HORTON D R INC /DE/
Form 10-K
November 18, 2016

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2016
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	New York Stock Exchange
5.750% Senior Notes due 2023	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 ý No ¨
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 ¨ No ý
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 ý No ¨
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. ý
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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of March 31, 2016, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was approximately $10,451,712,000 based on the closing price as reported on the New York Stock Exchange.

As of November 9, 2016, there were 380,128,258 shares of the registrant’s common stock, par value $.01 per share, issued and 372,928,187 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for the 2017 Annual Meeting of Stockholders are incorporated herein by reference (to the extent indicated) in Part III.

D.R. HORTON, INC. AND SUBSIDIARIES
2016 ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1. BUSINESS

D.R. Horton, Inc. is the largest homebuilding company in the United States as measured by number of homes closed and revenues. We construct and sell homes through our operating divisions in 78 markets in 26 states, under the names of D.R. Horton, America's Builder, Emerald Homes, Express Homes, Freedom Homes and Pacific Ridge Homes. Our common stock is included in the S&P 500 Index and listed on the New York Stock Exchange under the ticker symbol "DHI." Unless the context otherwise requires, the terms "D.R. Horton," the "Company," "we" and "our" used herein refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.

Our homebuilding business began in 1978 in Fort Worth, Texas, and our common stock has been publicly traded since 1992. We have expanded and diversified our homebuilding operations geographically over the years by investing available capital into our existing markets, start-up operations in new markets and acquisitions of other homebuilding companies. Our product offerings across our operating markets are broad and diverse. Our homes range in size from 1,000 to more than 4,000 square feet and in price from $100,000 to more than $1,000,000. For the year ended September 30, 2016, we closed 40,309 homes with an average closing price of $292,300.

Our business operations consist of homebuilding, financial services and other activities. Our homebuilding operations are the most substantial part of our business, comprising 98% of consolidated revenues, which totaled $12.2 billion in fiscal 2016. 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. Approximately 89% of our home sales revenues in fiscal 2016 were generated from the sale of single-family detached homes, with the remainder from the sale of attached homes, such as town homes, duplexes, triplexes and condominiums. At September 30, 2016 and 2015, we owned approximately 500 attached residential rental homes.

Our financial services operations provide mortgage financing and title agency services to homebuyers in many of our homebuilding markets. DHI Mortgage, our 100% owned subsidiary, provides mortgage financing services primarily to our homebuyers and generally sells the mortgages it originates and the related servicing rights to third-party purchasers. DHI Mortgage originates loans in accordance with purchaser guidelines and sells substantially all of its mortgage production shortly after origination. Our subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services, primarily to our homebuyers.

In addition to our core homebuilding and financial services operations, we have subsidiaries that engage in other business activities. These subsidiaries conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets. At September 30, 2016, assets totaling $54.9 million associated with these subsidiaries were included in the financial services and other section of our balance sheet.

Available Information

We make available, as soon as reasonably practicable, on our website, www.drhorton.com, all of our reports required to be filed with the Securities and Exchange Commission (SEC). These reports can be found on the “Investor Relations” page of our website under “Financial Information” and include our annual and quarterly reports on Form 10-K and 10-Q (including related filings in XBRL format), current reports on Form 8-K, beneficial ownership reports on Forms 3, 4, and 5, proxy statements and amendments to such reports. Our SEC filings are also available to the public on 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. Further information on the operation of the public reference room can be obtained by calling the SEC at 1-800-SEC-0330. In addition to our SEC filings, our corporate governance documents, including our Code of Ethical Conduct for the Chief Executive Officer, Chief Financial Officer and senior financial officers, are available on the “Investor Relations” page of our website under “Corporate Governance.” Our stockholders may also obtain these documents in paper format free of charge upon request made to our Investor Relations department.

Our principal executive offices are located at 301 Commerce Street, Suite 500, Fort Worth, Texas 76102 and our telephone number is (817) 390-8200. Information on or linked to our website is not incorporated by reference into this annual report on Form 10-K unless expressly noted.

OPERATING STRUCTURE AND PROCESSES

Following is an overview of our Company’s operating structure and the significant processes that support our business controls, strategies and performance.

Homebuilding Markets

Our homebuilding business began in the Dallas/Fort Worth area, which is still one of our largest homebuilding operations and home to our corporate headquarters. We currently operate in 26 states and 78 markets, which provides us with geographic diversification in our homebuilding inventory investments and our sources of revenues and earnings. We believe our geographic diversification lowers our operational risks by mitigating the effects of local and regional economic cycles, and it also enhances our earnings potential by providing more diverse opportunities to invest in our business.

We conduct our homebuilding operations in 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	State	Reporting Region/Market
	East Region		South Central Region
Delaware	Northern Delaware	Louisiana	Baton Rouge
Georgia	Savannah		Lafayette
Maryland	Baltimore	Oklahoma	Oklahoma City
	Suburban Washington, D.C.	Texas	Austin
New Jersey	North New Jersey		Dallas
	South New Jersey		El Paso
North Carolina	Charlotte		Fort Worth
	Fayetteville		Houston
	Greensboro/Winston-Salem		Killeen/Temple/Waco
	Raleigh/Durham		Midland/Odessa
	Wilmington		New Braunfels/San Marcos
Pennsylvania	Philadelphia		San Antonio
South Carolina	Charleston		
	Columbia		Southwest Region
	Greenville/Spartanburg	Arizona	Phoenix
	Hilton Head		Tucson
	Myrtle Beach	New Mexico	Albuquerque
Virginia	Northern Virginia		
			West Region
	Midwest Region	California	Bakersfield
Colorado	Denver		Bay Area
	Fort Collins		Fresno
Illinois	Chicago		Los Angeles County
Minnesota	Minneapolis/St. Paul		Orange County
			Riverside County
	Southeast Region		Sacramento
Alabama	Birmingham		San Bernardino County
	Huntsville		San Diego County
	Mobile		Ventura County
	Montgomery	Hawaii	Hawaii
	Tuscaloosa		Kauai
Florida	Fort Myers/Naples		Maui
	Jacksonville		Oahu
	Lakeland	Nevada	Las Vegas
	Melbourne/Vero Beach		Reno
	Miami/Fort Lauderdale	Oregon	Portland
	Orlando	Utah	Salt Lake City
	Pensacola/Panama City	Washington	Seattle/Tacoma/Everett
	Port St. Lucie		Vancouver
	Tampa/Sarasota		
	Volusia County		
	West Palm Beach		

Georgia	Atlanta
	Augusta
Mississippi	Gulf Coast
	Hattiesburg
Tennessee	Nashville

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

- Economic conditions;
- Employment levels and job growth;
- Income level of potential homebuyers;
- Local housing affordability and typical mortgage products utilized;
- Market for homes at our targeted price points;
- Availability of land and lots in desirable locations on acceptable terms;
- Land entitlement and development processes;
- Availability of qualified subcontractors;
- New and secondary home sales activity;
- Competition; and
- Prevailing housing products, features, cost and pricing.

Economies of Scale

We are the largest homebuilding company in the United States in fiscal 2016 as measured by number of homes closed and revenues, and we are also one of the largest builders in many of the markets in which we operate. We believe that our national, regional and local scale of operations provides us with benefits that may not be available to the same degree to some other smaller homebuilders, such as:

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

Decentralized Homebuilding Operations

We view homebuilding as a local business; therefore, most of our direct homebuilding activities are decentralized to provide flexibility to our local managers on operational decisions. We believe that our local management teams, who are familiar with local conditions, have the best information on which to base many decisions regarding their operations. At September 30, 2016, we had 39 separate homebuilding operating divisions, many of which operate in more than one market area. Generally, each operating division consists of a division president; a controller; land entitlement, acquisition and development personnel; a sales manager and sales and marketing personnel; a construction manager and construction superintendents; customer service personnel; a purchasing manager and office staff. Our division presidents receive performance based compensation if they achieve targeted financial and operating metrics related to their operating divisions. Following is a summary of our homebuilding activities that are decentralized in our local operating divisions, and the control and oversight functions that are centralized in our regional and corporate offices:

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;
  - — Review of the need for and extent of offsite work required to obtain project entitlements; and
  - — Financial analysis of the potential project;
- Negotiating lot option, land acquisition and related contracts;
- Obtaining all necessary land development and home construction approvals;
- Selecting land development subcontractors and ensuring their work meets our contracted scopes;
- Selecting building plans and architectural schemes;
- Selecting construction subcontractors and ensuring their work meets our contracted scopes;
- Planning and managing homebuilding schedules;
- Developing and implementing local marketing and sales plans;
- Determining the pricing for each house plan and options in a given community; and
- Coordinating post-closing customer service and warranty repairs.

Centralized Controls

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

- Review and approval of division business plans and budgets;
- Review of all land and lot acquisition contracts;
- Review of all business and financial analysis for potential land and lot inventory investments;
- Oversight of land and home inventory levels;
- Monitoring division financial and operating performance; and
- Review of major personnel decisions and division incentive 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;
- Allocation of capital;
- Issuance and monitoring of inventory investment guidelines;
- Approval and funding of land and lot acquisitions;
- Monitoring and analysis of profitability, returns, costs and inventory levels;
- Risk and litigation management;
- Environmental assessments of land and lot acquisitions;
- Technology systems to support management of operations, marketing and information;
- Accounting and management reporting;
- Income taxes;
- Internal audit;
- Public reporting and investor and media relations;
- Administration of payroll and employee benefits;
- Negotiation of national purchasing contracts;
- Administration of customer satisfaction surveys and reporting of results; and
- Approval of major personnel decisions and management incentive compensation plans.

Land/Lot Acquisition and Inventory Management

We acquire land for use in our homebuilding operations after we have completed 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 complete a feasibility study, which includes soil tests, independent environmental studies, other engineering work and financial analysis. We also 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 may 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 development. Our option contracts generally are non-recourse, which limits our financial exposure to our earnest money deposited into escrow under the terms of the contract and any pre-acquisition due diligence costs we incur. This enables us to control land and lot positions with limited capital investment, which substantially reduces the risks associated with land ownership and development.

We directly acquire almost all of our land and lot positions. We are a party to a small number of joint ventures, all of which 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, including the identification of desirable housing submarkets based on the quality of local schools, 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, where possible;
- Controlling our levels of investment in land acquisition, land development and housing inventory to match the expected housing demand in each of our operating markets; and
- Monitoring and managing the number of speculative homes (homes under construction without an executed sales contract) built in each subdivision.

Land Development and Home Construction

Substantially all of our land development and home construction work is performed by subcontractors. Subcontractors typically are selected after a competitive bidding process and are retained for a specific subdivision or series of house plans pursuant to a contract that obligates the subcontractor to complete the scope of work at an agreed-upon price. We employ land development managers and construction superintendents to monitor land development and home construction activities, 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 interact with our homebuyers during the construction process and instruct buyers on post-closing home maintenance.

Our home designs are selected or prepared in each of our markets to appeal to the preferences of local homebuyers in each community. Our local management teams regularly adjust our product offerings to address our customers' expectations for affordability, home size and features. In most communities, we offer optional interior and exterior features to homebuyers for an additional charge. Construction time for our homes depends on the availability of labor, materials and supplies, the weather, the size of the home and other factors. We complete the construction of most homes within three to six months.

We typically do not maintain significant inventories of land development or construction materials, except for work in progress materials for active development projects and 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 building materials that are cancelable at our option.

We are subject to governmental regulations that affect our land development and construction operations. At times, we have experienced delays in receiving the proper approvals from municipalities or other government agencies that have delayed our anticipated development and construction activities in individual communities.

Cost Controls

We control construction costs by designing our homes efficiently and by obtaining competitive bids for construction materials and labor. We also competitively bid and negotiate pricing from our subcontractors and suppliers based on the volume of services and products we purchase on a local, regional and national basis. We monitor our land development expenditures and construction costs versus budgets for each house and community, and we review our inventory levels, margins, expenses, profitability and returns for each operating market compared to both its business plan and our performance expectations.

We control overhead costs by centralizing certain accounting and administrative functions and by monitoring staffing and compensation levels. We review other general and administrative costs to identify efficiencies and savings opportunities in our operating divisions and our regional and corporate offices. We also direct many of our promotional activities toward local real estate brokers and digital marketing initiatives, which we believe are an efficient use of our marketing expenditures.

Marketing and Sales

In most of our markets, we use the D.R. Horton, Emerald Homes and Express Homes brand names to market and sell our homes. Our D.R. Horton branded communities are the core of our business and account for the majority of our home closings, focusing on the first time and first time move-up homebuyer. Our Emerald branded communities appeal to buyers in search of higher-end move-up and luxury homes. Our Express branded communities primarily accommodate a segment of entry-level buyers who are focused on affordability. In fiscal 2016, homes marketed under our Express Homes brand represented 26% of our home closings and 18% of our home sales revenue, and homes marketed under our Emerald Homes brand represented 4% of our home closings and 9% of our home sales revenue.

We also use the Pacific Ridge Homes brand in our Seattle market following our acquisition of their homebuilding operations in fiscal 2015, and their product offerings are similar to our D.R. Horton communities. We introduced our Freedom Homes brand in late fiscal 2016 to offer affordable homes specifically for the active adult buyer seeking a low-maintenance lifestyle in an age-restricted or age-targeted community.

We market and sell our homes primarily through commissioned employees, and the majority of our home closings also involve an independent real estate broker. We typically conduct home sales from sales offices located in furnished model homes in each subdivision, and we generally do not offer our model homes for sale until the completion of a subdivision. Our sales personnel assist prospective homebuyers by providing floor plans and price information, demonstrating the features and layouts of our homes and assisting with the selection of options. We train and inform our sales personnel as to the availability of financing, construction schedules and marketing and advertising plans. As market conditions warrant, we may provide potential homebuyers with incentives, such as discounts or free upgrades, to be competitive in a particular market.

We market our homes and communities to prospective homebuyers and real estate brokers through digital media, including email, search engine marketing, social networking sites and our company website, as well as through print media and advertisement. We also use billboards, radio, television, magazine and newspaper advertising as necessary in each local market. We attempt to position our subdivisions in locations that are desirable to potential homebuyers and convenient to or visible from local traffic patterns, which helps to reduce advertising costs. Model homes play a substantial role in our marketing efforts, and we expend significant effort and resources to create an attractive atmosphere in our model homes.

We also build speculative homes in most of our subdivisions. These homes enhance our marketing and sales efforts to prospective homebuyers who are renters or who are relocating to these markets and require a home within a short time frame, as well as to independent brokers who represent these homebuyers. 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 and supply, seasonality, current sales contract cancellation trends and our past experience in the market. We maintain a level of speculative home inventory 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. Speculative homes allow us to compete effectively with existing homes available in the market and improve our profits and returns.

Sales Contracts and Backlog

Our sales contracts require an earnest money deposit which varies in amount across our markets and subdivisions. Additionally, customers are generally required to pay additional deposits when they select options or upgrade features for their homes. Our sales contracts include a financing contingency which permits customers to cancel and receive a refund of their deposit 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. We either retain or refund customer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

Sales order backlog represents homes under contract but not yet closed at the end of the period. At September 30, 2016, the value of our backlog of sales orders was $3.4 billion (11,475 homes), an increase of 9% from $3.1 billion (10,662 homes) at September 30, 2015. The average sales price of homes in backlog was $299,600 at September 30, 2016, up 2% from the $295,100 average at September 30, 2015. Many of the contracts in our sales order backlog are subject to contingencies, such as those described above, which can result in cancellations. A portion of the contracts in backlog will not result in closings due to cancellations. As a percentage of gross sales orders, cancellations of sales contracts were 23% in both fiscal 2016 and 2015.

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; therefore, substantially all of the homes in our sales backlog at September 30, 2016 are scheduled to close in fiscal year 2017. 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 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 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.

Customer Mortgage Financing

We provide mortgage financing services principally to purchasers of our homes in the majority of our homebuilding markets through DHI Mortgage, our 100% owned subsidiary. DHI Mortgage assists in the sales transaction by coordinating the mortgage application, mortgage commitment and home closing processes to facilitate a timely and efficient home buying experience for our buyers. DHI Mortgage originates mortgage loans for a substantial portion of our homebuyers. During the year ended September 30, 2016, DHI Mortgage provided mortgage financing services for approximately 55% of our total homes closed, and approximately 93% of DHI Mortgage’s loan volume related to homes closed by our homebuilding operations. Most of our homebuilding divisions also work with a number of additional mortgage lenders that offer a range of mortgage financing programs to our homebuyers.

To limit the risks associated with our mortgage operations, DHI Mortgage originates loan products that we believe can be sold to third-party purchasers of mortgage loans, the majority of which are eligible for sale to the Federal National

Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Government National Mortgage Association (Ginnie Mae). DHI Mortgage sells substantially all of the loans and their servicing rights to third-party purchasers shortly after origination with limited recourse provisions. DHI Mortgage centralizes most of its control and oversight functions, including those related to loan underwriting, quality control, regulatory compliance, secondary marketing of loans, hedging activities, accounting and financial reporting.

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 primarily to our homebuilding customers. We currently assume little or no underwriting risk associated with these title policies.

Employees

At September 30, 2016, we employed 6,976 persons, of whom 1,588 were sales and marketing personnel, 1,903 were involved in construction, 1,910 were office personnel and 1,575 worked in mortgage and title operations. We focus significant attention toward attracting and retaining talented and experienced individuals to manage and support our operations, and we believe that we have good relations with our employees.

Recent Business Acquisitions

We routinely evaluate opportunities to profitably expand our operations, including potential acquisitions of other homebuilding or related businesses. In April 2015, we acquired the homebuilding operations of Pacific Ridge Homes, which operates in Seattle, Washington. In September 2016, we acquired the homebuilding operations of Wilson Parker Homes, which operates in Atlanta and Augusta, Georgia; Raleigh, North Carolina; Columbia, South Carolina and Phoenix, Arizona.

Acquisitions of homebuilding businesses usually provide us with immediate land and home inventories and control of additional land and lot positions through option contracts. Also, employees of acquired businesses generally have specialized knowledge of local market conditions, including existing relationships with municipalities, land owners, developers, subcontractors and suppliers. These inventory positions and local market knowledge and relationships could take us several years to develop through our own efforts. We seek to limit the risks associated with acquiring other companies by conducting extensive operational, financial and legal due diligence on each acquisition and by performing financial analysis to determine that each acquisition will have a positive impact on our earnings within an acceptable period of time.

Competition

The homebuilding industry is highly competitive. We compete with numerous other national, regional and local homebuilders for homebuyers, desirable land, raw materials, skilled labor, employees, management talent and financing. We also compete with resales of existing and foreclosed homes and with the rental housing market. Our homes compete on the basis of quality, price, location, design and mortgage financing terms.

The competitors to our financial services businesses include other title companies and mortgage lenders, including national, regional and local mortgage bankers and other financial institutions. Some of these competitors are subject to fewer governmental regulations and may have greater access to capital than we do, and some of them may operate with different lending criteria and may offer a broader array of financing and other products and services to consumers than we do.

Governmental Regulation and Environmental Matters

The homebuilding industry is subject to extensive and complex regulations. We and the subcontractors we use must comply with many federal, state and local laws and regulations. These include zoning, density and development requirements and building, environmental, advertising, labor and real estate sales rules and regulations. These regulations and requirements affect substantially all aspects of our land development and home design, construction and sales processes in varying degrees across our markets. 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 Department of Veteran Affairs (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, utilities and other public improvements.

Our homebuilding operations are also subject to an extensive array 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 must comply with extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the Consumer Financial Protection Bureau (CFPB), Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, United States Department of Agriculture (USDA), Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies.

Seasonality

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in our working capital requirements in both our homebuilding and financial services operations. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

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

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

- employment levels;
- consumer confidence and spending;
- housing demand;
- availability of financing for homebuyers;
- interest rates;
- availability and prices of new homes for sale and alternatives to new homes, including foreclosed homes, homes held for sale by investors and speculators, other existing homes and rental properties; and
- demographic trends.

Adverse changes in these general and local economic conditions or deterioration in the broader economy would cause a negative impact on our business and financial results and increase the risk for asset impairments and writeoffs. Changes in these economic conditions may affect some of our regions or markets more than others. If adverse conditions affect our larger markets, they could have a proportionately greater impact on us than on some other homebuilding companies.

In recent years, concerns regarding the U.S. government’s fiscal policies and economic stimulus actions have created uncertainty in the financial markets and caused volatility in interest rates, which has impacted business and consumer confidence. Federal government actions related to economic stimulus, taxation and spending levels, borrowing limits and new federal legislation, along with the related political debates, conflicts and compromises associated with such actions, may negatively impact the financial markets and consumer spending. Such events could hurt the U.S. economy and the housing market and in turn, could adversely affect the operating results of our homebuilding, financial services and other businesses.

Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, volcanic activity, droughts and floods, heavy or prolonged precipitation or wildfires, can harm our homebuilding business. These can delay our development work, home construction and 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, Texas and other coastal areas, where we have some of our larger operations, present increased risks of adverse weather or natural disasters.

Deployments of U.S. military personnel to foreign regions, terrorist attacks, other acts of violence or threats to national security and any corresponding response by the United States or others, related domestic or international instability or civil unrest may cause an economic slowdown in the markets where we operate, which could adversely affect our homebuilding business.

Public health issues such as a major epidemic or pandemic could adversely affect our business. The U.S. and other countries have experienced, and may experience in the future, outbreaks of contagious diseases that affect public perception of health risk. In the event of a widespread, prolonged, actual or perceived outbreak of a contagious disease, our operations could be negatively impacted by a reduction in customer traffic or other factors which could reduce demand for new homes.

If we experience any of the foregoing, potential customers may be less willing or able to buy our homes. In the future, our pricing and product 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, offer more affordable homes or satisfactorily address changing market conditions in other ways without adversely affecting our profit margins. In addition, cancellations of home sales contracts in backlog may increase if homebuyers do not honor their contracts due to any of the factors discussed above.

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 will 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 recourse obligations for previous originations. We may be responsible for losses associated with mortgage loans originated and sold to third-party purchasers in the event of errors or omissions relating to certain representations and warranties that the loans sold meet certain requirements, including representations as to underwriting standards, the type of collateral, the existence of primary mortgage insurance, and the validity of certain borrower representations in the connection with the loan. We establish reserves related to mortgages we have sold; however, actual future obligations related to these mortgages could differ significantly from our current estimated amounts.

Constriction of the credit markets could limit our ability to access capital and increase our costs of capital.

During economic and housing downturns in prior years, the credit markets constricted and reduced some sources of liquidity that were previously available to us. Consequently, we relied principally on our cash on hand to meet our working capital needs and repay outstanding indebtedness during those years. There likely will be periods in the future when financial market upheaval will increase our cost of capital or limit our ability to access the public debt markets or obtain bank financing.

We have a $975 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $1.25 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to approximately 50% of the revolving credit commitment. The maturity date of the commitments under the facility is September 7, 2020. Also, our mortgage subsidiary utilizes a mortgage repurchase facility to finance the majority of the loans it originates. At September 30, 2016, the capacity of the facility was $700 million and can be increased to $800 million subject to the availability of additional commitments. The mortgage repurchase facility must be renewed annually and currently expires on February 24, 2017. We expect to renew and extend the term of the mortgage repurchase facility with similar terms prior to its maturity. Adverse changes in market conditions could make the renewal of these facilities more difficult or could result in an increase in the cost of these facilities or a decrease in the committed amounts. Such changes affecting our mortgage repurchase facility may also make it more difficult or costly to sell the mortgages that we originate.

We believe that our existing cash resources, our revolving credit facility and our mortgage repurchase facility provide sufficient liquidity to fund our near-term working capital needs and debt obligations. We regularly assess our projected capital requirements to fund future growth in our business, repay future debt obligations, and support other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. As market conditions permit, we may issue new debt or equity securities through the public capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity. Adverse changes in economic, homebuilding or capital market conditions could negatively affect our business, liquidity and financial results, restrict our ability to obtain additional capital or increase our costs of capital.

Reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates could decrease our buyers’ ability to obtain financing and adversely affect our business or financial results.

The mortgage lending industry has experienced significant change over the past decade, including volatility in the secondary market and a number of new government regulations. Since the secondary market continues to primarily desire securities backed by Fannie Mae, Freddie Mac or Ginnie Mae, we believe the liquidity these agencies provide to the mortgage industry is important to the housing market. There have been ongoing discussions by the government with regard to the long-term structure and viability of Fannie Mae and Freddie Mac, which could result in adjustments to the size of their loan portfolios and to guidelines for their loan products. Any reduction in the availability of the financing provided by these institutions could adversely affect interest rates, mortgage availability and sales of new homes and mortgage loans.

The FHA insures mortgage loans that generally have lower credit requirements and is an important source for financing the sale of our homes. Changes, restrictions or premium increases in FHA programs in the future may negatively affect the availability or affordability of FHA financing, which could adversely affect our ability to sell homes.

Some of our customers may qualify for 100% financing through programs offered by the VA, USDA and certain housing finance agencies. These programs are subject to changes in regulations, lending standards and government funding levels. There can be no assurances that these programs or other programs will continue to be available in our homebuilding markets or that they will be as attractive to our customers as the programs currently offered, which could negatively affect our sales.

The mortgage loans originated by our financial services operations are primarily eligible for sale to Fannie Mae, Freddie Mac and Ginnie Mae and are sold to third-party purchasers. During fiscal 2016, approximately 92% of our mortgage loans were sold to four financial entities, one of which purchased 27% of the total loans sold. On an ongoing basis, we seek to establish loan purchase arrangements with additional financial entities. If we are unable to sell mortgage loans to purchasers on attractive terms, our ability to originate and sell mortgage loans at competitive prices could be limited, which would negatively affect our profitability.

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

Mortgage rates are currently low as compared to most historical periods. When interest rates increase, the cost of owning a home will increase, which will likely reduce the number of potential homebuyers who can obtain mortgage financing, and could result in a decline in the demand for our homes.

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. There are risks inherent in controlling, owning and developing land. If housing demand declines, we may not be able to build and sell homes profitably in some of our communities, and we may not be able to fully recover the costs of some of the land and lots we own. Also, the values of our owned undeveloped land, lots and housing inventories may fluctuate significantly due to changes in market conditions. As a result, our deposits for lots controlled under option or similar contracts may be put at risk, we may have to sell homes or land for a lower profit margin or record inventory impairment charges on our land and lots. A significant deterioration in economic or homebuilding industry conditions may result in substantial inventory impairment charges.

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

We are subject to home warranty and construction defect claims arising in the ordinary course of our homebuilding business. We rely on subcontractors to perform the actual construction of our homes, and in many cases, to select and obtain construction materials. Despite our detailed specifications and monitoring of the construction process, our subcontractors occasionally do not meet adequate quality standards in the construction of our homes. When we find these issues, we repair them in accordance with our warranty obligations. We spend significant resources to repair items in homes we have sold to fulfill the warranties we issued to our homebuyers. Additionally, we are subject to construction defect claims which can be costly to defend and resolve in the legal system. Warranty and construction defect matters can also result in negative publicity in the media and on the internet, which can damage our reputation and adversely affect our ability to sell homes.

Based on the large number of homes we have sold over the years, our potential liabilities related to warranty and construction defect claims are significant. As a consequence, we maintain product liability insurance, and we seek to obtain indemnities and certificates of insurance from subcontractors covering claims related to their workmanship and materials. We establish 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 future warranty and construction defect claims. 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 limited and costly. We have responded to increases in insurance costs and coverage limitations 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. If costs to resolve our future warranty and construction defect claims exceed our estimates, our financial results and liquidity could be adversely affected.

A health and safety incident relating to our operations could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of all areas of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly and could expose us to liability that could be costly. Such a failure could generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities, and our ability to attract customers and employees, which in turn could have a material adverse effect on our financial results and liquidity.

Damage to our corporate reputation or brands from negative publicity could adversely affect our business, financial results and/or stock price.

Adverse publicity related to our company, industry, personnel, operations or business performance may cause damage to our corporate reputation or brands and may generate negative sentiment, potentially affecting the performance of our business or our stock price, regardless of its accuracy or inaccuracy. Negative publicity can be disseminated rapidly through digital platforms, including social media, websites, blogs and newsletters. Customers and other interested parties value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction, and our success in preserving our brand image depends on our ability to recognize, respond to and effectively manage negative publicity in a rapidly changing environment. Adverse publicity or unfavorable commentary from any source could damage our reputation, reduce the demand for our homes or negatively impact the morale and performance of our employees, which could adversely affect our business.

Supply shortages and other risks related to acquiring land, 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 subcontractors;
- 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 factors cause us to take longer or incur more costs to build our homes and adversely affect our revenues and profitability. If the level of new home demand increases significantly in future periods, the risk of shortages in residential lots, labor and materials available to the homebuilding industry will likely increase in some markets where we operate.

Our business and financial results could be adversely affected by significant inflation, higher interest rates or deflation.

Inflation can adversely affect us by increasing costs of land, materials and labor. In addition, significant inflation is often accompanied by higher interest rates, which have a negative impact on housing affordability. In a highly inflationary environment, depending on industry and other economic conditions, we may be precluded from raising home prices enough to keep up with the rate of inflation, which could reduce our profit margins. Moreover, with inflation, the costs of capital, labor and materials can 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.

Alternatively, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially increase the supply of existing homes. If oil prices remain low or decline further, the economic conditions in markets that have significant exposure to the energy sector may weaken. These, or other factors that increase the risk of significant deflation, could have a negative impact on our business or financial results.

We are required to obtain performance bonds, the unavailability of which could adversely affect our results of operations and cash flows.

We often are required to provide surety bonds to secure our performance or obligations under construction contracts, development agreements and other arrangements. At September 30, 2016, we had $1.1 billion of outstanding surety bonds. Our ability to obtain surety bonds primarily depends upon our credit rating, financial condition, past performance and other factors, including the capacity of the surety market and the underwriting practices of surety bond issuers. The ability to obtain surety bonds also can be impacted by the willingness of insurance companies to issue performance bonds for construction and development activities. If we are unable to obtain surety bonds when required, our results of operations and cash flows could be adversely affected.

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 loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, could adversely affect demand for and sales prices of new homes.

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

Governmental regulations and environmental matters 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 development or construction 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 significant number and variety of local, state and federal laws and regulations concerning protection of health, safety, labor standards 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. Government agencies also routinely initiate audits, reviews or investigations of our business practices to ensure compliance with these laws and regulations, which can cause us to incur costs or create other disruptions in our business that can be significant. For example, we have received Notices of Violation from the United States Environmental Protection Agency related to stormwater compliance at certain of our sites in the Southeast. This matter could potentially result in requirements for us to perform additional compliance procedures and to pay monetary sanctions.

The subcontractors we rely on to perform the actual construction of our homes are also subject to a significant number of local, state and federal laws and regulations, including laws involving matters that are not within our control. If the subcontractors who construct our homes fail to comply with all applicable laws, we can suffer reputational damage, and may be exposed to possible liability.

We are also subject to an extensive number of laws and regulations because our common stock and debt securities are publicly traded in the capital markets. These regulations govern our communications with our shareholders and the capital markets, our financial statement disclosures and our legal processes, and they also impact the work required to be performed by our independent registered public accounting firm and our legal counsel. Changes in these laws and regulations, including the subsequent implementation of rules by the administering government authorities, can require us to incur additional compliance costs, and such costs can be significant.

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

Our financial services operations are subject to extensive state and federal laws and regulations, which are administered by numerous agencies, including but not limited to the CFPB, Federal Housing Finance Agency, U.S. Department of Housing and Urban Development, FHA, VA, USDA, Fannie Mae, Freddie Mac and Ginnie Mae. These laws and regulations include many compliance requirements, including but not limited to licensing, consumer disclosures, fair lending and real estate settlement procedures. As a result, our operations are subject to regular, extensive examinations by the applicable agencies.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted to establish new requirements related to residential mortgage lending practices. In 2011, the CFPB was created to regulate consumer protection with regard to financial products and services. In 2014, the CFPB implemented rules regarding the creation and definition of a “Qualified Mortgage” (QM). These rules created standards for lender practices regarding assessing borrowers’ ability to repay, and limitations on certain fees and incentive arrangements. In 2015, the CFPB’s new Truth in Lending - Real Estate Settlement Procedures Act Integrated Disclosure Rule (TRID) became effective. This rule implemented additional disclosure timeline requirements and fee tolerances. The CFPB is currently conducting its initial examination of our subsidiary mortgage company.

In fiscal 2013, our subsidiary mortgage company was subpoenaed by the United States Department of Justice (DOJ) regarding the adequacy of underwriting criteria and documentation surrounding certain FHA loans originated and sold in prior years. We have provided information related to these loans to the DOJ, and communications are ongoing. The DOJ has not asserted any claims nor provided any indication of the amount of any potential claims or penalties.

Due to the significant increases in regulations, operating costs have increased for our mortgage operations. The possibility of additional future regulations, changing rule interpretations and examinations by regulatory agencies may result in more stringent compliance standards and could adversely affect the results of our operations.

We have significant amounts of consolidated debt and may incur additional debt; our debt obligations and our ability to comply with related covenants, restrictions or limitations could adversely affect our financial condition.

As of September 30, 2016, our consolidated debt was $3.3 billion, and we had $831.6 million principal amount of our debt maturing before the end of fiscal 2017. The indenture governing our senior notes does not restrict the incurrence of future unsecured debt by us or our homebuilding subsidiaries or the incurrence of secured or unsecured debt by our financial services subsidiaries, and the agreement governing our revolving credit facility allows us to incur a substantial amount of future unsecured debt. Also, the indenture governing our senior notes and the agreement governing our revolving credit facility impose restrictions on our ability and on that of the guarantors to incur debt secured by certain assets, but still permit us and our homebuilding subsidiaries to incur significant amounts of additional secured debt.

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 to adjust to changes in our business or economic conditions; and
- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements.

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In addition, our debt obligations and the restrictions imposed by the instruments governing those obligations expose us to additional risks, including:

Dependence on future performance. Our ability to meet our debt service and other obligations and the financial covenants under our revolving credit and mortgage repurchase facilities will depend, in part, upon our future financial performance. Our future results are subject to the risks and uncertainties described in this report. 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. Changes in prevailing interest rates may affect the cost of our debt service obligations, because borrowings under our revolving credit facility and mortgage repurchase facility bear interest at floating rates.

Revolving credit facility. Our revolving credit facility contains financial covenants requiring the maintenance of a minimum level of tangible net worth, a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if our ratio of debt to tangible net worth exceeds a certain level. A failure to comply with these requirements could allow the lending banks to terminate the availability of funds under our revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity.

Mortgage repurchase facility and other restrictions. The mortgage repurchase facility for our mortgage subsidiary 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 mortgage subsidiary. A failure to comply with these requirements could allow the lending banks to terminate the availability of funds to our mortgage subsidiary or cause any outstanding borrowings 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, although our financial services business is conducted through subsidiaries that are not restricted by the indenture governing our senior notes or the agreement governing our revolving credit facility, the ability of our financial services subsidiaries to distribute funds to our homebuilding operations would be restricted in the event such distribution would cause an event of default under the mortgage repurchase facility or if an event of default had occurred under this facility. Moreover, our right to receive assets from these subsidiaries upon their liquidation or recapitalization is subject to the prior claims of the creditors of these subsidiaries. Any claims we may have to funds from our financial services subsidiaries 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.

Changes in debt ratings. Our senior unsecured debt is currently rated investment grade by two of the three major rating agencies; however, there can be no assurance that we will be able to maintain this rating. Any lowering of our debt ratings could make accessing the public capital markets or obtaining additional credit from banks more difficult and/or more expensive.

Change of control purchase options and change of control default. Upon the occurrence of both a change of control and a ratings downgrade event, each as defined in the indenture governing our senior notes, we will be required to offer to repurchase such notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. Moreover, a change of control (as defined in our revolving credit facility) would constitute an event of default under our revolving credit facility, which could result in the acceleration of the repayment of any borrowings outstanding under our revolving credit facility, a requirement to cash collateralize all letters of credit outstanding thereunder and the termination of the commitments thereunder. If repayment of more than $50 million outstanding under our revolving credit facility were accelerated and such acceleration were not rescinded or such indebtedness were not satisfied, in either case within 30 days, an event of default would result under the indenture governing our senior notes, entitling the trustee for the notes or holders of at least 25 percent in principal amount of the relevant series of notes then outstanding to declare all such notes to be due and payable immediately. If purchase offers were required under the indenture for our notes, repayment of the borrowings under our revolving credit facility were required, or if our senior notes were accelerated, we can give no assurance that we would have sufficient funds to pay the required amounts.

Homebuilding and financial services are very competitive industries, 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 local, regional and national homebuilders, and also with existing home sales, foreclosures and rental properties. The competitive conditions in the homebuilding industry can negatively affect our sales volumes, selling prices and incentive levels, reduce our profit margins, and cause the value of our inventory or other assets to be impaired. Competition can also affect our ability to acquire suitable land, raw materials and skilled labor at acceptable prices or terms, or cause delays in the construction of our homes.

The competitors to our financial services businesses include other title companies and mortgage lenders, including national, regional and local mortgage banks and other financial institutions. Some of these competitors are subject to fewer governmental regulations and have greater access to capital than we do, and some of them may operate with different lending criteria than we do. These competitors may offer a broader or more attractive array of financing and other products and services to potential customers than we do.

Our homebuilding and financial services businesses compete with other companies across all industries to attract and retain highly skilled and experienced employees, managers and executives. Competition for the services of these individuals increases as business conditions improve in the homebuilding and financial services industries and in the general economy. If we are unable to attract and retain key employees, managers or executives, our business could be adversely affected.

We cannot make any assurances that our growth strategies, acquisitions or investments will be successful or will not expose us to additional risks.

We have primarily focused on internal growth in recent years by increasing our investments in land, lot and home inventories in our existing homebuilding markets. We have also expanded our business through investments in new product offerings and geographic markets. Investments in land, lots and home inventories can expose us to risks of economic loss and inventory impairments if housing conditions weaken or if we are unsuccessful in implementing our growth strategies.

Additionally, we have acquired the homebuilding operations of five companies since fiscal 2012, and we may make strategic acquisitions of or investments in other companies, operations or assets in the future. Such acquisitions and investments may have similar risks related to land, lots and home inventories, but they also involve the integration and oversight of the acquired operations, which may require us to devote significant resources and management time and attention toward these investments. We can give no assurance that we will be able to successfully identify, acquire and integrate strategic acquisitions or investments in the future. Acquisitions can result in dilution to existing stockholders if we issue our common stock as consideration, or reduce our liquidity if we fund them with cash. 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 asset impairments will increase during a cyclical housing downturn when our profitability may decline.

Our business could be adversely affected by the loss of key personnel.

We rely on our key personnel to effectively operate and manage our homebuilding and financial services businesses. Specifically, our success depends heavily on the performance of our homebuilding division and region presidents and their management teams, our financial services management team, our corporate office management teams and our executive officers. These key personnel have significant experience and skills in the homebuilding and financial services industries, as well as leadership and management abilities that are important to our success. We seek to retain our key personnel and to have succession plans in place to address the potential loss of key personnel. However, if our retention and succession planning efforts are unsuccessful or if we fail to attract suitable replacements, the loss of key personnel could adversely affect our business.

Information technology failures and data security breaches could harm our business.

We use information technology and other computer resources to carry out important operational and marketing activities and to maintain our business records. These information technology systems are dependent upon global communications providers, web browsers, third-party software and data storage providers and other aspects of the Internet infrastructure that have experienced security breaches, cyber-attacks, significant systems failures and service outages in the past. A material breach in the security of our information technology systems or other data security controls could include the theft or release of customer, employee or company data. A data security breach, a significant and extended disruption in the functioning of our information technology systems or a breach of any of our data security controls could disrupt our business operations, damage our reputation and cause us to lose customers, adversely impact our sales and revenue and require us to incur significant expense to address and remediate or otherwise resolve these kinds of issues. The release of confidential information as a result of a security breach could also lead to litigation or other proceedings against us by affected individuals or business partners, or by regulators, and the outcome of such proceedings, which could include penalties or fines, could have a significant negative impact on our business. We may also be required to incur significant costs to protect against damages caused by information technology failures or security breaches in the future. We routinely utilize information technology security experts to assist us in our evaluations of the effectiveness of the security of our information technology systems, and we regularly enhance our security measures to protect our systems and data. However, because the techniques used to obtain unauthorized access, disable or degrade systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Consequently, we cannot provide assurances that a security breach, cyber-attack, data theft or other significant systems or security failures will not occur in the future, and such occurrences could have a material and adverse effect on our consolidated results of operations or financial position.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

In addition to our inventories of land, lots and homes, we own office buildings totaling approximately 730,000 square feet, and we lease approximately 610,000 square feet of office space under leases expiring through April 2022. These properties are located in our various operating markets to house our homebuilding and financial services operating divisions and our regional and corporate offices.

We own ranch land and improvements totaling approximately 93,600 acres which we use to conduct ranching and agricultural activities and to host company meetings and events.

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.

In May and July of 2014, we received Notices of Violation from the United States Environmental Protection Agency related to stormwater compliance at certain of our sites in the Southeast. This matter could potentially result in monetary sanctions to the Company in an amount which we do not currently expect would be material. As we cannot reasonably estimate the potential costs that may be associated with the eventual resolution of this matter, we have not recorded any associated liabilities in the accompanying balance sheet.

In fiscal 2013, our subsidiary mortgage company was subpoenaed by the United States Department of Justice (DOJ) regarding the adequacy of underwriting criteria and documentation surrounding certain FHA loans originated and sold in prior years. We have provided information related to these loans to the DOJ, and communications are ongoing. The DOJ has not asserted any claims nor provided any indication of the amount of any potential claims or penalties.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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, 2016			Year Ended September 30, 2015		
	High	Low	Declared Dividends	High	Low	Declared Dividends
1st Quarter	$33.10	$28.45	$ 0.08	$25.94	$19.29	$ 0.0625
2nd Quarter	31.64	22.97	0.08	28.77	22.12	0.0625
3rd Quarter	32.51	28.82	0.08	29.29	24.92	0.0625
4th Quarter	34.56	29.64	0.08	33.06	26.14	0.0625

As of November 9, 2016, the closing price of our common stock on the NYSE was $27.54, and there were approximately 409 holders of record.

In November 2016, our Board of Directors approved a cash dividend of $0.10 per common share, payable on December 12, 2016, to stockholders of record on November 28, 2016. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, cash flows, capital requirements, financial condition and general business conditions.

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 2016, 2015 and 2014, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

Effective August 1, 2016, our Board of Directors authorized the repurchase of up to $100 million of our common stock effective through July 31, 2017. A stock repurchase authorization of the same amount was in place for the twelve months prior to the current authorization. All of the $100 million authorization was remaining at September 30, 2016, and no common stock has been repurchased subsequent to September 30, 2016.

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, 2016, compared to the S&P 500 Index, the S&P 500 Homebuilding Index and the S&P 1500 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, 2011 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.

In fiscal 2016, we changed our published industry index from the S&P 500 Homebuilding Index to the S&P 1500 Homebuilding Index because it represents a broader group of homebuilding companies. Including D.R. Horton, three companies currently compose the S&P 500 Homebuilding Index compared to sixteen companies in the S&P 1500 Homebuilding Index. Of those companies, eight are currently included in the peer group of publicly-traded companies used by our Compensation Committee to analyze compensation decisions related to our named executive officers. The S&P 500 Homebuilding Index is included in the graph below for comparative purposes only. For the years following 2016, we will no longer provide a comparison of our stock performance with the S&P 500 Homebuilding Index.

Comparison of Five-Year Cumulative Total Return
Among D.R. Horton, Inc., S&P 500 Index, S&P 500 Homebuilding Index and S&P 1500 Homebuilding Index

	Year Ended September 30,					
	2011	2012	2013	2014	2015	2016
D.R. Horton, Inc.	$100.00	$230.44	$219.16	$232.84	$336.22	$349.52
S&P 500 Index	100.00	130.20	155.39	186.05	184.91	213.44
S&P 500 Homebuilding Index	100.00	276.55	280.05	303.19	384.08	381.37
S&P 1500 Homebuilding Index	100.00	234.11	243.32	250.59	304.42	302.62

This performance graph shall not be deemed to be incorporated by reference into our SEC filings and should not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

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,				
	2016	2015	2014	2013	2012
		(In millions, except per share data)			
Operating Data:					
Revenues:					
Homebuilding	$11,861.8	$10,559.0	$7,858.5	$6,085.9	$4,236.2
Financial Services	295.6	265.0	166.4	173.4	117.8
Inventory and land option charges	31.4	60.3	85.2	31.1	6.2
Gross profit — Homebuilding	2,359.2	2,023.3	1,589.9	1,232.4	743.8
Income before income taxes:					
Homebuilding (1)	1,264.4	1,018.3	768.5	589.8	203.4
Financial Services and other (1)	89.1	105.1	45.7	68.0	39.5
Income tax expense (benefit) (2)	467.2	372.7	280.7	195.1	(713.4)
Net income	886.3	750.7	533.5	462.7	956.3
Net income per share:					
Basic	2.39	2.05	1.57	1.44	3.01
Diluted	2.36	2.03	1.50	1.33	2.77
Cash dividends declared per common share	0.32	0.25	0.1375	0.1875	0.15

	September 30,				
	2016	2015	2014	2013	2012
	(In millions)				
Balance Sheet Data:					
Cash and cash equivalents and marketable securities	$1,303.2	$1,383.8	$ 661.8	$977.4	$1,384.8
Inventories	8,340.9	7,807.0	7,700.5	6,197.4	4,165.2
Total assets	11,558.9	11,151.0	10,185.4	8,838.4	7,236.2
Notes payable (3)	3,271.3	3,811.5	3,665.7	3,491.0	2,481.1
Total equity	6,793.0	5,895.4	5,119.7	4,061.4	3,594.7

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(1) The operating results of certain subsidiaries previously included in our homebuilding operations have been reclassified to our financial services and other operations. As a result of these reclassifications, our homebuilding pre-tax income in fiscal 2014, 2013, and 2012 was reduced by $0.3 million, $2.5 million and $0.3 million, respectively, with a corresponding increase in the pre-tax income of our financial services and other operations. In fiscal 2015, the income and expense reclassifications had no impact on our results of operations. These reclassifications had no effect on our consolidated operating results or balance sheet data. See Note A.

(2) The income tax benefit in fiscal 2012 reflects a $753.2 million reduction of our deferred tax asset valuation allowance during the year.

(3) Notes payable includes both homebuilding notes payable and amounts outstanding on our mortgage repurchase facility.

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

Results of Operations — Fiscal Year 2016 Overview

During fiscal 2016, demand for new homes continued to reflect the stable to moderately improved trends we have seen across most of our operating markets over the past year. We continue to see varying levels of strength in new home demand and home prices across our markets, with demand in each market generally reflecting the relative strength of each market's economy, as measured by job growth, household incomes, household formations and consumer confidence.

Our position as the largest and most geographically diverse homebuilder in the United States provides a strong platform for us to compete for new home sales. In recent years, we have focused on expanding our product offerings to more consistently include a broad range of homes for entry-level, move-up and luxury buyers across most of our markets. Our affordable entry-level homes have experienced very strong demand from homebuyers, as the entry-level segment of the new home market remains under-served, with low inventory levels relative to demand. In the fourth quarter of fiscal 2016, we began introducing affordable homes for the active adult buyer seeking a low-maintenance lifestyle in an age-restricted or age-targeted community. We plan to continue to expand our product offerings across more of our operating markets during fiscal 2017.

In fiscal 2016, the number and value of our net sales orders increased 9% and 12%, respectively, compared to the prior year, and the number of homes closed and home sales revenues increased 10% and 13%, respectively. Our pre-tax income was $1.4 billion in fiscal 2016, compared to $1.1 billion and $814.2 million in fiscal 2015 and 2014, respectively. Our pre-tax operating margin was 11.1% in fiscal 2016, compared to 10.4% and 10.1% in fiscal 2015 and 2014, respectively. During fiscal 2016, cash provided by operations was $618.0 million, compared to cash provided by operations of $700.4 million in fiscal 2015 and cash used in operations of $661.4 million in fiscal 2014. In fiscal 2016, our homebuilding return on inventory (ROI) improved to 15.4%, compared to 12.8% in fiscal 2015 and 11.1% in fiscal 2014. Homebuilding ROI is calculated as homebuilding pre-tax income for the year divided by average inventory. Average inventory in the ROI calculation is the sum of ending inventory balances for the trailing five quarters divided by five.

We believe our business is well positioned for the future because of our broad geographic operating base and product offerings, our inventory of finished lots, land and homes, our strong balance sheet and liquidity and our experienced personnel across our operating markets. We are focused on growing our profitability, generating positive annual cash flows from operations and managing our product offerings, pricing, sales pace, and inventory levels to optimize the return on our inventory investments.

We believe that housing demand in our individual operating markets is tied closely to each market's economy; therefore, we expect that housing market conditions will vary across our markets. If the U.S. economy continues to improve, we would expect to see slow to moderate growth in housing demand, concentrated in markets where job growth is occurring. The pace and sustainability of new home demand and our future results could be negatively affected by weakening economic conditions, decreases in the level of employment and housing demand, decreased home affordability, significant increases in mortgage interest rates or tightening of mortgage lending standards.

Strategy

Our operating strategy is focused on leveraging our financial and competitive position to increase the returns on our inventory investments while generating strong profitability and cash flows. This strategy includes the following initiatives:

- Maintaining a strong cash balance and overall liquidity position and controlling our level of debt.
- Allocating and actively managing our inventory investments across our operating markets to diversify our geographic risk and optimize returns.
- Offering new home communities that appeal to a broad range of entry-level, move-up, active adult and luxury homebuyers based on consumer demand in each market.
- Modifying product offerings, sales pace, home prices and sales incentives as necessary in each of our markets to meet consumer demand, align with finished lot supply and construction activity and optimize returns on inventory investments and cash flows.
- Increasing the amount of land and finished lots controlled through option purchase contracts to mitigate the risk of land ownership.
- Investing in land and land development and pursuing opportunistic acquisitions of homebuilding companies in desirable markets, while controlling the level of land and lots we own in each of our markets relative to the local new home demand.
- Managing our inventory of homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.
- Controlling the cost of goods purchased from both vendors and subcontractors.
- Improving the efficiency of our land development, construction, sales and other key operational activities.
- Controlling our selling, general and administrative (SG&A) expense infrastructure to match production levels.

We expect our operating strategy will allow us to maintain a strong balance sheet and liquidity position while continuing to increase our revenues and profitability. Our operating strategy has produced positive results in recent years. However, we cannot provide any assurances that the initiatives listed above will continue to be successful, and we may need to adjust components of our strategy to meet future market conditions.

Key Results

Key financial results as of and for our fiscal year ended September 30, 2016, as compared to fiscal 2015, were as follows:

Homebuilding:
- Homebuilding revenues increased 12% to $11.9 billion.
- Homes closed increased 10% to 40,309 homes, and the average closing price of those homes increased 2% to $292,300.
- Net sales orders increased 9% to 40,814 homes, and the value of net sales orders increased 12% to $12.0 billion.
- Sales order backlog increased 8% to 11,475 homes, and the value of sales order backlog increased 9% to $3.4 billion.
- Home sales gross margins increased 40 basis points to 20.2%.
- Inventory and land option charges were $31.4 million, compared to $60.3 million.
- Homebuilding SG&A expenses as a percentage of homebuilding revenues decreased by 20 basis points to 9.3%.
- Homebuilding pre-tax income increased 24% to $1.3 billion, compared to $1.0 billion.
- Homebuilding pre-tax income as a percentage of homebuilding revenues was 10.7%, compared to 9.6%.
- Homebuilding cash and cash equivalents totaled $1.3 billion, compared to $1.4 billion.
- Homebuilding inventories totaled $8.3 billion, compared to $7.8 billion.
- Homes in inventory totaled 23,100, compared to 19,800.
- Owned and controlled lots totaled 204,500, compared to 173,900.
- Homebuilding debt was $2.8 billion, down from $3.3 billion.
- Homebuilding debt to total capital was 29.2%, improving from 36.1%.

Financial Services and Other:
- Financial services and other revenues increased 12% to $295.6 million.
- Financial services and other pre-tax income was $89.1 million, compared to $105.1 million.

Consolidated Results:
- Consolidated pre-tax income increased 20% to $1.4 billion, compared to $1.1 billion.
- Consolidated pre-tax income as a percentage of consolidated revenues was 11.1%, compared to 10.4%.
- Net income increased 18% to $886.3 million, compared to $750.7 million.
- Diluted earnings per share increased 16% to $2.36, compared to $2.03.
- Total equity was $6.8 billion, compared to $5.9 billion.
- Book value per common share increased 14% to $18.21, compared to $15.99.
- Return on inventory improved 260 basis points to 15.4%.
- Net cash provided by operations was $618.0 million, compared to $700.4 million.

Results of Operations — Homebuilding

Our operating segments are our 39 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 and Minnesota
Southeast:	Alabama, Florida, Georgia, Mississippi and Tennessee
South Central:	Louisiana, Oklahoma and Texas
Southwest:	Arizona and New Mexico
West:	California, Hawaii, Nevada, Oregon, Utah and Washington

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, 2016, 2015 and 2014. As described in Note A, the prior year amounts presented throughout this discussion reflect certain reclassifications made to conform to the classifications used in the current year.

Net Sales Orders (1)	Net Homes Sold Fiscal Year Ended September 30,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
East	4,944	4,859	3,867	2 %	26 %
Midwest	1,766	1,696	1,413	4 %	20 %
Southeast	13,616	11,703	8,529	16 %	37 %
South Central	12,433	11,753	9,707	6 %	21 %
Southwest	1,761	1,645	1,298	7 %	27 %
West	6,294	5,724	4,895	10 %	17 %
	40,814	37,380	29,709	9 %	26 %
	Value (In millions)				
East	$1,388.5	$1,319.8	$1,074.2	5 %	23 %
Midwest	669.2	641.0	514.9	4 %	24 %
Southeast	3,547.3	3,053.4	2,164.4	16 %	41 %
South Central	3,045.4	2,849.7	2,144.5	7 %	33 %
Southwest	409.0	364.1	285.2	12 %	28 %
West	2,940.8	2,510.7	2,125.4	17 %	18 %
	$12,000.2	$10,738.7	$8,308.6	12 %	29 %
	Average Selling Price				
East	$280,800	$271,600	$277,800	3 %	(2)%
Midwest	378,900	377,900	364,400	— %	4 %
Southeast	260,500	260,900	253,800	— %	3 %
South Central	244,900	242,500	220,900	1 %	10 %
Southwest	232,300	221,300	219,700	5 %	1 %
West	467,200	438,600	434,200	7 %	1 %
	$294,000	$287,300	$279,700	2 %	3 %

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

	Sales Order Cancellations								
	Fiscal Year Ended September 30,								
	Cancelled Sales Orders			Value (In millions)			Cancellation Rate (1)		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
East	1,582	1,536	1,106	$425.4	$416.7	$288.2	24%	24%	22%
Midwest	241	296	271	91.6	115.2	97.0	12%	15%	16%
Southeast	4,413	3,663	2,955	1,105.9	899.2	701.2	24%	24%	26%
South Central	3,795	3,833	3,136	942.5	913.2	686.8	23%	25%	24%
Southwest	745	572	517	160.4	123.0	104.6	30%	26%	28%
West	1,119	1,151	1,072	544.7	515.7	471.5	15%	17%	18%
	11,895	11,051	9,057	$3,270.5	$2,983.0	$2,349.3	23%	23%	23%

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

Net Sales Orders

2016 versus 2015

The value of net sales orders increased 12% to $12.0 billion (40,814 homes) in 2016 from $10.7 billion (37,380 homes) in 2015, with increases in all of our regions. The increases in the value of sales orders were primarily due to increases in volume and to a lesser extent, increases in selling prices in most regions.

The number of net sales orders increased 9%, and the average price of net sales orders increased 2% to $294,000 during 2016 compared to 2015. Our Florida markets contributed most to the higher volume in our Southeast region and our Las Vegas market contributed most to the higher volume in our West region. The volume increases in our other regions reflect continued stable to moderately improved market conditions in these markets. We believe our business is well positioned to continue to generate increased sales volume; however, our future sales volumes will depend on the economic strength of each of our operating markets and our ability to successfully implement our operating strategies in each market.

2015 versus 2014

The value of net sales orders increased 29% to $10.7 billion (37,380 homes) in 2015 from $8.3 billion (29,709 homes) in 2014, with increases in all of our regions. The increases in sales order value were primarily due to increases in volume as we expanded our operations and increased our market share in many of our markets. To a lesser extent, an increase in selling prices in our South Central region also contributed to the increase in sales order value.

The number of net sales orders increased 26%, and the average price of our net sales orders increased 3% to $287,300 during 2015 compared to 2014. The increases in our East and Southeast regions reflect the positive impact of our May 2014 acquisition of the homebuilding operations of Crown Communities. Crown Communities added 527 net sales orders to the East region’s results in 2015, compared to 236 net sales orders in 2014, and added 1,359 net sales orders to the Southeast region’s results in 2015, compared to 508 net sales orders in 2014.

Sales Order Backlog	Homes in Backlog As of September 30,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
East	1,301	1,430	1,451	(9)%	(1)%
Midwest	470	412	527	14 %	(22)%
Southeast	4,053	3,511	2,901	15 %	21 %
South Central	3,840	3,656	3,358	5 %	9 %
Southwest	655	571	425	15 %	34 %
West	1,156	1,082	1,226	7 %	(12)%
	11,475	10,662	9,888	8 %	8 %
	Value (In millions)				
East	$383.0	$413.0	$416.7	(7)%	(1)%
Midwest	184.0	166.4	191.3	11 %	(13)%
Southeast	1,121.7	977.9	790.7	15 %	24 %
South Central	1,018.1	951.3	791.7	7 %	20 %
Southwest	150.7	124.0	96.0	22 %	29 %
West	580.5	514.2	572.4	13 %	(10)%
	$3,438.0	$3,146.8	$2,858.8	9 %	10 %
	Average Selling Price				
East	$294,400	$288,800	$287,200	2 %	1 %
Midwest	391,500	403,900	363,000	(3)%	11 %
Southeast	276,800	278,500	272,600	(1)%	2 %
South Central	265,100	260,200	235,800	2 %	10 %
Southwest	230,100	217,200	225,900	6 %	(4)%
West	502,200	475,200	466,900	6 %	2 %
	$299,600	$295,100	$289,100	2 %	2 %

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.

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Home Closings and Revenue	Homes Closed Fiscal Year Ended September 30,			% Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
East	5,126	4,880	3,537	5 %	38 %
Midwest	1,708	1,811	1,342	(6)%	35 %
Southeast	13,303	11,093	8,743	20 %	27 %
South Central	12,249	11,455	9,046	7 %	27 %
Southwest	1,703	1,499	1,348	14 %	11 %
West	6,220	5,910	4,654	5 %	27 %
	40,309	36,648	28,670	10 %	28 %
	Home Sales Revenue (In millions)				
East	$1,431.0	$1,323.5	$948.0	8 %	40 %
Midwest	651.7	665.9	483.0	(2)%	38 %
Southeast	3,459.3	2,866.2	2,158.0	21 %	33 %
South Central	2,978.5	2,690.1	1,948.6	11 %	38 %
Southwest	388.1	336.1	285.2	15 %	18 %
West	2,874.5	2,587.6	1,981.9	11 %	31 %
	$11,783.1	$10,469.4	$7,804.7	13 %	34 %
	Average Selling Price				
East	$279,200	$271,200	$268,000	3 %	1 %
Midwest	381,600	367,700	359,900	4 %	2 %
Southeast	260,000	258,400	246,800	1 %	5 %
South Central	243,200	234,800	215,400	4 %	9 %
Southwest	227,900	224,200	211,600	2 %	6 %
West	462,100	437,800	425,800	6 %	3 %
	$292,300	$285,700	$272,200	2 %	5 %

2016 versus 2015

Revenues from home sales increased 13% to $11.8 billion (40,309 homes closed) in 2016 from $10.5 billion (36,648 homes closed) in 2015. The overall increase in home sales revenues reflects the continued stable to moderately improved market conditions in most of our markets.

The number of homes closed in fiscal 2016 increased 10% from 2015 due to increases in most of our regions. Our Florida markets contributed most to the higher volume in our Southeast region and our Phoenix market contributed most to the higher volume in our Southwest region. The decrease in homes closed in our Midwest region was primarily due to lower volume in our Chicago and Denver markets.

2015 versus 2014

Revenues from home sales increased 34% to $10.5 billion (36,648 homes closed) in 2015 from $7.8 billion (28,670 homes closed) in 2014. During fiscal 2015, home sales revenues increased in all of our regions as we expanded our operations and increased our market share in many of our markets.

The number of homes closed increased 28%, and the average selling price of those homes increased 5% to $285,700 during 2015 compared to 2014. The increases in our East and Southeast regions reflect the positive impact of our May 2014 acquisition of the homebuilding operations of Crown Communities. Crown Communities added 585 closings to the East region's results in 2015, compared to 213 closings in 2014, and added 1,292 closings to the Southeast region's results in 2015, compared to 508 closings in 2014. Excluding the impact of Crown Communities, the increase in homes closed in our East region was primarily due to increases in our Carolina markets, and in our Southeast region was primarily due to increases in our Florida markets. The increase in our Midwest region was due to increases in our Chicago and Denver markets. In our South Central region, the highest percentage increases in homes closed occurred in our Houston, Austin and Fort Worth markets. Our Phoenix market contributed the most to the increase in our Southwest region. The increase in our West region was primarily due to increases in most of our California markets.

Homebuilding Operating Margin Analysis

	Percentages of Related Revenues Fiscal Year Ended September 30,		
	2016	2015	2014
Gross profit — Home sales	20.2 %	19.8 %	21.3 %
Gross profit — Land/lot sales and other	13.3 %	8.7 %	17.7 %
Inventory and land option charges	(0.3)%	(0.6)%	(1.1)%
Gross profit — Total homebuilding	19.9 %	19.2 %	20.2 %
Selling, general and administrative expense (1)	9.3 %	9.5 %	10.5 %
Goodwill impairment	0.1 %	0.1 %	— %
Other (income) expense (1)	(0.1)%	(0.1)%	(0.1)%
Homebuilding pre-tax income	10.7 %	9.6 %	9.8 %

(1) Prior period percentages for selling, general and administrative expense and other (income) expense reflect certain reclassifications made to the prior year financial statements to conform to the classifications used in the current year. See Note A.

Home Sales Gross Profit

2016 versus 2015

Gross profit from home sales increased 15% to $2.4 billion in 2016 from $2.1 billion in 2015 and increased 40 basis points to 20.2% as a percentage of home sales revenues. The 40 basis point increase in the home sales gross profit percentage resulted from improvements of 30 basis points due to the average selling price of our homes closed increasing by more than the average cost and 10 basis points due to a decrease in the amortization of capitalized interest and property taxes as a percentage of home sales revenues.

2015 versus 2014

Gross profit from home sales increased 25% to $2.1 billion in 2015 from $1.7 billion in 2014 and decreased 150 basis points to 19.8% as a percentage of home sales revenues. Approximately 150 basis points of the decrease in the home sales gross profit percentage resulted from the average cost of our homes closed increasing by more than the average selling price. Additionally, our home sales gross margin decreased approximately 20 basis points due to an increase in warranty and construction defect expenses as a percentage of home sales revenues. These decreases were partially offset by a 10 basis point improvement from a decrease in the amortization of capitalized interest and property taxes as a percentage of homes sales revenues and a 10 basis point improvement related to a decrease in the amount of purchase accounting adjustments for recent acquisitions.

Our gross profit margins have remained relatively stable since fiscal 2015. Based on current market conditions, we expect continued stability in our gross margins. We remain focused on managing the pricing, incentives and sales pace in each of our communities to optimize the returns on our inventory investments and adjust to local market conditions. These actions could cause our gross profit margins to fluctuate in future periods.

Land Sales and Other Revenues

Land sales and other revenues were $78.7 million, $89.6 million and $53.8 million in fiscal 2016, 2015 and 2014, respectively. We continually evaluate our land and lot supply, and fluctuations in revenues and profitability from land sales can occur based on how we manage our inventory levels in various markets. We generally purchase land and lots with the intent to build and sell homes on them. However, some of the land that we purchase includes commercially zoned parcels that we may sell to commercial developers. We may also sell residential lots or land parcels to manage our supply or for other strategic reasons. As of September 30, 2016, we had $33.2 million of land held for sale that we expect to sell in the next twelve months.

Inventory and Land Option Charges

At the end of each quarter during fiscal 2016, we reviewed the performance and outlook for all of our land inventories and communities for indicators of potential impairment and performed detailed impairment evaluations and analyses when necessary. As of September 30, 2016, we performed detailed impairment evaluations of communities and land inventories with a combined carrying value of $160.9 million and recorded impairment charges of $11.4 million during the fourth quarter to reduce the carrying value of impaired communities and land to their estimated fair value. Total impairment charges during fiscal 2016, 2015 and 2014 were $20.3 million, $44.9 million and $75.2 million, respectively. Impairments in fiscal 2016 and 2015 primarily related to strategic decisions to sell inactive parcels of land, most of which were in our East and Southwest regions during fiscal 2016 and in our East, Southeast and West regions during fiscal 2015. Impairments in fiscal 2014 primarily related to underperforming projects in the Chicago market of our Midwest region and in the suburban Washington, D.C. market of our East region.

As we manage our inventory investments across our operating markets to optimize returns and cash flows, we may modify our pricing and incentives, construction and development plans or land sale strategies in individual active communities and land held for development, which could result in the affected communities being evaluated for potential impairment. Also, if housing or economic conditions weaken in specific markets in which we operate, or if conditions weaken in the broader economy or homebuilding industry, we may be required to evaluate additional communities for potential impairment. These evaluations could result in additional impairment charges.

During fiscal 2016, we wrote off $11.1 million of earnest money deposits and pre-acquisition costs related to land option contracts that we expect to terminate. Earnest money and pre-acquisition cost write-offs for fiscal 2015 and 2014 were $15.4 million and $10.0 million, respectively.

Selling, General and Administrative (SG&A) Expense

SG&A expense from homebuilding activities was $1.1 billion, $1.0 billion and $826.9 million in fiscal 2016, 2015 and 2014, respectively, increasing 10% in 2016 and 21% in 2015 from the respective prior years. As a percentage of homebuilding revenues, SG&A expense decreased 20 basis points to 9.3% in 2016 and decreased 100 basis points to 9.5% in 2015 from the respective prior years. This improvement in SG&A expense as a percentage of revenues was achieved primarily through leverage of our fixed overhead costs resulting from the increase in homebuilding revenues.

Employee compensation and related costs were $748.7 million, $679.4 million and $536.0 million in fiscal 2016, 2015 and 2014, respectively. Compensation costs represented 68% of SG&A costs in both fiscal 2016 and 2015 and 65% of

SG&A costs in fiscal 2014. These costs increased 10% in 2016 and 27% in 2015 due to increases in the number of employees and equity and incentive compensation as compared to the respective prior years. Our homebuilding operations employed 5,366, 4,888 and 4,525 employees at September 30, 2016, 2015 and 2014, respectively.

We attempt to control our SG&A costs while ensuring that our infrastructure adequately supports our operations; however, we cannot make assurances that we will be able to maintain or improve upon the current SG&A expense as a percentage of revenues.

Interest Incurred

We capitalize interest costs incurred to inventory during active development and construction (active inventory). Capitalized interest is charged to cost of sales as the related inventory is delivered to the buyer. Interest incurred decreased 10% to $152.3 million in fiscal 2016 compared to 2015 due to a 9% decrease in our average debt. Interest incurred decreased 9% to $169.2 million in fiscal 2015 compared to 2014, while our average debt increased 6%. The decrease in interest incurred in fiscal 2015 was due to a decrease in the average interest rate of our debt as compared to fiscal 2014. Interest charged to cost of sales was 1.8%, 1.9% and 2.0% of total cost of sales (excluding inventory and land option charges) in fiscal 2016, 2015 and 2014, respectively.

Other Income

Other income, net of other expenses, included in our homebuilding operations was $12.7 million, $7.8 million and $5.5 million in fiscal 2016, 2015 and 2014, respectively. Other income in fiscal 2016 includes a $4.5 million gain from the sale of an investment in debt securities.

Goodwill Impairment

We performed our annual goodwill impairment evaluation in the fourth quarters of fiscal 2016 and 2015. As a result of these evaluations, impairment charges of $7.2 million and $9.8 million were recorded in fiscal 2016 and 2015, respectively, to reduce the goodwill in the Huntsville operating segment in our Southeast reporting region. This operating segment has experienced lower levels of profitability than anticipated primarily due to difficult market conditions. See Note A.

Business Acquisitions

In May 2014, we acquired the homebuilding operations of Crown Communities for $209.6 million in cash. Crown Communities operated in Georgia, South Carolina and eastern Alabama. The assets acquired included approximately 640 homes in inventory, 2,350 lots and control of approximately 3,400 additional lots through option contracts. We also acquired a sales order backlog of 431 homes valued at $113.6 million.

In April 2015, we acquired the homebuilding operations of Pacific Ridge Homes for $70.9 million in cash. Pacific Ridge Homes operates in Seattle, Washington. The assets acquired included approximately 90 homes in inventory, 350 lots and control of approximately 400 additional lots through option contracts. We also acquired a sales order backlog of 42 homes valued at $18.7 million.

In September 2016, we acquired the homebuilding operations of Wilson Parker Homes for $91.9 million in cash, inclusive of a holdback payment and an estimated post-closing adjustment. Wilson Parker Homes operates in Atlanta and Augusta, Georgia; Raleigh, North Carolina; Columbia, South Carolina and Phoenix, Arizona. The assets acquired included approximately 380 homes in inventory, 490 lots and control of approximately 1,850 additional lots through option contracts. We also acquired a sales order backlog of 308 homes valued at $74.1 million.

Homebuilding Results by Reporting Region

	Fiscal Year Ended September 30,								
	Homebuilding Revenues			Homebuilding Pre-tax Income (1)			Pre-tax Income as a Percentage of Homebuilding Revenues		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
East	$1,446.5	$1,333.6	$954.7	$138.7	$94.2	$45.2	9.6 %	7.1 %	4.7 %
Midwest	651.7	666.1	483.5	44.3	49.8	(9.6)	6.8 %	7.5 %	(2.0)%
Southeast	3,463.5	2,890.6	2,167.0	388.4	278.7	217.9	11.2%	9.6 %	10.1 %
South Central	2,995.1	2,725.2	1,971.2	374.8	296.6	207.9	12.5%	10.9%	10.5 %
Southwest	388.1	336.1	285.2	7.3	13.1	25.5	1.9 %	3.9 %	8.9 %
West	2,916.9	2,607.4	1,996.9	310.9	285.9	281.6	10.7%	11.0%	14.1 %
	$11,861.8	$10,559.0	$7,858.5	$1,264.4	$1,018.3	$768.5	10.7%	9.6 %	9.8 %

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(1) Expenses maintained at the corporate level consist primarily of interest and property taxes, which are capitalized and amortized to cost of sales or expensed directly, and the expenses related to operating our corporate office. The amortization of capitalized interest and property taxes is allocated to each segment based on the segment's cost of sales, while expenses associated with the corporate office are allocated to each segment based on the segment's inventory balances.

2016 versus 2015

East Region — Homebuilding revenues increased 8% in fiscal 2016 compared to fiscal 2015, primarily due to an increase in the number of homes closed in our Carolina markets, as well as an increase in the average selling price of those homes. The region generated pre-tax income of $138.7 million in 2016, compared to $94.2 million in 2015. Pre-tax income was reduced by inventory impairment charges of $12.3 million and $14.3 million in 2016 and 2015, respectively, primarily in our New Jersey market. Gross profit from home sales as a percentage of home sales revenue (home sales gross profit percentage) increased 150 basis points in 2016 compared to 2015, largely due to the average selling price increasing by more than the average cost of homes closed in the region. As a percentage of homebuilding revenues, SG&A expenses decreased by 100 basis points in 2016 compared to 2015.

Midwest Region — Homebuilding revenues decreased 2% in fiscal 2016 compared to fiscal 2015, primarily due to a decrease in homes closed in our Chicago and Denver markets, partially offset by an increase in the average selling price of those homes. The region generated pre-tax income of $44.3 million in 2016, compared to $49.8 million in 2015. Home sales gross profit percentage decreased 70 basis points in 2016 compared to 2015, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 10 basis points in 2016 compared to 2015.

Southeast Region — Homebuilding revenues increased 20% in fiscal 2016 compared to fiscal 2015, primarily due to an increase in the number of homes closed in our Florida markets. The region generated pre-tax income of $388.4 million in 2016, compared to $278.7 million in 2015, primarily as a result of the increase in revenues. Home sales gross profit percentage increased 50 basis points in 2016 compared to 2015. As a percentage of homebuilding revenues, SG&A expenses decreased by 50 basis points in 2016 compared to 2015.

South Central Region — Homebuilding revenues increased 10% in fiscal 2016 compared to fiscal 2015, primarily due to an increase in the number and average selling price of homes closed in our Dallas and Fort Worth markets. The region generated pre-tax income of $374.8 million in 2016, compared to $296.6 million in 2015, primarily as a result of the increase in revenues. Home sales gross profit percentage increased 140 basis points in 2016 compared to 2015, largely due to the average selling price increasing by more than the average cost of homes closed in the region. As a percentage of homebuilding revenues, SG&A expenses increased by 10 basis points in 2016 compared to 2015.

Southwest Region — Homebuilding revenues increased 15% in fiscal 2016 compared to fiscal 2015, primarily due to an increase in the number of homes closed in our Phoenix market. The region generated pre-tax income of $7.3 million in 2016, compared to $13.1 million in 2015. In 2016, pre-tax income was reduced by inventory impairment charges of $6.0 million in our Phoenix market. Home sales gross profit percentage decreased 80 basis points in 2016 compared to 2015, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 20 basis points in 2016 compared to 2015.

West Region — Homebuilding revenues increased 12% in fiscal 2016 compared to fiscal 2015, due to an increase in the number and average selling price of homes closed in our southern California, Portland and Las Vegas markets. The region generated pre-tax income of $310.9 million in 2016, compared to $285.9 million in 2015. Pre-tax income was reduced by inventory impairment charges of $0.3 million in 2016 and $20.4 million in 2015. The 2015 impairment charges primarily related to strategic decisions to sell land. Home sales gross profit percentage decreased 110 basis points in 2016 compared to 2015, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses increased by 10 basis points in 2016 compared to 2015.

2015 versus 2014

East Region — Homebuilding revenues increased 40% in fiscal 2015 compared to fiscal 2014, primarily due to an increase in the number of homes closed. The volume of home closings in our Greenville and Columbia, South Carolina markets benefited from our acquisition of Crown Communities in May 2014, which added 585 closings to the region’s 2015 results, compared to 213 closings in 2014. The region generated pre-tax income of $94.2 million in 2015, compared to $45.2 million in 2014. Pre-tax income was reduced by inventory impairment charges of $14.3 million in 2015, primarily in our New Jersey market, and $17.7 million in 2014, primarily in our suburban Washington, D.C. market. Home sales gross profit percentage increased 20 basis points in 2015 compared to 2014, due to an 80 basis point improvement from a decrease in the amount of purchase accounting adjustments related to the acquisitions of Crown Communities and Regent Homes, which was partially offset by the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 130 basis points in 2015.

Midwest Region — Homebuilding revenues increased 38% in fiscal 2015 compared to fiscal 2014, primarily due to an increase in the number of homes closed in our Chicago and Denver markets. The region generated pre-tax income of $49.8 million in 2015, compared to a pre-tax loss of $9.6 million in 2014. Inventory impairments of $49.3 million, primarily in our Chicago market, contributed to the loss in 2014. Home sales gross profit percentage decreased 290 basis points in 2015 compared to 2014, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 210 basis points in 2015 compared to 2014.

Southeast Region — Homebuilding revenues increased 33% in fiscal 2015 compared to fiscal 2014, due to an increase in the number of homes closed and an increase in average selling prices in many of the region's markets. The region benefited, particularly in our Atlanta and Augusta markets, from our acquisition of Crown Communities in May 2014, which added 1,292 closings to the region's 2015 results, compared to 508 closings in 2014. Excluding the impact of Crown Communities, the increase in home closings was primarily due to increases in our Florida markets. The region generated pre-tax income of $278.7 million in 2015, compared to $217.9 million in 2014, primarily as a result of the increase in revenues. Home sales gross profit percentage decreased 60 basis points in 2015 compared to 2014, largely due to the average cost of homes closed in the region increasing by more than the average selling price, which was partially offset by a decrease in the amount of purchase accounting adjustments related to the Crown Communities acquisition. As a percentage of homebuilding revenues, SG&A expenses decreased by 80 basis points in 2015 compared to 2014.

South Central Region — Homebuilding revenues increased 38% in fiscal 2015 compared to fiscal 2014, due to an increase in the number of homes closed and an increase in average selling prices in many of the region's markets. The increase in home closings in our Houston, Austin and Fort Worth markets contributed most to the overall increase in homebuilding revenues in the region. The region generated pre-tax income of $296.6 million in 2015, compared to $207.9 million in 2014, primarily as a result of the increase in revenues. Home sales gross profit percentage decreased 30 basis points in 2015 compared to 2014, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 100 basis points in 2015 compared to 2014.

Southwest Region — Homebuilding revenues increased 18% in fiscal 2015 compared to fiscal 2014, due to an increase in the number of homes closed and an increase in average selling prices in all of the region's markets. The increase in home closings in our Phoenix market contributed most to the overall increase in homebuilding revenues in the region. The region generated pre-tax income of $13.1 million in 2015, compared to $25.5 million in 2014. Home sales gross profit percentage decreased 640 basis points in 2015 compared to 2014. The decrease in home sales gross profit percentage in 2015 was due to the average cost of homes closed in the region increasing by more than the average selling price, and to a lesser extent, the resolution of construction defect claims, most of which related to our Albuquerque market. Additionally, home sales gross profit percentage in 2014 benefited from a reimbursement of development costs of approximately $7.2 million received as part of a settlement during the year, which related to a community that was completed in a prior year. As a percentage of homebuilding revenues, SG&A expenses decreased by 130 basis points in 2015 compared to 2014.

West Region — Homebuilding revenues increased 31% in fiscal 2015 compared to fiscal 2014, primarily due to an increase in the number of homes closed in most of our California markets. The region generated pre-tax income of $285.9 million in 2015, compared to $281.6 million in 2014. Pre-tax income was reduced by inventory impairment charges of $20.4 million in 2015, primarily related to strategic decisions to sell land in the region, and $5.1 million in 2014. Home sales gross profit percentage decreased 360 basis points in 2015 compared to 2014, largely due to the average cost of homes closed in the region increasing by more than the average selling price. As a percentage of homebuilding revenues, SG&A expenses decreased by 90 basis points in 2015 compared to 2014.

Inventories, Land and Lot Position and Homes in Inventory

We routinely enter into land/lot option contracts to purchase land or developed residential lots at predetermined prices on a defined schedule commensurate with planned development or anticipated new home demand. We also purchase undeveloped land that generally is vested with the rights to begin development or construction work, and we plan and coordinate the development of our land into residential lots for use in our homebuilding business. We manage our inventory of owned land and lots and homes under construction relative to demand in each of our markets, including starting construction on unsold homes to capture new home demand and actively controlling the number of unsold, completed homes in inventory.

Our inventories at September 30, 2016 and 2015 are summarized as follows:

	September 30, 2016				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
	(In millions)				
East	$448.9	$ 415.4	$ 26.8	$—	$ 891.1
Midwest	239.3	189.5	11.9	0.5	441.2
Southeast	1,149.8	870.1	44.8	5.6	2,070.3
South Central	1,009.6	1,032.0	14.6	19.4	2,075.6
Southwest	163.8	189.6	14.1	3.6	371.1
West	906.6	1,315.2	22.5	3.3	2,247.6
Corporate and unallocated (1)	116.7	123.4	3.1	0.8	244.0
	$4,034.7	$ 4,135.2	$ 137.8	$33.2	$ 8,340.9

	September 30, 2015				
	Construction in Progress and Finished Homes	Residential Land/Lots Developed and Under Development	Land Held for Development	Land Held for Sale	Total Inventory
	(In millions)				
East	$426.3	$ 335.5	$ 35.4	$20.1	$ 817.3
Midwest	257.6	205.0	11.9	—	474.5
Southeast	915.3	890.3	63.8	7.3	1,876.7
South Central	873.9	1,012.4	18.1	4.6	1,909.0
Southwest	111.9	172.6	27.9	—	312.4
West	803.4	1,316.0	40.6	5.3	2,165.3
Corporate and unallocated (1)	112.8	133.5	4.6	0.9	251.8
	$3,501.2	$ 4,065.3	$ 202.3	$38.2	$ 7,807.0

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

Our land and lot position and homes in inventory at September 30, 2016 and 2015 are summarized as follows:

	September 30, 2016			
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Option Purchase Contracts (2)	Total Land/Lots Owned and Controlled	Homes in Inventory (3)
East	13,400	15,100	28,500	3,000
Midwest	3,200	2,100	5,300	1,200
Southeast	30,600	36,100	66,700	7,600
South Central	37,700	25,100	62,800	7,000
Southwest	7,500	2,000	9,500	1,300
West	20,500	11,200	31,700	3,000
	112,900	91,600	204,500	23,100
	55 %	45 %	100 %	

	September 30, 2015			
	Land/Lots Owned (1)	Lots Controlled Under Land and Lot Option Purchase Contracts (2)	Total Land/Lots Owned and Controlled	Homes in Inventory (3)
East	12,000	8,700	20,700	2,600
Midwest	4,100	1,100	5,200	1,100
Southeast	34,800	21,600	56,400	6,100
South Central	38,400	17,300	55,700	6,300
Southwest	7,500	1,400	8,900	900
West	21,600	5,400	27,000	2,800
	118,400	55,500	173,900	19,800
	68 %	32 %	100 %	

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(1) Land/lots owned include approximately 30,400 and 32,600 owned lots that are fully developed and ready for home construction at September 30, 2016 and 2015, respectively. Land/lots owned also include land held for development representing 7,300 and 11,100 lots at September 30, 2016 and 2015, respectively.

(2) The total remaining purchase price of lots controlled through land and lot option purchase contracts at September 30, 2016 and 2015 was $3.6 billion and $2.2 billion, respectively, secured by earnest money deposits of $167.0 million and $79.1 million, respectively. Our lots controlled under land and lot option purchase contracts exclude approximately 700 and 1,300 lots at September 30, 2016 and 2015, respectively, representing lots controlled under lot option contracts for which we do not expect to exercise our option to purchase the land or lots, but the underlying contracts have yet to be terminated. We have reserved the deposits related to these contracts.

(3) Homes in inventory include approximately 1,600 model homes at both September 30, 2016 and 2015. Approximately 11,800 and 9,700 of our homes in inventory were unsold at September 30, 2016 and 2015, respectively. At September 30, 2016, approximately 3,500 of our unsold homes were completed, of which approximately 500 homes had been completed for more than six months. At September 30, 2015, approximately 3,400 of our unsold homes were completed, of which approximately 700 homes had been completed for more than six months.

Results of Operations — Financial Services and Other

The following tables and related discussion set forth key operating and financial data for our financial services and other operations, comprising DHI Mortgage, our subsidiary title companies and other businesses, for the fiscal years ended September 30, 2016, 2015 and 2014. As described in Note A, the prior year amounts presented throughout this discussion reflect certain reclassifications made to conform to the classifications used in the current year.

	Fiscal Year Ended September 30, 2016	2015	2014	2016 vs 2015	2015 vs 2014
Number of first-lien loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	21,970	18,821	14,213	17 %	32 %
Number of homes closed by D.R. Horton	40,309	36,648	28,670	10 %	28 %
DHI Mortgage capture rate	55 %	51 %	50 %		
Number of total loans originated or brokered by DHI Mortgage for D.R. Horton homebuyers	22,127	18,963	14,297	17 %	33 %
Total number of loans originated or brokered by DHI Mortgage	23,920	21,314	16,177	12 %	32 %
Captive business percentage	93 %	89 %	88 %		
Loans sold by DHI Mortgage to third parties	23,926	20,623	15,806	16 %	30 %

	Fiscal Year Ended September 30, 2016	2015	2014	2016 vs 2015	2015 vs 2014
	(In millions)				
Loan origination fees	$20.1	$23.6	$20.0	(15)%	18 %
Sale of servicing rights and gains from sale of mortgage loans	216.0	173.0	99.6	25 %	74 %
Recourse (expense) benefit	(8.5)	9.8	2.2	(187)%	345%
Sale of servicing rights and gains from sale of mortgage loans, net	207.5	182.8	101.8	14 %	80 %
Other revenues	14.6	13.6	9.7	7 %	40 %
Total mortgage operations revenues	242.2	220.0	131.5	10 %	67 %
Title policy premiums	53.4	45.0	34.9	19 %	29 %
Total revenues	295.6	265.0	166.4	12 %	59 %
General and administrative expense (1)	220.0	183.0	138.5	20 %	32 %
Interest and other (income) expense (1)	(13.5)	(23.1)	(17.8)	(42)%	30 %
Financial services and other pre-tax income	$89.1	$105.1	$45.7	(15)%	130%

Financial Services and Other Operating Margin Analysis

	Percentages of Financial Services Revenues (2) Fiscal Year Ended September 30, 2016	2015	2014
Recourse expense (benefit)	2.8 %	(3.8)%	(1.3)%
General and administrative expense (1)	72.3 %	71.7 %	84.3 %
Interest and other (income) expense (1)	(4.4)%	(9.1)%	(10.8)%
Financial services and other pre-tax income	29.3 %	41.2 %	27.8 %

(1) Prior period amounts and percentages for general and administrative expense and interest and other (income) expense reflect certain reclassifications made to conform to the classifications used in the current year. See Note A.

(2) Excludes the effects of recourse expense or benefit on financial services revenues.

Mortgage Loan Activity

The volume of loans originated and brokered by our mortgage operations is related to the number of homes closed by our homebuilding operations. In fiscal 2016, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased by 17%, corresponding to the 10% increase in the number of homes closed by our homebuilding operations combined with 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). In fiscal 2015, the volume of first-lien loans originated or brokered by DHI Mortgage for our homebuyers increased by 32%, corresponding to the 28% increase in the number of homes closed by our homebuilding operations. Our mortgage capture rate was 55%, 51% and 50% in fiscal 2016, 2015 and 2014, respectively.

Home closings from our homebuilding operations constituted 93%, 89% and 88% of DHI Mortgage loan originations in fiscal 2016, 2015 and 2014, respectively. These rates reflect DHI Mortgage's consistent focus on the captive business provided by our homebuilding operations.

The number of loans sold increased 16% in fiscal 2016 and 30% in fiscal 2015 as compared to the respective prior years. Virtually all of the mortgage loans originated during recent years and mortgage loans held for sale on September 30, 2016 were eligible for sale to Fannie Mae, Freddie Mac or Ginnie Mae. Approximately 92% of the mortgage loans sold by DHI Mortgage during fiscal 2016 were sold to four major financial entities, one of which purchased 27% of our total loans sold.

Financial Services and Other Revenues and Expenses

Revenues from our financial services and other operations increased 12% to $295.6 million in fiscal 2016 from $265.0 million in fiscal 2015, and the number of loan originations also increased 12% over that same period. Revenues from our financial services and other operations increased 59% to $265.0 million in fiscal 2015 from $166.4 million in fiscal 2014, and the number of loan originations increased 32%. In fiscal 2015, revenues increased at a higher rate than origination volume primarily due to improved loan sale execution in the secondary market and higher average loan amounts.

Our mortgage operations revenues in fiscal 2016 were reduced by $8.5 million to increase our loss reserves for estimated future recourse obligations and other mortgage loans, and to adjust certain mortgage loans held for sale to fair value. Our mortgage operations revenues in fiscal 2015 and 2014 were increased by $9.8 million and $2.2 million, respectively, from decreases to our loss reserves. Our loss reserves for loan recourse obligations are estimated based upon analysis of the volume of mortgages originated, loan repurchase requests received, actual repurchases and losses through the disposition of such loans or requests and discussions with our mortgage purchasers. Actual losses on mortgage loans may differ from our estimates, which may result in future changes to our loss reserves.

General and administrative (G&A) expense from financial services and other operations was $220.0 million, $183.0 million and $138.5 million in fiscal 2016, 2015 and 2014, respectively, increasing 20% in 2016 and 32% in 2015 from the respective prior years. These increases were primarily due to increases in employee compensation costs to support the growth in our homebuilding closing volume. Also, new federal regulations that have recently become effective required our mortgage operations to incur significant costs for additional personnel to implement and maintain compliance with these regulations. Our financial services and other operations employed 1,610, 1,342 and 1,096 employees at September 30, 2016, 2015 and 2014, respectively.

As a percentage of financial services and other revenues (excluding the effects of recourse expense or benefit), G&A expense was 72.3%, 71.7% and 84.3% in fiscal 2016, 2015 and 2014, respectively. The improvement during fiscal 2016 and 2015 as compared to fiscal 2014 was due to the relative increase in revenue and leverage of fixed overhead costs. Fluctuations in financial services G&A expense as a percentage of revenues can be expected to occur, as some components of revenue may fluctuate differently than loan volumes, and some expenses are not directly related to mortgage loan volume or to changes in the amount of revenue earned.

Interest and other income, net of other expense, included in our financial services and other operations consists primarily of the interest income of our mortgage subsidiary. Interest and other income in fiscal 2016 was lower than previous years due to expenses related to our other business activities, which include subsidiaries that conduct insurance-related operations, construct and own income-producing rental properties, own non-residential real estate including ranch land and improvements and own and operate oil and gas related assets.

Results of Operations — Consolidated

Income before Income Taxes

Pre-tax income was $1.4 billion, $1.1 billion and $814.2 million in fiscal 2016, 2015 and 2014, respectively. The increase in our operating income over the three-year period is primarily due to higher revenues and home sales gross profits from increased home closings.

Income Taxes

Our income tax expense was $467.2 million, $372.7 million and $280.7 million in fiscal 2016, 2015 and 2014, respectively, and our effective tax rate was 34.5%, 33.2% and 34.5%, respectively, in those years. The effective tax rate for all years includes an expense for state income taxes, reduced by tax benefits for the domestic production activities deduction and federal energy tax credits. The effective tax rate for fiscal 2015 also includes a tax benefit for a reduction in the valuation allowance on deferred tax assets, and the effective tax rate for fiscal 2014 includes a tax benefit for the reduction in unrecognized tax benefits and related interest.

At September 30, 2016 and 2015, we had deferred tax assets, net of deferred tax liabilities, of $486.6 million and $568.2 million, respectively, partially offset by valuation allowances of $10.3 million and $10.1 million, respectively. We had tax benefits of $40.1 million that exist for state net operating loss (NOL) carryforwards that will expire at various times depending on the tax jurisdiction. Of the total amount, $0.3 million of the tax benefits will expire from fiscal years 2017 to 2021, $12.9 million will expire from fiscal years 2022 to 2026 and $26.9 million will expire from fiscal years 2027 to 2036. We also had tax benefits for state tax credit carryforwards of $1.6 million that will expire from fiscal years 2018 to 2019 and $1.3 million of tax benefits for state tax credit carryforwards that have no expiration date. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

When assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of our deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods. We record a valuation allowance when we determine it is more likely than not that a portion of the deferred tax assets will not be realized. During the fourth quarter of fiscal 2015, we reduced the valuation allowance by $17.5 million because we concluded it was more likely than not that we would realize more of our deferred tax assets related to state NOL carryforwards than previously anticipated. We based this conclusion on additional positive evidence related to the actual taxable income achieved during fiscal 2015 and higher levels of forecasted profitability for future years. The remaining valuation allowance at September 30, 2015 related to our state deferred tax assets for NOL carryforwards and certain tax credit carryforwards. The valuation allowance at September 30, 2016 relates to our state deferred tax assets for NOL carryforwards only. We believe it is more likely than not that a portion of these state NOL carryforwards will not be realized because some state NOL carryforward periods are too brief to realize the related deferred tax assets. We will continue to evaluate both the positive and negative evidence in determining the need for a valuation allowance with respect to our remaining state NOL carryforwards.

Unrecognized tax benefits are the differences between tax positions taken or expected to be taken in a tax return and the benefits recognized for accounting purposes. We had no unrecognized tax benefits and no accrued interest or penalties related to unrecognized tax benefits at September 30, 2016 and 2015.

We are subject to federal income tax and to income tax in multiple states. The statute of limitations for our major tax jurisdictions remains open for examination for fiscal years 2010 through 2016. We are currently being audited by various states.

Capital Resources and Liquidity

We have historically funded our homebuilding and financial services and other operations with cash flows from operating activities, borrowings under bank credit facilities and the issuance of new debt securities. Our current levels of cash, borrowing capacity and balance sheet leverage provide us with the operational flexibility to adjust to changes in homebuilding market conditions and allow us to increase our investments in homes, finished lots, land and land development to expand our operations and grow our profitability.

At September 30, 2016, our ratio of homebuilding debt to total capital (homebuilding notes payable divided by total equity plus homebuilding notes payable) was 29.2%, compared to 36.1% at September 30, 2015. We intend to maintain our ratio of homebuilding debt to total capital below 40% over the long term, but we may choose to operate at higher levels for short-term periods. Therefore, future homebuilding debt to total capital ratios may be higher than the current level. We believe that the ratio of homebuilding debt to total capital is useful in understanding the leverage employed in our homebuilding operations and comparing our capital structure with other homebuilders. We exclude the debt of our financial services business because it is separately capitalized and its obligation under its repurchase facility is substantially collateralized and not guaranteed by our parent company or any of our homebuilding entities.

We believe that our existing cash resources, our revolving credit facility and our mortgage repurchase facility provide sufficient liquidity to fund our near-term working capital needs and debt obligations, including the maturity of $350.0 million principal amount of senior notes during fiscal 2017. We regularly assess our projected capital requirements to fund future growth in our business, repay future debt obligations, and support other general corporate and operational needs, and we regularly evaluate our opportunities to raise additional capital. We have an automatically effective universal shelf registration statement filed with the SEC in August 2015, registering debt and equity securities which we may issue from time to time in amounts to be determined. As market conditions permit, we may issue new debt or equity securities through the public capital markets or obtain additional bank financing to fund our projected capital requirements or provide additional liquidity.

Capital Resources - Homebuilding

Cash and Cash Equivalents — At September 30, 2016, cash and cash equivalents of our homebuilding segment totaled $1.3 billion.

Bank Credit Facility — We have a $975 million senior unsecured revolving credit facility with an uncommitted accordion feature that could increase the size of the facility to $1.25 billion, subject to certain conditions and availability of additional bank commitments. The facility also provides for the issuance of letters of credit with a sublimit equal to approximately 50% of the revolving credit commitment. Letters of credit issued under the facility reduce the available borrowing capacity. The interest rate on borrowings under the revolving credit facility may be based on either the Prime Rate or London Interbank Offered Rate (LIBOR) plus an applicable margin, as defined in the credit agreement governing the facility. The maturity date of the facility is September 7, 2020. At September 30, 2016, there were no borrowings outstanding and $93.5 million of letters of credit issued under the revolving credit facility, resulting in available capacity of $881.5 million.

Our revolving credit facility imposes restrictions on our operations and activities, including requiring the maintenance of a minimum level of tangible net worth, a maximum allowable ratio of debt to tangible net worth and a borrowing base restriction if our ratio of debt to tangible net worth exceeds a certain level. These covenants are measured as defined in the credit agreement governing the facility and are reported to the lenders quarterly. A failure to comply with these financial covenants could allow the lending banks to terminate the availability of funds under the revolving credit facility or cause any outstanding borrowings to become due and payable prior to maturity. In addition, the credit agreement governing the facility imposes restrictions on the creation of secured debt and liens. At September 30, 2016, we were in compliance with all of the covenants, limitations and restrictions of our revolving credit facility.

Secured Letter of Credit Agreement — We have a secured letter of credit agreement which requires us to deposit cash, in an amount approximating the balance of letters of credit outstanding, as collateral with the issuing bank. The amount of cash restricted for letters of credit issued under this agreement totaled $2.9 million and $3.1 million at September 30, 2016 and September 30, 2015, respectively, and is included in homebuilding restricted cash in our consolidated balance sheets.

Public Unsecured Debt — On January 15, 2016, we repaid $170.2 million principal amount of our 5.625% senior notes, which were due on that date. On April 15, 2016, we repaid $372.7 million principal amount of our 6.5% senior notes, which were due on that date. We have $350.0 million principal amount of our senior notes maturing in May 2017. The indenture governing our senior notes imposes restrictions on the creation of secured debt and liens. At September 30, 2016, we were in compliance with all of the limitations and restrictions associated with our public debt obligations.

Debt and Equity Repurchase Authorizations — Effective August 1, 2016, our Board of Directors authorized the repurchase of up to $500 million of debt securities and $100 million of our common stock effective through July 31, 2017. The full amount of each of these authorizations was remaining at September 30, 2016.

Capital Resources - Financial Services and Other

Cash and Cash Equivalents — At September 30, 2016, cash and cash equivalents of our financial services and other operations totaled $31.4 million.

Mortgage Repurchase Facility — Our mortgage subsidiary, DHI Mortgage, has a mortgage repurchase facility that is accounted for as a secured financing. The mortgage repurchase facility provides financing and liquidity to DHI Mortgage by facilitating purchase transactions in which DHI Mortgage transfers eligible loans to the counterparties against the transfer of funds by the counterparties, thereby becoming purchased loans. DHI Mortgage then has the right and obligation to repurchase the purchased loans upon their sale to third-party purchasers in the secondary market or within specified time frames from 45 to 60 days in accordance with the terms of the mortgage repurchase facility. In February 2016, the mortgage repurchase facility was amended, and its maturity date was extended to February 24, 2017. Additionally, new commitments were obtained from banks which increased the total capacity of the facility to $475 million and to $550 million during the last five days of any fiscal quarter and the first twenty-five days of the following fiscal quarter. In September 2016, the facility was amended to increase the capacity to $700 million from September 23, 2016 through November 21, 2016. The capacity of the facility can also be increased to $800 million subject to the availability of additional commitments.

As of September 30, 2016, $610.6 million of mortgage loans held for sale with a collateral value of $589.3 million were pledged under the mortgage repurchase facility. As a result of advance paydowns totaling $116.3 million, DHI Mortgage had an obligation of $473.0 million outstanding under the mortgage repurchase facility at September 30, 2016 at a 2.7% annual interest rate.

The mortgage repurchase facility is not guaranteed by D.R. Horton, Inc. or any of the subsidiaries that guarantee our homebuilding debt. The facility contains financial covenants as to the mortgage subsidiary's minimum required tangible net worth, its maximum allowable ratio of debt to tangible net worth and its minimum required liquidity. These covenants are measured and reported to the lenders monthly. At September 30, 2016, DHI Mortgage was in compliance with all of the conditions and covenants of the mortgage repurchase facility.

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

Operating Cash Flow Activities

In fiscal 2016, cash provided by operating activities was $618.0 million compared to $700.4 million in fiscal 2015. The most significant source of cash provided by operating activities in both years was net income.

Cash used to increase our construction in progress and finished home inventory was $496.2 million, compared to $63.1 million of cash provided from a decrease in construction in progress and finished home inventory in fiscal 2015. The increase in our construction in progress and finished homes inventory is due to the increase in our number of homes under construction to support an expected increase in sales and closings volumes. Cash used to increase residential land and lots inventory was $10.3 million, compared to $152.6 million in fiscal 2015.

Investing Cash Flow Activities

In fiscal 2016, net cash used in investing activities was $112.6 million, compared to $95.4 million in fiscal 2015. In September 2016, we acquired the homebuilding operations of Wilson Parker Homes for $91.9 million. We paid $82.2 million of the purchase price in cash during fiscal 2016 and expect the remaining purchase price to be paid in fiscal 2017. During fiscal 2015, we used cash to acquire the homebuilding operations of Pacific Ridge Homes for $70.9 million.

We used $86.1 million and $56.1 million in fiscal 2016 and 2015, respectively, to purchase property and equipment, including model home furniture, office and technology equipment and office buildings to support our operations. Investing cash flows during fiscal 2016 include proceeds of $35.8 million from the sale of our investment in debt securities, which resulted in a $4.5 million gain. During fiscal 2015, we used $14.8 million of cash to increase our investment in the debt securities.

In fiscal 2015, we sold 177,000 acres of ranch land in New Mexico and all related assets, including the livestock grazing rights under long-term leases on approximately 114,000 acres of land, to Donald R. Horton, our Chairman, for $56.0 million in cash. We recognized a gain of $2.3 million related to the sale.

Financing Cash Flow Activities

We expect the short-term financing needs of our operations will be funded with existing cash, cash generated from operations and borrowings available under our homebuilding and financial services credit facilities. Long-term financing needs for the growth of our operations have historically been funded with the issuance of senior unsecured debt securities through the public capital markets.

In fiscal 2016, net cash used in financing activities was $586.0 million, consisting primarily of note payments and payments of cash dividends. Note repayments of $549.7 million included our repayment of $170.2 million principal amount of our 5.625% senior notes and $372.7 million principal amount of our 6.5% senior notes at maturity. During fiscal 2015, net cash provided by financing activities was $117.0 million, consisting primarily of note proceeds, partially offset by repayments of notes payable and payments of cash dividends. Proceeds from notes payable of $1.6 billion related to our issuance of $500 million principal amount of 4.0% senior notes in February 2015, draws of $975.0 million on our revolving credit facility and borrowings of $118.7 million under our mortgage repurchase facility. Note repayments of $1.5 billion included our repayment of $1.3 billion drawn on our revolving credit facility and repayment of the $157.7 million principal amount of our 5.25% senior notes at maturity.

Our Board of Directors approved and paid quarterly cash dividends of $0.08 per common share and $0.0625 per common share in fiscal 2016 and 2015, respectively. In November 2016, our Board of Directors approved a cash dividend of $0.10 per common share, payable on December 12, 2016, to stockholders of record on November 28, 2016. The declaration of future cash dividends is at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, cash flows, capital requirements, financial condition and general business conditions.

Contractual Cash Obligations, Commercial Commitments and Off-Balance Sheet Arrangements

Our primary contractual cash obligations are payments under our debt agreements and lease payments under operating leases. We expect to fund our contractual obligations in the ordinary course of business through a combination of our existing cash resources, cash flows generated from profits, our homebuilding and financial services credit facilities or other bank financing, and the issuance of new debt or equity securities through the public capital markets as market conditions may permit.

Our future cash requirements for contractual obligations as of September 30, 2016 are presented below:

	Payments Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In millions)				
Homebuilding:					
Notes Payable — Principal (1)	$2,811.5	$358.6	$902.9	$ 500.0	$1,050.0
Notes Payable — Interest (1)	484.2	116.9	177.3	112.6	77.4
Operating Leases	32.9	12.4	14.3	5.4	0.8
Purchase Obligations (2)	38.1	26.4	10.9	0.8	—
	$3,366.7	$514.3	$1,105.4	$ 618.8	$1,128.2
Financial Services and Other:					
Notes Payable — Principal (3)	$473.0	$473.0	$—	$ —	$—
Notes Payable — Interest (3)	12.7	12.7	—	—	—
Operating Leases	1.8	0.6	0.9	0.3	—
	$487.5	$486.3	$0.9	$ 0.3	$—

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(1) Homebuilding notes payable represent principal and interest payments due on our senior notes and our secured notes. Because the balance of our revolving credit facility was zero at September 30, 2016, we did not assume any principal or interest payments related to this facility in future periods.

(2) Purchase obligations relate to our land and lot option purchase contracts which enable us to control significant lot positions with limited capital investment. Among our land and lot option purchase contracts at September 30, 2016, there were a limited number of contracts, representing $38.1 million of remaining purchase price, subject to specific performance provisions which may require us to purchase the land or lots upon the land sellers meeting their contractual obligations. Further information about our land option contracts is provided in the "Inventories, Land and Lot Position and Homes in Inventory" section included herein.

(3) Financial services notes payable represent principal and interest payments due on our mortgage subsidiary's repurchase facility. The interest obligation associated with this variable rate facility is based on its annual effective rate of 2.7% and principal balance outstanding at September 30, 2016.

At September 30, 2016, our homebuilding operations had outstanding letters of credit of $96.4 million and surety bonds of $1.1 billion, issued by third parties to secure performance under various contracts. We expect that our performance obligations secured by these letters of credit and bonds will generally be completed in the ordinary course of business and in accordance with the applicable contractual terms. When we complete our performance obligations, the related letters of credit and bonds are generally released shortly thereafter, leaving us with no continuing obligations. We have no material third-party guarantees.

Our mortgage subsidiary enters into various commitments related to the lending activities of our mortgage operations. Further discussion of these commitments is provided in Item 7A "Quantitative and Qualitative Disclosures About Market Risk" under Part II of this annual report on Form 10-K.

Seasonality

Although significant changes in market conditions have impacted our seasonal patterns in the past and could do so again in the future, we generally close more homes and generate greater revenues and operating income in the third and fourth quarters of our fiscal year. The seasonal nature of our business can also cause significant variations in our working capital requirements in both our homebuilding and financial services operations. As a result of seasonal activity, our quarterly results of operations and financial position at the end of a particular fiscal quarter are not necessarily representative of the balance of our fiscal year.

Inflation

We may be adversely affected during periods of high inflation, primarily because of higher financing, land, labor and material construction costs. We attempt to pass through to our customers any increases in our costs through increased sales prices. However, during periods when housing market conditions are challenging, we may not be able to offset cost increases with higher selling prices. In addition, higher mortgage interest rates reduce the affordability of our homes to prospective homebuyers.

Forward-Looking Statements

Some of the statements contained in this report, as well as in other materials we have filed or will file with the Securities and Exchange Commission, statements made by us in periodic press releases and oral statements we make to analysts, stockholders and the press in the course of presentations about us, may be construed as “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s beliefs as well as assumptions made by, and information currently available to, management. These forward-looking statements typically include the words “anticipate,” “believe,” “consider,” “estimate,” “expect,” “forecast,” “g “intend,” “objective,” “plan,” “predict,” “projection,” “seek,” “strategy,” “target,” “will” or other words of similar meaning. Ar the forward-looking statements included in this report and in any other of our reports or public statements may not approximate actual experience, and the expectations derived from them may not be realized, due to risks, uncertainties and other factors. As a result, actual results may differ materially from the expectations or results we discuss in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

- the cyclical nature of the homebuilding industry and changes in economic, real estate and other conditions;
- constriction of the credit markets, which could limit our ability to access capital and increase our costs of capital;
- reductions in the availability of mortgage financing provided by government agencies, changes in government financing programs, a decrease in our ability to sell mortgage loans on attractive terms or an increase in mortgage interest rates;
- the risks associated with our land and lot inventory;
- home warranty and construction defect claims;
- the effects of a health and safety incident;
- the effects of negative publicity;
- supply shortages and other risks of acquiring land, building materials and skilled labor;
- the impact of an inflationary, deflationary or higher interest rate environment;
- reductions in the availability of performance bonds;
- increases in the costs of owning a home;
- the effects of governmental regulations and environmental matters on our homebuilding operations;
- the effects of governmental regulations on our financial services operations;
- our significant debt and our ability to comply with related debt covenants, restrictions and limitations;
- competitive conditions within the homebuilding and financial services industries;
- our ability to effect our growth strategies, acquisitions or investments successfully;
- the effects of the loss of key personnel; and
- information technology failures and data security breaches.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in subsequent reports on Forms 10-K, 10-Q and 8-K should be consulted. Additional information about issues that could lead to material changes in performance and risk factors that have the potential to affect us is contained in Item 1A, “Risk Factors” under Part I of this annual report on Form 10-K.

Critical Accounting Policies

General — A comprehensive enumeration of the significant accounting policies of D.R. Horton, Inc. and subsidiaries is presented in Note A to the accompanying financial statements as of September 30, 2016 and 2015, and for the years ended September 30, 2016, 2015 and 2014. Each of our accounting policies has been chosen based upon current authoritative literature that collectively comprises U.S. Generally Accepted Accounting Principles (GAAP). In instances where alternative methods of accounting are permissible under GAAP, we have chosen the method that most appropriately reflects the nature of our business, the results of our operations and our financial condition, and have consistently applied those methods over each of the periods presented in the financial statements. The Audit Committee of our Board of Directors has reviewed and approved the accounting policies selected.

Revenue Recognition — We generally recognize homebuilding revenue and related profit at the time of the closing of a sale, when title to and possession of the property are transferred to the buyer. In situations where the buyer's financing is originated by DHI Mortgage, our 100% owned mortgage subsidiary, and the buyer has not made an adequate initial or continuing investment, the profit is deferred until the sale of the related mortgage loan to a third-party purchaser has been completed. Any profit on land sales is deferred until the full accrual method criteria are met. When appropriate, revenue and profit on long-term construction projects are recognized under the percentage-of-completion method.

We include proceeds from home closings held for our benefit at title companies in homebuilding cash. When we execute sales contracts with our homebuyers, or when we require advance payment from homebuyers for custom changes, upgrades or options related to their homes, we record the cash deposits received as liabilities until the homes are closed or the contracts are cancelled. We either retain or refund to the homebuyer deposits on cancelled sales contracts, depending upon the applicable provisions of the contract or other circumstances.

We recognize financial services revenues associated with our title operations as closing services are rendered and title insurance policies are issued, both of which generally occur simultaneously as each home is closed. We transfer substantially all underwriting risk associated with title insurance policies to third-party insurers. We typically elect the fair value option for our mortgage loan originations. Mortgage loans held for sale are initially recorded at fair value based on either sale commitments or current market quotes and are adjusted for subsequent changes in fair value until the loans are sold. Net origination costs and fees associated with mortgage loans are recognized at the time of origination. 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. We generally sell the mortgages we originate and the related servicing rights to third-party purchasers. Interest income is earned from the date a mortgage loan is originated until the loan is sold.

Some mortgage loans are sold with limited recourse provisions, which can result in repurchases of loans previously sold to investors or payments to reimburse investors for loan losses. Based on historical experience, discussions with our mortgage purchasers, analysis of the mortgages we originated and current housing and credit market conditions, we estimate and record a loss reserve for mortgage loans held in portfolio and mortgage loans held for sale, as well as known and projected mortgage loan repurchase requests.

Inventories and Cost of Sales — Inventory includes the costs of direct land acquisition, land development and home construction, capitalized interest, real estate taxes and direct overhead costs incurred during development and home construction. Costs that we incur after development projects or homes are substantially complete, such as utilities, maintenance, and cleaning, are charged to SG&A expense as incurred. All indirect overhead costs, such as compensation of sales personnel, division and region management, and the costs of advertising and builder's risk insurance are charged to SG&A expense as incurred.

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Land and development costs are typically allocated to individual residential lots on a pro-rata basis, and the costs of residential lots are transferred to construction in progress when home construction begins. Home construction costs are specifically identified and recorded to individual homes. Cost of sales for homes closed includes the specific construction costs of each home and all applicable land acquisition, land development and related costs (both incurred and estimated to be incurred) allocated to each residential lot based upon the total number of homes expected to be closed in each community. Any changes to the estimated total development costs subsequent to the initial home closings in a community are generally allocated on a pro-rata basis to the remaining homes in the community associated with the relevant development activity.

When a home is closed, we generally have not paid all incurred costs necessary to complete the home. We record as a liability and as a charge to cost of sales the amount estimated to ultimately be paid related to completed homes that have been closed. We compare our home construction budgets to actual recorded costs to determine the additional costs remaining to be paid on each closed home. We monitor the accrual by comparing actual costs incurred on closed homes in subsequent months to the amounts previously accrued. Although actual costs to be paid in the future on previously closed homes could differ from our current accruals, such differences have not been significant.

Each quarter, we review our communities and land inventory for indicators of potential impairment. We generally review our inventory for impairment indicators at the community level, and the inventory within each community is categorized as land held for development, residential land and lots developed and under development, land held for sale and construction in progress and finished homes, based on the stage of production or plans for future development or sale. A particular community often includes inventory in more than one category. In certain situations, inventory may be analyzed separately for impairment purposes based on its product type or future plans. In reviewing each of our communities, we determine if impairment indicators exist on inventory held and used by analyzing a variety of factors including, but not limited to, the following:

- gross margins on homes closed in recent months;
- projected gross margins on homes sold but not closed;
- projected gross margins based on community budgets;
- trends in gross margins, average selling prices or cost of sales;
- sales absorption rates; and
- performance of other communities in nearby locations.

If indicators of impairment are present for a community, we perform an impairment evaluation of the community, which includes an analysis to determine if the undiscounted cash flows estimated to be generated by those assets are less than their carrying amounts. If so, impairment charges are recorded to cost of sales if the fair value of such assets is less than their carrying amounts. These estimates of cash flows are significantly impacted by community specific factors including estimates of the amounts and timing of future revenues and estimates of the amount of land development, materials and labor costs which, in turn, may be impacted by the following local market conditions:

- supply and availability of new and existing homes;
- location and desirability of our communities;
- variety of product types offered in the area;
- pricing and use of incentives by us and our competitors;
- alternative uses for our land or communities such as the sale of land, finished lots or home sites to third parties;
- amount of land and lots we own or control in a particular market or sub-market; and
- local economic and demographic trends.

For those assets deemed to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Our determination of fair value is primarily based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. 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. Impairment charges are also recorded on finished homes in substantially completed communities when events or circumstances indicate that the carrying values are greater than the fair values less estimated costs to sell these homes.

For the inventory impairment analyses performed during fiscal 2016, we assumed that for the majority of communities, 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. The remaining lives of the communities evaluated were estimated to be in a range from seven months to three years, and we utilized a range of discount rates for communities from 10% to 14%.

We rarely purchase land for resale. However, when we own land or communities under development that do not fit into our development and construction plans, and we determine that we will sell the asset, the project is accounted for as land held for sale if certain criteria are met. We record land held for sale at the lesser of its carrying value or fair value less estimated costs to sell. In performing the impairment evaluation for land held for sale, we consider several factors including, but not limited to, recent offers received to purchase the property, prices for land in recent comparable sales transactions and market analysis studies, which include the estimated price a willing buyer would pay for the land. If the estimated fair value less costs to sell an asset is less than the current carrying value, the asset is written down to its estimated fair value less costs to sell.

The key assumptions relating to inventory valuations are impacted by local market and economic conditions, and are inherently uncertain. Although our quarterly assessments reflect management’s best estimates, due to uncertainties in the estimation process, actual results could differ from such estimates.

Business Acquisitions — We account for acquisitions of businesses by allocating the purchase price of the business to the various assets acquired and liabilities assumed at their respective fair values. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. These estimates and assumptions are based on historical experience and information obtained from the management of the acquired companies. While we believe the estimates and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

Goodwill — We record goodwill associated with our acquisitions of businesses when the purchase price of the business exceeds the fair value of the net tangible and identifiable intangible assets acquired. We evaluate our goodwill balances for potential impairment on at least an annual basis by comparing the carrying value of each of our operating segments with goodwill to their estimated fair values. The estimated fair value is determined by discounting the future cash flows of the operating segment to their present value. If the carrying value of the operating segment exceeds its fair value, we determine if an impairment exists based on the implied fair value of the operating segment’s goodwill. As a result of the goodwill evaluations performed in fiscal 2016 and 2015, impairment charges of $7.2 million and $9.8 million were recorded to reduce the goodwill in the Huntsville operating segment in the Southeast reporting region. This operating segment has experienced lower levels of profitability than anticipated primarily due to difficult market conditions. At September 30, 2016, there was no goodwill remaining in the Huntsville operating segment. At September 30, 2016 and 2015, our goodwill balance was $80.0 million and $87.2 million, respectively.

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Warranty Claims — 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. Since we subcontract our construction work to subcontractors who typically provide us with an indemnity and a certificate of insurance prior to receiving payments for their work, claims relating to workmanship and materials are generally the primary responsibility of the subcontractors. Warranty liabilities have been established by charging cost of sales for each home delivered. The amounts charged are based on management's estimate of expected warranty-related costs under all unexpired warranty obligation periods. Our warranty liability is based upon historical warranty cost experience in each market in which we operate, and is adjusted to reflect qualitative risks associated with the types of homes we build and the geographic areas in which we build them. Actual future warranty costs could differ from our currently estimated amounts. A 10% change in the historical warranty rates used to estimate our warranty accrual would not result in a material change in our accrual.

Legal Claims and Insurance — We are named as a defendant in various claims, complaints and other legal actions in the ordinary course of business. At any point in time, we are managing several hundred individual claims related to construction defect matters, personal injury claims, employment matters, land development issues and contract disputes. We have established reserves for these contingencies based on the estimated costs of pending claims and the estimated costs of anticipated future claims related to previously closed homes. Approximately 93% and 99% of these reserves related to construction defect matters at September 30, 2016 and 2015, respectively.

Our reserves for construction defect claims include the estimated costs of both known claims and anticipated future claims. As of September 30, 2016 and 2015, we had reserves for approximately 140 and 185 pending construction defect claims, respectively, and no individual existing claim was material to our financial statements. During fiscal 2016, we established reserves for approximately 90 new construction defect claims and resolved 135 construction defect claims for a total cost of $44.0 million. We have closed a significant number of homes during recent years, and we may be subject to future construction defect claims on these homes. Although regulations vary from state to state, construction defect issues can generally be reported for up to ten years after the home has closed in many states in which we operate. Historical data and trends regarding the frequency of claims incurred and the costs to resolve claims relative to the types of products and markets where we operate are used to estimate the construction defect liabilities for both existing and anticipated future claims. These estimates are subject to ongoing revision as the circumstances of individual pending claims and historical data and trends change. Adjustments to estimated reserves are recorded in the accounting period in which the change in estimate occurs.

Historical trends in construction defect claims have been inconsistent, and we believe they may continue to fluctuate. Housing market conditions have been volatile across most of our markets over the past ten years, and we believe such conditions can affect the frequency and cost of construction defect claims. We closed a significant number of homes over the past ten years. If the ultimate resolution of construction defect claims resulting from our home closings in prior years varies from current expectations, it could significantly change our estimates regarding the frequency and timing of claims incurred and the costs to resolve existing and anticipated future claims, which would impact the construction defect reserves in the future. If the frequency of claims incurred or costs of existing and future legal claims significantly exceed our current estimates, they will have a significant negative impact on our future earnings and liquidity.

We estimate and record receivables under the applicable insurance policies related to our estimated contingencies for known claims and anticipated future construction defect claims on previously closed homes and other legal claims and lawsuits incurred in the ordinary course of business when recovery is probable. Additionally, we may have the ability to recover a portion of our losses from our subcontractors and their insurance carriers when we have been named as an additional insured on their insurance policies.

The estimation of losses related to these reserves and the related estimates of recoveries from insurance policies are subject to a high degree of variability due to uncertainties such as trends in construction defect claims relative to our markets and the types of products built, claim frequency, claim settlement costs and patterns, insurance industry practices and legal interpretations, among others. Due to the high degree of judgment required in establishing reserves for these contingencies, actual future costs and recoveries from insurance could differ significantly from current estimated amounts. A 10% increase in the claim frequency and the average cost per claim used to estimate the reserves would result in an increase of approximately $65.7 million in our reserves and a $34.8 million increase in our receivable, resulting in additional expense of $30.9 million. A 10% decrease in the claim frequency and the average cost per claim would result in a decrease of approximately $59.2 million in our reserves and a $25.9 million decrease in our receivable, resulting in a reduction in expense of $33.3 million.

Income Taxes — We calculate our income tax expense (benefit) using the asset and liability method, under which deferred tax assets and liabilities are recognized based on the future tax consequences attributable to temporary differences between the financial statement amounts of assets and liabilities and their respective tax bases and attributable to net operating losses and tax credit carryforwards. When assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The realization of deferred tax assets is dependent upon the generation of sufficient taxable income in future periods and in the jurisdictions in which those temporary differences become deductible. We record a valuation allowance when we determine it is more likely than not that a portion of our deferred tax assets will not be realized. The accounting for deferred taxes is based upon estimates of future results. Differences between the anticipated and actual outcomes of these future results could have a material impact on our consolidated results of operations or financial position. Also, changes in existing federal and state tax laws and tax rates could affect future tax results and the valuation of our deferred tax assets.

Interest and penalties related to unrecognized tax benefits are recognized in the financial statements as a component of income tax expense. Significant judgment is required to evaluate uncertain tax positions. We evaluate our uncertain tax positions on a quarterly basis. Our evaluations are based upon a number of factors, including changes in facts or circumstances, changes in tax law, correspondence with tax authorities during the course of audits and effective settlement of audit issues. Changes in the recognition or measurement of uncertain tax positions could result in increases or decreases in our income tax expense in the period in which we make the change.

Stock-based Compensation — Our stockholders formally authorize shares of our common stock to be available for future grants of stock-based compensation awards. From time to time, the Compensation Committee of our Board of Directors authorizes the grant of stock-based compensation to our employees and directors from these available shares. At September 30, 2016, our outstanding stock-based compensation awards include stock options and restricted stock units. Grants of restricted stock units may vest immediately or over a certain number of years as determined by the Compensation Committee of our Board of Directors. Restricted stock units outstanding at September 30, 2016 have a remaining vesting period of 1 to 5 years. Stock options are granted at exercise prices which equal the market value of our common stock at the date of the grant. The stock options outstanding at September 30, 2016 vest over periods of 2 to 9.75 years from the initial grant date and expire 10 years after the dates on which they were granted.

The compensation expense for stock-based awards is based on the fair value of the award and is recognized on a straight-line basis over the remaining vesting period. The fair values of restricted stock units are based on our stock price at the date of grant. The fair values of stock options granted are calculated on the date of grant using a Black-Scholes option pricing model. Determining the fair value of stock options requires judgment in developing assumptions and involves a number of estimates. These estimates include, but are not limited to, the expected stock price volatility over the term of the awards, the expected dividend yield and expected stock option exercise behavior. In addition, we also use judgment in estimating the number of stock options that are expected to be forfeited. The benefits of tax deductions in excess of recognized compensation expense are reported in our consolidated statements of cash flows as a financing cash flow.

Fair Value Measurements — The FASB's authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. The fair value hierarchy and its application to our assets and liabilities, is as follows:

- Level 1 — Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 — Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 — Valuation is typically derived from model-based techniques in which at least one significant input is unobservable and based on our own estimates about the assumptions that market participants would use to value the asset or liability.

When available, we use quoted market prices in active markets to determine fair value. We consider the principal market and nonperformance risk associated with our counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for our mortgage loans held for sale, debt securities collateralized by residential real estate, interest rate lock commitments (IRLCs) and other derivative instruments on a recurring basis and are used for inventories, certain other mortgage loans, rental properties and real estate owned on a nonrecurring basis, when events and circumstances indicate that the carrying value may not be recoverable.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which is a comprehensive new revenue recognition model that will replace most existing revenue recognition guidance. The core principle of this guidance is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The guidance is effective for us beginning October 1, 2018 and allows for full retrospective or modified retrospective methods of adoption. We are continuing to evaluate the effect of adopting ASU 2014-09 and the manner in which we will adopt the new standard.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern," which provides guidance about management's responsibility to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance is intended to reduce the diversity in the timing and content of footnote disclosures. The guidance is effective for us in our fiscal year ending September 30, 2017 and is not expected to have any impact on our consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU 2015-02, "Consolidation," which changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The guidance is effective for us beginning October 1, 2016 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which simplifies the subsequent measurement of inventory, excluding inventory measured using the last-in, first-out or retail inventory methods. The guidance specifies that inventory currently measured at the lower of cost or market, where market could be determined with different methods, should now be measured at the lower of cost or net realizable value. The guidance is effective for us beginning October 1, 2017 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments,” which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The guidance is effective for us beginning October 1, 2016 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires that lease assets and liabilities be recognized on the balance sheet, and that key information about leasing arrangements be disclosed. The guidance is effective for us beginning October 1, 2019, although early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation,” which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for us beginning October 1, 2017 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments,” which amends and clarifies the current guidance to reduce diversity in practice of the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective for us beginning October 1, 2018 and is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk on our long-term debt. We monitor our exposure to changes in interest rates and utilize both fixed and variable rate debt. For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. Conversely, for variable rate debt, changes in interest rates generally do not impact the fair value of the debt instrument, but may affect our future earnings and cash flows. Except in very limited circumstances, we do not have an obligation to prepay fixed-rate debt prior to maturity and, as a result, interest rate risk and changes in fair value would not have a significant impact on our cash flows related to our fixed-rate debt until such time as we are required to refinance, repurchase or repay such debt.

We are exposed to interest rate risk associated with our mortgage loan origination services. We manage interest rate risk through the use of forward sales of mortgage-backed securities (MBS), which are referred to as “hedging instruments” in the following discussion. We do not enter into or hold derivatives for trading or speculative purposes.

Interest rate lock commitments (IRLCs) are extended to borrowers who have applied for loan funding and who meet defined credit and underwriting criteria. Typically, the IRLCs have a duration of less than six months. Some IRLCs are committed immediately to a specific purchaser through the use of best-efforts whole loan delivery commitments, while other IRLCs are funded prior to being committed to third-party purchasers. The hedging instruments related to IRLCs are classified and accounted for as derivative instruments in an economic hedge, with gains and losses recognized in financial services revenues in the consolidated statements of operations. Hedging instruments related to funded, uncommitted loans are accounted for at fair value, with changes recognized in financial services revenues in the consolidated statements of operations, along with changes in the fair value of the funded, uncommitted loans. The fair value change related to the hedging instruments generally offsets the fair value change in the uncommitted loans. The net fair value change, which for the years ended September 30, 2016 and 2015 was not significant, is recognized in current earnings. At September 30, 2016, hedging instruments used to mitigate interest rate risk related to uncommitted mortgage loans held for sale and uncommitted IRLCs totaled a notional amount of $670.0 million. Uncommitted IRLCs totaled a notional amount of approximately $430.4 million and uncommitted mortgage loans held for sale totaled a notional amount of approximately $284.5 million at September 30, 2016.

The following table sets forth principal cash flows by scheduled maturity, effective weighted average interest rates and estimated fair value of our debt obligations as of September 30, 2016. Because the mortgage repurchase facility is effectively secured by certain mortgage loans held for sale which are typically sold within 60 days, its outstanding balance is included in the most current period presented. The interest rate for our variable rate debt represents the weighted average interest rate in effect at September 30, 2016.

	Fiscal Year Ending September 30,							Fair Value at September 30, 2016
	2017	2018	2019	2020	2021	Thereafter	Total	
	($ in millions)							
Debt:								
Fixed rate	$358.6	$402.1	$500.8	$500.0	$ —	$1,050.0	$2,811.5	$ 2,959.0
Average interest rate	5.0 %	3.8 %	3.9 %	4.2 %	—%	5.2 %	4.6 %	
Variable rate	$473.0	$—	$—	$—	$ —	$—	$473.0	$ 473.0
Average interest rate	2.7 %	— %	— %	— %	—%	— %	2.7 %	

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of D.R. Horton, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, total equity, and cash flows present fairly, in all material respects, the financial position of D.R. Horton, Inc. and its subsidiaries at September 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Fort Worth, Texas
November 18, 2016

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

	September 30,	
	2016	2015
	(In millions)	
ASSETS		
Homebuilding:		
Cash and cash equivalents	$1,271.8	$1,354.8
Restricted cash	9.5	9.7
Inventories:		
Construction in progress and finished homes	4,034.7	3,501.2
Residential land and lots — developed and under development	4,135.2	4,065.3
Land held for development	137.8	202.3
Land held for sale	33.2	38.2
	8,340.9	7,807.0
Deferred income taxes, net of valuation allowance of $10.3 million and $10.1 million at September 30, 2016 and 2015, respectively	476.3	558.1
Property and equipment, net	139.5	124.8
Other assets	456.2	455.0
Goodwill	80.0	87.2
	10,774.2	10,396.6
Financial Services and Other:		
Cash and cash equivalents	31.4	29.0
Mortgage loans held for sale	654.0	631.0
Property and equipment, net	55.9	22.1
Other assets	43.4	72.3
	784.7	754.4
Total assets	$11,558.9	$11,151.0
LIABILITIES		
Homebuilding:		
Accounts payable	$537.0	$473.0
Accrued expenses and other liabilities	917.1	927.4
Notes payable	2,798.3	3,333.6
	4,252.4	4,734.0
Financial Services and Other:		
Accounts payable and other liabilities	40.5	43.7
Mortgage repurchase facility	473.0	477.9
	513.5	521.6
Total liabilities	4,765.9	5,255.6
Commitments and contingencies (Note K)		
EQUITY		
Preferred stock, $.10 par value, 30,000,000 shares authorized, no shares issued	—	—
Common stock, $.01 par value, 1,000,000,000 shares authorized, 380,123,258 shares issued and 372,923,187 shares outstanding at September 30, 2016 and 375,847,442 shares issued and 368,647,371 shares outstanding at September 30, 2015	3.8	3.8
Additional paid-in capital	2,865.8	2,733.8
Retained earnings	4,057.2	3,289.6

Treasury stock, 7,200,071 shares at September 30, 2016 and 2015, at cost	(134.3)	(134.3)
Accumulated other comprehensive income	—	1.4
Stockholders' equity	6,792.5	5,894.3
Noncontrolling interests	0.5	1.1
Total equity	6,793.0	5,895.4
Total liabilities and equity	$11,558.9	$11,151.0

See accompanying notes to consolidated financial statements.

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

	Year Ended September 30,		
	2016	2015	2014
	(In millions, except per share data)		
Homebuilding:			
Revenues:			
Home sales	$11,783.1	$10,469.4	$7,804.7
Land/lot sales and other	78.7	89.6	53.8
	11,861.8	10,559.0	7,858.5
Cost of sales:			
Home sales	9,403.0	8,393.6	6,139.1
Land/lot sales and other	68.2	81.8	44.3
Inventory and land option charges	31.4	60.3	85.2
	9,502.6	8,535.7	6,268.6
Gross profit:			
Home sales	2,380.1	2,075.8	1,665.6
Land/lot sales and other	10.5	7.8	9.5
Inventory and land option charges	(31.4)	(60.3)	(85.2)
	2,359.2	2,023.3	1,589.9
Selling, general and administrative expense	1,100.3	1,003.0	826.9
Goodwill impairment	7.2	9.8	—
Other (income) expense	(12.7)	(7.8)	(5.5)
Homebuilding pre-tax income	1,264.4	1,018.3	768.5
Financial Services and Other:			
Revenues	295.6	265.0	