CENTEX CORP
Form 10-K
May 28, 2004

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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 March 31, 2004

Commission File No. 1-6776

CENTEX CORPORATION

(Exact name of registrant as specified in its charter)
Nevada
(State of incorporation)
75-0778259
(I.R.S. Employer Identification No.)
2728 N. Harwood, Dallas, Texas 75201
(Address of principal executive office, including zip code)
(214) 981-5000
(Registrant s telephone number)

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

Title of each class	Name of each exchange on which registered
Common Stock ($.25 par value)	New York Stock Exchange

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

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 [X] 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 the 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. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ].

On September 30, 2003 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the Centex Corporation common stock held by non-affiliates of the registrant was

$4.80 billion based upon the last sale price reported for such date on the New York Stock Exchange. Solely for purposes of determining this amount, Centex Corporation will treat as an affiliate (i) any director or executive officer of Centex Corporation or (ii) any person who beneficially owns more than 10% of the outstanding common stock of Centex Corporation as reflected in a Schedule 13D filed with the Securities and Exchange Commission, unless such person indicates in such filing that it holds such shares solely for investment and not with a view to exercising control over the business or affairs of Centex Corporation. As of May 15, 2004, 123,356,741 shares of the registrant s $.25 par value common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in Part III of this Report:

(a) Proxy statement for the annual meeting of stockholders of Centex Corporation to be held on July 15, 2004.

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PART I

ITEM 1. BUSINESS

General Development of Business

Centex Corporation is a Nevada corporation. Our common stock, par value $.25 per share, began trading publicly in 1969. Our common stock is traded on the New York Stock Exchange, or the NYSE. As of May 15, 2004, 123,356,741 shares of our common stock were outstanding. Any reference herein to we, us or our includes Centex Corporation and its subsidiary companies.

Since our founding in 1950 as a Dallas, Texas-based residential construction company, we have evolved into a multi-industry company. As of March 31, 2004, our subsidiary companies operated in four principal business segments: Home Building, Financial Services, Construction Services and Investment Real Estate. We provide a brief overview of each segment below, with a more detailed discussion of each segment later in this section.

Our domestic homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of single-family homes, townhomes and low-rise condominiums. We have participated in the conventional homebuilding business since 1950. Home Building internally tracks its performance compared to the last reported twelve months of revenues for its competitors. Based on Home Building s comparisons, we believe that it ranked as the nation s fourth largest homebuilder at March 31, 2004. Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments throughout the United Kingdom.

Our Financial Services operations are primarily engaged in the residential mortgage banking business, as well as other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations, other homebuilders and other real estate professionals, sub-prime home equity lending and the sale of title insurance and various other insurance coverages. We have been in the mortgage lending business since 1973.

Our Construction Services operations involve the construction of buildings and facilities for both private and government interests, including educational institutions, hospitals, military housing, correctional institutions, airport facilities, office buildings, hotels and resorts and sports facilities. We entered the Construction Services business in 1966 by acquiring a Dallas-based contractor that had been in business since 1936. We also acquired significant construction companies in 1978, 1982, 1987 and 1990.

Our Investment Real Estate operations involve the development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. We have determined that no significant capital will be allocated to Investment Real Estate for new business development. Beginning April 1, 2004, the Investment Real Estate financial results will be included in our Other business segment.

In June 2003, we spun off to our stockholders substantially all of our manufactured housing operations, which had previously been included in our Other business segment. We now report the historical financial results of manufactured housing operations as a discontinued operation.

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Prior to January 2004, we were also engaged in the construction products business through our majority equity interest in Centex Construction Products, Inc. (now known as Eagle Materials Inc.), which we refer to as Construction Products. On January 30, 2004, we spun off to our stockholders our entire equity interest in Construction Products. We now report the historical financial results of Construction Products as a discontinued operation.

Prior to February 2004, the common stock of 3333 Holding Corporation, which we refer to as Holding, and warrants to purchase limited partnership interests in Centex Development Company, L.P., which we refer to as the Partnership, were traded in tandem with our common stock. We held an ownership interest in the Partnership, which we reported on the equity method of accounting as a part of our Investment Real Estate business segment. Neither Holding nor the Partnership were consolidated in our financial statements. The operations of the Partnership included homebuilding operations in the United Kingdom. In February 2004, we acquired Holding and the Partnership through merger transactions, and the tandem trading arrangement was terminated. As a result of the merger, the international homebuilding operations of the Partnership are now included in our Home Building business segment, and the Partnership s domestic real estate operations are included in the Investment Real Estate segment for periods prior to April 1, 2004 and will be included in our Other business segment beginning April 1, 2004.

Financial Information about Industry Segments

Note (K), Business Segments, of the Notes to Consolidated Financial Statements on pages 82-85 of this Report contains additional information about our business segments and specific information on revenues received from external customers located in the United States and the United Kingdom for fiscal 2004, 2003 and 2002.

Narrative Description of Business

HOME BUILDING

Domestic

Our conventional homebuilding subsidiary, Centex Homes, purchases and develops land or lots and constructs and sells single-family homes, townhomes and low-rise condominiums domestically. Centex Homes is the only company to rank among the nation s top 10 homebuilders for each of the past 35 years according to *Professional Builder* magazine. Centex Homes sells to both first-time and move-up buyers, as well as active adult and second home buyers. In fiscal 2004, 81% of the homes we sold were single-family detached homes, and the remainder were townhomes and low-rise condominiums.

Markets

Centex Homes follows a strategy of reducing exposure to local market volatility by diversifying operations across geographically and economically diverse markets. As of March 31, 2004, Centex Homes was building in 92 market areas, including Washington, D.C., and in 26 states. Each market is listed below by geographic areas.

Region	States	Markets	States and Markets (continued)	
Mid-Atlantic	Maryland	Baltimore	Pennsylvania	Pittsburgh
	New Jersey	Atlantic/Cape May	South Carolina	Charleston/North Charleston
		Middlesex/Hunterdon/Sommerset		Hilton Head
		Monmouth/Ocean		Myrtle Beach
		Trenton	Virginia	Norfolk/Virginia Beach/Newport
	North Carolina	Charlotte/Gastonia/Rock Hill		Richmond/Petersburg
		Greensboro/Winston Salem/High Point		Washington, D.C.
		Raleigh/Durham/Chapel Hill		
		Wilmington		
Southeast	Florida	Daytona Beach	Georgia	Atlanta
		Ft. Lauderdale	South Carolina	Columbia
		Ft. Myers/Cape Coral		Greenville/Spartanburg/Anderson
		Ft. Walton Beach	Tennessee	Nashville
		Jacksonville		
		Lakeland/Winter Haven		
		Naples		
		Orlando		
		Punta Gorda		
		Sarasota/Bradenton		
		Tampa/St. Petersburg/Clearwater		
		West Palm Beach/Boca Raton		
Midwest	Colorado	Boulder/Longmont	Missouri	St. Louis
		Denver	Ohio	Akron
		Eagle		Canton/Massillon
		Fort Collins/Loveland		Cincinnati
		Greeley		Cleveland/Lorain/Elyria
	Indiana	Indianapolis		Columbus
		Fort Wayne		Dayton/Springfield
	Illinois	Chicago		Mansfield
	Kentucky	Louisville		Steubenville/Weirton
	Michigan	Ann Arbor		Toledo
		Detroit		Youngstown/Warren
		Grand Rapids/Muskegon/Holland	Utah	Salt Lake City
		Kalamazoo/Battle Creek		
	Minnesota	Minneapolis/St. Paul		
		Rochester		
Southwest	Arizona	Phoenix/Mesa	Texas	Austin/San Marcos
	Nevada	Las Vegas		Brazoria
		Albuquerque		Dallas

	New Mexico			
		Santa Fe		Ft. Worth/Arlington
				Galveston/Texas City
				Houston
				Killeen/Temple
				San Antonio
West Coast	California	Bakersfield	Hawaii	Hawaii
		Fresno	Nevada	Las Vegas
		Kings County		Reno
		Los Angeles/Long Beach	Oregon	Eugene
		Oakland		Portland/Vancouver
		Orange County	Washington	Seattle/Bellevue/Everett
		Riverside/San Bernardino		Tacoma
		Sacramento		
		San Diego		
		San Francisco		
		San Jose		
		San Luis Obispo		
		Visalia/Tulare/Porterville		
		Yolo		

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In fiscal 2004, Centex Homes closed 30,358 homes, including first-time, move-up and, in some markets, custom homes, ranging in price from approximately $59,000 to $1.5 million. The average sales price in fiscal 2004 was $242,465.

Our practice has been to acquire land, build homes on the land and sell the homes within 24 to 36 months from the date of land acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. We control a substantial amount of our land, including lots and land to be developed into lots, through option agreements that we can exercise over specified time periods or, in certain cases, as the land or lots are needed. At March 31, 2004, Centex Homes owned approximately 77,000 lots and had options to purchase approximately 115,000 lots. In addition, Centex Homes enters into joint ventures with other builders and developers for land acquisition, development and other activities. For additional discussion of our participation in joint ventures and lot option agreements, see Notes (H), Commitments and Contingencies, and (I), Land Held Under Option Agreements Not Owned and Other Land Deposits of the Notes to Consolidated Financial Statements on pages 79-81 of this Report.

Our growth strategy for Centex Homes has been focused primarily on organic growth opportunities through land acquisition and development in existing business units and markets. To a lesser extent, we have also grown the business through the acquisition of other homebuilding companies. Since April 1998, we have acquired homebuilding operations of the following companies:

Company	Date Acquired	Description
Wayne Homes	April 1998	Single-family homes in the on-your-lot market segment.
Teal Homes	May 1998	Single-family homes for the first-time and move-up buyer in the Richmond, Virginia area.
Calton Homes	December 1998	Single-family homes for the first-time and move-up buyer in New Jersey.
Real Homes	September 1999	Single-family homes for the first-time and move-up buyer in the Las Vegas, Nevada area.
Selective Group	March 2001	Single-family homes for the first-time and move-up buyer in the Detroit, Michigan area.
CityHomes	March 2001	Urban townhomes and condominiums in the Dallas, Texas area.
Jones Company	January 2003	Single-family homes for the first-time and move-up buyer in the St. Louis, Missouri and Indianapolis, Indiana areas.

In addition, in July 1999, we acquired land and other operating assets for the construction of single-family homes, townhomes and duplexes from Sundance Homes, a suburban Chicago homebuilder. Sundance Homes retained its name and continues to operate in other markets in which we do not compete.

Centex Homes sells its homes under a variety of brand names including several of the acquired company names listed above. Fox & Jacobs, one of our brand names, primarily markets to first-time buyers. Centex Homes primarily markets its homes to first-time and move-up buyers. Wayne Homes markets primarily to rural lot owners for construction of a home on their lot. Centex Destination Properties markets to second home/resort home buyers.

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The table below summarizes by geographic area Centex Homes domestic home closings, sales (orders) backlog and sales (orders) for the five most recent fiscal years.

Closings (in units):

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**5,201**	4,501	3,877	3,395	3,058
Southeast	**5,568**	4,851	4,440	4,137	4,142
Midwest	**5,801**	4,695	3,688	3,296	3,089
Southwest	**8,708**	8,157	6,910	5,661	4,923
West Coast	**5,080**	4,223	4,045	4,170	3,692
	30,358	26,427	22,960	20,659	18,904
Average Sales Price (in 000 s)	**$ 242**	$ 220	$ 214	$ 206	$ 192

Sales (Orders) Backlog, at the end of the period (in units):

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**2,801**	2,148	1,503	1,365	1,210
Southeast	**3,707**	2,713	2,315	1,936	1,891
Midwest	**3,392**	2,920	2,093	2,037	1,628
Southwest	**2,869**	2,258	2,361	2,546	1,861
West Coast	**2,645**	2,011	1,099	1,381	989
	15,414	12,050	9,371	9,265	7,579

We define backlog units as units that have been sold, as evidenced by a signed contract, but not closed. Substantially all of the orders in sales backlog as of March 31, 2004 are expected to close during fiscal year 2005.

Sales (Orders) (in units):

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**5,854**	5,146	3,936	3,550	3,207
Southeast	**6,562**	5,249	4,819	4,182	4,202
Midwest	**6,273**	5,087	3,744	3,572	3,207
Southwest	**9,319**	8,054	6,725	6,325	5,031
West Coast	**5,714**	5,132	3,763	4,562	3,760
	33,722	28,668	22,987	22,191	19,407

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Competition and Other Factors

The conventional homebuilding industry is essentially a local business and is highly competitive. The top 10 builders in calendar year 2003 accounted for approximately 15.1% of the total for-sale attached and detached housing permits in the United States. We compete in each of Centex Homes market areas with numerous other homebuilders, including national, regional and local builders. Centex Homes top six competitors based on revenues for their most recent fiscal year-end are as follows: Beazer Homes USA, Inc., D. R. Horton, Inc., KB Homes, Lennar Corporation, Pulte Homes, Inc. and The Ryland Group, Inc. Centex Homes operations accounted for an estimated 2.1% of the total for-sale attached and detached housing permits in the United States for the twelve months ended March 31, 2004. The main competitive factors affecting Centex Homes operations are location, price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Centex Homes competes effectively by building a high quality home, maintaining geographic diversity, being responsive to the specific demands of each market and managing the operations at a local level.

The results of operations of our Home Building segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective home buyers to finance home purchases. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

The homebuilding industry is affected by changes in national and local economic conditions, job growth, long-term and short-term interest rates, consumer confidence, governmental policies, zoning restrictions and, to a lesser extent, changes in property taxes, energy costs, federal income tax laws, federal mortgage financing programs and various demographic factors. The political and economic environments affect both the demand for housing constructed and the subsequent cost of financing. Unexpected climatic conditions, such as unusually heavy or prolonged rain or snow, may affect operations in certain areas.

The homebuilding industry is subject to extensive regulations. Centex Homes and its subcontractors must comply with various federal, state and local laws and regulations, including worker health and safety, zoning, building standards, erosion and storm water pollution control, advertising, consumer credit rules and regulations and the extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, including the protection of endangered species. Centex Homes is also subject to other rules and regulations in connection with its manufacturing and sales activities, including requirements as to incorporated building materials and building designs. All of these regulatory requirements are applicable to all homebuilding companies, and, to date, compliance with these requirements has not had a material impact on Centex Homes. We believe that Centex Homes is in material compliance with these requirements.

We purchase materials, services and land from numerous sources (primarily local vendors), and believe that we can deal effectively with the challenges we may experience relating to the supply or availability of materials, services and land.

International

In February 2004, we acquired through merger transactions Holding and its subsidiary and the Partnership and its subsidiaries. Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments throughout the United Kingdom. International homebuilding currently has 47 developments located throughout England. For the period from February 29, 2004, the date of the merger

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transactions, through March 31, 2004, our international homebuilding operations delivered 236 units, with prices ranging from $95,000 to $795,000. The average sales price was approximately $327,326. As of March 31, 2004, our international homebuilding operations had 388 units in sales backlog. We define backlog units as units that have been sold, as evidenced by a signed contract, but not closed. Substantially all of the orders in sales backlog as of March 31, 2004 are expected to close during fiscal 2005. Home Building s international operations currently account for less than 1% of the new homes market in the United Kingdom.

FINANCIAL SERVICES

Our Financial Services operations are primarily engaged in the residential mortgage lending business, as well as other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations, other homebuilders and other real estate professionals, sub-prime home equity lending and the sale of title insurance and various other insurance coverages.

Conforming Mortgage Lending

We established CTX Mortgage Company, LLC and its related companies to provide mortgage financing for homes built by Centex Homes. By opening CTX Mortgage Company, LLC offices in Centex Homes housing markets, we have been able to provide mortgage financing for an average of 69% of Centex Homes sales, other than cash sales, over the past five years and 74% in fiscal 2004. In 1985, we expanded CTX Mortgage Company, LLC s operations to include the origination of mortgage loans that are not associated with the sale of homes built by Centex Homes. We refer to mortgage financing for homes built by Centex Homes as Builder loans and to mortgage financing for homes built by others as Retail loans.

At March 31, 2004, CTX Mortgage Company, LLC originated loans through its loan officers in 240 offices located in 36 states. The offices vary in size depending on loan volume.

The following table shows the unit breakdown of Builder and Retail loans for CTX Mortgage Company, LLC and its related companies for the five years ended March 31, 2004:

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Loan Types:					
Builder	**20,865**	18,127	15,435	12,506	10,958
Retail	**67,481**	66,807	64,949	48,244	48,301
	88,346	84,934	80,384	60,750	59,259
Origination Volume (in billions)	**$ 15.12**	$ 13.99	$ 12.45	$ 8.88	$ 8.11

Percent of Centex Homes Non-Cash Closings Financed	**74%**	73%	72%	64%	61%

We provide mortgage origination and other mortgage-related services for the Federal Housing Administration, or FHA, the Department of Veterans Affairs, or VA, and conventional loans on homes that Centex Homes or others build and sell, as well as resale homes and refinancing of existing mortgages. Our loans are generally first-lien mortgages secured by one- to four-family residences. A majority of the loans qualify for inclusion in programs sponsored by the Government National Mortgage Association, or GNMA, the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. These loans are known in the industry as conforming loans. The remainder of the loans are either pre-approved and individually underwritten by CTX Mortgage Company, LLC or private investors who subsequently purchase the loans, or are funded by private investors who pay a broker fee to CTX Mortgage Company, LLC for broker services rendered. CTX Mortgage Company, LLC s principal sources of income consist of gains on sales of mortgage loans, inclusive of all servicing rights, and, to a lesser extent, net interest income and other fees. Generally, we sell our right to service the mortgage loans and retain no other residual interests.

We also participate in joint-venture agreements with third-party homebuilders and other real estate professionals to provide mortgage originations for their customers. These joint venture companies are fully consolidated in CTX Mortgage Company, LLC s financial statements. At March 31, 2004, CTX Mortgage Company, LLC had 21 of these agreements, operating in 21 offices located in 9 states.

In 1999, CTX Mortgage Company, LLC entered into a mortgage loan purchase agreement with Harwood Street Funding I, LLC, or HSF-I, that we refer to as the HSF-I Purchase Agreement. HSF-I is a variable interest entity for which we are the primary beneficiary and, as of July 1, 2003, is consolidated with our Financial Services segment. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from the issuance of senior debt and subordinated certificates. Since 1999, CTX Mortgage Company, LLC has sold substantially all of the conforming and Jumbo A mortgage loans that it originates to HSF-I in accordance with the HSF-I Purchase Agreement. When HSF-I acquires these loans, it typically holds them for a period of 45 to 60 days and then resells them into the secondary market. In accordance with the HSF-I Purchase Agreement, CTX Mortgage Company, LLC acts as servicer of the loans owned by HSF-I and arranges for the sale of the mortgage loans into the secondary market.

Sub-Prime Home Equity Lending

We formed the predecessor of Centex Home Equity Company, LLC, or Home Equity, in fiscal 1995. Home Equity s business involves the origination of primarily nonconforming home equity mortgage loans. The sub-prime lending market is comprised of borrowers whose financing needs are not being met by traditional mortgage lenders for a variety of reasons, including credit histories that may limit a borrower s access to credit or a borrower s need for specialized loan products such as cash-out refinance and jumbo loans. Since its inception, Home Equity has focused on lending to individuals who have substantial equity in their homes but whose financing needs are not being met by traditional mortgage lenders. Home Equity s mortgage loans to these borrowers are made primarily for such purposes as debt consolidation, refinancing, home improvement or educational expenses. Substantially all of Home Equity s mortgage loans are secured by first mortgage liens on one- to four-family residences and have amortization schedules ranging from 5 to 30 years.

At March 31, 2004, Home Equity had 166 offices and was doing business in 47 states. Home Equity originates home equity loans through five major origination sources:

- its retail branches;
- a broker referral network;
- referrals from its conforming mortgage affiliate, CTX Mortgage Company, LLC;
- a correspondent mortgage banker network; and
- Home Equity s direct sales unit that sources lending opportunities from a variety of channels including through the Internet.

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The following table summarizes Home Equity s origination statistics for the five-year period ended March 31, 2004:

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Loans	**36,659**	29,448	26,955	26,418	20,568
Origination Volume (in billions)	**$ 3.92**	$ 2.51	$ 2.09	$ 1.72	$ 1.32

We began servicing loans through Home Equity in fiscal 1997, and we generally service all loans included in the Home Equity portfolio. Servicing fees for sub-prime loans are significantly higher than for conforming loans, primarily due to the higher costs associated with more frequent contact with customers. Servicing encompasses, among other activities, the following processes: billing, collection of payments, investor reporting, customer help, recovery of delinquent payments and instituting foreclosure and liquidation of the underlying collateral. As of March 31, 2004, Home Equity was servicing a sub-prime loan portfolio of 87,073 loans with a total loan value of approximately $7.14 billion.

From October 1997 through March 2000, a majority of Home Equity s loans originated were included in securitizations that utilized a structure that resulted in the loans being accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result of the sales accounting treatment, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. As of March 31, 2004, Home Equity had a remaining MSRI of $87.8 million, which includes $86.5 million remaining on loans securitized from October 1997 to March 2000 accounted for as gain on sale and $1.3 million related to loans sold in fiscal year 2004 to a government sponsored enterprise that we continue to service.

We changed the structure of securitizations beginning April 1, 2000. Subsequent to March 31, 2000, securitizations have been accounted for as borrowings; interest has been recorded over the life of the loans using the interest, or actuarial, method; the mortgage loans receivable and the securitization debt have remained on Home Equity s balance sheet and the related interest margin has been reflected in our income statement. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of the securitizations does not affect the cash flow and profit recognized over the life of the mortgages. However, the change did affect the timing of profit recognition. Interest margin, rather than gain on sale of loans, is now Home Equity s primary source of operating income. From April 1, 2000 to March 31, 2004, Home Equity completed fifteen securitizations totaling approximately $8.84 billion in loans under this structure.

Other Financial Services Operations

We offer title agent, title underwriting, closing, appraisal and other settlement services in 26 states under the Commerce Title name, including Commerce Title Company, Commerce Title Agency and Commerce Title Insurance Company. Through Westwood Insurance, a multi-line property and casualty insurance agency, we market homeowners and auto insurance to homebuilding and mortgage customers and customers of approximately nine other homebuilders in 50 states. Westwood Insurance also provides coverage for some commercial customers.

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Our Technologies Group, headquartered in Edmond, Oklahoma, provides mortgage quality control services and provides the mortgage industry with regulations and guidelines in an electronic format.

Competition and Other Factors

The financial services industry in the United States is highly competitive. CTX Mortgage Company, LLC competes with commercial banks, other mortgage lending companies and other financial institutions to supply mortgage financing at attractive rates to purchasers of Centex homes, as well as to the general public. Home Equity competes with commercial banks, other sub-prime lenders and other financial institutions to supply sub-prime financing at attractive rates. Our title and insurance operations compete with other providers of title and insurance products to sell their products to purchasers of our homes, as well as to the general public. Many of these competitors have greater resources than we do.

The results of operations of our Financial Services segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective home buyers to finance home purchases and/or curtail mortgage refinance activity. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

The Financial Services operations are subject to extensive state and federal regulations, as well as rules and regulations of, and examinations by, FNMA, FHLMC, FHA, VA, Department of Housing and Urban Development, or HUD, GNMA and state regulatory authorities with respect to originating, processing, underwriting, making, selling, securitizing and servicing loans and providing title and other insurance products. In addition, there are other federal and state statutes and regulations affecting such activities. These rules and regulations, among other things, impose licensing obligations on our Financial Services operations, specify standards for origination procedures, establish eligibility criteria for mortgage loans, provide for inspection and appraisals of properties, regulate payment features and, in some cases, fix maximum interest rates, fees, loan amounts and premiums for title and other insurance. Certain of our Financial Services operations are required to maintain specified net worth levels and submit annual audited financial statements to HUD, VA, FNMA, FHLMC, GNMA and some state regulators.

As an approved FHA mortgagee, CTX Mortgage Company, LLC is subject to examination by the Federal Housing Commissioner at all times to ensure compliance with FHA regulations, policies and procedures. Our title and insurance operations are subject to examination by state authorities. Mortgage origination and servicing activities are subject to the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Federal Truth-In-Lending Act, the Real Estate Settlement Procedures Act, the Riegle Community Development and Regulatory Improvement Act, the Home Ownership and Equity Protection Act and regulations promulgated under such statutes, as well as other federal and state consumer credit laws. The Real Estate Settlement Procedures Act also applies to our insurance operations. These statutes prohibit discrimination and unlawful kickbacks and referral fees and require the disclosure of certain information to borrowers concerning credit and settlement costs. Many of these regulatory requirements seek to protect the interest of consumers, while others protect the owners or insurers of mortgage loans. Failure to comply with these requirements can lead to loss of approved status, demands for indemnification or loan repurchases from investors, class action lawsuits by borrowers, administrative enforcement actions and, in some cases, rescission or voiding of the loan by the consumer.

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CONSTRUCTION SERVICES

Construction Services provides a range of commercial contracting services, including construction management, general contracting, design-build and preconstruction services. As a general contractor or construction manager, Construction Services provides management personnel for the construction of facilities. Occasionally, Construction Services may perform some of the actual construction work on a project but will generally hire subcontractors to perform the majority of the work. For the fiscal year ended March 31, 2004, over 90% of contracted projects range in size from $10 million to $350 million.

Historically, Construction Services has conducted its operations through its distinct, largely autonomous operating companies. Construction Services principal operating companies are Centex Construction Company, Inc., Centex Rodgers, Inc. and Centex-Rooney Construction Co., Inc. These operating companies serve various geographic locations and project niches. In fiscal 2004, Construction Services decided to exit the industrial construction market. Construction Services is currently transitioning to one common organizational structure with one brand, standardized operating policies and procedures and an emphasis on certain geographic markets and project niches in which it has expertise. As of March 31, 2004, Construction Services primary offices are located in the metropolitan areas of Dallas, Nashville, Ft. Lauderdale, Charlotte and Washington D.C.

Construction contracts are primarily procured under one of two methods: negotiated (qualifications-based selection) or competitive bid (price-based selection). At March 31, 2004, approximately 88% of backlog was procured under the negotiated method. The backlog at March 31, 2004 was $1.75 billion compared to $1.52 billion at March 31, 2003. Approximately $1.22 billion of the backlog at March 31, 2004 is projected to be constructed and the related revenues recognized during fiscal year 2005. We define backlog as the uncompleted portion of all signed contracts.

The following table summarizes the backlog as of March 31, 2004 by industry segment:

Industry Segment	% of Backlog
Education	19%
Healthcare	19%
Military Housing	19%
Corrections	13%
Government	8%
Transportation	8%
Corporate Office Buildings	5%
Hospitality	3%
Other	6%
Total	100%

Competition and Other Factors

The construction industry is very competitive, and Construction Services competes with numerous local, regional and national contractors depending upon the nature of the project. Top-tier construction firms distinguish themselves from regional and local firms based on their project resumes, reputation and financial strength. Construction Services focuses on maintaining a competitive advantage over other top-tier construction firms by utilizing disciplined decision making for market selection, project selection, risk assessment and pricing; providing excellence in customer service and recruiting top-quality, experienced industry personnel.

Although national demand for commercial construction is relatively stable, individual markets do experience moderate cyclicality and can be sensitive to overall spending trends in the economy, changes in

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federal, state and local appropriations for construction projects, financing and capital availability for commercial real estate and competitive pressures on the availability and pricing of construction projects.

Construction Services operations are affected by federal, state and local laws and regulations relating to worker health and safety, as well as environmental laws. With respect to health and safety matters, we believe that Construction Services has taken appropriate precautions to protect employees and others from workplace hazards. Current environmental laws may require Construction Services operating subsidiaries to work in concert with project owners to acquire the necessary permits or other authorizations for certain activities, including the construction of projects located in or near wetland areas. Construction Services operations are also affected by environmental laws regulating the use and disposal of hazardous materials encountered during demolition operations. We believe that Construction Services current procedures and practices are consistent with industry standards and that compliance with the health and safety laws and environmental laws does not constitute a material burden or expense.

Construction Services operations obtain materials and services from numerous sources. Our construction companies believe they can deal effectively with challenges they may experience relating to the supply or availability of materials and services.

INVESTMENT REAL ESTATE

Investment Real Estate s operations involve the development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. Investment Real Estate historically conducted its operations directly and through our investment in the Partnership, which was accounted for under the equity method of accounting. The Partnership s operations include domestic real estate operations and an international homebuilding business located in the United Kingdom. In February 2004, we acquired through merger transactions Holding and its subsidiary and the Partnership and its subsidiaries. Subsequent to the merger, we have consolidated the financial results of the Partnership; as a result, we have realigned our reporting for the Partnership, whereby the Partnership s international homebuilding operations are included in our Home Building business segment. The Partnership s domestic operations are reported in the Investment Real Estate business segment for periods through March 31, 2004. We have determined that no significant capital will be allocated to Investment Real Estate for new business development. Beginning April 1, 2004, the Investment Real Estate financial results will be included in our Other business segment.

As of March 31, 2004, Investment Real Estate owned land located in Texas zoned for office, retail and residential uses. At March 31, 2004, Investment Real Estate also owned approximately 291,000 square feet of office buildings located in Texas, 222,000 square feet of office and industrial projects under development in California and Texas, and 381 apartment units under development in Florida.

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EMPLOYEES

The following table presents a breakdown of our employees as of March 31, 2004:

Business Segment	Employees
Home Building	7,636
Financial Services	5,938
Construction Services	1,474
Investment Real Estate	8
Other	1,476
Total	16,532

The 1,476 Other employees include 1,322 employees of our home services operations, which provides home pest control services and 154 corporate employees. The 154 corporate employees are employed by Centex Corporation; all others are employees of our various subsidiaries.

AVAILABLE INFORMATION

Anyone seeking information about our business operations and financial performance can receive copies of the 2004 Annual vidual option agreements and represents the period of time that options granted are expected to be outstanding. The risk-free rate for the periods within the contractual life of the option is based on the U.S. Treasury bond rate in effect at the time of grant for bonds with maturity dates at the estimated term of the options.

	March 31, 2010
Expected volatility	136.53% - 276.11%
Expected dividends	0
Expected term (in years)	2 - 4
Risk-free rate	1.29% - 1.86%

A summary of option activity under the Plan as of March 31, 2010 and changes during the periods then ended are presented below:

Warrants	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
December 31, 2008	-	$ -	-	$ -
Granted	450,000	0.78	4.11	34,653
Exercised	-	-	-	-

Forfeited or expired	-		-	-		-
December 31, 2009	450,000	$	0.78	3.26	$	34,653
Exercisable at March 31, 2010	450,000	$	0.78	3.01	$	34,653

Item 2. Management's Discussion and Analysis of Financial Condition and Plan of Operations.

The following discussion should be read in conjunction with the information contained in the financial statements of Friendly Auto Dealers, Inc. and the notes that form an integral part of the financial statements.

The financial statements mentioned above have been prepared in conformity with accounting principles generally accepted in the United States of America and are stated in United States dollars.

Friendly Auto Dealers, Inc. ("FYAD" or The Company) is a development stage enterprise that was incorporated on August 6, 2007, under the laws of the State of Nevada. Since becoming incorporated, FYAD has not made any significant purchases or sale of assets, nor has it been involved in any mergers, acquisitions or consolidations. FYAD has never declared bankruptcy, it has never been in receivership, and it has never been involved in any legal action or proceedings. Friendly Auto Dealers, Inc. is not a shell company. Our fiscal year end is December 31st.

Principal Office

The principal offices are located at 4132 South Rainbow Boulevard, Suite 514, Las Vegas, Nevada. The telephone number is (702) 321-6876. The fax number is (702) 939-0655. FYAD owns no property.

Planned Business

Original Business Plan

The genesis of Friendly Auto Dealers, Inc. s business was to enter into and to exploit the promotional branding industry. The Company s original business plan focused on acquiring, either outright or by license, the legal copyrights and trademarks of corporate clients specifically dealing with the world s automobile manufacturers. The next step of the business plan included taking the acquired intellectual property and then entering into manufacturing joint ventures to produce a variety of products for sale either by wholesale to corporate entities for gifting or promotional purposes, or retail through established retail outlets, and adding value to the manufactured products with the inclusion of the corporate logos, copyrights or trademarks. FYAD S original plans focused on concentrating its efforts in the People s Republic of China and its retail automotive industry. FYAD has certain trade secret affiliations and network connections in the People s Republic of China, and specifically in the automobile marketing and merchandising industry, that were the primary focal point of marketing the Company s services. The Company s initial focus has been to identify a range of casual apparel and consumer products that can be manufactured and resold for high mark-ups with the product endorsement of corporate logos, and then seek out large to mid-size companies, who are using logo bearing apparel, essential office products, and leisure products for their employees as well as for gifts for customers and sale outright in the retail chain of commerce.

DEVELOPMENT EFFORTS PAST AND PRESENT

On May 27, 2009 the Company announced that due to the worldwide economic downturn it decided to begin dedicated exploration of new business opportunities using its existing contacts with the People s Republic of China. In a letter to the shareholders dated May 28, 2009, Mr. Tony H. Lam characterized the Company s development efforts as a restructuring of the Company s business. On September 8, 2009 the Company announced its entry into negotiations and a non-binding memorandum of understanding with the Chinese automobile syndicate Excellent Auto Dealers, Inc., a corporation formed and operating in good standing in the British West Indies whose principal place of business is in the Peoples Republic of China and more particularly in the Province of Guangzhou. The Company s efforts focused on a possible merger with Excellent Auto Dealers, Inc. s business that consisted of the ownership and operation of a cluster of automobile dealerships in the Province of Guangzhou. The non-binding memorandum of understanding required both Excellent Auto Dealers, Inc. and the Company to enter into due diligence disclosures and investigations necessary for each entity to adequately assess the advisability and propriety of entering into a material definitive agreement.

The Company began its disclosures and requested certain audited financial information from Excellent Auto Dealers, Inc. This information was not forthcoming. The Company continued efforts at cooperative communications with Excellent Auto Dealers, Inc. but concluded that the requisite information from Excellent was not going to be forthcoming and so the Company announced on March 23, 2010 that decided to terminate due diligence and dissolve the non-binding memorandum of understanding based upon non-cooperation of Excellent Auto Dealers, Inc.

Prior to announcing the efforts concerning Excellent Auto Dealers, Inc., the Company communicated with other possible business concerns that offered possible synergy with the Company. One such entity was TMD Courses, Inc., a California corporation. When it became clear to the Company that significant intractable obstacles existed in conducting effective due diligence with Excellent Auto Dealers, Inc., it sought to capture some of its previous opportunities, one of which was TMD Courses, Inc.

It became apparent that TMD Courses, Inc. was still interested in a possible business combination with the Company, and on March 31, 2010 the Company and TMD Courses, Inc. entered into a non-binding memorandum of understanding to explore business opportunities between the two companies. TMD Courses, Inc. is a research and development firm that owns by license intellectual property including patents and trademarks for proprietary medical devices. Both sides are in confidential due diligence investigations to determine the scope and form of a final business relationship.

Liquidity

Operating Activities

Net cash used by operating activities totaled $0 for the three months ended March 31, 2010, which is consistent with the net cash provided by operating activities, which totaled $0 for the same period of 2009. This no change in net cash provided by operating activities was primarily attributable to the Company s use of stock based compensation for operating expenses and its focused plans on prudently developing its current business while conducting due diligence on the possible acquisition of Excellent Auto Dealers, Inc. The Company issued several shares of its common stock as compensation for services provided.

Investing Activities

Net cash used in investing activities totaled $0 for the three months ended March 31, 2010, as compared to the net cash used in investing activities of $0 for three months ended March 31, 2009.

Financing Activities

Net cash used in financing activities totaled $0 for three months ended March 31, 2010, as compared to $0 provided by financing activities for the three months ended March 31, 2009.

The Company knows of no trend or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

The Company has not generated any revenue. Management has determined that it must obtain funding for the continuation of its business. There can be no guarantee or assurance that management will be successful in accomplishing obtaining additional funds. Investors must be aware that failure to do so would result in a complete loss of any investment made into the Company

Capital Resources

Presently, the Company has no material commitments for capital expenditures as of the end of the three months ending March 31, 2010. The Company historically sought and continues to seek financing from private sources to move its present business plan forward as well as devote adequate resources to conducting its due diligence on the potential acquisition of Excellent Auto Dealers, Inc. In order to satisfy the financial commitments necessary, the Company relies upon private party financing that has inherent risks in terms of availability and adequacy of funding.

As of March 31, 2010, we have $1 of cash available. We have current liabilities of $17,317. From the date of inception (August 6, 2007) to March 31, 2010, the Company has recorded a net loss of $1,922,858. As of March 31, 2010, we had 18,710,000 shares issued and outstanding. We will require additional capital investments or borrowed funds to meet cash flow projections and carry forward our business objectives. There can be no guarantee or assurance that we can raise adequate capital from outside sources to fund the proposed business.

On March 26, 2010 the Company s stock was deleted from trading on the Over-the-Counter Bulletin Board (OTCBB) where it has traded since its inception as a public company. The reason for the deletion was the absence of an OTCBB market maker making a market for the Company s common stock pursuant to FINRA Rule 6540. The Company is presently working with an OTCBB market maker to submit the proper filings to return to OTCBB trading on the Over-the-Counter Bulletin Board.

Until then, our common stock is quoted on the OTCQB Market (Pink Sheets) under the ticker symbol FYAD. The stock trades are limited and sporadically; there is no established public trading market for our common stock. Failure to raise additional capital for the Company will result in business failure and a complete loss of any investment made into the Company's common stock.

Results of Operations

No unusual or infrequent events or transactions or any significant economic changes occurred during this quarter that materially affected the amount of reported income from continuing operations.

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Trends; Competition

As it presently stands, the promotional apparel and products industry is mature and has many levels of competition. The industry in general is very fragmented - although many large, well-capitalized companies exist on a national level, most of our continued competition will come from companies focused within their local or regional market. Examples of large competitors include *Allied Specialty Company,* of Davie, Florida, which has been operating for over fifty years and does business throughout the United States while also exporting to Canada, Latin America and Western Europe, as well as *Bernco Specialty Advertising* of Bethpage, New York, in business since 1947. Many companies are regionally focused firms in terms of distribution. There can be no assurance that Friendly Auto Dealers will ever be able to compete with any of the competitors described herein. In addition, there may be other competitors the company is unaware of at this time that would also impede or prevent the company s success.

The Company s ability to compete, in connection with its original business plan, is conditioned on its ability to deal with the worldwide economic downturn amongst possible new clients, while trying to raise sufficient capital to effectively put into place its original business plan. The Company is, while engaged in due diligence with Excellent Auto Dealers, Inc. and overall investigations in to restructuring as mentioned above, still very much seeking to expand and develop the option of contained in its original business plans.

The Company acknowledges that the worldwide economic downturn resulted in significant recessionary effects in the United States. The recession has had a material effect on the Company s ability to raise money sufficient to implement its business plans, since the Company s intermittent funding from private sources has been restricted thus far to United States sources. Unfortunately, the sufficiency and availability of private funding in the United States is contingent on a number of factors, with the overall recession having a continuing negative impact.

Given the start up or development stage nature of the Company, the impact of inflation and changing prices on the registrant's net sales and revenues and on income from continuing operations is not a factor at this time.

Off-Balance Sheet Arrangements

As of the date of this Quarterly Report, the Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with the Company is a party, under which the Company has (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Governmental Regulation

We currently are not aware of any governmental approval required to conduct our business.

Investment Policies

FYAD does not have an investment policy at this time. Any excess funds it has on hand will be deposited in interest bearing notes such as term deposits or short-term money instruments. There are no restrictions on what the director is able to invest or additional funds held by FYAD. Presently FYAD does not have any excess funds to invest.

Since we have had minimal business activity, it is the opinion of management that the most meaningful financial information relates primarily to current liquidity and solvency. The Company will require cash injections of approximately $40,000 to enable the Company to meet its anticipated expenses over the next twelve months. Unless we raise additional funds immediately, we will be faced with a working capital deficiency that may result in the failure of our business, resulting in a complete loss of any investment made into the Company. Our future financial success will be dependent on the success of obtaining capital.

Our financial statements contained herein have been prepared on a going concern basis, which assumes that we will be able to realize our assets and discharge our obligations in the normal course of business. We incurred a net loss for the period from the inception of our business on August 6, 2007 to March 31, 2010, of $1,922,858. We did not earn any revenues during the aforementioned period.

Critical Accounting Policies. Our discussion and analysis of the Company s financial condition and results of operations, including the discussion on liquidity and capital resources, are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management re-evaluates its estimates and judgments. The going concern basis of presentation assumes we will continue in operation throughout the next fiscal year and into the foreseeable future and will be able to realize our assets and discharge our liabilities and commitments in the normal course of business. Certain conditions, discussed below, currently exist which raise substantial doubt upon the validity of this assumption. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

Our intended business activities are dependent upon our ability to obtain third party financing in the form of debt and equity and ultimately to generate future profitable business activity. As of March 31, 2010, we have not generated revenues, and have experienced negative cash flow from minimal business activities. We may look to secure additional funds through future debt or equity financings. Such financings may not be available or may not be available on FYAD terms.

Product Research and Development

The Company does not anticipate any costs or expenses to be incurred for product research and development within the next twelve months.

Employees

There are no employees of the Company, excluding the current President and Director, Ming R. Cheung, of the corporation.

Other Information

FYAD has 18,710,000shares of common stock, $0.001 par value, issued and 18,710,000 shares of common stock outstanding at March 31, 2010.

In March 2009, the Company adopted a 2009 Stock Incentive Plan (the Plan). Pursuant to the Plan, the Company may grant stock awards to employees and contractors as compensation for services rendered on behalf of the Company.

The stock award value shall be no less than 85 percent of the fair market value of the common stock on the date of issuance. The maximum number of shares that can be issued pursuant to the Plan are 10,000,000 shares. The Company filed an S-8 to register these shares on March 13, 2009.

On various dates in March 2009, the Company issued shares of its common stock pursuant to the Plan to various consultants as compensation for services to be rendered in assisting the Company with its business plan.

The consultants each agreed to provide services for the term of one year in consideration of the common stock received. The stock awards were valued at the fair market value of the stock on the date of the award in accordance with the Company's 2009 Stock Incentive Plan.

FYAD is responsible for filing various forms with the United States Securities and Exchange Commission (the SEC) such as Form 10K and Form 10Qs. The shareholders may read and copy any material filed by FYAD with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC, 20549. The shareholders may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information which GPNT has filed electronically with the SEC by assessing the website using the following address: http://www.sec.gov.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q contains statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. The words expect, estimate, anticipate, predict, believe, and similar expressions and variations thereof are intended to identify forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a) our estimates of business projections, (b) our projected sales and profitability, (c) our growth strategies, (d) anticipated trends in our industry, (e) our future financing plans, (f) our anticipated needs for working capital and (g) the benefits related to ownership of our common stock. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements for the reasons, among others, described within the various sections of this Form 10-Q, specifically the section entitled Risk Factors . In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Form 10-Q will in fact occur as projected. We undertake no obligation to release publicly any updated information about forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe that there have been no significant changes in our market risk exposures for the three months ended March 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in rules and forms adopted by the Securities and Exchange Commission, and that such information is accumulated and communicated to management, including the President/Secretary, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based upon that evaluation, our officers concluded that, as of the end of the period covered by this report, the Company has been implementing control procedures to mitigate our internal control issues which could have a material impact on our financial reporting procedures. As of the current annual filing, the Company feels that it is working towards clear disclosures and implementing proper internal controls over financial reporting.

Changes in Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a- 15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that:

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pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions of our financial statements;

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provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors; and

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provide reasonable assurance that transactions pertaining to stock issuances are recorded as necessary to permit preparation of financial statements in accordance with applicable GAAP, and that the stock issuances are being made only in accordance with authorizations of management and the Board of Directors.

Under the supervision and with the participation of our management, our Chief Executive Officer, and Principal Financial Officer, we have evaluated the effectiveness of our internal control over financial reporting and preparation of our reviewed financial statements as of March 31, 2010 and believe that we had a material weakness in our financial reporting of internal controls specific to the Control Activities section of the COSO framework and specifically effecting a proper close. The Company has implemented controls as a result of the documentation surrounding the material weakness by analyzing our financials, reviewing disclosure requirements by the SEC and providing for management, detailed schedules and documentation which will mitigate our risk in the area of our internal controls over financial reporting. Our controls have since been updated in order to prevent the issues surrounding our material weakness and management feels that, moving forward, our controls over financial reporting will reduce the potential impact of material misstatements.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is not a party to any pending legal proceedings, and no such proceedings are known to be contemplated.

No director, officer, or affiliate of the Company and no owner of record or beneficial owner of more than 5.0% of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K.

3.1 Articles of Incorporation*

3.2 By-Laws*

31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification of Chief Executive Officer and Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

*Filed previously as an exhibit to the Company s registration statement with the Commission on November 21, 2007.

Signature

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Friendly Auto Dealers, Inc.

Dated: May 14, 2010	*/s/ Ming R. Cheung* Ming R. Cheung Chief Executive Officer and Chief Financial Officer