HORTON D R INC /DE/
Form 10-K
November 20, 2009

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2009
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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	The New York Stock Exchange
9.75% Senior Subordinated Notes due 2010	The New York Stock Exchange
7.875% Senior Notes due 2011	The New York Stock Exchange
2.00% Convertible Senior Notes due 2014	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ   No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o   No þ

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 o   No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of March 31, 2009, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was approximately $2,802,403,000 based on the closing price as reported on the New York Stock Exchange.

As of November 16, 2009, there were 321,325,269 shares of the registrant s common stock, par value $.01 per share, issued and 317,670,036 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive Proxy Statement for the 2010 Annual Meeting of Stockholders are incorporated herein by reference in Part III.

D.R. HORTON, INC. AND SUBSIDIARIES
2009 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

D.R. Horton, Inc. is one of the largest homebuilding companies in the United States. We construct and sell high quality homes through our operating divisions in 27 states and 75 metropolitan markets of the United States, primarily under the name of D.R. Horton, *America s Builder.* We are a Fortune 500 company, and our common stock is included in the S&P 500 Index and listed on the New York Stock Exchange under the ticker symbol DHI. Unless the context otherwise requires, the terms D.R. Horton, the Company, we and our used herein refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.

Donald R. Horton began our homebuilding business in 1978. In 1991, we were incorporated in Delaware to acquire the assets and businesses of our predecessor companies, which were residential home construction and development companies owned or controlled by Mr. Horton. In 1992, we completed our initial public offering of our common stock. The growth of our company over the years was achieved by investing available capital into our existing homebuilding markets and into start-up operations in new markets. Additionally, we acquired other homebuilding companies, which strengthened our market position in existing markets and expanded our geographic presence and product offerings in other markets. Our homes generally range in size from 1,000 to 4,000 square feet and in price from $90,000 to $700,000. The current downturn in our industry has resulted in a substantial decrease in the size of our operations during the last three fiscal years as we have reacted to the significantly weakened market for new homes. For the year ended September 30, 2009, we closed 16,703 homes with an average closing sales price of approximately $213,400.

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 but, rather, 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.

Our financial reporting segments consist of six homebuilding segments and a financial services segment. Our homebuilding operations are the most substantial part of our business, comprising approximately 99% of consolidated revenues, which were $3.7 billion in fiscal 2009. Our homebuilding operations generate most of their revenues from the sale of completed homes, with a lesser amount from the sale of land and lots. In addition to building traditional single-family detached homes, we also build attached homes, such as town homes, duplexes, triplexes and condominiums (including some mid-rise buildings), which share common walls and roofs. The sale of detached homes generated approximately 81%, 77%, and 81% of home sales revenues in fiscal 2009, 2008 and 2007, respectively. Our financial services segment generates its revenues from originating and selling mortgages and collecting fees for title insurance agency and closing services.

We make available, as soon as reasonably practicable, on our Internet website all of our reports required to be filed with the Securities and Exchange Commission (SEC). These reports include our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, beneficial ownership reports on Forms 3, 4, and 5, proxy statements and amendments to such reports. These reports are available in the Investor Relations section of our Internet website. We will also provide these reports in electronic or paper format to our stockholders free of charge upon request made to our Investor Relations department. Our SEC filings are also available to the public over the

Internet at the SEC s website at www.sec.gov, and the public may read and copy any document we file at the SEC s public reference room located at 100 F Street NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

Table of Contents

Our principal executive offices are located at 301 Commerce Street, Suite 500, Fort Worth, Texas 76102. Our telephone number is (817) 390-8200, and our Internet website address is *www.drhorton.com*. Information on our Internet website is not part of this annual report on Form 10-K.

Operating Strategy

For the greatest part of our company s existence, we maintained significant year-over-year growth and profitability. We achieved this growth through an operating strategy focused on capturing greater market share, while also maintaining a strong balance sheet. To execute our strategy, we invested available capital in our existing homebuilding markets and opportunistically entered new markets. We also actively evaluated homebuilding acquisition opportunities as they arose, some of which resulted in acquisitions and contributed to our growth.

Due to the progressive and substantial weakening of demand in our homebuilding markets over the past three years, we have experienced declines in revenues and gross profit, sustained significant asset impairment charges and incurred losses in fiscal 2007, 2008 and 2009. 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 how long the weak market conditions will persist and if the homebuilding industry will experience further deterioration or if conditions will stabilize and then begin to improve. During the downturn we have aggressively reduced inventory levels and increased our cash balances. We have been successful in generating substantial cash flow from operations primarily through inventory reductions and from the receipt of a tax refund from a loss carryback. We have also increased our cash balance by accessing the capital markets. While we will continue to conservatively manage our business, we believe this increase in our 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.

Geographic Diversity

From 1978 to late 1987, our homebuilding activities were conducted in the Dallas/Fort Worth area. We then began diversifying geographically by entering additional markets, both through start-up operations and acquisitions. We now operate in 27 states and 75 markets. This provides us with geographic diversification in our homebuilding inventory investments and our sources of revenues and earnings. We believe our diversification strategy helps to mitigate the effects of local and regional economic cycles and enhances our long-term potential.

Economies of Scale

We are one of the largest homebuilding companies in the United States in terms of number of homes closed in fiscal 2009. By the same measure, we are also one of the five largest builders in many of our markets in fiscal 2009. We believe that our national, regional and local scale of operations has provided us with benefits that may not be available in the same degree to some other smaller homebuilders, such as:

- Negotiation of volume discounts and rebates from national, regional and local materials suppliers and lower labor rates from certain subcontractors;
- Enhanced leverage of our general and administrative activities, which allows us greater flexibility to compete for greater market share in each of our markets; and
- Greater access to and lower cost of capital, due to our strong balance sheet and our lending and capital markets relationships.

Decentralized Operations

We decentralize our homebuilding activities to give operating flexibility to our local division presidents on certain key operating decisions. At September 30, 2009, we had 31 separate homebuilding operating divisions, many of which operate in more than one market area. Generally, each operating division consists of

Table of Contents

a division president; land entitlement, acquisition and development personnel; a sales manager and sales personnel; a construction manager and construction superintendents; customer service personnel; a controller; a purchasing manager and office staff. We believe that division presidents and their management teams, who are familiar with local conditions, generally have better information on which to base decisions regarding their operations. Our division presidents receive performance bonuses based upon achieving targeted financial and operational measures in their operating divisions.

Operating Division Responsibilities

Each operating division is responsible for:

- Site selection, which involves
  - A feasibility study;
  - Soil and environmental reviews;
  - Review of existing zoning and other governmental requirements; and
  - Review of the need for and extent of offsite work required to meet local building codes;
- Negotiating lot option or similar contracts;
- Obtaining all necessary land development and home construction approvals;
- Overseeing land development;
- Selecting building plans and architectural schemes;
- Selecting and managing construction subcontractors and suppliers;
- Planning and managing homebuilding schedules;
- Developing and implementing marketing plans; and
- Coordinating post closing customer service and warranty repairs.

Centralized Controls

We centralize the key risk elements of our homebuilding business through our regional and corporate offices. We have four separate homebuilding regional offices. Generally, each regional office consists of a region president, legal counsel, a chief financial officer, a purchasing manager and limited office support staff. Each of our region presidents and their management teams are responsible for oversight of the operations of up to nine homebuilding operating divisions, including:

- Review and approval of division business plans and budgets;
- Review of all land and lot acquisition contracts;

Oversight of land and home inventory levels; and

Review of major personnel decisions and division president compensation plans.

Our corporate executives and corporate office departments are responsible for establishing our operational policies and internal control standards and for monitoring compliance with established policies and controls throughout our operations. The corporate office also has primary responsibility for direct management of certain key risk elements and initiatives through the following centralized functions:

Financing;

Cash management;

Risk and litigation management;

Allocation of capital;

Table of Contents

- Issuance and monitoring of inventory investment guidelines to our operating divisions;
- Environmental assessments of land and lot acquisitions;
- Approval and funding of land and lot acquisitions;
- Accounting and management reporting;
- Internal audit;
- Information technology systems;
- Administration of payroll and employee benefits;
- Negotiation of national purchasing contracts;
- Management of major national or regional supply chain initiatives;
- Monitoring and analysis of margins, returns and expenses; and
- Administration of customer satisfaction surveys and reporting of results.

Cost Management

We control overhead costs by centralizing certain administrative and accounting functions and by closely monitoring the number of administrative personnel and management positions in our operating divisions, as well as in our regional and corporate offices. We also minimize advertising costs by participating in promotional activities sponsored by local real estate brokers.

We control construction costs by striving to design our homes efficiently and by obtaining competitive bids for construction materials and labor. We also seek to negotiate favorable pricing from our primary subcontractors and suppliers based on the volume of services and products we purchase from them on a local, regional and national basis. We monitor our construction costs on each house through our purchasing and construction budgeting systems, and we monitor our inventory levels, margins, returns and expenses through our management information systems.

Acquisitions

As negative market conditions in the housing industry persist, we remain committed to maintaining our strong balance sheet and liquidity. However, we will continue to evaluate opportunities for strategic acquisitions. We believe that the current housing industry downturn may provide us selected opportunities to enhance our operations through the acquisition of existing homebuilding companies at attractive valuations. In certain instances, such acquisitions can provide us benefits not found in start-up operations, such as: established land positions and inventories; and existing relationships with municipalities, land owners, developers, subcontractors and suppliers. We have sought to limit the risks associated with acquiring other companies by conducting extensive operational, financial and legal due diligence on each acquisition and by only acquiring homebuilding companies that we believe have a positive impact on our earnings within an acceptable period of time.

Table of Contents

Markets

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, also referred to as reporting regions, which comprise the markets below. Our financial statements contain additional information regarding segment performance.

State	Reporting Region/Market
	East Region
Delaware	Central Delaware
	Delaware Shore
Georgia	Savannah
Maryland	Baltimore
	Suburban Washington, D.C.
New Jersey	North New Jersey
	South New Jersey
North Carolina	Brunswick County
	Charlotte
	Greensboro/Winston-Salem
	Raleigh/Durham
Pennsylvania	Lancaster
	Philadelphia
South Carolina	Charleston
	Columbia
	Hilton Head
	Myrtle Beach
Virginia	Northern Virginia
	Midwest Region
Colorado	Colorado Springs
	Denver
	Fort Collins
Illinois	Chicago
Minnesota	Minneapolis/St. Paul
Wisconsin	Kenosha
	Southeast Region
Alabama	Birmingham
	Mobile
Florida	Daytona Beach
	Fort Myers/Naples
	Jacksonville
	Melbourne
	Miami/West Palm Beach
	Orlando
	Pensacola
	Sarasota County
	Tampa
Georgia	Atlanta

State	Reporting Region/Market
	Macon
	South Central Region
Louisiana	Baton Rouge
	Lafayette
Mississippi	Mississippi Gulf Coast
Oklahoma	Oklahoma City
Texas	Austin
	Dallas
	Fort Worth
	Houston
	Killeen/Temple/Waco
	Laredo
	Rio Grande Valley
	San Antonio
	Southwest Region
Arizona	Phoenix
	Tucson
New Mexico	Albuquerque
	Las Cruces
	West Region
California	Bay Area
	Central Valley
	Imperial Valley
	Los Angeles County
	Riverside/San Bernardino
	Sacramento
	San Diego County
	Ventura County
Hawaii	Hawaii
	Maui
	Oahu
Idaho	Boise
Nevada	Las Vegas
	Laughlin
	Reno
Oregon	Albany
	Central Oregon
	Portland
Utah	Salt Lake City
Washington	Eastern Washington
	Seattle/Tacoma
	Vancouver

When evaluating new or existing homebuilding markets for purposes of capital allocation, we consider the local, market-specific factors, including among others:

- Economic conditions;
- Employment levels and job growth;
- Median income level of potential homebuyers;
- Local housing affordability and typical mortgage products utilized;
- Market for homes at entry-level price point;
- Availability of land and lots on acceptable terms;
- Land entitlement and development processes;
- New and secondary home sales activity;
- Competition; and
- Prevailing housing products, features, cost and pricing.

Land Policies

We acquire land after we have completed appropriate due diligence and generally after we have obtained the rights (known as entitlements) to begin development or construction work resulting in an acceptable number of residential lots. Before we acquire lots or tracts of land, we will, among other things, complete a feasibility study, which includes soil tests, independent environmental studies and other engineering work, and evaluate the status of necessary zoning and other governmental entitlements required to develop and use the property for home construction. Although we purchase and develop land primarily to support our homebuilding activities, we also sell land and lots to other developers and homebuilders where we have excess land and lot positions.

We also enter into land/lot option contracts, in which we obtain the right, but generally not the obligation, to buy land or lots at predetermined prices on a defined schedule commensurate with anticipated home closings or planned land development. Our option contracts generally are non-recourse, which limits our financial exposure to our earnest money deposited with land and lot sellers and any preacquisition due diligence costs incurred by us. This enables us to control land and lot positions with limited capital investment, which substantially reduces the risks associated with land ownership and development.

Almost all of our land and lot positions are acquired directly by us. We have avoided entering into joint venture arrangements due to their increased costs and complexity, as well as the loss of operational control inherent in such arrangements. We are a party to a very small number of joint ventures that were acquired through acquisitions of other homebuilders. All of these joint ventures are consolidated in our financial statements.

We attempt to mitigate our exposure to real estate inventory risks by:

- Managing our supply of land/lots controlled (owned and optioned) in each market based on anticipated future home closing levels;

Monitoring local market and demographic trends, housing preferences and related economic developments, such as new job opportunities, local growth initiatives and personal income trends;

Utilizing land/lot option contracts, where possible;

Seeking to acquire developed lots which are substantially ready for home construction;

Limiting the size of acquired land parcels to smaller tracts, where possible;

Table of Contents

Generally commencing construction of custom features or optional upgrades on homes under contract only after the buyer s receipt of mortgage approval and receipt of satisfactory deposits from the buyer; and

Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each subdivision.

The benefits of this strategy have been limited by the sustained weak conditions in the homebuilding industry over the past three fiscal years.

Construction

Our home designs are selected or prepared in each of our markets to appeal to local tastes and preferences of homebuyers in each community. We also offer optional interior and exterior features to allow homebuyers to enhance the basic home design and to allow us to generate additional revenues from each home sold. We have adjusted our product offerings to address affordability issues, which have become increasingly important in the current weak market conditions.

Substantially all of our construction work is performed by subcontractors. Subcontractors typically are retained for a specific subdivision pursuant to a contract that obligates the subcontractor to complete construction at an agreed-upon price. Agreements with the subcontractors and suppliers we use generally are negotiated for each subdivision. We compete with other homebuilders for qualified subcontractors, raw materials and lots in the markets where we operate. We employ construction superintendents to monitor homes under construction, participate in major design and building decisions, coordinate the activities of subcontractors and suppliers, review the work of subcontractors for quality and cost controls and monitor compliance with zoning and building codes. In addition, our construction superintendents play a significant role in working with our homebuyers by assisting with option selection and home modification decisions, educating buyers on the construction process and instructing buyers on post-closing home maintenance.

Construction time for our homes depends on the weather, availability of labor, materials and supplies, size of the home, and other factors. We typically complete the construction of a home within three to six months.

We typically do not maintain significant inventories of construction materials, except for work in progress materials for homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources. We have contracts exceeding one year with certain suppliers of our building materials that are cancelable at our option with a 30 day notice. In recent years, we have not experienced delays in construction due to shortages of materials or labor that have materially affected our consolidated operating results.

Marketing and Sales

We market and sell our homes through commissioned employees and independent real estate brokers. We typically conduct home sales from sales offices located in furnished model homes in each subdivision, and we typically do not offer our model homes for sale until the completion of a subdivision. Our sales personnel assist prospective homebuyers by providing them with floor plans, price information, tours of model homes and assisting them with the selection of options and other custom features. We train and inform our sales personnel as to the availability of financing, construction schedules, and marketing and advertising plans. As our customers are typically first-time or move-up homebuyers, we attempt to adjust our product mix and pricing within our homebuilding markets to keep our homes affordable. As market conditions warrant, we may provide potential homebuyers with one or more of a variety of incentives, including discounts and free upgrades, to be competitive in a particular market. Due to the weak industry conditions of the past three fiscal years, we have offered an increased level of incentives to homebuyers.

We advertise in our local markets as necessary through newspapers, marketing brochures, newsletters and email or other electronic means to prospective homebuyers and real estate brokers. We also use billboards, radio and television advertising and our Internet website to market the location, price range and availability of our homes. To minimize advertising costs, we attempt to operate in subdivisions in conspicuous locations that permit us to take advantage of local traffic patterns. We also believe that model homes play a substantial role in our marketing efforts, so we expend significant effort to create an attractive atmosphere in our model homes.

In addition to using model homes, we build a limited number of speculative homes in each subdivision. These homes enhance our marketing and sales efforts to prospective homebuyers who are relocating to these markets, as well as to independent brokers, who often represent homebuyers requiring a completed home within a short time frame. We determine our speculative homes strategy in each market based on local market factors, such as new job growth, the number of job relocations, housing demand, seasonality, current sales contract cancellation trends and our past experience in the market. We determine the number of speculative homes to build in each subdivision based on our current and planned sales pace, and we monitor and adjust speculative home inventory on an ongoing basis as conditions warrant. We typically have sold a substantial majority of our speculative homes while they are under construction or soon after completion; however, the significant weakness in our housing markets and related high cancellation rates during recent years had caused our speculative home inventory to remain higher than our target levels. During fiscal 2009, we were able to reduce both total and speculative homes in inventory from the prior year levels. We do expect to maintain a level of speculative home inventory in our markets which will be based on our expectations of future sales and closings volume. We believe these speculative homes help to provide us with opportunities to sell additional homes at a profit, reduce our inventory of owned lots and generate positive cash flows.

Our sales contracts require an earnest money deposit of at least $500. The amount of earnest money required varies between markets and subdivisions, and may significantly exceed $500. Additionally, customers are generally required to pay additional deposits when they select options or upgrade features for their homes. Most of our sales contracts stipulate that when customers cancel their contracts with us, we have the right to retain their earnest money and option deposits; however, our operating divisions occasionally choose to refund such deposits. Our sales contracts also include a financing contingency which permits customers to cancel and receive a refund of their deposits if they cannot obtain mortgage financing at prevailing or specified interest rates within a specified period. Our contracts may include other contingencies, such as the sale of an existing home. As a percentage of gross sales orders, cancellations of sales contracts in fiscal 2009 were 30%. While this reflects an improvement from the prior year, our cancellation rate continues to be significantly higher than our historical rate of approximately 20% before the current downturn in the homebuilding industry, reflecting the continuing weak housing market conditions. The length of time between the signing of a sales contract for a home and delivery of the home to the buyer (closing) is generally from two to six months.

Customer Service and Quality Control

Our operating divisions are responsible for pre-closing quality control inspections and responding to customers post-closing needs. We believe that a prompt and courteous response to homebuyers needs during and after construction reduces post-closing repair costs, enhances our reputation for quality and service and ultimately leads to significant repeat and referral business from the real estate community and homebuyers. We typically provide our 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 subcontractors who perform the actual construction also provide us with warranties on workmanship and are generally prepared to respond to us and the homeowner promptly upon request. In addition, some of our suppliers provide manufacturer s warranties on specified products installed in the home.

Sales Order Backlog

At September 30, 2009, the value of our backlog of sales orders was $1,142.0 million (5,628 homes), a decrease of 5% from $1,207.4 million (5,297 homes) at September 30, 2008. The average sales price of homes in backlog was

$202,900 at September 30, 2009, down 11% from the $227,900 average at September 30, 2008. 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. Substantially all of the closings from our sales backlog at September 30, 2009 are scheduled for fiscal year 2010. Further discussion of our backlog is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations under Part II of this annual report on Form 10-K.

Customer Mortgage Financing

We provide mortgage financing services principally to purchasers of our homes in the majority of our homebuilding markets through our wholly-owned subsidiary, DHI Mortgage. DHI Mortgage coordinates and expedites the sales transaction by ensuring that mortgage commitments are received and that closings take place in a timely and efficient manner. DHI Mortgage originates mortgage loans for a substantial portion of our homebuyers and, when necessary to fulfill the needs of some homebuyers, also brokers loans to third-party lenders who directly originate the mortgage loans. During the year ended September 30, 2009, approximately 83% of DHI Mortgage s loan volume related to homes closed by our homebuilding operations, and DHI Mortgage provided mortgage financing services for approximately 67% of our total homes closed.

To limit the risks associated with our mortgage operations, DHI Mortgage only originates loan products that it believes may be sold to third-party purchasers. DHI Mortgage generally packages and sells the loans and their servicing rights to third-party purchasers shortly after origination with limited recourse provisions. In markets where we currently do not provide mortgage financing, we work with a variety of mortgage lenders that make available to homebuyers a range of mortgage financing programs.

Title Services

Through our subsidiary title companies, we serve as a title insurance agent in selected markets by providing title insurance policies, examination and closing services to the purchasers of homes we build and sell. We currently assume little or no underwriting risk associated with these title policies.

Employees

At September 30, 2009, we employed 2,926 persons, of whom 695 were sales and marketing personnel, 981 were executive, administrative and clerical personnel, 648 were involved in construction and 602 worked in mortgage and title operations. We had fewer than 10 employees covered by collective bargaining agreements. Employees of some of the subcontractors which we use are represented by labor unions or are subject to collective bargaining agreements. We believe that our relations with our employees and subcontractors are good.

Competition

The homebuilding industry is highly competitive. We compete in each of our markets with numerous other national, regional and local homebuilders for homebuyers, desirable properties, raw materials, skilled labor and financing. We also compete with resales of existing homes and with the rental housing market. Our homes compete on the basis of quality, price, design, mortgage financing terms and location. In the current weak housing conditions, competition among homebuilders has greatly intensified, especially as to pricing and incentives, as builders attempt to maximize sales volume despite the weakness in housing demand. The current market conditions have also led to a large number of foreclosed homes being offered for sale, which has increased competition for homebuyers and affected pricing. Our financial services business competes with other mortgage lenders, including national, regional and local mortgage bankers and other financial institutions, some of which have greater access to capital, different lending criteria and potentially broader product offerings.

Governmental Regulation and Environmental Matters

The homebuilding industry is subject to extensive and complex regulations. We and the subcontractors we use must comply with various federal, state and local laws and regulations, including zoning, density and

Table of Contents

development requirements, building, environmental, advertising and real estate sales rules and regulations. These requirements affect the development process, as well as building materials to be used, building designs and minimum elevation of properties. Our homes are inspected by local authorities where required, and homes eligible for insurance or guarantees provided by the Federal Housing Administration (FHA) and the Veterans Administration (VA) are subject to inspection by them. These regulations often provide broad discretion to the administering governmental authorities. In addition, our new housing developments may be subject to various assessments for schools, parks, streets and other public improvements.

Our homebuilding operations are also subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of health, safety and the environment. The particular environmental laws for each site vary greatly according to location, environmental condition and the present and former uses of the site and adjoining properties.

Our mortgage company and title insurance agencies must also comply with various federal and state laws and regulations. These include eligibility and other requirements for participation in the programs offered by the FHA, VA, Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). These also include required compliance with consumer lending and other laws and regulations such as disclosure requirements, prohibitions against discrimination and real estate settlement procedures. All of these laws and regulations may subject our operations to examination by the applicable agencies.

Seasonality

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

In contrast to our typical seasonal results, due to the weakness in homebuilding market conditions during the past three years, we have incurred consolidated operating losses each quarter since the third quarter of fiscal 2007. During these periods, the challenging market conditions caused declines in sales volume, pricing and margins that mitigated our historical seasonal variations. Although we may experience our typical historical seasonal pattern in the future, given the current market conditions, we can make no assurances as to when or whether this pattern will recur.

ITEM 1A. RISK FACTORS

Discussion of our business and operations included in this annual report on Form 10-K should be read together with the risk factors set forth below. They describe various risks and uncertainties we are or may become subject to, many of which are difficult to predict or beyond our control. These risks and uncertainties, together with other factors described elsewhere in this report, have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

The homebuilding industry is undergoing a significant downturn, and its duration and ultimate severity are uncertain. A continuation or further deterioration in industry conditions or in the broader economic conditions could have additional adverse effects on our business and financial results.

The downturn in the homebuilding industry is in its fourth year, and it has become one of the most severe housing downturns in U.S. history. The significant declines in the demand for new homes, the significant oversupply of homes on the market and the significant reductions in the availability of financing for homebuyers that have marked the downturn are continuing. We have experienced material reductions in our

Table of Contents

home sales and homebuilding revenues, and we have incurred material inventory and goodwill impairments and other write-offs. It is not clear when these trends will reverse or when we will return to profitability.

Our ability to respond to the downturn has been limited by adverse industry and economic conditions. The significant amount of home mortgage foreclosures has increased supply and driven down prices, making the purchase of a foreclosed home an attractive alternative to purchasing a new home. Homebuilders have responded to declining sales and increased cancellation rates with significant concessions, further adding to the price declines. With the decline in the values of homes and in the ability of some homeowners to make their mortgage payments, the credit markets have been significantly disrupted, putting strains on many households and businesses. In the face of these conditions, the overall economy has weakened significantly, with high unemployment levels and substantially reduced consumer spending and confidence. As a result, demand for new homes remains at historically low levels.

These challenging conditions are complex and interrelated. We cannot predict their duration or ultimate severity. Nor can we provide assurance that our responses to the homebuilding downturn or the government s attempts to address the troubles in the overall economy will be successful. Additionally, we cannot predict the timing or effect of the winding down or possible withdrawal of government intervention or support.

The continuing constriction of the credit markets could limit our ability to access capital and increase our costs of capital.

During this downturn in the homebuilding industry, we have relied principally on the positive operating cash flow we have generated to meet our working capital needs and repay outstanding indebtedness. We generated substantial operating cash flow during this time. However, the downturn and the constriction of the credit markets have reduced the other sources of liquidity available to us and increased our costs of capital.

In May 2009, we voluntarily terminated our $1.65 billion unsecured revolving credit facility. Although we had no cash borrowings outstanding under the facility during fiscal 2009, the borrowing base limitations applicable to the facility had reduced availability significantly, and we believed that seeking an amendment to the facility for relief from these limitations would have increased the costs of borrowing, reduced the overall credit commitment available under the facility and possibly involved additional restrictions on us. We have since relied on short-term arrangements with some of the lenders for the letters of credit we require in our business. A new line of credit, should we decide to pursue one, may be difficult to obtain on favorable terms in the current circumstances of our business and the overall economy. It would also likely involve additional financing costs and restrictions on our business. Not having a line in place could reduce our flexibility in responding to or taking advantage of changing conditions in the homebuilding industry or require us to use our own cash resources in doing so.

Our financial services segment uses a $100 million mortgage repurchase facility to finance many of the loans it originates. The facility must be renewed annually, and the current facility expires in March 2010. A continuation of current market conditions could make the renewal more difficult or could result in an increase in the cost of the facility or a decrease in its committed availability. Such conditions may also make it more difficult or costly to sell the mortgages that we originate.

As of September 30, 2009, we had $308.4 million of debt maturing in the next 12 months. We believe we can meet these and our other capital requirements with our existing cash resources and future cash flows and, if required, other sources of financing that we anticipate will be available to us. However, we can provide no assurance that we will continue to be able to do so, particularly if current industry or economic conditions continue or deteriorate further. The future effects on our business, liquidity and financial results of these conditions could be material and adverse, both in ways described above and in other ways that we do not currently foresee.

We use letters of credit and surety bonds to secure our performance under various construction and land development agreements, escrow agreements, financial guarantees and other arrangements. Should our future performance or economic conditions make these more difficult to obtain or more costly, our business or financial results could be adversely affected.

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

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

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

We believe that the purchases of mortgage-backed securities by the Federal Reserve System (the Fed) have helped to keep mortgage interest rates low during much of fiscal 2009. The Fed has announced their intention to end these purchases in early 2010. This action will likely lead to higher mortgage interest rates which would adversely impact our sales of homes.

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

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

In February 2009, the American Recovery and Reinvestment Act of 2009 was enacted into law. This legislation included a federal tax credit for qualified first-time homebuyers purchasing a principal residence on or after January 1, 2009 and before December 1, 2009. In November 2009, this credit was expanded to be available to more homebuyers and extended until June 2010. Our sales in future periods may be adversely affected when this tax credit expires.

Table of Contents

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

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

In addition, the recently proposed Restoring American Financial Stability Act of 2009 contains provisions that require companies that sell products like mortgage-backed securities to retain at least 10% of the credit risk of the underlying assets. If this or other attempts to impose more risk on mortgage securitizers are enacted, the pricing and availability of mortgage products our customers rely on to purchase our homes may be adversely affected. Similarly, to the extent any future legislation attempts to enact credit risk retention requirements on mortgage originators, the risk profile of our financial services business and its support of our homebuilding business could be adversely affected.

Our strategies in responding to the adverse conditions in the homebuilding industry have had limited success, and the continued implementation of these and other strategies may not be successful.

While we have been successful in generating positive operating cash flow and reducing our inventories in the last three fiscal years, we have done so at significantly reduced gross profit levels and have incurred significant asset impairment charges. These contributed to the net losses we recognized during these periods. Also, during this time, notwithstanding our sales strategies, we continued to experience an elevated rate of sales contract cancellations. We believe that the increase in the cancellation rate is largely due to reduced homebuyer confidence, due principally to continued price declines, the growing number of foreclosures and continuing job losses in the economy. A more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes have also impacted cancellations. Many of these factors, which affect new sales and cancellation rates, are beyond our control. It is uncertain how long the reduction in sales and the increased level of cancellations will continue. If these conditions continue for a protracted period, it is not clear whether our strategies will succeed in maintaining or increasing our sales volume or our current margins.

A return of inflation could adversely affect our business and financial results, particularly in a period of oversupply of homes.

Inflation can adversely affect us by increasing costs of land, materials and labor. In the event of a return of inflation, we may seek to increase the sales prices of homes in order to maintain satisfactory margins. However, a continuation of the oversupply of homes relative to demand may make this difficult. In addition, inflation is often accompanied by higher interest rates, which have a negative impact on housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation and our margins could decrease. Moreover, with inflation, the costs of capital increase, and the purchasing power of our cash resources can decline. Current or future efforts by the government to stimulate the economy may increase the risk of significant inflation and its adverse impact on our business or financial results.

The homebuilding industry is cyclical and affected by changes in general economic, real estate or other business conditions that could adversely affect our business or financial results.

The homebuilding industry is cyclical and is significantly affected by changes in industry conditions, as well as in general and local economic conditions, such as:

- employment levels;
- availability of financing for homebuyers;

- interest rates;
- consumer confidence;
- levels of new and existing homes for sale;
- demographic trends; and
- housing demand.

Table of Contents

These may occur on a national scale, like the current downturn, or may affect some of the regions or markets in which we operate more than others. When adverse conditions affect any of our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies. Our operations in previously strong markets, particularly California, Florida, Nevada and Arizona, have more adversely affected our financial results than our other markets in the current downturn.

An oversupply of alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes and rental properties, can also reduce our ability to sell new homes and depress new home prices and reduce our margins on the sales of new homes. 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.

Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, wildfires, volcanic activity, droughts, and floods, can harm our homebuilding business. These can delay home closings, adversely affect the cost or availability of materials or labor, or damage homes under construction. The climates and geology of many of the states in which we operate, including California, Florida and Texas, where we have some of our larger operations, present increased risks of adverse weather or natural disasters in part because of their cyclically recurring nature there.

Continued military deployments in the Middle East and other overseas regions, terrorist attacks, other acts of violence or threats to national security, and any corresponding response by the United States or others, or related domestic or international instability, may adversely affect general economic conditions or cause a slowdown of the economy.

As a result of the foregoing matters, potential customers may be less willing or able to buy our homes. Because of current industry and economic conditions, we have not been able to increase the sale prices of our homes. In the future, our pricing strategies may also be limited by market conditions. We may be unable to change the mix of our home offerings, reduce the costs of the homes we build or offer more affordable homes to maintain our margins or satisfactorily address changing market conditions in other ways. In addition, cancellations of home sales contracts in backlog may increase as homebuyers choose to not honor their contracts.

Our financial services business is closely related to our homebuilding business, as it originates mortgage loans principally to purchasers of the homes we build. A decrease in the demand for our homes because of the foregoing matters may also adversely affect the financial results of this segment of our business. An increase in the default rate on the mortgages we originate may adversely affect our ability to sell the mortgages or the pricing we receive upon the sale of mortgages or may increase our repurchase or other obligations for previous originations. During fiscal 2009 we increased our reserves related to mortgages we have sold. Because of the uncertainties inherent to these matters, actual future obligations could differ significantly from our currently estimated amounts.

The risks associated with our land and lot inventory could adversely affect our business or financial results.

Inventory risks are substantial for our homebuilding business. The risks inherent in controlling or purchasing and developing land increase as consumer demand for housing decreases. Thus, we may have acquired options on or bought and developed land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. Our deposits for building lots controlled under option or similar contracts may be put at risk. The value of undeveloped land, building lots and housing inventories can also fluctuate significantly as a result of changing market conditions. In addition, inventory carrying costs can be significant and can result in reduced margins or losses in a poorly performing community or market. In the present weak market conditions, we have sold homes and land for lower margins or at a loss and we have recorded significant inventory impairment charges.

Historically, our goals for years of supply for ownership and control of land and building lots were based on management s expectations for future volume growth. In light of the much weaker market conditions encountered since fiscal 2006, we significantly slowed our purchases of undeveloped land and our development spending on land we own and made substantial land and lot sales as part of our strategy to reduce our inventory to better match our reduced rate of production. We also terminated numerous land option contracts and wrote off earnest money deposits and pre-acquisition costs related to these option contracts. Because future market conditions are uncertain, we cannot provide assurance that these measures will be successful in managing our future inventory risks. Our flexibility in responding to changes in market conditions may have been reduced as the amount of our land and lot positions controlled by option and similar contracts has declined.

Supply shortages and other risks related to demand for building materials and skilled labor could increase our costs and delay deliveries.

The homebuilding industry has from time to time experienced significant difficulties that can affect the cost or timing of construction, including:

- difficulty in acquiring land suitable for residential building at affordable prices in locations where our potential customers want to live;
- shortages of qualified trades people;
- reliance on local subcontractors, manufacturers and distributors who may be inadequately capitalized;
- shortages of materials; and
- volatile increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

These may cause us to take longer or incur more costs to build our homes and adversely affect our revenues and margins.

Increases in the costs of owning a home could prevent potential customers from buying our homes and adversely affect our business or financial results.

Significant expenses of owning a home, including mortgage interest and real estate taxes, generally are deductible expenses for an individual s federal, and in some cases state, income taxes, subject to various limitations under current tax law and policy. If the federal government or a state government changes its income tax laws, as has been discussed from time to time, to eliminate or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many of our potential customers. The resulting loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, would adversely impact demand for and sales prices of new homes.

In addition, increases in property tax rates by local governmental authorities, as experienced in response to reduced federal and state funding, can adversely affect the ability of potential customers to obtain financing or their desire to purchase new homes.

Governmental regulations could increase the cost and limit the availability of our development and homebuilding projects and adversely affect our business or financial results.

We are subject to extensive and complex regulations that affect land development and home construction, including zoning, density restrictions, building design and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. We are subject to determinations by these authorities as to the adequacy of water or sewage facilities, roads or other local services. New housing developments may also be subject to various assessments for schools, parks, streets and other public improvements. In addition, in many markets government authorities have implemented no growth or growth control initiatives. Any of these can limit, delay or increase the costs of development or home construction.

We are also subject to a variety of local, state and federal laws and regulations concerning protection of health, safety and the environment. The impact of environmental laws varies depending upon the prior uses of the building site or adjoining properties and may be greater in areas with less supply where undeveloped land or desirable alternatives are less available. These matters may result in delays, may cause us to incur substantial compliance, remediation, mitigation and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas.

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

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

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

Homebuilding is subject to home warranty and construction defect claims in the ordinary course of business that can be significant.

As a homebuilder, we are subject to home warranty and construction defect claims arising in the ordinary course of business. As a consequence, we maintain product liability insurance, obtain indemnities and certificates of insurance from subcontractors generally covering claims related to workmanship and materials, and create warranty and other reserves for the homes we sell based on historical experience in our markets and our judgment of the qualitative risks associated with the types of homes built. Because of the uncertainties inherent to these matters, we cannot provide assurance that our insurance coverage, our subcontractor arrangements and our reserves will be adequate to address all of our warranty and construction defect claims in the future. Contractual indemnities can be difficult to enforce, we may be responsible for applicable self-insured retentions and some types of claims may not be covered by insurance or may exceed applicable coverage limits. Additionally, the coverage offered by and the availability of product liability insurance for construction defects is currently limited and costly. We have responded to increases in insurance costs and coverage limitations in recent years by increasing our self-insured retentions and claim reserves. There can be no assurance that coverage will not be further restricted or become more costly.

Our substantial debt could adversely affect our financial condition.

We have a significant amount of debt. As of September 30, 2009, our consolidated debt was $3,277.3 million. As of September 30, 2009, the scheduled maturities of principal on our outstanding debt for the subsequent 12 months totaled $308.4 million. The indentures from our senior, senior convertible and senior subordinated notes do not restrict the incurrence of future unsecured debt, and they permit significant amounts of secured debt. We do not currently have a revolving credit facility for our homebuilding operations. If we choose to enter into a new line of credit agreement, it may limit the amount of debt we could incur.

Possible Consequences. The amount and the maturities of our debt could have important consequences. For example, they could:

require us to dedicate a substantial portion of our cash flow from operations to payment of our debt and reduce our ability to use our cash flow for other operating or investing purposes;

limit our flexibility in planning for, or reacting to, the changes in our business;

limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;

place us at a competitive disadvantage because we have more debt than some of our competitors; and

make us more vulnerable to downturns in our business or general economic conditions.

Dependence on Future Performance. Our ability to meet our debt service and other obligations will depend, in part, upon our future financial performance. Our future results are subject to the risks and uncertainties described in this report. These have been compounded by the current industry and economic conditions. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of debt or equity, the refinancing of debt, or the sale of assets.

Mortgage Repurchase Facility and Other Restrictions. The mortgage repurchase facility for our financial services subsidiaries requires the maintenance of a minimum level of tangible net worth, a maximum allowable ratio of debt to tangible net worth and a minimum level of liquidity by our financial services subsidiaries. A failure to comply with these requirements could allow the lending bank to terminate the availability of funds to the financial services subsidiaries or cause their debt to become due and payable prior to maturity. Any difficulty experienced in complying with these covenants could make the renewal of the facility more difficult or costly.

In addition, the indentures governing our senior notes and senior subordinated notes impose restrictions on the creation of secured debt and liens.

As a result of terminating our revolving credit facility, we are no longer subject to the restrictions on our operations and activities that it imposed on us. However, if we decide to enter into another revolving credit agreement, it is likely that we will again become subject to these types of provisions, which may be more restrictive than those found in our previous facility.

Changes in Debt Ratings. In fiscal 2008, all three of the agencies that rate our senior unsecured debt lowered our ratings to a level below investment grade, and these agencies have since lowered our ratings even further. The cost of debt capital has increased and could increase more with further lowering of our debt ratings. The further lowering of our debt ratings could also make accessing the public capital markets more difficult and expensive.

Change of Control Purchase Options. If a change of control occurs as defined in the indentures governing many series of our senior and senior subordinated notes, which constituted $1.0 billion principal amount in the aggregate as of September 30, 2009, we would be required to offer to purchase these notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. If a fundamental change, including a change of control, occurs as defined in the indenture governing our convertible senior notes, which constituted $500 million principal amount as of September 30, 2009, we would be required to offer to purchase these notes at par, together with all accrued and unpaid interest, if any. If purchase offers were required under the indentures for these notes, we can give no assurance that we would have sufficient funds to pay the amounts that we would be required to purchase.

Impact of Financial Services Debt. Our financial services business is conducted through subsidiaries that are not restricted by our indentures. The ability of our financial services subsidiaries to provide funds to our homebuilding operations, however, is subject to restrictions in their mortgage repurchase facility. These funds would not be available to us upon the occurrence and during the continuance of defaults under this facility. Moreover, our right to receive assets from these subsidiaries upon liquidation or recapitalization will be subject to the prior claims of the creditors of these subsidiaries. Any claims we may have to funds from this segment would be subordinate to subsidiary indebtedness to the extent of any security for such indebtedness and to any indebtedness otherwise recognized as senior to our claims.

Table of Contents

Homebuilding and financial services are very competitive, and competitive conditions could adversely affect our business or financial results.

The homebuilding industry is highly competitive. Homebuilders compete not only for homebuyers, but also for desirable properties, financing, raw materials and skilled labor. We compete with other local, regional and national homebuilders, often within larger subdivisions designed, planned and developed by such homebuilders. We also compete with existing home sales, foreclosures and rental properties. The competitive conditions in the homebuilding industry can result in:

- lower sales;
- lower selling prices;
- increased selling incentives;
- lower profit margins;
- impairments in the value of inventory, goodwill and other assets;
- difficulty in acquiring suitable land, raw materials, and skilled labor at acceptable prices or terms; or
- delays in construction of our homes.

Our financial services business competes with other mortgage lenders, including national, regional and local mortgage banks and other financial institutions. Mortgage lenders with greater access to capital or different lending criteria may be able to offer more attractive financing to potential customers.

When we are affected by these competitive conditions, our business and financial results could be adversely affected. In the current downturn in the homebuilding industry, the reactions of our competitors may have reduced the effectiveness of our efforts to achieve pricing stability and reduce our inventory levels.

We cannot make any assurances that any future growth strategies will be successful or not expose us to additional risks.

Although we focused on internal growth for several years before the downturn in the homebuilding industry, we may make strategic acquisitions of homebuilding companies or their assets in the future. Successful strategic acquisitions can require the integration of operations and management and other efforts to realize the benefits that may be available. Although we believe that we have been successful in the past, we can give no assurance that we would be able to successfully identify, acquire and integrate strategic acquisitions in the future. Acquisitions can result in the dilution of existing stockholders if we issue our common stock as consideration or reduce our liquidity or increase our debt if we fund them with cash. The impact on liquidity may be increased because we do not currently have a revolving credit facility. In addition, acquisitions can expose us to valuation risks, including the risk of writing off goodwill or impairing inventory and other assets related to such acquisitions. The risk of goodwill and other asset impairments increases during a cyclical housing downturn when our profitability may decline, as evidenced by the goodwill and other asset impairment charges we recognized in recent years. In addition, we may not be able to implement successfully our operating or internal growth strategies within our existing markets. In the uncertain current market conditions, asset acquisitions involve a risk that the markets involved subsequently deteriorate. Conversely, if we delay an acquisition until we believe the market uncertainties are resolved, the potential competitive advantages of the acquisition may be limited.

We may not realize our deferred income tax asset.

As of September 30, 2009, we have a net deferred income tax asset of $1,124.4 million, against which we have provided a valuation allowance of $1,124.4 million. The realization of the deferred income tax asset is dependent upon the taxable income available in current statutory carryback periods, reversals of existing taxable temporary differences, tax planning strategies and our ability to generate taxable income within the statutory carryforward periods. Based on our assessment, the realization of all of our deferred income tax asset is dependent upon the generation of future taxable income during the statutory carryforward periods in which the related temporary differences become deductible.

The accounting for deferred income taxes is based upon estimates of future results, and the valuation allowance may be increased or decreased as conditions change or if we are unable to implement certain tax planning strategies. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated results of operations or financial position. Changes in tax laws also affect actual tax results and the valuation of deferred income tax assets over time.

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

We have experienced continuing losses that have produced net operating losses and unrealized built-in losses for income tax purposes. These have the potential to reduce future income tax obligations if we become profitable in the future. However, Section 382 of the Internal Revenue Code contains rules that limit the ability of a company that undergoes an ownership change to utilize its net operating loss carryforwards and certain built-in losses recognized in years after the ownership change. Under the rules, such an ownership change is generally any change in ownership of more than 50% of its stock within a rolling three-year period, as calculated in accordance with the rules. The rules generally operate by focusing on changes in ownership among stockholders considered by the rules as owning directly or indirectly 5% or more of the stock of the company and any change in ownership arising from new issuances of stock by the company.

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

We believe that we have not experienced such an ownership change as of September 30, 2009; however, the amount by which our ownership may change in the future could be affected by purchases and sales of stock by 5% stockholders and the conversion of our outstanding senior convertible notes, over which we have no control, and new issuances of stock by us, should we choose to do so. In August 2009, our board of directors adopted a Section 382 rights agreement as a measure intended to deter such an ownership change in order to preserve these tax attributes. The Section 382 rights agreement, however, may not prevent an ownership change. Moreover, it will expire by its terms in 2010 if it is not approved when we submit it to our stockholders for their approval. In addition, while the Section 382 rights agreement is in effect, it could discourage or prevent a merger, tender offer, proxy contest or accumulations of substantial blocks of shares for which some stockholders might receive a premium above market value. It could also adversely affect the liquidity of the market for our shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

In addition to our inventories of land, lots and homes, we own several office buildings totaling approximately 258,000 square feet, and we lease approximately 974,000 square feet of office space under leases expiring through

May 2015. These properties are located in our various operating markets to house our homebuilding and financial services operating divisions and our regional and corporate offices.

ITEM 3. LEGAL PROCEEDINGS

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

On June 15, 2007, a putative class action, *John R. Yeatman, et al. v. D.R. Horton, Inc., et al.,* was filed by one of our customers against us and our affiliated mortgage company subsidiary in the United States District Court for the Southern District of Georgia. The complaint sought certification of a class alleged to include persons who, within the year preceding the filing of the suit, purchased a home from us and obtained a mortgage for such purchase from our affiliated mortgage company subsidiary. The complaint alleged that we violated Section 8 of the Real Estate Settlement Procedures Act by effectively requiring our homebuyers to use our affiliated mortgage company to finance their home purchases by offering certain discounts and incentives. The action sought damages in an unspecified amount and injunctive relief. On April 23, 2008, the Court ruled on our motion to dismiss and dismissed this complaint with prejudice. The plaintiffs appealed the decision. On September 1, 2009, the 11th Circuit Court of Appeals issued its mandate affirming the trial court s dismissal of the plaintiffs complaint. The plaintiffs have until December 1, 2009 to seek Supreme Court review; however, we have received no indication from the plaintiffs whether any further appeals are planned.

On March 24, 2008, a putative class action, *James Wilson, et al. v. D.R. Horton, Inc., et al.,* was filed by five customers of Western Pacific Housing, Inc., one of our wholly-owned subsidiaries, against us, Western Pacific Housing, Inc., and our affiliated mortgage company subsidiary, in the United States District Court for the Southern District of California. The complaint sought certification of a class alleged to include persons who, within the four years preceding the filing of the suit, purchased a home from us, or any of our subsidiaries, and obtained a mortgage for such purchase from our affiliated mortgage company subsidiary. The complaint alleged that we violated Section 1 of the Sherman Antitrust Act and Sections 16720, 17200 and 17500 of the California Business and Professions Code by effectively requiring our homebuyers to apply for a loan through our affiliated mortgage company. In June 2009 the complaint was amended to limit the putative class to California customers only and the claims asserted were limited to alleged violations of the California Business and Professions Code. The complaint alleges that the homebuyers were either deceived about loan costs charged by our affiliated mortgage company or coerced into using our affiliated mortgage company, or both, and that discounts and incentives offered by us or our subsidiaries to buyers who obtained financing from our affiliated mortgage company were illusory. The action seeks treble damages in an unspecified amount and injunctive relief. We believe the claims alleged in this action are without merit and will defend them vigorously. However, as the action is still in its early stages, we are unable to express an opinion as to the likelihood of an unfavorable outcome or the amount of damages, if any.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol DHI. The following table sets forth, for the periods indicated, the range of high and low sales prices for our common stock, as reported by the NYSE, and the quarterly cash dividends declared per common share.

	Year Ended September 30, 2009			Year Ended September 30, 2008		
	High	Low	Declared Dividends	High	Low	Declared Dividends
1st Quarter	$ 13.40	$ 3.79	$ 0.0375	$ 15.18	$ 10.15	$ 0.15
2nd Quarter	11.35	5.72	0.0375	17.80	9.78	0.15
3rd Quarter	13.74	8.53	0.0375	17.95	10.74	0.075
4th Quarter	13.90	8.26	0.0375	15.46	8.93	0.075

As of November 16, 2009, the closing price of our common stock on the NYSE was $12.31, and there were approximately 584 holders of record.

The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, future earnings, cash flows, capital requirements, our financial condition and general business conditions. We reduced the amount of our quarterly dividend during the third quarter of fiscal 2008, and we have further reduced our dividend amount during the first quarter of fiscal 2009.

The information required by this item with respect to equity compensation plans is set forth under Item 12 of this annual report on Form 10-K and is incorporated herein by reference.

During fiscal years 2009, 2008 and 2007, we did not sell any securities that were not registered under the Securities Act of 1933, as amended.

In November 2008, our Board of Directors authorized the repurchase of up to $100 million of our common stock. The authorization is effective from December 1, 2008 to November 30, 2009. We made no repurchases of common stock under the share repurchase program during fiscal 2009, and therefore, all of the $100 million authorization was remaining at September 30, 2009. Upon expiration of the November 2008 authorization, our Board of Directors has authorized the repurchase of up to $100 million of our common stock through November 30, 2010.

In August 2009, to preserve the tax benefits of our net operating losses and unrealized built-in losses, our Board of Directors adopted a rights agreement as a measure intended to deter an ownership change as defined by Internal Revenue Code Section 382. On August 19, 2009, our Board of Directors declared a dividend of one preferred share purchase right for each outstanding share of our common stock. The dividend was paid on August 31, 2009 to stockholders of record on August 31, 2009.

Table of Contents

Stock Performance Graph

The following graph illustrates the cumulative total stockholder return on D.R. Horton common stock for the last five fiscal years through September 30, 2009, compared to the S&P 500 Index and the S&P 500 Homebuilding Index. The comparison assumes a hypothetical investment in D.R. Horton common stock and in each of the foregoing indices of $100 at September 30, 2004, and assumes that all dividends were reinvested. Shareholder returns over the indicated period are based on historical data and should not be considered indicative of future shareholder returns. The graph and related disclosure in no way reflect our forecast of future financial performance.

Comparison of Five-Year Cumulative Total Return
Among D.R. Horton, Inc., S&P 500 Index and S&P 500 Homebuilding Index

	Year Ended September 30,					
	2004	2005	2006	2007	2008	2009
D.R. Horton, Inc.	$ 100.00	$ 147.32	$ 99.00	$ 54.45	$ 57.31	$ 51.06
S&P 500 Index	$ 100.00	$ 112.25	$ 124.36	$ 144.81	$ 112.99	$ 105.18
S&P 500 Homebuilding Index	$ 100.00	$ 143.29	$ 103.78	$ 52.74	$ 44.63	$ 37.38

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data are derived from our Consolidated Financial Statements. The data should be read in conjunction with Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 1A, Risk Factors, Item 8, Financial Statements and Supplementary Data, and all other financial data contained in this annual report on Form 10-K. These historical results are not necessarily indicative of the results to be expected in the future.

	Year Ended September 30,				
	2009	2008	2007	2006	2005
	(In millions, except per share data)				
Operating Data:					
Revenues:					
Homebuilding	$ 3,603.9	$ 6,518.6	$ 11,088.8	$ 14,760.5	$ 13,628.6
Financial Services	53.7	127.5	207.7	290.8	235.1
Gross profit (loss)					
Homebuilding	65.2	(1,763.2)	603.7	3,342.2	3,488.3
Income (loss) before income taxes:					
Homebuilding	(536.8)	(2,666.9)	(1,020.0)	1,878.7	2,273.0
Financial Services	(15.5)	35.1	68.8	108.4	105.6
Provision for (benefit from) income taxes	(7.0)	1.8	(238.7)	753.8	908.1
Net income (loss)	(545.3)	(2,633.6)	(712.5)	1,233.3	1,470.5
Net income (loss) per share:					
Basic	(1.72)	(8.34)	(2.27)	3.94	4.71
Diluted	(1.72)	(8.34)	(2.27)	3.90	4.62
Cash dividends declared per common share	0.15	0.45	0.60	0.44	0.3075

	September 30,				
	2009	2008	2007	2006	2005
	(In millions)				
Balance Sheet Data:					
Inventories	$ 3,663.0	$ 4,683.2	$ 9,343.5	$ 11,343.1	$ 8,486.8
Total assets	6,756.6	7,950.6	11,556.3	14,820.7	12,514.8
Notes payable	3,277.3	3,748.4	4,376.8	6,078.6	4,909.6
Stockholders equity	2,259.6	2,834.3	5,586.9	6,452.9	5,360.4

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations Fiscal Year 2009 Overview

During fiscal 2009, conditions within the homebuilding industry remained challenging. The decline in demand for new homes continues to be reflected in the volume of our net sales orders, which was 20% lower than in fiscal 2008. Although our net sales orders in the fourth quarter of fiscal 2009 were 26% higher than in the fourth quarter of fiscal 2008, they were 21% and 52% lower than in the fourth quarter of fiscal 2007 and 2006, respectively. These results suggest the severe declines in our net sales orders experienced in recent years may be moderating. However, we expect overall demand for new homes to remain at very low levels for some time, and efforts to improve our net sales order volume will be challenging. The value of our sales order backlog at September 30, 2009 was 5% lower than a year ago.

During the slowdown in the homebuilding industry, the factors hurting demand for new homes have been pervasive across the United States. High inventory levels of available homes, elevated cancellation rates, low sales absorption rates and overall weak consumer confidence have persisted. The effects of these factors have been magnified by reduced availability of credit in the mortgage markets, severe shortages of liquidity in the financial 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 has weakened significantly and was in a recession during fiscal 2009 marked by high unemployment levels and substantially reduced consumer spending and confidence. The turmoil in the housing market during the last three years and the recent weakness in the economy have resulted in drastic price reductions in our homes and continued compression in our gross margins. However, these price reductions have caused housing to become more affordable, which may lead to increased demand in the future when other market conditions improve.

We continue to remain cautious regarding our outlook for the homebuilding industry. We believe that challenging housing market conditions will persist for some time and that the timing of a sustainable recovery in the housing market remains unclear. Our outlook incorporates several factors, including continued margin pressure from sales price reductions and incentives; continued high levels of homes available for sale; weak demand from new home consumers; the scheduled expiration of the first-time homebuyer federal tax credit in June 2010; the announced end of the Federal Reserve System s open market purchases of mortgage-backed securities in 2010; continued high sales cancellations; significant restrictions on the availability of certain mortgage products and increased underwriting requirements for home financing as a result of the continuing constriction of credit in the mortgage markets. Partially mitigating these negative industry factors are some favorable aspects of our performance in the second half of fiscal 2009, in which our year over year net sales comparisons improved, our sales order cancellation rates have declined and we were successful in reducing our inventory of completed homes.

Due to the challenging market conditions discussed above, we have continued to evaluate our homebuilding and financial services assets for recoverability. Our significant assets, excluding cash, and those whose recoverability are 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, which collectively comprised 90% of our total non-cash assets at September 30, 2009. Our evaluations reflected our expectation of continued challenges in the homebuilding industry, and our belief that these challenging conditions will persist for some time. Based on our evaluations, during fiscal 2009 we recorded inventory impairment charges of $377.8 million, wrote-off earnest money deposits and pre-acquisition costs related to land and lot option contracts we no longer plan to pursue of $29.9 million and recorded additional reserves for losses of $33.2 million associated with mortgage loans held in portfolio and the limited recourse provisions on previously sold mortgage loans and $14.9 million related to mortgage reinsurance activities. While these impairment charges and write-offs are less than amounts recognized in each of the prior two years, they reflect the continued weakness in market conditions. 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.

Table of Contents

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 how long the negative effects of the current market conditions will persist and if the homebuilding industry will experience further deterioration from these levels or if conditions will begin to improve. During the downturn we have aggressively reduced our inventory levels and increased our cash balances. We have been successful in generating substantial cash flow from operations primarily through inventory reductions and from the receipt of a tax refund from a loss carryback. We have also increased our cash balance by accessing the capital markets. While we will continue to conservatively manage our business, this increase in our 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 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, returns and cash flows.

- Entering into new finished lot option contracts to purchase finished lots in an attempt to increase sales volumes and profitability.

- Renegotiating existing finished lot option contracts to reduce our lot costs and better match the scheduled purchases with new home demand in the community.

- Limiting our land development spending or suspending development in communities that require substantial investments of time or capital resources.

- Managing our inventory of homes under construction by starting construction on unsold homes to take advantage of market opportunities, while monitoring the aging of unsold homes and aggressively marketing our unsold, completed homes in inventory.

- Decreasing our cost of goods purchased from both vendors and subcontractors.

- Modifying our 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. 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 in fiscal 2010.

Key Results

Key financial results as of and for our fiscal year ended September 30, 2009, as compared to fiscal 2008, were as follows:

Homebuilding Operations:

Homebuilding revenues decreased 45% to $3.6 billion.

Homes closed decreased 37% to 16,703 homes and the average selling price of those homes decreased 9% to $213,400.

Net sales orders decreased 20% to 17,034 homes.

Sales order backlog decreased 5% to $1.1 billion.

Home sales gross margins increased 190 basis points to 13.1%.

Inventory impairments and land option cost write-offs were $407.7 million, compared to $2.5 billion.

Homebuilding SG&A expense decreased 34% to $523.0 million, but increased as a percentage of homebuilding revenues by 240 basis points to 14.5%.

Homebuilding pre-tax loss was $536.8 million, compared to a pre-tax loss of $2.7 billion.

Homes in inventory declined by 800 to 11,600.

Owned lots declined by 9,500 to 89,500.

Homebuilding debt decreased by $336.3 million to $3.2 billion.

Net homebuilding debt to total capital decreased 730 basis points to 36.3%, and gross homebuilding debt to total capital increased 310 basis points to 58.7%.

Homebuilding cash was $1.9 billion, compared to $1.4 billion.

Financial Services Operations:

Total financial services revenues, net of recourse and reinsurance expenses, decreased 58% to $53.7 million.

Financial services pre-tax loss was $15.5 million, compared to pre-tax income of $35.1 million.

Financial services debt decreased by $134.8 million to $68.7 million.

Consolidated Results:

Net loss per share was $1.72, compared to net loss per share of $8.34.

Net loss was $545.3 million, compared to a net loss of $2.6 billion.

Stockholders equity decreased 20% to $2.3 billion.

Net cash provided by operations was $1.1 billion, compared to $1.9 billion.

Results of Operations Homebuilding

Our operating segments are our 31 homebuilding operating divisions, which we aggregate into six reporting segments. These reporting segments, which we also refer to as reporting regions, 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, Mississippi, Oklahoma and Texas

Southwest:	Arizona and New Mexico
West:	California, Hawaii, Idaho, Nevada, Oregon, Utah and Washington

Table of Contents

Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

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 fiscal years ended September 30, 2009 and 2008.

	Net Sales Orders (1) Fiscal Year Ended September 30,								
	Net Homes Sold			Value (In millions)			Average Selling Price		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
East	1,519	1,602	(5)%	$ 353.7	$ 396.3	(11)%	$ 232,900	$ 247,400	(6) %
Midwest	1,198	1,633	(27)%	323.5	425.3	(24)%	270,000	260,400	4 %
Southeast	3,107	3,235	(4)%	560.8	637.6	(12)%	180,500	197,100	(8) %
South Central	6,074	7,266	(16)%	1,045.9	1,293.3	(19)%	172,200	178,000	(3) %
Southwest	1,849	2,982	(38)%	314.9	551.6	(43)%	170,300	185,000	(8) %
West	3,287	4,533	(27)%	899.6	1,373.1	(34)%	273,700	302,900	(10) %
	17,034	21,251	(20)%	$ 3,498.4	$ 4,677.2	(25)%	$ 205,400	$ 220,100	(7) %

	Sales Order Cancellations Fiscal Year Ended September 30,					
	Cancelled Sales Orders		Value (In millions)		Cancellation Rate (2)	
	2009	2008	2009	2008	2009	2008
East	478	1,138	$ 113.0	$ 269.6	24%	42%
Midwest	240	464	64.8	140.3	17%	22%
Southeast	1,321	2,069	244.5	469.0	30%	39%
South Central	2,980	4,381	500.8	751.9	33%	38%
Southwest	962	3,742	175.4	766.6	34%	56%
West	1,207	2,378	357.3	851.3	27%	34%
	7,188	14,172	$ 1,455.8	$ 3,248.7	30%	40%

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

(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 25%, to $3,498.4 million (17,034 homes) in 2009 from $4,677.2 million (21,251 homes) in 2008. The number of net sales orders decreased 20% in fiscal 2009 compared to fiscal 2008. We believe the most significant factors contributing to the slowing of demand for new homes in most of our markets include a continued high level of homes for sale, which includes foreclosed homes for sale; a decrease in the availability of mortgage financing for many potential homebuyers; the continued uncertainty in the financial markets and a decline in homebuyer consumer confidence. Many prospective homebuyers continue to approach the purchase decision tentatively due to concern over their ability to sell an existing home or obtain mortgage financing, the general uncertainty surrounding the housing market, increasing unemployment and weakness in the overall economy. However, these factors have led to lower home prices and improved affordability, which combined with various homebuyer tax incentives and low mortgage interest rates, have served to partially offset some of the market softness. We continue to manage our sales incentives and pricing on a community by community basis in an attempt to optimize the

Table of Contents

balance of sales volumes, profits, returns and cash flows. However, the factors above, combined with the continued pricing responses of our competitors, have limited the impact of our pricing efforts on sales.

In comparing fiscal 2009 to fiscal 2008, the value of net sales orders decreased in all of our market regions. In most market regions, these decreases were due to a decrease in the number of homes sold in the respective regions, and to a lesser extent, to a decline in the average selling price of those homes. In the East and Southeast regions where decreases in the number of homes sold were not as large as other regions, the decline in average selling price was a greater contributor to the decrease in the value of net sales orders.

Although the volume of our net sales orders decreased 20% in fiscal 2009, much of the decline was attributable to our results in the first half of the year. In the third and fourth quarters of fiscal 2009, the volume of our net sales orders decreased by 7% and increased by 26%, respectively, compared to the same periods of fiscal 2008. We expect our volume of sales orders in the first quarter of fiscal 2010 to improve over the prior year; however, they will likely decline from the levels achieved in the third and fourth quarters of fiscal 2009 due to seasonal fluctuations and the originally scheduled expiration of the first-time homebuyer tax credit at November 30, 2009 which may have served to accelerate demand in recent periods. These results suggest the severe declines in our net sales orders experienced in recent years may be moderating somewhat.

The average price of our net sales orders decreased 7%, to $205,400 in 2009 from $220,100 in 2008. The average price of our net sales orders decreased in five of our six market regions, due primarily to price reductions and increased incentives implemented to attempt to achieve an appropriate sales absorption pace. As the inventory of existing homes for sale, which includes a substantial number of foreclosed homes, has continued to be high, we have adjusted our pricing to remain competitive with comparable existing home sales prices. We have also adjusted our product mix, geographic mix and pricing within our homebuilding markets in an effort to keep our core product offerings affordable for our target customer base, typically first-time and move-up homebuyers, which has also contributed to the decrease in average selling price.

Our annual sales order cancellation rate (cancelled sales orders divided by gross sales orders for the period) was 30% in fiscal 2009, compared to 40% in fiscal 2008. While an improvement from the prior year, this elevated cancellation rate reflects the ongoing challenges in most of our homebuilding markets, including the inability of many prospective homebuyers to sell their existing homes, the erosion of buyer confidence and the tight credit conditions in the mortgage markets. We anticipate that cancellation rates will remain elevated and may continue to fluctuate significantly until market conditions improve.

In July 2008, Congress passed and the President signed into law H.R. 3221, which includes the American Housing Rescue and Foreclosure Prevention Act of 2008. Among other provisions, this law eliminated seller-funded down payment assistance on FHA insured loans approved on or after October 1, 2008. Of our total home closings in fiscal 2008, approximately 25% were funded with mortgage loans whereby the homebuyer used a seller-financed down payment assistance program. While we seek other down payment assistance and mortgage financing alternatives for our buyers, the elimination of the seller-financed down payment assistance programs has had a negative impact on our sales and revenues in fiscal 2009 relative to fiscal 2008.

In February 2009, the American Recovery and Reinvestment Act of 2009 was enacted into law. This legislation included a federal tax credit for qualified first-time homebuyers purchasing a principal residence on or after January 1, 2009 and before December 1, 2009. In November 2009, this credit was expanded to be available to more homebuyers and extended until June 2010. Our sales in future periods may be adversely affected when this tax credit expires.

Table of Contents

	Sales Order Backlog As of September 30,								
	Homes in Backlog			Value (In millions)			Average Selling Price		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
East	559	487	15 %	$ 126.6	$ 118.2	7 %	$ 226,500	$ 242,700	(7)%
Midwest	389	328	19 %	105.0	91.6	15 %	269,900	279,300	(3)%
Southeast	969	783	24 %	179.0	165.7	8 %	184,700	211,600	(13)%
South Central	2,328	1,999	16 %	397.5	359.4	11 %	170,700	179,800	(5)%
Southwest	526	812	(35) %	91.4	170.6	(46) %	173,800	210,100	(17)%
West	857	888	(3) %	242.5	301.9	(20) %	283,000	340,000	(17)%
	5,628	5,297	6 %	$ 1,142.0	$ 1,207.4	(5) %	$ 202,900	$ 227,900	(11)%

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 current housing downturn have been substantial. At September 30, 2009, the value of our backlog of sales orders was $1,142.0 million (5,628 homes), a decrease of 5% from $1,207.4 million (5,297 homes) at September 30, 2008. The average sales price of homes in backlog was $202,900 at September 30, 2009, down 11% from the $227,900 average at September 30, 2008. The year-over-year increase in home sales activity in the fourth quarter contributed to modest increases in the value of our sales order backlog in four of our six market regions. However, the value of our backlog decreased significantly in our Southwest region, particularly in our Phoenix market, and in our West region, particularly in our Northern California market.

	Homes Closed and Home Sales Revenue Fiscal Year Ended September 30,								
	Homes Closed			Value (In millions)			Average Selling Price		
	2009	2008	% Change	2009	2008	% Change	2009	2008	% Change
East	1,447	2,309	(37)%	$ 345.3	$ 584.8	(41)%	$ 238,600	$ 253,300	(6)%
Midwest	1,137	1,905	(40)%	310.0	525.8	(41)%	272,600	276,000	(1)%
Southeast	2,921	3,650	(20)%	547.5	781.6	(30)%	187,400	214,100	(12)%
South Central	5,745	7,960	(28)%	1,007.7	1,430.1	(30)%	175,400	179,700	(2)%
Southwest	2,135	5,309	(60)%	394.2	1,066.5	(63)%	184,600	200,900	(8)%
West	3,318	5,263	(37)%	958.9	1,775.5	(46)%	289,000	337,400	(14)%
	16,703	26,396	(37)%	$ 3,563.6	$ 6,164.3	(42)%	$ 213,400	$ 233,500	(9)%

Home Sales Revenue

Revenues from home sales decreased 42%, to $3,563.6 million (16,703 homes closed) in 2009 from $6,164.3 million (26,396 homes closed) in 2008. The average selling price of homes closed during 2009 was $213,400, down 9% from the $233,500 average in 2008. In fiscal 2009, home sales revenues decreased significantly in all of our market regions, reflecting the continued weak demand and resulting decline in net sales order volume and pricing experienced during the year.

The number of homes closed in 2009 decreased 37% due to decreases in all of our market regions. 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.

Table of Contents

Revenues from home sales in fiscal 2009 and 2008 were increased by $3.1 million and $26.8 million, respectively, from changes in deferred profit. The home sales profit related to our mortgage loans held for sale is deferred in instances where a buyer finances a home through our wholly-owned mortgage company and has not made an adequate initial or continuing investment. The decline in the change in revenues from the prior year is due to the reduced availability of the mortgage types whose use generally resulted in the profit deferral. As of September 30, 2009, the balance of deferred profit related to such mortgage loans held for sale was $2.7 million, compared to $5.8 million at September 30, 2008.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues Fiscal Year Ended September 30, 2009	2008
Gross profit Home sales	13.1 %	11.2 %
Gross profit Land/lot sales	13.4 %	8.5 %
Effect of inventory impairments and land option cost write-offs on total homebuilding gross profit	(11.3) %	(38.1) %
Gross profit (loss) Total homebuilding	1.8 %	(27.0) %
Selling, general and administrative expense	14.5 %	12.1 %
Goodwill impairment	%	1.2 %
Interest expense	2.7 %	0.6 %
(Gain) on early retirement of debt	(0.1) %	%
Other (income)	(0.4) %	(0.1) %
Loss before income taxes	(14.9) %	(40.9) %

Home Sales Gross Profit

Gross profit from home sales decreased by 32%, to $467.5 million in 2009, from $691.2 million in 2008, and, as a percentage of home sales revenues, increased 190 basis points, to 13.1%. Approximately 230 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 by a greater portion of our closings occurring in our South Central region, which has experienced more stable housing conditions than our other regions, and the effects of prior inventory impairments on homes closed during the current year. Approximately 50 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. These increases were partially offset by a decrease of 30 basis points due to the recognition of a lesser amount of previously deferred gross profit during the current year compared to the prior year and by 60 basis points due to an increase in actual and estimated warranty and construction defect costs. The increase in estimated warranty costs was due in part to a current year adjustment to our estimated warranty liability related to estimated costs to remedy homes which we have found to or suspect may contain allegedly defective drywall manufactured in China (Chinese Drywall) in two of our markets. Also, we have experienced increases in our construction defect claims self-insured retentions, resulting in additional reserves for estimated claims.

Future changes in gross profit percentages are substantially dependent on our future need for the use of sales incentives and price adjustments to generate an adequate volume of home closings and cannot be predicted in the current housing market.

Land Sales Revenue and Gross Profit

Land sales revenues decreased 89% to $40.3 million in 2009, from $354.3 million in 2008. Of the $40.3 million of revenues in fiscal 2009, $26.9 million related to land sale transactions in the fourth quarter of

Table of Contents

fiscal 2008 for which recognition of the revenue had been deferred due to the terms of the sale. The gross profit percentage from land sales increased to 13.4% in 2009, from 8.5% in 2008. The fluctuations in revenues and gross profit percentages 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 can fluctuate significantly from period to period. During the fourth quarter of fiscal 2008, we sold a significant amount of land and lots through numerous transactions to generate cash flows, reduce our future carrying costs and land development obligations, and lower our inventory supply in certain markets. Consummating these transactions during fiscal 2008 allowed us to monetize a large portion of our deferred tax assets through a loss carryback to fiscal 2006 resulting in a substantial tax refund. As of September 30, 2009, we had $15.1 million of land held for sale which we expect to sell in the next twelve months.

Table of Contents

Inventory Impairments and Land Option Cost Write-offs

	Fiscal Year Ended September 30, 2009			2008		
	Inventory Impairments	Land Option Cost Write-Offs	Total	Inventory Impairments	Land Option Cost Write-Offs (Recoveries)	Total
	(In millions)					
East	$ 54.3	$ 10.6	$ 64.9	$ 256.2	$ 32.2	$ 288.4
Midwest	46.3	8.4	54.7	161.8	1.5	163.3
Southeast	36.7	1.3	38.0	448.4	9.1	457.5
South Central	17.0	3.0	20.0	67.2	5.2	72.4
Southwest	36.5	2.9	39.4	264.9	65.8	330.7
West	187.0	3.7	190.7	1,174.1	(1.9)	1,172.2
	$ 377.8	$ 29.9	$ 407.7	$ 2,372.6	$ 111.9	$ 2,484.5

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

Carrying Values of Potentially Impaired and Impaired Communities

	At September 30, 2008					
		Inventory with Impairment Indicators		Analysis of Communities with Impairment Charges Recorded at September 30, 2008		
	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	105	46	$ 436.9	19	$ 163.8	$ 79.0
Midwest	62	20	204.8	9	93.6	58.4
Southeast	176	78	485.5	37	241.7	153.7
South Central	241	57	207.1	15	38.1	30.5
Southwest	79	25	237.1	15	158.7	105.7
West	178	80	614.8	32	271.9	175.8
	841	306	$ 2,186.2	127	$ 967.8	$ 603.1

(1) A community may consist of land held for development, residential land and lots developed and under development, and construction in progress and finished homes. A particular community often includes inventory in more than one category. Further, a community may contain multiple parcels with varying product types (e.g. entry level and move-up single family detached, as well as attached product types). Some communities do not have any homes under construction nor finished homes, and no current home sales efforts or activity.

32

Table of Contents

Inventory Impairments and Land Option Cost Write-offs

During fiscal 2009, when we performed our quarterly inventory impairment analyses, the assumptions utilized reflected our cautious outlook for the broader homebuilding industry and our markets, both of which impact our business. This outlook incorporates our belief that housing market conditions may continue to deteriorate, and that challenging conditions will persist. Our impairment evaluation as of September 30, 2009 occurred after the end of the spring/summer selling season and was based on our latest operating plans for our projects into fiscal 2010, and reflects the anticipated expiration of government support efforts for the homebuilding industry, such as the tax credit and Fed purchases of mortgage-backed securities, in the coming year. Accordingly, our impairment evaluation as of September 30, 2009 again indicated a significant number of communities with impairment indicators. Communities with a combined carrying value of $963.1 million as of September 30, 2009, had indicators of potential impairment and were evaluated for impairment. The analysis of the large majority of these communities assumed that sales prices in future periods will be equal to or lower than current sales order prices in each community, or in comparable communities, in order to generate an acceptable absorption rate. For a minority of communities that we do not intend to develop or operate in current market conditions, slight increases over current sales prices were assumed. While it is difficult to determine a timeframe for a given community in the current market conditions, we estimated the remaining lives of these communities to range from six months to in excess of ten years. Through this evaluation process, we determined that communities with a carrying value of $421.3 million as of September 30, 2009, the largest portion of which was in the West region, were impaired. As a result, during the fourth quarter of fiscal 2009, we recorded impairment charges of $174.9 million to reduce the carrying value of the impaired communities to their estimated fair value, as compared to $988.9 million in the same period of the prior year. The fourth quarter charges combined with impairment charges recorded earlier in the year resulted in total inventory impairment charges of $377.8 million and $2,372.6 million during fiscal 2009 and 2008, respectively. In performing our quarterly inventory impairment analyses during fiscal 2009, we utilized a range of discount rates for communities of 14% to 20% which reflects an increase from the range of 12% to 18% we would have used for these communities in fiscal 2008. The increased discount rates reflect our estimate of the increased level of market risk present in the homebuilding and related mortgage lending industries. The impact of the increase in the discount rates on the current quarter and fiscal 2009 inventory impairment charges was an increase of $9.9 million and $18.9 million, respectively.

We perform our impairment analysis based on total inventory at the community level. When an impairment charge for a community is determined, the charge is then allocated to each lot in the community in the same manner as land and development costs are allocated to each lot. The inventory within each community is categorized as construction in progress and finished homes, residential land and lots developed and under development, and land held for development, based on the stage of production or plans for future development. During fiscal 2009, approximately 85% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 15% of the charges were recorded to construction in progress and finished homes inventory, compared to 79% and 21%, respectively, in fiscal 2008.

Of the remaining $541.8 million carrying value of communities with impairment indicators which were determined not to be impaired at September 30, 2009, the largest concentrations were in California (21%), Texas (16%), Illinois (9%), Florida (9%) and Arizona (8%). It is possible that our estimate of undiscounted cash flows from these communities may change and could result in a future need to record impairment charges to adjust the carrying value of these assets to their estimated fair value. There are several factors which could lead to changes in the estimates of undiscounted future cash flows for a given community. The most significant of these include pricing and incentive levels actually realized by the community, the rate at which the homes are sold and the costs incurred to construct the homes. The pricing and incentive levels are often inter-related with sales pace within a community such that a price reduction can be expected to increase the sales pace. Further, both of these factors are heavily influenced by the competitive pressures facing a given community from both new homes and existing homes which may result from foreclosures. If conditions in the broader economy, homebuilding industry or specific markets in which we operate worsen beyond current expectations, and as we re-evaluate specific community pricing and incentives, construction and development plans, and our overall land sale strategies, we may be required to evaluate additional communities or re-

Table of Contents

evaluate previously impaired communities for potential impairment. These evaluations may result in additional impairment charges.

Based on our quarterly reviews of land and lot option contracts, we have written off earnest money deposits and pre-acquisition costs related to land and lot option contracts which we no longer plan to pursue. During fiscal 2009 and 2008, we wrote off $29.9 million and $111.9 million, respectively, of earnest money deposits and pre-acquisition costs related to land option contracts. At September 30, 2009, outstanding earnest money deposits and pre-acquisition costs associated with our portfolio of land and lot option purchase contracts totaled $9.4 million and $8.1 million, respectively. The largest concentrations of these balances were in the South Central (53%) and West (25%) regions. If the current weak homebuilding market conditions persist and we are unable to successfully renegotiate certain land or lot purchase contracts or our sales volumes do not justify additional land or lot purchases, we may write off additional earnest money deposits and pre-acquisition costs.

The inventory impairment charges and write-offs of earnest money deposits and pre-acquisition costs reduced total homebuilding gross profit as a percentage of homebuilding revenues by approximately 1,130 basis points in fiscal 2009, compared to 3,810 basis points in the fiscal 2008.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities decreased by $268.8 million, or 34%, to $523.0 million in 2009 from $791.8 million in 2008. As homebuilding revenues declined at a faster pace than SG&A expense, when expressed as a percentage of homebuilding revenues, SG&A expense increased 240 basis points, to 14.5% in 2009 from 12.1% in 2008. The largest component of our homebuilding SG&A expense is employee compensation and related costs, which represented 52% and 53% of SG&A costs in 2009 and 2008, respectively. These costs decreased $145.7 million, or 35%, to $272.2 million in 2009 from $417.9 million in 2008. This decrease was largely due to our continued efforts to align the number of employees to match our current and anticipated home closing levels, as well as a decrease in incentive compensation. Our homebuilding operations employed approximately 2,300 and 3,100 employees at September 30, 2009 and 2008, respectively. Most other SG&A cost components also decreased in fiscal 2009 as compared to fiscal 2008, as a result of our efforts to reduce all costs throughout the company. The most substantial decreases occurred in advertising and depreciation.

We continue to adjust our SG&A infrastructure to support our expected closings volume; however, we cannot make assurances that our actions will permit us to maintain or improve upon the current SG&A expense as a percentage of revenues. It becomes more difficult to reduce SG&A expense as the size of our operations decreases. If revenues continue to decrease and we are unable to sufficiently adjust our SG&A, future SG&A expense as a percentage of revenues may increase further.

Interest Incurred

We capitalize homebuilding interest costs to inventory during active development and construction. Due to our inventory reduction strategies and slowing or suspending land development in certain communities, our inventory under active development and construction (active inventory) has been lower than our debt level and a portion of our interest incurred must be expensed. We expensed $95.7 million of homebuilding interest during fiscal 2009, compared to $39.0 million of interest during fiscal 2008 since the ratio of our active inventory to debt declined during that period.

Interest amortized to cost of sales, excluding interest written off with inventory impairment charges, was 3.9% of total home and land/lot cost of sales in both 2009 and 2008. Interest incurred is related to the average level of our homebuilding debt outstanding during the period. Comparing fiscal 2009 with fiscal 2008, interest incurred related to homebuilding debt decreased 17% to $196.8 million, primarily due to an 11% decrease in our average homebuilding debt.

Gain/Loss on Early Retirement of Debt

During fiscal 2009, in addition to repaying maturing senior notes, we repurchased a total of $380.3 million principal amount of various issues of our senior notes prior to their maturity. These notes were repurchased primarily through unsolicited transactions for an aggregate purchase price of $368.0 million, plus accrued interest. We recognized a gain of $11.5 million related to these repurchases, which represents the difference between the principal amount of the notes and the aggregate purchase price, less any unamortized discounts and fees. Partially offsetting this gain was a $7.6 million loss resulting from the write-off of unamortized fees in connection with the early termination of our revolving credit facility in May 2009. These transactions resulted in a net gain of $3.9 million during fiscal 2009.

The loss on early retirement of debt of $2.6 million during fiscal 2008 was primarily due to the write-off of unamortized fees associated with reducing the size of our revolving credit facility in June 2008.

Other Income

Other income, net of other expenses, associated with homebuilding activities was $12.8 million in 2009, compared to $9.1 million in 2008. The largest component of other income in both years was interest income.

Goodwill

In performing our annual impairment analysis as of September 30, 2009, we estimated the fair value of our operating segments utilizing the expected present values of future cash flows. As a result of this analysis, we determined that our goodwill balance of $15.9 million, all of which relates to our South Central reporting segment, was not impaired based on the estimated fair value of the reporting segment exceeding the carrying value of the reporting segment. During fiscal 2008, we recorded a goodwill impairment charge of $79.4 million, all of which related to our Southwest reporting segment.

The goodwill assessment procedures require us to make comprehensive estimates of future revenues and costs. Due to the uncertainties associated with such estimates, actual results could differ from such estimates.

Homebuilding Results by Reporting Region

	Fiscal Year Ended September 30,					
	2009			2008		
	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues
	(In millions)					
East	$ 347.1	$ (95.3)	(27.5) %	$ 589.9	$ (332.5)	(56.4)%
Midwest	314.5	(104.4)	(33.2) %	546.7	(184.3)	(33.7)%
Southeast	570.8	(72.4)	(12.7) %	820.8	(507.7)	(61.9)%
South Central	1,010.2	6.1	0.6 %	1,452.2	(9.0)	(0.6)%
Southwest	396.8	(45.7)	(11.5) %	1,170.9	(366.7)	(31.3)%
West	964.5	(225.1)	(23.3) %	1,938.1	(1,266.7)	(65.4)%

$ 3,603.9	$ (536.8)	(14.9) %	$ 6,518.6	$ (2,666.9)	(40.9)%

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

East Region Homebuilding revenues decreased 41% in 2009 compared to 2008, primarily due to a 37% decrease in the number of homes closed, with the largest decreases in our New Jersey and Carolina markets. The region reported a loss before income taxes of $95.3 million in 2009, compared to a loss of $332.5 million in 2008. The losses were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $64.9 million and $288.4 million in fiscal 2009 and 2008, respectively. The region s gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased 390 basis points in fiscal 2009 compared to fiscal 2008. The increase was a result of the average cost of our homes declining by more than the average selling prices due to the effects of prior inventory impairments on homes closed during 2009.

Midwest Region Homebuilding revenues decreased 42% in 2009 compared to 2008, primarily due to a 40% decrease in the number of homes closed, with the largest decreases in our Denver market. The region reported a loss before income taxes of $104.4 million in 2009, compared to a loss of $184.3 million in 2008. The losses were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $54.7 million and $163.3 million in fiscal 2009 and 2008, respectively. The region s home sales gross profit percentage decreased 540 basis points in fiscal 2009 compared to fiscal 2008. The decrease was a result of lower margins in our Chicago and Denver markets, as well as higher warranty costs on previously closed homes in our Denver market. Additionally, our revenues declined at a greater rate than our SG&A expense, which also contributed to the loss before income taxes in 2009.

Southeast Region Homebuilding revenues decreased 30% in 2009 compared to 2008, primarily due to a 20% decrease in the number of homes closed, as well as a 12% decrease in the average selling price of those homes. The region reported a loss before income taxes of $72.4 million in 2009, compared to a loss of $507.7 million in 2008. The losses were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $38.0 million and $457.5 million in fiscal 2009 and 2008, respectively. The region s home sales gross profit percentage increased 340 basis points in fiscal 2009 compared to fiscal 2008. The increase was a result of the average cost of our homes declining by more than the average selling prices due to the effects of prior inventory impairments on homes closed during 2009, and was partially offset by estimated warranty costs related to homes in one market in Florida which we have found to or suspect may contain Chinese Drywall.

South Central Region Homebuilding revenues decreased 30% in 2009 compared to 2008, due to a 28% decrease in the number of homes closed. The region reported income before income taxes of $6.1 million in fiscal 2009, compared to a loss before income taxes of $9.0 million in fiscal 2008. The improvement was due in part to a decrease in inventory impairment charges and earnest money and pre-acquisition cost write-offs, which were $20.0 million and $72.4 million in fiscal 2009 and 2008, respectively. The region s home sales gross profit percentage increased 50 basis points in fiscal 2009 compared to fiscal 2008 due to the effects of prior inventory impairments on homes closed during 2009. These improvements were partially offset by our SG&A expenses decreasing at a slower rate, 23%, than our homebuilding revenues.

Southwest Region Homebuilding revenues decreased 66% in 2009 compared to 2008, due to a 60% decrease in the number of homes closed, primarily in our Phoenix market, as well as decreases in the average selling price of homes in the region. The region reported a loss before income taxes of $45.7 million in 2009, compared to a loss of $366.7 million in 2008. The losses were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $39.4 million and $330.7 million in fiscal 2009 and 2008, respectively. In fiscal 2008, goodwill impairment charges of $79.4 million also contributed to the loss. The region s revenues declined at a greater rate than its SG&A expense, which also contributed to the loss before income taxes in 2009. The region s home sales gross profit percentage increased 110 basis points in fiscal 2009 compared to fiscal 2008 due to the effects of prior inventory impairments on homes closed during 2009.

West Region Homebuilding revenues decreased 50% in 2009 compared to 2008, due to a 37% decrease in the number of homes closed, as well as a 14% decrease in the average selling price of those homes. The largest decreases in homes closed occurred in our Northern California markets. The region reported a loss before income taxes of $225.1 million in 2009, compared to a loss of $1.3 billion in 2008. The losses were due in part to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $190.7 million and $1.2 billion in fiscal 2009 and 2008, respectively. The region s home sales gross profit percentage increased 450 basis points in fiscal 2009 compared to fiscal 2008. The increase was a result of the

Table of Contents

average cost of our homes declining by more than the average selling prices due to the effects of prior inventory impairments on homes closed during 2009.

Fiscal Year Ended September 30, 2008 Compared to Fiscal Year Ended September 30, 2007

The following tables set forth key operating and financial data for our homebuilding operations by reporting segment as of and for the fiscal years ended September 30, 2008 and 2007. We have restated the 2007 amounts between reporting segments to conform to the current year presentation, reflecting the change in our reporting segments which occurred in fiscal 2008.

Net Sales Orders (1)
Fiscal Year Ended September 30,

	Net Homes Sold			Value (In millions)			Average Selling Price		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
East	1,602	3,085	(48) %	$ 396.3	$ 792.3	(50)%	$ 247,400	$ 256,800	(4) %
Midwest	1,633	3,065	(47) %	425.3	887.0	(52)%	260,400	289,400	(10) %
Southeast	3,235	5,206	(38) %	637.6	1,130.4	(44)%	197,100	217,100	(9) %
South Central	7,266	9,740	(25) %	1,293.3	1,723.5	(25)%	178,000	177,000	1 %
Southwest	2,982	6,017	(50) %	551.6	1,140.7	(52)%	185,000	189,600	(2) %
West	4,533	6,574	(31) %	1,373.1	2,556.7	(46)%	302,900	388,900	(22) %
	21,251	33,687	(37) %	$ 4,677.2	$ 8,230.6	(43)%	$ 220,100	$ 244,300	(10) %

Sales Order Cancellations
Fiscal Year Ended September 30,

	Cancelled Sales Orders		Value (In millions)		Cancellation Rate(2)	
	2008	2007	2008	2007	2008	2007
East	1,138	1,577	$ 269.6	$ 407.6	42%	34%
Midwest	464	1,002	140.3	307.5	22%	25%
Southeast	2,069	3,049	469.0	742.3	39%	37%
South Central	4,381	5,111	751.9	885.8	38%	34%
Southwest	3,742	5,244	766.6	1,234.2	56%	47%
West	2,378	4,259	851.3	1,718.0	34%	39%
	14,172	20,242	$ 3,248.7	$ 5,295.4	40%	38%

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

(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 43%, to $4,677.2 million (21,251 homes) in 2008 from $8,230.6 million (33,687 homes) in 2007, reflecting the continued reduction of demand for new homes in most homebuilding markets during fiscal 2008. Factors that contributed to the slowing of demand included a high level of new and existing homes for sale, which included foreclosed homes for sale, a decrease in the availability of mortgage financing for many potential homebuyers which was further impacted by the uncertainty in the financial markets and a decline in homebuyer consumer confidence.

In comparing fiscal 2008 to fiscal 2007, the value of net sales orders decreased significantly in all six of our market regions. These decreases were primarily due to substantially similar decreases in the number of homes sold in the respective region. Particularly in our West region, the decline in average selling price also contributed to the decline in the value of net sales orders.

The average price of our net sales orders decreased 10%, to $220,100 in 2008 from $244,300 in 2007. The average price of our net sales orders decreased significantly in our West region, and to a lesser extent in our Midwest and Southeast regions, due primarily to price reductions and increased incentives in our California, Las Vegas, Denver and Florida markets. In general, our pricing is dependent on the demand for our homes, and declines in our average selling prices during fiscal 2008 were due in large part to increases in the use of price reductions and sales incentives in order to attempt to achieve an appropriate sales absorption pace. Further, as the inventory of existing homes for sale, which included an increasing number of foreclosed homes, continued to be high, it led to the need to ensure our pricing was competitive with comparable existing home sales prices.

Our annual cancellation rate was 40% in fiscal 2008, compared to 38% in fiscal 2007. Our cancellation rate in the fourth quarter of fiscal 2008 was 47%, which was primarily attributable to cancellations in our Southwest region, particularly in our Arizona markets. These elevated cancellation rates reflect the challenges encountered in most of our homebuilding markets, including the inability of many prospective homebuyers to sell their existing homes, the continued erosion of buyer confidence and further credit tightening in the mortgage markets. The impact of the credit tightening became apparent in our cancellation rates in late fiscal 2007 and into fiscal 2008 as the mortgage products many buyers had selected were no longer available or the buyers could no longer qualify due to stricter underwriting guidelines. The shortage of liquidity in the financial markets during fiscal 2008 further restricted the availability of credit.

	Sales Order Backlog As of September 30,								
	Homes in Backlog			Value (In millions)			Average Selling Price		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
East	487	1,194	(59) %	$ 118.2	$ 306.6	(61)%	$ 242,700	$ 256,800	(5) %
Midwest	328	600	(45) %	91.6	192.1	(52)%	279,300	320,200	(13) %
Southeast	783	1,198	(35) %	165.7	309.6	(46)%	211,600	258,400	(18) %
South Central	1,999	2,693	(26) %	359.4	496.2	(28)%	179,800	184,300	(2) %
Southwest	812	3,139	(74) %	170.6	685.5	(75)%	210,100	218,400	(4) %
West	888	1,618	(45) %	301.9	704.4	(57)%	340,000	435,400	(22) %
	5,297	10,442	(49) %	$ 1,207.4	$ 2,694.4	(55)%	$ 227,900	$ 258,000	(12) %

Sales Order Backlog

At September 30, 2008, the value of our backlog of sales orders was $1,207.4 million (5,297 homes), a decrease of 55% from $2,694.4 million (10,442 homes) at September 30, 2007. The average sales price of homes in backlog was $227,900 at September 30, 2008, down 12% from the $258,000 average at September 30, 2007. The value of our sales order backlog decreased significantly across all of our market regions, reflecting the severity and geographic reach of the national housing downturn.

Table of Contents

Homes Closed and Home Sales Revenue
Fiscal Year Ended September 30,

	Homes Closed			Value (In millions)			Average Selling Price		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
East	2,309	4,119	(44) %	$ 584.8	$ 1,072.9	(45)%	$ 253,300	$ 260,500	(3) %
Midwest	1,905	3,502	(46) %	525.8	1,037.1	(49)%	276,000	296,100	(7) %
Southeast	3,650	6,156	(41) %	781.6	1,454.6	(46)%	214,100	236,300	(9) %
South Central	7,960	11,260	(29) %	1,430.1	2,005.2	(29)%	179,700	178,100	1 %
Southwest	5,309	8,149	(35) %	1,066.5	1,839.2	(42)%	200,900	225,700	(11) %
West	5,263	8,184	(36) %	1,775.5	3,312.2	(46)%	337,400	404,700	(17) %
	26,396	41,370	(36) %	$ 6,164.3	$ 10,721.2	(43)%	$ 233,500	$ 259,200	(10) %

Home Sales Revenue

Revenues from home sales decreased 43%, to $6,164.3 million (26,396 homes closed) in 2008 from $10,721.2 million (41,370 homes closed) in 2007. The average selling price of homes closed during 2008 was $233,500, down 10% from $259,200 in 2007. During fiscal 2008, home sales revenues decreased significantly in all of our market regions, reflecting continued weak demand and the resulting decline in net sales order volume and pricing during the year. The number of homes closed in 2008 decreased 36% due to decreases in all of our market regions.

Revenues from home sales in fiscal 2008 and 2007 were increased by $26.8 million and $58.0 million, respectively, from changes in deferred profit. As of September 30, 2008, the balance of deferred profit was $5.8 million, compared to $32.6 million at September 30, 2007. The decline was mainly due to the reduced availability of the mortgage types whose use generally resulted in the profit deferral.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues Fiscal Year Ended September 30,	
	2008	2007
Gross profit Home sales	11.2 %	17.2 %
Gross profit Land/lot sales	8.5 %	22.9 %
Effect of inventory impairments and land option cost write-offs on total homebuilding gross profit	(38.1)%	(12.0) %
Gross profit (loss) Total homebuilding	(27.0)%	5.4 %
Selling, general and administrative expense	12.1 %	10.3 %
Goodwill impairment	1.2 %	4.3 %
Interest expense	0.6 %	%
Loss on early retirement of debt	%	0.1 %
Other (income)	(0.1)%	%

Loss before income taxes	(40.9)%	(9.2) %

Home Sales Gross Profit

Gross profit from home sales decreased by 63%, to $691.2 million in 2008, from $1,848.9 million in 2007, and, as a percentage of home sales revenues, decreased 600 basis points, to 11.2%. The primary factor reducing our home sales gross profit margin was the difficult market conditions discussed above, which narrowed the range between our selling prices and costs of our homes in most of our markets, causing a decline of approximately 430 basis points in home sales gross profit as a percentage of home sales revenues. Due to the sales environment in many of our markets, we offered a variety of incentives and price concessions, which affected our gross profit margin by reducing the selling price of the home or increasing the cost of the home without a proportional increase in the selling price. We also offered greater discounts and incentives to sell our inventory of completed homes, which was at a higher than desired level. This strategy helped reduce our completed homes in inventory, but also contributed to a decline in our home sales gross profit. Additionally, our home sales gross margin decreased approximately 210 basis points due to an increase in the amortization of capitalized interest and property taxes as a percentage of home sales revenues, and 10 basis points due to the recognition of a lesser amount of previously deferred gross profit during 2008 compared to 2007. These decreases were partially offset by an improvement of 50 basis points due to a decrease in warranty and construction defect expenses as a percentage of home sales revenues.

Land Sales Revenue and Gross Profit

Land sales revenues decreased 4% to $354.3 million in 2008, from $367.6 million in 2007. The gross profit percentage from land sales decreased to 8.5% in 2008, from 22.9% in 2007. Due to the significant decline in demand for new homes, we reduced our expectations of future home closing volumes, as well as our expected need for land and lots in the future. Consequently, during the fourth quarter of fiscal 2008, we sold a significant amount of land and lots through numerous transactions to generate cash flows, reduce our future carrying costs and land development obligations, and lower our inventory supply in certain markets. Consummating these transactions during fiscal 2008 allowed us to monetize a larger portion of our deferred tax assets through a loss carryback to fiscal 2006 resulting in an increase in our expected tax refund. The terms of certain of these land and lot sales, primarily related to our continuing involvement with the properties, resulted in the deferral of the recognition of the sale transaction in some cases. Consequently, $21.7 million of inventory, reflecting its fair value, was recorded as a component of inventory not owned.

Table of Contents

Inventory Impairments and Land Option Cost Write-offs

	Fiscal Year Ended September 30, 2008			2007		
	Inventory Impairments	Land Option Cost Write-Offs (Recoveries)	Total	Inventory Impairments	Land Option Cost Write-Offs	Total
	(In millions)					
East	$ 256.2	$ 32.2	$ 288.4	$ 72.3	$ 9.2	$ 81.5
Midwest	161.8	1.5	163.3	152.8	14.5	167.3
Southeast	448.4	9.1	457.5	181.6	28.6	210.2
South Central	67.2	5.2	72.4	10.4	14.2	24.6
Southwest	264.9	65.8	330.7	25.6	1.2	26.8
West	1,174.1	(1.9)	1,172.2	779.5	39.6	819.1
	$ 2,372.6	$ 111.9	$ 2,484.5	$ 1,222.2	$ 107.3	$ 1,329.5

Carrying Values of Potentially Impaired and Impaired Communities

	At September 30, 2008					
		Inventory with Impairment Indicators		Analysis of Communities with Impairment Charges Recorded at September 30, 2008		
	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	105	46	$ 436.9	19	$ 163.8	$ 79.0
Midwest	62	20	204.8	9	93.6	58.4
Southeast	176	78	485.5	37	241.7	153.7
South Central	241	57	207.1	15	38.1	30.5
Southwest	79	25	237.1	15	158.7	105.7
West	178	80	614.8	32	271.9	175.8
	841	306	$ 2,186.2	127	$ 967.8	$ 603.1

Carrying Values of Potentially Impaired and Impaired Communities

	At September 30, 2007					
		Inventory with Impairment Indicators		Analysis of Communities with Impairment Charges Recorded at September 30, 2007		
	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	131	32	$ 210.0	5	$ 27.9	$ 21.7
Midwest	77	19	101.0	9	41.7	34.2
Southeast	191	53	573.1	18	152.6	110.0
South Central	286	39	219.0	8	35.4	25.3
Southwest	89	16	278.6	2	11.9	9.7
West	225	74	1,240.7	49	671.0	461.3
	999	233	$ 2,622.4	91	$ 940.5	$ 662.2

(1) A community may consist of land held for development, residential land and lots developed and under development, and construction in progress and finished homes. A particular community often includes inventory in more than one category. Further, a community may contain multiple parcels with varying product types (e.g. entry level and move-up single family detached, as well as attached product types). Some communities do not have any homes under construction nor finished homes, and no current home sales efforts or activity.

Inventory Impairments and Land Option Cost Write-offs

During fiscal 2008, when we performed our quarterly inventory impairment analyses, the assumptions utilized reflected our outlook for the homebuilding industry and its impact on our business. This outlook incorporated our belief that housing market conditions might continue to deteriorate, and that these challenging conditions would persist for some time. Accordingly, our impairment evaluation as of September 30, 2008 again indicated a significant number of communities with impairment indicators. Communities with a combined carrying value of $2,186.2 million as of September 30, 2008, had indicators of potential impairment and were evaluated for impairment. The analysis of each of these communities generally assumed that sales prices in future periods would be equal to or lower than current sales order prices in each community or for comparable communities in order to generate an acceptable absorption rate. While it is difficult to determine a timeframe for a given community in the current market conditions, we estimated the remaining lives of these communities to range from six months to in excess of ten years. Through this evaluation process, we determined that communities with a carrying value of $967.8 million as of September 30, 2008, the largest portions of which were in the West and Southeast regions, were impaired. As a result, during the fourth quarter of fiscal 2008, we recorded impairment charges of $364.7 million to reduce the carrying value of the impaired communities to their estimated fair value.

Due to the significant decline in demand for new homes, we reduced our expectations of future home closing volumes, as well as our expected need for land and lots in the future. Consequently, during the fourth quarter of fiscal 2008, we sold a significant amount of land and lots. In connection with these land and lot sales, we recorded impairment charges of $624.2 million to reduce the $814.4 million carrying value of this inventory to its net realizable value. Including impairments related to land sales, impairment charges during the fourth quarter of fiscal 2008 totaled $988.9 million, as compared to $278.3 million in the prior year period. The fourth quarter charges combined with impairment charges recorded earlier in the year resulted in total inventory impairment charges of $2,372.6 million and $1,222.2 million during fiscal 2008 and 2007, respectively. During fiscal 2008, excluding impairments related to land sales, approximately 79% of the impairment charges were recorded to residential land and lots and land held for development, and approximately 21% of the charges were recorded to residential construction in progress and finished homes inventory, compared to 74% and 26%, respectively, in fiscal 2007.

During fiscal 2008 and 2007, we wrote off $111.9 million and $107.3 million, respectively, of earnest money deposits and pre-acquisition costs related to land option purchase contracts which we determined we would not pursue. The inventory impairment charges and write-offs of earnest money deposits and pre-acquisition costs reduced total homebuilding gross profit as a percentage of homebuilding revenues by approximately 3,810 basis points in fiscal 2008, compared to 1,200 basis points in fiscal 2007.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities decreased by $349.7 million, or 31%, to $791.8 million in 2008 from $1,141.5 million in 2007. As a percentage of homebuilding revenues, SG&A expense increased 180 basis points, to 12.1% in 2008 from 10.3% in 2007, due to a decrease in revenues. The largest component of our homebuilding SG&A expense is employee compensation and related costs, which represented 53% and 59% of SG&A costs in 2008 and 2007, respectively. Those costs decreased $254.2 million, or 38%, to $417.9 million in 2008 from $672.2 million in 2007, largely due to our continued efforts to align the number of employees to match our home closing levels, as well as a decrease in incentive compensation, which is primarily based on profitability. Our homebuilding operations employed approximately 3,100 and 5,100 employees at September 30, 2008 and 2007, respectively.

Interest Incurred

We capitalize homebuilding interest costs to inventory during development and construction. During fiscal 2007, our active inventory exceeded our debt levels; therefore, we capitalized all interest from homebuilding debt. However, due to our inventory reduction strategies, slowing or suspending land development in certain communities and limiting the construction of unsold homes, our active inventory was lower than our debt level

Table of Contents

during much of fiscal 2008. As a result, we expensed $39.0 million of homebuilding interest incurred during fiscal 2008.

Interest amortized to cost of sales, excluding interest written off with inventory impairment charges, was 3.9% of total home and land/lot cost of sales in 2008, compared to 2.4% in 2007. The increase in the rate of interest amortized to cost of sales was primarily due to a greater decline in our home closings volume as compared to the decline in our interest incurred during the year, and a more rapid reduction in our active inventory levels than our interest incurred over the time period in which fiscal 2008 closings were active versus the prior year closings.

Interest incurred is directly related to the average level of our homebuilding debt outstanding during the period. Comparing fiscal 2008 with fiscal 2007, interest incurred related to homebuilding debt decreased by 22%, to $236.7 million, primarily due to a 23% decrease in our average homebuilding debt.

Loss on Early Retirement of Debt

In fiscal 2008, we recorded a loss on early retirement of debt of $2.6 million, which was primarily due to the write-off of unamortized fees associated with reducing the size of our revolving credit facility in June 2008. In fiscal 2007, in connection with the early retirement of our 8.5% senior notes due 2012, we recorded a loss of $12.1 million for the call premium and the unamortized discount and fees related to the redeemed notes.

Other Income

Other income, net of other expenses, associated with homebuilding activities was $9.1 million in 2008, compared to $4.0 million in 2007. The increase in other income in fiscal 2008 was primarily due to an increase in interest income.

Goodwill Impairments

	Fiscal Year Ended September 30,	
	2008	**2007**
	(In millions)	
East	$	$ 39.4
Midwest		48.5
Southeast		11.5
South Central		
Southwest	79.4	
West		374.7
	$ 79.4	$ 474.1

Goodwill

In performing our annual impairment analysis as of September 30, 2008, we estimated the fair value of our operating segments utilizing the expected present values of future cash flows. As a result of this analysis, we determined that our goodwill balance related to each operating segment in our Southwest reporting segment was impaired. Consequently, during the fourth quarter, we recorded a goodwill impairment charge of $79.4 million. As of September 30, 2008, our remaining goodwill balance was $15.9 million, all of which related to our South Central reporting segment.

During fiscal 2007, we recorded goodwill impairment charges of $474.1 million, primarily related to our West reporting segment. As of September 30, 2007, allocation of our remaining goodwill balance of $95.3 million was as follows: South Central $15.9 million and Southwest $79.4 million.

Table of Contents

Homebuilding Results by Reporting Region

	Fiscal Year Ended September 30,					
	2008			2007		
	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues	Homebuilding Revenues	Homebuilding Income (Loss) Before Income Taxes (1)	% of Region Revenues
	(In millions)					
East	$ 589.9	$ (332.5)	(56.4) %	$ 1,092.0	$ (66.1)	(6.1) %
Midwest	546.7	(184.3)	(33.7) %	1,111.5	(205.3)	(18.5) %
Southeast	820.8	(507.7)	(61.9) %	1,478.3	(131.6)	(8.9) %
South Central	1,452.2	(9.0)	(0.6) %	2,009.9	122.2	6.1 %
Southwest	1,170.9	(366.7)	(31.3) %	1,882.0	192.9	10.2 %
West	1,938.1	(1,266.7)	(65.4) %	3,515.1	(932.1)	(26.5) %
	$ 6,518.6	$ (2,666.9)	(40.9) %	$ 11,088.8	$ (1,020.0)	(9.2) %

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

East Region Homebuilding revenues decreased 46% in 2008 compared to 2007, primarily due to a 44% decrease in the number of homes closed, as well as a slight decrease in the average selling price of those homes. The region reported a loss before income taxes of $332.5 million in 2008, compared to a loss of $66.1 million in 2007. The losses were primarily due to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $288.4 million and $81.5 million in fiscal 2008 and 2007, respectively. In fiscal 2008, inventory impairment charges included $42.7 million of impairments related to fourth quarter land sales. In fiscal 2007, goodwill impairment charges of $39.4 million also contributed to the loss. A decrease in the region s gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) of 930 basis points in 2008 compared to 2007 also contributed to the increase in loss before income taxes. The home sales gross profit percentage declined in most of the region s markets, many of which had very high sales cancellations resulting in unsold homes we aggressively priced to sell. Despite implementing significant cost control measures, our revenues declined at a greater rate (46%) than our SG&A expense (29%), which also contributed to the loss before income taxes in this region.

Midwest Region Homebuilding revenues decreased 51% in 2008 compared to 2007, primarily due to a 46% decrease in the number of homes closed, as well as a 7% decrease in the average selling price of those homes. The region reported a loss before income taxes of $184.3 million in 2008, compared to a loss of $205.3 million in 2007. The losses were primarily due to a decline in revenues and inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $163.3 million and $167.3 million in fiscal 2008 and 2007, respectively, while the region s home sales gross profit percentage remained relatively flat. In fiscal 2008, inventory impairment charges included $33.6 million of impairments related to fourth quarter land sales. In fiscal 2007, goodwill impairment charges of $48.5 million also contributed to the loss. Despite implementing significant cost control measures, our revenues declined at a greater rate (51%) than our SG&A expense (31%), which also contributed to the loss before income taxes in this region.

Southeast Region Homebuilding revenues decreased 44% in 2008 compared to 2007, primarily due to a 41% decrease in the number of homes closed, as well as a 9% decrease in the average selling price of those homes. The region reported a loss before income taxes of $507.7 million in 2008, compared to a loss of $131.6 million in 2007. The losses were primarily due to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $457.5 million and $210.2 million in fiscal 2008 and 2007, respectively. In fiscal 2008, inventory impairment charges included $116.7 million of impairments related to fourth quarter land sales. In fiscal 2007, goodwill impairment charges of $11.5 million also contributed to the loss. A decrease in the region s home sales gross profit percentage of 990 basis points in 2008 compared to 2007 also contributed to the increase in loss before income taxes. The home sales gross profit percentage declines in our Florida markets had the greatest impact on the overall decreases. The Florida markets experienced rapid price increases in previous years which encouraged speculation in residential real estate, creating an environment that has shown not to be sustainable. The tightening in the mortgage environment, high cancellation rates and existing homes for sale by investors led to increased inventory levels, requiring price reductions and increased levels of sales incentives to compete for the reduced pool of qualified buyers, resulting in substantial gross profit declines.

South Central Region Homebuilding revenues decreased 28% in 2008 compared to 2007, due to a 29% decrease in the number of homes closed. The region reported a loss before income taxes of $9.0 million in 2008, compared to income before income taxes of $122.2 million in 2007. The loss in fiscal 2008 was primarily due to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $72.4 million in fiscal 2008, compared to $24.6 million in 2007. In fiscal 2008, inventory impairment charges included $29.1 million of impairments related to fourth quarter land sales. In addition, the region s home sales gross profit percentage decreased 130 basis points in 2008 compared to 2007. The decline in home sales gross profit was largely due to softening in the San Antonio market, where inventories of new and existing homes had increased, resulting in increased levels of sales incentives being offered by builders. The majority of the region s inventory impairment charges were also in the San Antonio market.

Southwest Region Homebuilding revenues decreased 38% in 2008 compared to 2007, due to a 35% decrease in the number of homes closed, as well as an 11% decrease in the average selling price of those homes. The region reported a loss before income taxes of $366.7 million in 2008, compared to income before income taxes of $192.9 million in 2007. The loss in fiscal 2008 was primarily due to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $330.7 million, compared to $26.8 million in 2007. In fiscal 2008, inventory impairment charges included $155.4 million of impairments related to fourth quarter land sales. A decrease in the region s home sales gross profit percentage of 720 basis points in 2008 compared to 2007, which was largely due to declines in our Phoenix market, also contributed to the reduction in income before income taxes. The Phoenix market experienced rapid price increases in previous years which encouraged speculation in residential real estate, creating an environment that has shown not to be sustainable. The tightening in the mortgage environment, high cancellation rates and existing homes for sale by investors led to increased inventory levels, requiring price reductions and increased levels of sales incentives to compete for the reduced pool of qualified buyers, resulting in substantial gross profit declines. The increased number of foreclosed homes offered for sale in Phoenix added further pressure to sales prices. In fiscal 2008, goodwill impairment charges of $79.4 million also contributed to the loss.

West Region Homebuilding revenues decreased 45% in 2008 compared to 2007, due to a 36% decrease in the number of homes closed, as well as a 17% decrease in the average selling price of those homes. The region reported a loss before income taxes of $1.3 billion in 2008, compared to a loss of $932.1 million in 2007. The losses were primarily due to inventory impairment charges and earnest money and pre-acquisition cost write-offs totaling $1.2 billion and $819.1 million in fiscal 2008 and 2007, respectively. The majority of the inventory impairments related to communities in our California and Las Vegas markets. In fiscal 2008, inventory impairment charges included $246.7 million of impairments related to fourth quarter land sales. In fiscal 2007, goodwill impairment charges of $374.7 million contributed to the loss in fiscal 2007. A decrease in the region s home sales gross profit percentage of 920 basis points in 2008 compared to 2007 also contributed to the increase in loss before income taxes. Although all of the region s markets have experienced weak market conditions, the home sales gross profit percentage decline in our California and Las Vegas markets had the greatest impact on the overall decreases for the region. The California and Las Vegas markets experienced rapid, significant home price increases in previous years which contributed to gross profit increases in 2005 and continued elevated gross profits in 2006, but these price increases also strained housing affordability for many potential homebuyers there. Credit tightening in the mortgage markets also significantly limited the availability of many mortgage products used extensively by California and Las Vegas homebuyers in previous years. Increased levels of sales incentives and home price reductions were typical in these markets, as builders attempted to increase demand for homes to reduce high inventory levels and to address affordability concerns, resulting in substantial gross profit declines. The increased number of foreclosed homes offered for sale in California and Las Vegas added further pressure to sales prices.

Table of Contents

Results of Operations Financial Services

Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

The following tables set forth key operating and financial data for our financial services operations, comprising DHI Mortgage and our subsidiary title companies, for the fiscal years ended September 30, 2009 and 2008:

	Fiscal Year Ended September 30,		
	2009	2008	% Change
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	11,147	16,134	(31)%
Number of homes closed by D.R. Horton	16,703	26,396	(37)%
DHI Mortgage capture rate	67%	61%	
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	11,245	16,458	(32)%
Total number of loans originated or brokered by DHI Mortgage	13,481	17,797	(24)%
Captive business percentage	83%	92%	
Loans sold by DHI Mortgage to third parties	13,991	17,928	(22)%

	Fiscal Year Ended September 30,		
	2009	2008	% Change
	(In millions)		
Loan origination fees	$ 18.6	$ 24.9	(25)%
Sale of servicing rights and gains from sale of mortgages	56.8	91.0	(38)%
Recourse expense	(33.2)	(21.9)	52%
Sale of servicing rights and gains from sale of mortgages, net	23.6	69.1	(66)%
Other revenues	8.3	12.1	(31)%
Reinsurance expense	(14.9)	(4.9)	204%
Other revenues, net	(6.6)	7.2	(192)%
Total mortgage operations revenues	35.6	101.2	(65)%
Title policy premiums, net	18.1	26.3	(31)%
Total revenues	53.7	127.5	(58)%
General and administrative expense	78.1	100.1	(22)%
Interest expense	1.5	3.7	(59)%
Interest and other (income)	(10.4)	(11.4)	(9)%
Income (loss) before income taxes	$ (15.5)	$ 35.1	(144)%

Financial Services Operating Margin Analysis

	Percentages of Financial Services Revenues, Excluding the Effects of Recourse Expense and Reinsurance Expense Fiscal Year Ended September 30, 2009	2008
Recourse expense and reinsurance expense	47.2 %	17.4 %
General and administrative expense	76.7 %	64.9 %
Interest expense	1.5 %	2.4 %
Interest and other (income)	(10.2) %	(7.4) %
Income (loss) before income taxes	(15.2) %	22.7 %

Mortgage Loan Activity

The volume of loans originated and brokered by our mortgage operations is directly related to the number and value of homes closed by our homebuilding operations. Total first-lien loans originated or brokered by DHI Mortgage for our homebuyers decreased by 31% in fiscal 2009 compared to fiscal 2008, corresponding to the decrease in the number of homes closed of 37%. The percentage decrease in loans originated was less than the percentage decrease in homes closed due to an increase in our mortgage capture rate (the percentage of total home closings by our homebuilding operations for which DHI Mortgage handled the homebuyers financing), to 67% in 2009, from 61% in 2008.

Home closings from our homebuilding operations constituted 83% of DHI Mortgage loan originations in 2009, compared to 92% in 2008, reflecting DHI Mortgage s continued focus on supporting the captive business provided by our homebuilding operations. The relatively lower captive percentage in the current year reflects an increase in refinancing activity as existing homeowners have taken advantage of the recent decline in mortgage interest rates.

The number of loans sold to third-party purchasers decreased by 22% in 2009 as compared to 2008. The decrease was primarily due to the decrease in the number of mortgage loans originated. Consistent with fiscal 2008, originations during fiscal 2009 continued to predominantly be eligible for sale to Fannie Mae, Freddie Mac, or GNMA (Agency-eligible). In fiscal 2009, approximately 99% of DHI Mortgage production and 98% of mortgage loans held for sale on September 30, 2009 were Agency-eligible.

Financial Services Revenues and Expenses

Revenues from the financial services segment decreased 58%, to $53.7 million in 2009 from $127.5 million in 2008. The decrease was primarily due to the decrease in the number of mortgage loans originated and sold, as well as an increase in recourse expense related to future loan repurchase obligations, which is a component of gains from sale of mortgages, and increases in the loss reserves for reinsured loans, which is a component of other revenues. Charges related to recourse obligations were $33.2 million in fiscal 2009, compared to $21.9 million in fiscal 2008. The increase in recourse expense is a result of increasing our loan loss reserves during fiscal 2009 due to increased expectations for loan repurchases and related losses caused by additional repurchase requests arising under the limited recourse provisions. The calculation of our required repurchase loss reserve is based upon an analysis of repurchase requests received, our actual repurchases and losses through the disposition of such, discussions with our mortgage purchasers and analysis of the mortgages we originated. While we believe that we have adequately reserved for losses on known and projected repurchase requests, if actual repurchases or if the losses incurred resolving those repurchases exceed our expectations, additional recourse expense may be incurred. Also, a subsidiary of ours reinsured a portion of private mortgage insurance written on loans originated by DHI Mortgage in prior years. Charges to increase reserves for expected losses on the reinsured loans were $14.9 million and $4.9 million during fiscal 2009 and 2008, respectively.

Additionally, revenues during fiscal 2008 included the recognition of an additional $8.8 million of revenues related to the adoption of the FASB s authoritative guidance for written loan commitments which was adopted on January 1, 2008. The guidance requires that the expected net future cash flows related to the associated servicing of a loan are included in the measurement of all written loan commitments that are accounted for at fair value through earnings at the time of commitment. The effect of this guidance in fiscal 2009 was a $4.3 million decrease in revenues.

General and administrative (G&A) expense associated with financial services decreased 22%, to $78.1 million in 2009 from $100.1 million in 2008. The largest component of our financial services G&A expense is employee compensation and related costs, which represented 75% and 71% of G&A costs in 2009 and 2008, respectively. These costs decreased 18%, to $58.3 million in 2009 from $70.8 million in 2008, as we have continued to align the number of employees with current and anticipated loan origination and title service levels. Our financial services operations employed approximately 600 and 700 employees at September 30, 2009 and 2008, respectively.

As a percentage of financial services revenues, excluding the effects of recourse expense and reinsurance expense, G&A expense increased to 76.7% in 2009, from 64.9% in 2008. The increase was primarily due to the reduction in revenue resulting from the decrease in mortgage loan volume during fiscal 2009, as well as higher revenues in the prior year due to the adoption of the authoritative guidance for written loan commitments. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur as some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.