2002 period was 64.5%. This is lower than the present 66.9%;

however, the objective of this exercise is to arrive at a normalized result. Therefore, of the 1.4 million new households, one could assume that about 909,744 of these will be owned properties.

The historical evidence also suggests that slightly over two thirds of these newly-owned residences will be actual single family detached houses. By dividing the 650,000 median new home sales by 909,744, the percentage of new households that are represented by residential houses is 71.5%. At the current homebuilding activity level of 300,000 new homes, the ratio is about 33%. It would therefore not be unreasonable to assert that new home construction could likely increase by twofold merely to reach the historical average. This is a powerful catalyst for the homebuilding companies.

Valuation

General Valuation Remarks
Currently, D.R. Horton trades at 1.5x book value. Naturally, the earnings are depressed, giving rise to a meaninglessly high p/e ratio. If one were to simply use normal metrics, D.R. Horton cannot be declared undervalued. The homebuilders in general all trade at premiums to book value, with the exception of Beazer Homes. The price/book value ratios are as follows: Lennar (1.1x), NVR (2.4x), Beazer Homes (0.9x), Toll Brothers (1.3x), and KB Homes (1.8x). Hence, most valuation screening mechanisms would exclude the opportunities in some of the homebuilder shares. The issue of salience is not what the current earnings or book value is, but the extent to which the valuation reflects normalized earnings power.

Historical D.R. Horton Earnings Capability
In 2005, D.R. Horton actually produced a 27.4% return on equity. Even though these can be very high return on equity businesses, a more normal ROE pattern for the company has been 15%-20%. In addition, during this “non-bubble” period of 1997-2002, the company’s net margin was generally in the range of 4%-6%. As a rather conservative example, in the recession year of 2001, the company recorded a 5.8% net margin and 20.6% ROE. Thus, the assumptions that will follow shortly do not appear egregiously aggressive.

Table 7: D.R. Horton Historical ROE and Net Margin

Year	Revenues	Net Income	Net Margin	ROE
2010	$4,401	$245	5.6%	9.3%
2009	$3,658	($550)	n/m	n/m
2008	$6,647	($2,634)	n/m	n/m
2007	$11,297	($713)	n/m	n/m
2006	$15,052	$1,233	8.2%	18.8%
2005	$13,864	$1,471	10.6%	27.4%
2004	$10,841	$975	9.0%	24.6%
2003	$8,728	$626	7.2%	20.7%
2002	$6,739	$405	6.0%	17.8%
2001	$4,456	$257	5.8%	20.6%
2000	$3,654	$192	5.3%	19.8%
1999	$3,156	$160	5.1%	20.1%
1998	$2,177	$93	4.3%	16.9%
1997	$1,578	$65	4.1%	15.2%

In the current year, D.R. Horton is anticipated by the consensus to earn $0.21 per share, or $67m of net income from $3.77 billion of revenues. A recovery is expected to continue to occur in 2012, as the consensus revenue estimate is $4.65 billion. Let us consider the possibility that a more complete recovery is likely over time. As shown in the above table, D.R. Horton was quite capable of realizing a 5% or even 6% net margin prior to the peak housing environment. By comparison, another large U.S. homebuilder, Lennar, produced net margins of 3.9% - 7.5% during the 1997-2002 period.

Let us use, as a sample, the revenue and net income experience of 2002, or $6.739 billion and $405 million. This is not an arbitrary selection, because the tendency of D.R. Horton to undertake acquisitions renders far-dated historical information rather invalid. What is of particular importance here is the profitability level of the company on a normalized basis.

If it were possible for D.R. Horton to again achieve $405 million of net income, or less than one third of prior peak earnings, it would earn $1.13 per share (using the fully-diluted share count of 358 million). Of course, if one believed that 2002 is a far too conservative benchmark, then obviously the company's earnings power is conceivably higher.

Alternatively, D.R. Horton has $2.61 billion of book value. It was not uncommon for the company to historically generate a 20% ROE, which would suggest in this scenario $522 million of net earnings, or $1.46 per share.

As to the capitalization rate of these prospective earnings, the pre-peak p/e ratio of D.R. Horton was generally 10x-14x. It was not unusual for the homebuilders to trade at 6x or 7x earnings during the 2004-2007 period. One then might make use of a simple, market-based valuation of perhaps 12.5x. At this valuation, the resulting share prices in the above examples would be $14.14 and $18.22. Given the current $12 price, the range of return is 18% - 52%. Importantly, though, one could arrive at a far different (i.e. higher) fair value, depending on one's views of how sharp an upward correction of the housing market could be. There are a number of other possible positive outcomes, ours being only one demonstrated case.

Investment Summary

D.R. Horton is one of the nation's largest homebuilders. As a result of the bursting of the Housing Bubble, it has undoubtedly suffered the worst period in its history in terms of new home construction activity. Yet, now that new home sales have reached historic lows, one might suggest that new home construction has reached unsustainably low levels, or that which is necessary to maintain normal demand in the residential housing market. Given that new home sales are currently over 50% below the prior four-decade average, it is hard to imagine that the housing industry can remain at this depressed level permanently, as there are natural mechanisms that create demand for new homes every year. For one to experience a fair amount of success in the D.R. Horton shares, one is not required to endorse aggressively optimistic housing assumptions, such as those that were prevalent during the unsustainable years of 2003-2006. One must merely assume that the industry will inevitably reach an equilibrium point again, thereby restoring some degree of historical normalcy. Therefore, the D.R. Horton shares are recommended for purchase.

D.R. HORTON, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 31, 2011	September 30, 2010
	(In millions) (Unaudited)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$ 1,064.8	$ 1,282.6
Marketable securities, available-for-sale	292.1	297.7
Restricted cash	45.0	53.7
Inventories:		
Construction in progress and finished homes	1,329.0	1,286.0
Residential land and lots — developed and under development	1,383.7	1,406.1
Land held for development	761.3	749.3
Land inventory not owned	—	7.6
	3,474.0	3,449.0
Income taxes receivable	14.0	16.0
Deferred income taxes, net of valuation allowance of $856.4 million and $902.6 million at March 31, 2011 and September 30, 2010, respectively	—	—
Property and equipment, net	59.2	60.5
Other assets	386.5	434.8
Goodwill	15.9	15.9
	5,351.5	5,610.2
Financial Services:		
Cash and cash equivalents	16.3	26.7
Mortgage loans held for sale	206.5	253.8
Other assets	47.0	47.9
	269.8	328.4
Total assets	$ 5,621.3	$ 5,938.6
LIABILITIES		
Homebuilding:		
Accounts payable	$ 154.1	$ 135.1
Accrued expenses and other liabilities	820.6	957.2
Notes payable	1,959.4	2,085.3
	2,934.1	3,177.6
Financial Services:		
Accounts payable and other liabilities	31.9	51.6
Mortgage repurchase facility	44.9	86.5
	76.8	138.1
Total liabilities	3,010.9	3,315.7
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, 323,018,103 shares issued and 319,362,870 shares outstanding at March 31, 2011 and 322,478,467 shares issued and 318,823,234 shares outstanding at September 30, 2010	3.2	3.2
Additional paid-in capital	1,906.9	1,894.8
Retained earnings	794.0	810.6
Treasury stock, 3,655,233 shares at March 31, 2011 and September 30, 2010, at cost	(95.7)	(95.7)
Accumulated other comprehensive income	—	0.3
Total stockholders' equity	2,608.4	2,613.2
Noncontrolling interests	2.0	9.7
Total equity	2,610.4	2,622.9
Total liabilities and equity	$ 5,621.3	$ 5,938.6

D.R. HORTON, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(In millions, except per share data) (Unaudited)			
Homebuilding:				
Revenues:				
Home sales	$ 733.0	$ 894.8	$ 1,494.1	$ 2,003.0
Land/lot sales	0.1	2.0	6.0	2.7
	733.1	896.8	1,500.1	2,005.7
Cost of sales:				
Home sales	613.9	733.7	1,256.4	1,652.5
Land/lot sales	0.1	1.5	6.0	2.1
Inventory impairments and land option cost write-offs	14.3	2.4	22.7	3.6
	628.3	737.6	1,285.1	1,658.2
Gross profit:				
Home sales	119.1	161.1	237.7	350.5
Land/lot sales	—	0.5	—	0.6
Inventory impairments and land option cost write-offs	(14.3)	(2.4)	(22.7)	(3.6)
	104.8	159.2	215.0	347.5
Selling, general and administrative expense	123.2	129.0	242.0	257.7
Interest expense	14.7	22.7	31.0	49.6
Loss (gain) on early retirement of debt, net	2.7	—	4.2	(1.6)
Other (income)	(3.4)	(3.6)	(5.6)	(5.4)
	(32.4)	11.1	(56.6)	47.2
Financial Services:				
Revenues, net of recourse and reinsurance expense	18.0	16.7	39.2	39.9
General and administrative expense	18.2	17.4	37.1	36.0
Interest expense	0.1	0.2	0.4	0.7

Interest and other (income)	(1.9)	(1.9)	(4.2)	(4.4)
	1.6	1.0	5.9	7.6
Income (loss) before income taxes	(30.8)	12.1	(50.7)	54.8
(Benefit from) provision for income taxes	(58.6)	0.7	(58.1)	(148.6)
Net income	$ 27.8	$ 11.4	$ 7.4	$ 203.4
Basic net income per common share	$ 0.09	$ 0.04	$ 0.02	$ 0.64
Net income per common share assuming dilution	$ 0.09	$ 0.04	$ 0.02	$ 0.61
Cash dividends declared per common share	$ 0.0375	$ 0.0375	$ 0.075	$ 0.075