

CENTEX CORP  
Form 10-Q  
August 01, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007**  
or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**  
**Commission File Number: 1-6776**  
**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 offices) (Zip**  
**Code)**  
**(214) 981-5000**

**(Registrant's telephone number, including area code)**

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of business on July 20, 2007: 120,891,046 shares of common stock, par value \$ .25 per share.

**Centex Corporation and Subsidiaries**  
**Form 10-Q Table of Contents**  
**June 30, 2007**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**Centex Corporation and Subsidiaries**  
**Statements of Consolidated Earnings**  
(Dollars in thousands, except per share data)  
(unaudited)

|  | <i>For the Three Months Ended June</i> |                  |
|--|--|------------------|
|  | <i>30,</i>                             |                  |
|  | <b>2007</b>                            | <b>2006</b>      |
| <b>Revenues</b>  |  |                  |
| Home Building  | \$ 1,803,820                           | \$ 2,649,837     |
| Financial Services   | 97,966                                 | 122,741          |
| Other  | 39,629                                 | 31,322           |
|  | <b>1,941,415</b>                       | <b>2,803,900</b> |
| <br>   |  |                  |
| <b>Costs and Expenses</b>  |  |                  |
| Home Building  | 1,955,546                              | 2,348,592        |
| Financial Services   | 82,997                                 | 99,654           |
| Other  | 33,495                                 | 33,089           |
| Corporate General and Administrative   | 44,981                                 | 54,770           |
|  | <b>2,117,019</b>                       | <b>2,536,105</b> |
| <br>   |  |                  |
| <b>Earnings (Loss) from Unconsolidated Entities</b>  | <b>(20,053)</b>                        | 10,668           |
| <br>   |  |                  |
| <b>Earnings (Loss) from Continuing Operations Before Income Taxes</b>  | <b>(195,657)</b>                       | 278,463          |
| Income Tax (Benefit) Provision   | <b>(64,322)</b>                        | 106,035          |
| <br>   |  |                  |
| <b>Earnings (Loss) from Continuing Operations</b>  | <b>(131,335)</b>                       | 172,428          |
| <b>Earnings (Loss) from Discontinued Operations, net of Tax Provision (Benefit) of \$2,087 and \$(7,413)</b> | <b>3,376</b>                           | (12,171)         |
| <br>   |  |                  |
| <b>Net Earnings (Loss)</b>   | <b>\$ (127,959)</b>                    | \$ 160,257       |
| <br>   |  |                  |
| <b>Basic Earnings (Loss) Per Share</b>   |  |                  |
| Continuing Operations  | \$ (1.08)                              | \$ 1.41          |
| Discontinued Operations  | 0.03                                   | (0.10)           |
|  | <b>\$ (1.05)</b>                       | <b>\$ 1.31</b>   |

**Diluted Earnings (Loss) Per Share**

|                         |    |               |    |        |
|-------------------------|----|---------------|----|--------|
| Continuing Operations   | \$ | <b>(1.08)</b> | \$ | 1.37   |
| Discontinued Operations |    | <b>0.03</b>   |    | (0.10) |
|                         | \$ | <b>(1.05)</b> | \$ | 1.27   |

**Average Shares Outstanding**

|                      |                    |             |
|----------------------|--------------------|-------------|
| Basic                | <b>121,469,951</b> | 121,969,085 |
| Dilutive Securities: |                    |             |
| Options              |                    | 4,216,749   |
| Other                |                    | 47,635      |
| Diluted              | <b>121,469,951</b> | 126,233,469 |

|                                 |    |             |    |      |
|---------------------------------|----|-------------|----|------|
| <b>Cash Dividends Per Share</b> | \$ | <b>0.04</b> | \$ | 0.04 |
|---------------------------------|----|-------------|----|------|

*See Notes to Consolidated Financial Statements.*

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**Centex Corporation and Subsidiaries**  
**Consolidated Balance Sheets with Consolidating Details**  
(Dollars in thousands)  
(unaudited)

|   | Centex Corporation and Subsidiaries |                      |
|---|-------------------------------------|----------------------|
|   | <b>June 30,</b>                     |                      |
|   | <b>2007</b>                         | March 31, 2007       |
| <b>Assets</b>   |                                     |                      |
| Cash and Cash Equivalents                                     | \$ 233,244                          | \$ 882,754           |
| Restricted Cash   | 147,020                             | 146,532              |
| Receivables -   |                                     |                      |
| Mortgage Loans  | 1,474,243                           | 1,688,303            |
| Trade, including Notes of \$9,469 and \$10,295                | 186,909                             | 227,618              |
| From Affiliates   |                                     |                      |
| Inventories -   |                                     |                      |
| Housing Projects  | 8,511,820                           | 8,495,982            |
| Land Held for Development and Sale                            | 159,504                             | 158,212              |
| Land Held Under Option Agreements Not Owned                   | 207,558                             | 282,116              |
| Other   | 15,820                              | 14,769               |
| Investments -   |                                     |                      |
| Joint Ventures and Other                                      | 273,872                             | 281,644              |
| Unconsolidated Subsidiaries                                   |                                     |                      |
| Property and Equipment, net                                   | 126,453                             | 136,172              |
| Other Assets -  |                                     |                      |
| Deferred Income Taxes   | 666,741                             | 489,814              |
| Goodwill  | 221,640                             | 219,042              |
| Deferred Charges and Other, net                               | 220,154                             | 176,975              |
|   | <b>\$ 12,444,978</b>                | <b>\$ 13,199,933</b> |
| <b>Liabilities and Stockholders Equity</b>                    |                                     |                      |
| Accounts Payable  | \$ 433,704                          | \$ 520,833           |
| Accrued Liabilities   | 1,764,382                           | 1,822,429            |
| Debt -  |                                     |                      |
| Centex  | 3,849,354                           | 3,904,425            |
| Financial Services  | 1,456,554                           | 1,663,040            |
| Commitments and Contingencies                                 |                                     |                      |
| Minority Interests  | 147,681                             | 176,937              |
| Stockholders Equity -   |                                     |                      |
| Preferred Stock: Authorized 5,000,000 Shares, None Issued     |                                     |                      |
| Common Stock: \$.25 Par Value; Authorized 300,000,000 Shares; |                                     |                      |
| Outstanding 120,883,223 and 119,969,733 Shares                | 31,254                              | 31,041               |
| Capital in Excess of Par Value                                | 66,777                              | 48,349               |
| Retained Earnings   | 4,909,794                           | 5,250,873            |
| Treasury Stock, at Cost; 4,133,425 and 4,193,523 Shares       | (214,522)                           | (217,994)            |
| Total Stockholders Equity                                     | <b>4,793,303</b>                    | <b>5,112,269</b>     |

**\$ 12,444,978**

\$ 13,199,933

*See Notes to Consolidated Financial Statements.*

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**Centex Corporation and Subsidiaries**  
**Consolidated Balance Sheets with Consolidating Details**

(Dollars in thousands)

(unaudited)

| <b>June 30,<br/>2007</b> | Centex*        | Financial Services       |                |
|--------------------------|----------------|--------------------------|----------------|
|                          | March 31, 2007 | <b>June 30,<br/>2007</b> | March 31, 2007 |
| \$ 228,568               | \$ 870,688     | \$ 4,676                 | \$ 12,066      |
| 59,136                   | 56,467         | 87,884                   | 90,065         |
| 131,866                  | 175,683        | 1,474,243                | 1,688,303      |
| 8,511,820                | 8,495,982      | 55,043                   | 51,935         |
| 159,504                  | 158,212        | 2,060                    | 23,788         |
| 207,558                  | 282,116        |                          |                |
| 5,915                    | 6,022          | 9,905                    | 8,747          |
| 273,872                  | 281,644        |                          |                |
| 153,687                  | 137,704        |                          |                |
| 110,991                  | 119,203        | 15,462                   | 16,969         |
| 643,209                  | 465,247        | 23,532                   | 24,567         |
| 212,688                  | 210,090        | 8,952                    | 8,952          |
| 193,633                  | 163,497        | 26,521                   | 13,478         |
| \$ 10,892,447            | \$ 11,422,555  | \$ 1,708,278             | \$ 1,938,870   |
| \$ 424,025               | \$ 510,106     | \$ 9,679                 | \$ 10,727      |
| 1,678,933                | 1,719,753      | 85,449                   | 102,676        |
| 3,849,354                | 3,904,425      | 1,456,554                | 1,663,040      |
| 146,832                  | 176,002        | 849                      | 935            |
| 31,254                   | 31,041         | 1                        | 1              |
| 66,777                   | 48,349         | 275,467                  | 275,467        |
| 4,909,794                | 5,250,873      | (119,721)                | (113,976)      |
| (214,522)                | (217,994)      |                          |                |
| 4,793,303                | 5,112,269      | 155,747                  | 161,492        |



**\$ 10,892,447**      \$ 11,422,555      **\$ 1,708,278**      \$ 1,938,870

\* *In the supplemental data presented above, Centex represents the consolidation of all subsidiaries other than those included in Financial Services. Transactions between Centex and Financial Services have been eliminated from the Centex Corporation and Subsidiaries balance sheets.*

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**Centex Corporation and Subsidiaries**  
**Statements of Consolidated Cash Flows with Consolidating Details**  
(Dollars in thousands)  
(unaudited)

|  | Centex Corporation and<br>Subsidiaries |                  |
|--|--|------------------|
|  | <i>For the Three Months Ended June</i> |                  |
|  | <i>30,</i>                             |                  |
|  | <b>2007</b>                            | <b>2006</b>      |
| <b>Cash Flows Operating Activities</b>   |  |                  |
| Net Earnings (Loss)  | \$ (127,959)                           | \$ 160,257       |
| Adjustments  |  |                  |
| Depreciation and Amortization  | 14,846                                 | 15,762           |
| Stock-based Compensation   | 13,201                                 | 19,940           |
| Provision for Losses on Mortgage Loans Held for Investment and<br>Construction Loans | 717                                    | 23,746           |
| Impairments and Write-off of Land-related Assets                                     | 165,462                                | 36,302           |
| Deferred Income Tax (Benefit) Provision  | (67,696)                               | 26,778           |
| Loss (Earnings) of Joint Ventures and Unconsolidated Subsidiaries                    | 25,353                                 | (5,579)          |
| Distributions of Earnings of Joint Ventures and Unconsolidated<br>Subsidiaries       | 1,669                                  | 5,233            |
| Minority Interest, net of Taxes  | (86)                                   | 124              |
| Gain on Sale of Businesses   | (5,463)                                |                  |
| Changes in Assets and Liabilities, Excluding Effect of Acquisitions                  |  |                  |
| (Increase) Decrease in Restricted Cash   | (1,707)                                | (780)            |
| Decrease (Increase) in Receivables   | 47,042                                 | 43,013           |
| Decrease in Mortgage Loans Held for Sale   | 195,702                                | 401,952          |
| Decrease (Increase) in Receivables from Affiliates                                   |  |                  |
| Increase in Housing Projects and Land Held for Development and Sale                  | (236,003)                              | (773,210)        |
| (Increase) Decrease in Other Inventories   | (1,043)                                | 166              |
| Decrease in Accounts Payable and Accrued Liabilities                                 | (392,005)                              | (353,147)        |
| (Increase) Decrease in Other Assets, net   | (6,656)                                | (17,216)         |
| Other  | (140)                                  | 55               |
|  | <b>(374,766)</b>                       | <b>(416,604)</b> |
| <b>Cash Flows Investing Activities</b>   |  |                  |
| Payments received on Notes Receivable  | 826                                    | 1,528            |
| Increase in Mortgage Loans Held for Investment                                       |  | (286,691)        |
| Decrease (Increase) in Construction Loans  | 17,641                                 | (45,342)         |
| Investment in and Advances to Joint Ventures   | (46,343)                               | (54,203)         |
| Distributions of Capital from Joint Ventures   | 27,154                                 | 77,764           |
| Decrease (Increase) in Investments in and Advances to Unconsolidated<br>Subsidiaries |  |                  |
| Purchases of Property and Equipment, net   | (2,498)                                | (405)            |
| Other  | (19,500)                               | (3,114)          |
|  | <b>(22,720)</b>                        | <b>(310,463)</b> |

**Cash Flows Financing Activities**

|  |                   |                   |
|--|-------------------|-------------------|
| Decrease (Increase) in Restricted Cash                                 | <b>1,219</b>      | (87,098)          |
| (Decrease) Increase in Short-term Debt, net<br>Centex                  | <b>(206,793)</b>  | 443,658           |
| Issuance of Long-term Debt   | <b>53</b>         | 500,489           |
| Repayment of Long-term Debt  | <b>(55,488)</b>   | (103,601)         |
| Financial Services   |                   |                   |
| Issuance of Long-term Debt   |                   | 961,114           |
| Repayment of Long-term Debt  |                   | (746,310)         |
| Proceeds from Stock Option Exercises                                   | <b>14,062</b>     | 15,262            |
| Purchases of Common Stock, net   | <b>(252)</b>      | (187,799)         |
| Dividends Paid   | <b>(4,825)</b>    | (4,806)           |
|  | <b>(252,024)</b>  | 790,909           |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>            | <b>(649,510)</b>  | 63,842            |
| <b>Cash and Cash Equivalents at Beginning of Period <sup>(1)</sup></b> | <b>882,754</b>    | 47,955            |
| <b>Cash and Cash Equivalents at End of Period <sup>(2)</sup></b>       | <b>\$ 233,244</b> | <b>\$ 111,797</b> |

See Notes to  
Consolidated  
Financial  
Statements.

(1) Amount includes cash and cash equivalents of discontinued operations of \$0 as of March 31, 2007 and \$4,605 as of March 31, 2006.

(2) Amount includes cash and cash equivalents of discontinued operations of \$0 as of June 30, 2007 and \$27,373 as of June 30, 2006.

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**Centex Corporation and Subsidiaries**  
**Statements of Consolidated Cash Flows with Consolidating Details**

(Dollars in thousands)

(unaudited)

| Centex *                                   |             | Financial Services                         |             |
|--|-------------|--|-------------|
| <i>For the Three Months Ended June 30,</i> |             | <i>For the Three Months Ended June 30,</i> |             |
| <b>2007</b>                                | <b>2006</b> | <b>2007</b>                                | <b>2006</b> |
| \$ (127,959)                               | \$ 160,257  | \$ 9,255                                   | \$ (878)    |
| 13,220                                     | 12,103      | 1,626                                      | 3,659       |
| 13,201                                     | 19,940      | 717  | 23,746      |
| 165,462                                    | 36,302      | 1,035                                      | 38,414      |
| (68,731)                                   | (11,636)    | (86)                                       | 95          |
| 16,098                                     | (4,701)     | 962  | (255)       |
| 16,669                                     | 19,463      | (3,108)                                    | 4,637       |
| (5,463)                                    | 29          | 195,702                                    | 401,952     |
| (2,669)                                    | (525)       | 21,728                                     | (30,293)    |
| 50,150                                     | 38,376      | (1,158)                                    | 155         |
| (236,003)                                  | (773,210)   | (18,275)                                   | (20,726)    |
| 115  | 11          | (13,043)                                   | 5,212       |
| (373,730)                                  | (324,174)   | 195,355                                    | 425,718     |
| 6,387                                      | (22,428)    | 826  | 106         |
| (140)                                      | 55          | 17,641                                     | (286,691)   |
| (533,393)                                  | (850,138)   | (46,343)                                   | (45,342)    |
| 826  | 1,422       | 27,154                                     | 77,764      |
| (46,343)                                   | (54,203)    | (21,728)                                   | 22,046      |
| 27,154                                     | 77,764      | (2,379)                                    | 987         |
| (21,728)                                   | 22,046      | (19,500)                                   | (3,114)     |
| (2,379)                                    | 987         | (61,970)                                   | 44,902      |
| (19,500)                                   | (3,114)     | 17,522                                     | (333,319)   |
| (61,970)                                   | 44,902      | 1,219                                      | (87,098)    |
| (307)                                      | 623,584     | (206,486)                                  | (179,926)   |

|                   |                  |                  |                  |
|-------------------|------------------|------------------|------------------|
| <b>53</b>         | 500,489          |                  |                  |
| <b>(55,488)</b>   | (103,601)        |                  |                  |
|                   |                  |                  | 961,114          |
|                   |                  |                  | (746,310)        |
| <b>14,062</b>     | 15,262           |                  |                  |
| <b>(252)</b>      | (187,799)        |                  |                  |
| <b>(4,825)</b>    | (4,806)          | <b>(15,000)</b>  | (14,230)         |
| <b>(46,757)</b>   | 843,129          | <b>(220,267)</b> | (66,450)         |
| <b>(642,120)</b>  | 37,893           | <b>(7,390)</b>   | 25,949           |
| <b>870,688</b>    | 36,711           | <b>12,066</b>    | 11,244           |
| <b>\$ 228,568</b> | <b>\$ 74,604</b> | <b>\$ 4,676</b>  | <b>\$ 37,193</b> |

\* *In the supplemental data presented above, Centex represents the consolidation of all subsidiaries other than those included in Financial Services. Transactions between Centex and Financial Services have been eliminated from the Centex Corporation and Subsidiaries statements of consolidated cash flows.*

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**Centex Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
June 30, 2007**

(Unless otherwise indicated, dollars and shares in thousands, except per share data)  
(unaudited)

**(A) SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The consolidated interim financial statements include the accounts of Centex Corporation and all subsidiaries, partnerships and other entities in which Centex Corporation has a controlling interest (the Company). Also, included in the consolidated financial statements are certain variable interest entities, as discussed in Note (D), Inventories and Note (F), Indebtedness. All significant intercompany balances and transactions have been eliminated. The unaudited statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

Balance sheet and cash flow data is presented in the following categories:

*Centex Corporation and Subsidiaries.* This represents the consolidation of Centex, Financial Services and all of their consolidated subsidiaries, related companies and certain variable interest entities. The effects of transactions among related companies within the consolidated group have been eliminated.

*Centex.* This information is presented as supplemental information and represents the consolidation of all subsidiaries and certain variable interest entities other than those included in Financial Services, which are presented on an equity basis of accounting.

*Financial Services.* This information is presented as supplemental information and represents Centex Financial Services, its subsidiaries and related companies.

In the opinion of the Company, all adjustments (consisting of normal, recurring adjustments) necessary to present fairly the information in the consolidated financial statements of the Company have been included. The results of operations for such interim periods are not necessarily indicative of results for the full year. The Company suggests that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes to consolidated financial statements included in the Company's latest Annual Report on Form 10-K.

Certain operations have been classified as discontinued. Associated results of operations and financial position are separately reported for all periods presented. For additional information, refer to Note (L), Discontinued Operations. Information in these Notes to Consolidated Financial Statements, unless otherwise noted, does not include the accounts of discontinued operations.

**Table of Contents****Interest Expense**

Interest expense relating to the Financial Services segment is included in Financial Services costs and expenses. Home Building capitalizes interest incurred as a component of housing projects inventory cost. Capitalized interest is included in Home Building s costs and expenses as related housing inventories are sold or otherwise charged to costs and expenses.

|  | <i>For the Three Months<br/>Ended June 30,</i> |            |
|--|--|------------|
|  | <b>2007</b>                                    | 2006       |
| Total Interest Incurred  | <b>\$ 82,351</b>                               | \$ 185,480 |
| Less Interest Capitalized  | <b>(61,863)</b>                                | (72,594)   |
| Financial Services Interest Expense                                | <b>(20,488)</b>                                | (20,837)   |
| Discontinued Operations  |  | (92,049)   |
| Interest Expense, net  | <b>\$</b>                                      | \$         |
| Capitalized Interest Charged to Home Building s Costs and Expenses | <b>\$ 43,066</b>                               | \$ 37,050  |

**Income Taxes**

The Company accounts for income taxes on the deferral method whereby deferred tax assets and liabilities are provided for the tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

On April 1, 2007, the Company adopted Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). The cumulative effect of the adoption of FIN 48 was recorded as a \$208.3 million reduction to beginning retained earnings. Please refer to Note (J), Income Taxes for additional information relating to the adoption of FIN 48 and its impact on the current period financial results.

In accordance with the provisions of FIN 48, the Company recognizes in its financial statements the impact of a tax position if a tax return s position or future tax position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). Tax positions that meet the more likely than not threshold are measured (using a probability weighted approach) at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision, which is consistent with the Company s historical accounting policy. The Company s liability for unrecognized tax benefits, combined with accrued interest and penalties, is reflected as a component of accrued liabilities.

The Company s estimated liability for unrecognized tax benefits is periodically assessed for adequacy and may be affected by changing interpretations of laws, rulings by tax authorities, certain changes and/or developments with respect to audits, and expiration of the statute of limitations. The outcome for a particular audit cannot be determined with certainty prior to the conclusion of the audit and, in some cases, appeal or litigation process. The actual benefits ultimately realized may differ from the Company s estimates. As each audit is concluded, adjustments, if any, are appropriately recorded in the Company s financial statements. Additionally, in future periods, changes in facts, circumstances, and new information may require the Company to adjust the recognition and measurement estimates with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

Prior to the adoption of FIN 48, the Company applied Statement of Financial Accounting Standards ( SFAS ) No. 5, Accounting for Contingencies, to assess and provide for potential income tax exposures. In accordance with SFAS No. 5, the Company maintained reserves for tax contingencies based on reasonable estimates of the tax liabilities, interest, and penalties (if any) that may result from such audits. FIN 48 substantially changes the applicable

accounting model and is likely to cause greater volatility in the income statements and effective tax rates as more items are recognized and/or derecognized discretely within income tax expense.

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**Table of Contents****Stock-Based Employee Compensation Arrangements**

The Company accounts for its stock-based compensation arrangements in accordance with the provisions of SFAS No. 123(R) entitled Share-Based Payment, under which the Company recognizes compensation expense of a stock-based award over the vesting period based on the fair value of the award on the grant date. The fair value of stock options granted is calculated under the Black-Scholes option-pricing model.

The following information represents the Company's grants of stock-based compensation to employees and directors prior to recognition of estimated forfeitures during the three months ended June 30, 2007 and the year ended March 31, 2007:

| Period of Grant                                 | Grant Type              | Number of<br>Shares<br>Granted | Fair Value<br>of Grant |
|---|-------------------------|--------------------------------|------------------------|
| For the year ended March 31, 2007               | Stock Options           | 1,420.3                        | \$28,603.0             |
|   | Stock Units             | 366.2                          | \$19,955.4             |
|   | Restricted Stock        | 121.2                          | \$ 6,379.9             |
| <b>For the three months ended June 30, 2007</b> | <b>Stock Options</b>    | <b>578.4</b>                   | <b>\$ 9,116.8</b>      |
|   | <b>Stock Units</b>      | <b>230.5</b>                   | <b>\$10,493.2</b>      |
|   | <b>Restricted Stock</b> | <b>27.5</b>                    | <b>\$ 1,249.9</b>      |

In addition to the stock-based awards in the above table, the Company issued to officers and employees during the three months ended June 30, 2007 long-term performance awards that vest after three years with an initial aggregate value of \$18.9 million. These awards will be settled in cash and adjusted based on the Company's performance relative to its peers in earnings per share growth and return on equity, as well as changes in the Company's stock price between the date of grant and the end of the performance period. In accordance with the provisions of SFAS No. 123(R), compensation expense will be recognized over the vesting period with a corresponding increase in accrued liabilities.

**Statements of Consolidated Cash Flows Supplemental Disclosures**

In accordance with the provisions of SFAS No. 95, Statement of Cash Flows, the Statements of Consolidated Cash Flows have not been restated for discontinued operations. For further information on the sale of the Company's construction services operations ( Construction Services ) and sub-prime lending operations ( Home Equity ), see Note (L), Discontinued Operations. Accordingly, all Construction Services cash flows prior to disposal are included with the Centex cash flows and all Home Equity cash flows prior to disposal are included with the Financial Services cash flows.

The following table provides supplemental disclosures related to the Statements of Consolidated Cash Flows:

|                         | <i>For the Three Months<br/>Ended June 30,</i> |            |
|-------------------------|--|------------|
|                         | <b>2007</b>                                    | 2006       |
| Cash Paid for Interest  | <b>\$ 78,869</b>                               | \$ 168,783 |
| Net Cash Paid for Taxes | <b>\$ 177,445</b>                              | \$ 141,972 |

As explained in Note (D), Inventories, pursuant to the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as revised ( FIN 46 ), as of June 30, 2007 and March 31, 2007, the Company consolidated \$123.5 million and \$152.9 million, respectively, of land as inventory under the caption land held under option agreements not owned. In addition, the Company recorded \$48.6 million and \$90.5 million as of June 30, 2007 and March 31, 2007, respectively, of lot option agreements for which the Company's deposits exceeded certain thresholds.

In addition to the items noted above, the Company's adoption of FIN 48 was treated as a non-cash item in the Statements of Consolidated Cash Flows. The adoption of FIN 48 resulted in a \$116.0 million increase to



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deferred income taxes, a \$329.2 million increase in accrued liabilities and a \$213.2 million reduction in stockholders equity.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements ( SFAS 157 ) that serves to define fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 will be effective as of the beginning of the Company's fiscal year ending March 31, 2009. The Company is currently evaluating the impact, if any, of adopting SFAS 157 on its financial statements.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). Under the provisions of SFAS 159, companies may elect to measure specified financial instruments, warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings. The election, called the fair value option, will enable some companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently, and it is simpler than using the complex hedge-accounting requirements in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities to achieve similar results. SFAS 159 will be effective for the Company as of April 1, 2008. The Company expects that the adoption of SFAS 159 will not have a material impact on its results of operations or financial position.

**Reclassifications**

Certain prior year balances have been reclassified to be consistent with the June 30, 2007 presentation, including reclassification of certain restricted cash balances to cash flows from financing activities, a reclassification of construction lending activity to cash flows from investing activities, a reclassification of the construction loan allowance against the related mortgage and reclassifications of discontinued operations.

**(B) STOCKHOLDERS' EQUITY**

A summary of changes in stockholders' equity is presented below:

|   | Common Stock   |                  | Capital<br>in<br>Excess of<br>Par<br>Value | Retained<br>Earnings | Treasury<br>Stock,<br>at Cost | Total               |
|---|----------------|------------------|--|----------------------|-------------------------------|---------------------|
|   | Shares         | Amount           |  |                      |                               |                     |
| Balance, March 31, 2007                             | 119,970        | \$ 31,041        | \$ 48,349                                  | \$ 5,250,873         | \$ (217,994)                  | \$ 5,112,269        |
| Adoption of FIN 48                                  |                |                  | (4,898)                                    | (208,295)            |                               | (213,193)           |
| Issuance of Restricted<br>Stock and Stock Units     | 93             | 7                | (7,109)                                    |                      | 3,724                         | (3,378)             |
| Stock Compensation                                  |                |                  | 13,201                                     |                      |                               | 13,201              |
| Exercise of Stock Options<br>Including Tax Benefits | 825            | 206              | 17,192                                     |                      |                               | 17,398              |
| Cash Dividends                                      |                |                  |  | (4,825)              |                               | (4,825)             |
| Purchase of Common<br>Stock for Treasury            | (6)            |                  |  |                      | (252)                         | (252)               |
| Other Stock Transactions                            | 1              |                  | 42   |                      |                               | 42                  |
| Net Loss  |                |                  |  | (127,959)            |                               | (127,959)           |
| <b>Balance, June 30, 2007</b>                       | <b>120,883</b> | <b>\$ 31,254</b> | <b>\$ 66,777</b>                           | <b>\$ 4,909,794</b>  | <b>\$ (214,522)</b>           | <b>\$ 4,793,303</b> |

**Table of Contents****(C) MORTGAGE LOANS**

Mortgage loans receivable consist of the following:

|                              | <b>June 30,<br/>2007</b> | <i>As of</i><br>March 31,<br>2007 |
|------------------------------|--------------------------|-----------------------------------|
| Mortgage Loans Held for Sale | <b>\$ 1,118,517</b>      | \$ 1,314,219                      |
| Construction Loans, net      | <b>355,726</b>           | 374,084                           |
| <br>                         |                          |                                   |
| Mortgage Loans Receivable    | <b>\$ 1,474,243</b>      | \$ 1,688,303                      |

As of June 30, 2007, CTX Mortgage Company, LLC is committed to fund \$180.5 million in addition to the current construction loan balance.

**(D) INVENTORIES****Housing Projects and Land Held for Development and Sale**

A summary of housing projects is provided below:

|                        | <b>June 30,<br/>2007</b> | <i>As of</i><br>March 31,<br>2007 |
|------------------------|--------------------------|-----------------------------------|
| Direct Construction    | <b>\$ 3,200,774</b>      | \$ 3,062,389                      |
| Land Under Development | <b>5,311,046</b>         | 5,433,593                         |
| <br>                   |                          |                                   |
| Housing Projects       | <b>\$ 8,511,820</b>      | \$ 8,495,982                      |

For the three months ended June 30, 2007, the Company recorded \$142.6 million in impairments, representing 29 neighborhoods and land investments, primarily due to challenging market conditions. At June 30, 2007, the remaining carrying value of neighborhoods and land investments for which an impairment was recorded in the first quarter of fiscal year 2008 was \$346.1 million. No significant land-related impairments were recorded for the same period in the prior year.

**Land Held Under Option Agreements Not Owned and Other Land Deposits**

In order to ensure the future availability of land for homebuilding, the Company enters into land option purchase agreements. Under the option agreements, the Company pays a stated deposit or issues a letter of credit in consideration for the right to purchase land at a future time, usually at predetermined prices. These options generally do not contain performance requirements from the Company nor obligate the Company to purchase the land, and expire on various dates. At June 30, 2007, the Company had 234 land option agreements.

The Company has determined that in accordance with the provisions of FIN 46, it is the primary beneficiary of 17 land option agreements at June 30, 2007. As a result, the Company recorded \$123.5 million and \$152.9 million as of June 30, 2007 and March 31, 2007, respectively, of land as inventory under the caption land held under option agreements not owned, with corresponding increases to minority interests.

In addition to land options recorded pursuant to FIN 46, the Company recorded \$48.6 million and \$90.5 million as of June 30, 2007 and March 31, 2007, respectively, of land under the caption land held under option agreements not owned, with a corresponding increase to accrued liabilities related to seven land option agreements. These land options were recorded in accordance with the provisions of SFAS 49, Product Financing Arrangements.

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A summary of the Company's deposits for land options and the total purchase price of such options is provided below:

|   | <b>June 30,<br/>2007</b> | <i>As of</i><br>March 31,<br>2007 |
|---|--------------------------|-----------------------------------|
| Cash Deposits included in:  |                          |                                   |
| Land Held for Development and Sale                                | \$ <b>69,026</b>         | \$ 89,737                         |
| Land Held Under Option Agreements Not Owned                       | <b>35,544</b>            | 38,642                            |
| Total Cash Deposits in Inventory                                  | <b>104,570</b>           | 128,379                           |
| Letters of Credit   | <b>4,653</b>             | 12,854                            |
| Total Invested through Deposits or Secured with Letters of Credit | \$ <b>109,223</b>        | \$ 141,233                        |
| Total Purchase Price of Land Option Agreements                    | <b>\$ 3,278,278</b>      | \$ 3,324,636                      |

In addition to deposits, the Company capitalizes pre-acquisition development costs related to land held under option agreements. As of June 30, 2007 and March 31, 2007, pre-acquisition development costs recorded to land held for development and sale were \$35.6 million and \$48.0 million, respectively. Also included in land held for development and sale is owned land that will not be developed for more than two years, which amounted to \$54.9 million and \$20.5 million as of June 30, 2007 and March 31, 2007, respectively.

The Company writes off deposits and pre-acquisition costs when it determines it is probable the property will not be acquired. Write-offs of land deposits and pre-acquisition costs amounted to \$22.9 million and \$36.3 million for the three months ended June 30, 2007 and 2006, respectively.

**(E) GOODWILL**

A summary of changes in goodwill by segment for the three months ended June 30, 2007 is presented below:

|                     | As of<br>March 31,<br>2007 | Goodwill<br>Acquired | As of<br>June 30,<br>2007 |
|---------------------|----------------------------|----------------------|---------------------------|
| Home Building       |                            |                      |                           |
| East                | \$ 27,945                  | \$                   | \$ <b>27,945</b>          |
| Southeast           | 29,160                     |                      | <b>29,160</b>             |
| Central             | 8,505                      |                      | <b>8,505</b>              |
| Texas               | 9,720                      |                      | <b>9,720</b>              |
| Northwest           | 21,870                     |                      | <b>21,870</b>             |
| Southwest           | 24,301                     |                      | <b>24,301</b>             |
| Other homebuilding  |                            |                      |                           |
| Total Home Building | 121,501                    |                      | <b>121,501</b>            |
| Financial Services  | 8,952                      |                      | <b>8,952</b>              |
| Other               | 88,589                     | 2,598                | <b>91,187</b>             |
| Total               | \$ 219,042                 | \$ 2,598             | \$ <b>221,640</b>         |

Goodwill for the Other segment at June 30, 2007 relates to the Company's home services operations.



**Table of Contents****(F) INDEBTEDNESS**

A summary of the balances of short-term and long-term debt (debt instruments with original maturities greater than one year) and weighted-average interest rates at June 30, 2007 and March 31, 2007 is presented below. Due dates are presented in fiscal years. Centex, in this note, refers to the consolidation of all subsidiaries and certain debt of variable interest entities other than those included in Financial Services.

|  | <b>June 30, 2007</b> | <i>As of</i>                                       | <b>March 31, 2007</b> |  |
|--|----------------------|--|-----------------------|--|
|  |                      | <b>Weighted-<br/>Average<br/>Interest<br/>Rate</b> |                       | <b>Weighted-<br/>Average<br/>Interest<br/>Rate</b> |
| <b>Short-term Debt:</b>  |                      |  |                       |  |
| Centex   | \$ 1,500             |  | \$ 1,807              |  |
| Financial Services   |                      |  |                       |  |
| Financial Institutions   | 353,831              | 6.25%  | 428,144               | 5.56%  |
| Harwood Street Funding I, LLC Secured<br>Liquidity Notes   | 1,042,723            | 5.40%  | 1,174,896             | 5.38%  |
| Consolidated Short-term Debt   | 1,398,054            |  | 1,604,847             |  |
| <b>Long-term Debt:</b>   |                      |  |                       |  |
| Centex   |                      |  |                       |  |
| Medium-term Note Programs, due through 2008  | 170,000              | 5.61%  | 170,000               | 5.61%  |
| Senior Notes, due through 2017   | 3,654,029            | 5.89%  | 3,708,976             | 5.89%  |
| Other Indebtedness, due through 2018   | 23,825               | 6.54%  | 23,642                | 6.57%  |
|  | 3,847,854            |  | 3,902,618             |  |
| Financial Services   |                      |  |                       |  |
| Harwood Street Funding I, LLC Variable-Rate<br>Subordinated Extendable Certificates, due<br>through 2010 | 60,000               | 7.32%  | 60,000                | 7.32%  |
| Consolidated Long-term Debt  | 3,907,854            |  | 3,962,618             |  |
| Total Debt   | \$ 5,305,908         |  | \$ 5,567,465          |  |

As of June 30, 2007 and March 31, 2007, Centex's short-term debt consisted of land and land-related acquisition notes of \$1.5 million and \$1.8 million, respectively.

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The weighted-average interest rates for short-term and long-term debt were:

|   | <i>For the Three Months Ended June<br/>30,</i> |                      |
|---|--|----------------------|
|   | <b>2007</b>                                    | 2006                 |
| <b>Short-term Debt:</b>   |  |                      |
| Centex  |  | 5.16%                |
| Financial Services  | <b>5.86%</b>                                   | 5.30%                |
| <b>Long-term Debt:</b>  |  |                      |
| Centex  |  |                      |
| Medium-term Note Programs   | <b>5.68%</b>                                   | 5.88% <sup>(1)</sup> |
| Senior Notes  | <b>5.91%</b>                                   | 5.87%                |
| Other Indebtedness  | <b>6.53%</b>                                   | 5.84%                |
| Subordinated Debentures   |  | 8.75%                |
| Financial Services  |  |                      |
| Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable<br>Certificates | <b>7.42%</b>                                   | 7.08%                |

*(1) Interest rate includes the effect of an interest rate swap agreement.*

Maturities of Centex's and Financial Services' long-term debt during the next five years ending March 31 of each year and thereafter are:

|            | Centex              | Financial<br>Services | Total               |
|------------|---------------------|-----------------------|---------------------|
| 2008       | \$ 526,292          | \$                    | \$ 526,292          |
| 2009       | 150,854             |                       | 150,854             |
| 2010       | 225,408             | 60,000                | 285,408             |
| 2011       | 700,250             |                       | 700,250             |
| 2012       | 349,312             |                       | 349,312             |
| Thereafter | 1,895,738           |                       | 1,895,738           |
|            | <b>\$ 3,847,854</b> | <b>\$ 60,000</b>      | <b>\$ 3,907,854</b> |

Under debt covenants contained in the Company's multi-bank revolving credit facility, the Company is required to maintain compliance with certain financial covenants. Material covenants include a leverage, an interest coverage ratio and minimum tangible net worth. At June 30, 2007, Centex was in compliance with all of these covenants. On July 20, 2007, this credit facility was amended to, among other things, remove the interest coverage ratio covenant. The interest coverage ratio is no longer a covenant, the violation of which could cause an event of default, but it is a determinant of the maximum leverage ratio covenant and certain of the credit facility's pricing provisions.



**Table of Contents****Credit Facilities**

The Company's existing credit facilities and available borrowing capacity as of June 30, 2007 are summarized below:

|  | Existing<br>Credit<br>Facilities | Available<br>Capacity       |
|--|----------------------------------|-----------------------------|
| <b>Centex</b>                          |                                  |                             |
| Multi-Bank Revolving Credit Facility   |                                  |                             |
| Revolving Credit                       | \$ 1,250,000                     | \$ 1,250,000                |
| Letters of Credit                      | 835,000                          | 538,948                     |
|  | 2,085,000                        | 1,788,948 <sup>(1)(2)</sup> |
| <b>Financial Services</b>              |                                  |                             |
| Secured Credit Facilities              | 440,000                          | 351,170 <sup>(3)</sup>      |
| Mortgage Conduit Facilities            | 450,000                          | 185,000 <sup>(4)</sup>      |
| Harwood Street Funding I, LLC Facility | 3,000,000                        | 1,895,600                   |
|  | 3,890,000                        | 2,431,770                   |
|  | \$ 5,975,000                     | \$ 4,220,718                |

*(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2010, which serves as backup for Centex Corporation's \$1.25 billion commercial paper program and provides \$835 million of letter of credit capacity. As of June 30, 2007, the \$1.25 billion commercial paper program had no amounts outstanding.*

*There have been no direct borrowings under this revolving credit facility since its inception.*

- (2) *Centex maintains a minimum of \$100 million in unused committed credit at all times in conjunction with certain remaining surety bond obligations relating to Construction Services projects commenced prior to the sale of Construction Services on March 30, 2007. Following the sale of Construction Services, the purchaser has indemnified Centex for losses and Centex has obtained a back-up indemnity from an AA- (S&P), Aa3 (Moody's) rated financial institution, which indemnifies Centex against certain losses under any such*

*letter of credit.*

(3) *CTX Mortgage Company, LLC maintains \$440 million of secured, committed mortgage warehouse facilities.*

(4) *A wholly-owned limited purpose subsidiary of CTX Mortgage Company, LLC maintains secured, committed facilities funded through commercial paper conduits to finance the purchase of certain mortgage loans from CTX Mortgage Company, LLC.*

**CTX Mortgage Company, LLC and Harwood Street Funding I, LLC**

Mortgage loans held for sale are primarily funded by CTX Mortgage Company, LLC's sale of substantially all the mortgage loans it originates to Harwood Street Funding I, LLC ( HSF-I ), pursuant to a mortgage loan purchase agreement, as amended (the HSF-I Purchase Agreement ). Under the terms of the HSF-I Purchase Agreement, CTX Mortgage Company, LLC may elect to sell to HSF-I, and HSF-I is obligated to purchase from CTX Mortgage Company, LLC, mortgage loans that satisfy certain eligibility criteria and portfolio requirements. HSF-I's commitment to purchase eligible mortgage loans continues in effect until the occurrence of certain termination events described in the HSF-I Purchase Agreement. At June 30, 2007, the maximum amount of mortgage loans that HSF-I is allowed to carry in its inventory under the HSF-I Purchase Agreement is \$3.0 billion. When HSF-I acquires mortgage loans, it typically holds them on average 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 eligible mortgage loans into the secondary market. HSF-I obtains the funds needed to purchase eligible mortgage loans from CTX Mortgage Company, LLC by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated certificates. As of June 30, 2007, HSF-I had outstanding (1) short-term secured liquidity notes rated A1+ by Standard & Poor's, or S&P, and P-1 by Moody's Investors Service, or Moody's, and (2) subordinated certificates maturing in September 2009, extendable for up to five years, rated BBB by S&P and Baa2 by Moody's. The purposes of this arrangement are to allow CTX Mortgage Company, LLC to reduce funding costs associated with its originations, to improve its liquidity and to reduce credit risks associated with mortgage warehousing.

Pursuant to FIN 46, HSF-I is a variable interest entity for which the Company is the primary beneficiary. Accordingly, HSF-I was consolidated in the Company's financial statements beginning July 1, 2003.

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HSF-I has entered into a swap arrangement with a bank (the Harwood Swap ) under which the bank has agreed to make certain payments to HSF-I, and HSF-I has agreed to make certain payments to the bank, the net effect of which is that the bank has agreed to bear certain interest rate risks, non-credit related market risks and prepayment risks related to the mortgage loans held by HSF-I. The purpose of this arrangement is to provide credit enhancement to HSF-I by permitting it to hedge these risks with a counterparty having a short-term credit rating of A1+ from S&P and P-1 from Moody s. However, the Company effectively bears all interest rate risks, non-credit related market risks and prepayment risks that are the subject of the Harwood Swap because Centex has entered into a separate swap arrangement with the bank pursuant to which Centex has agreed to pay to the bank all amounts that the bank is required to pay to HSF-I pursuant to the Harwood Swap plus a monthly fee equal to a percentage of the notional amount of the Harwood Swap. Additionally, the bank is required to pay to Centex all amounts that the bank receives from HSF-I pursuant to the Harwood Swap. CTX Mortgage Company, LLC executes forward sales of mortgage loans to hedge the risk of reductions in value of mortgages sold to HSF-I or maintained under secured financing agreements. This offsets the majority of the Company s risk as the counterparty to the swap supporting the payment requirements of HSF-I. See additional discussion of interest rate risks in Note (K), Derivatives and Hedging. The Company is also required to reimburse the bank for certain expenses, costs and damages that it may incur.

HSF-I s debt and subordinated certificates do not have recourse to the Company, and the consolidation of this debt and subordinated certificates has not changed the Company s debt ratings. The Company does not guarantee the payment of any debt or subordinated certificates of HSF-I and is not liable for credit losses relating to securitized residential mortgage loans sold to HSF-I. However, the Company retains certain risks related to the portfolio of mortgage loans held by HSF-I. In particular, CTX Mortgage Company, LLC makes representations and warranties to HSF-I to the effect that each mortgage loan sold to HSF-I satisfies the eligibility criteria and portfolio requirements discussed above. CTX Mortgage Company, LLC may be required to repurchase mortgage loans sold to HSF-I if such mortgage loans are determined to be ineligible loans or there occur certain other breaches of representations and warranties of CTX Mortgage Company, LLC, as seller or servicer. CTX Mortgage Company, LLC s obligations as servicer, including its obligation as servicer to repurchase such loans, are guaranteed by Centex Corporation. CTX Mortgage Company, LLC records a liability for its estimated losses for these obligations and such amount is included in its loan origination reserve. CTX Mortgage Company, LLC and its related companies sold \$2.35 billion and \$2.86 billion of mortgage loans to investors during the three months ended June 30, 2007 and 2006, respectively. CTX Mortgage Company, LLC and its related companies recognized gains on sales of mortgage loans and related derivative activity of \$38.6 million and \$46.6 million during the three months ended June 30, 2007 and 2006, respectively.

Under the terms of HSF-I, the facility could terminate if the ratings of Centex Corporation were to fall below BB by S&P and Ba2 by Moody s. In the event of termination, HSF-I would wind down through the sale of collateral in the normal course and no new purchases will be permitted. On July 18, 2007, the terms of the Harwood Swap were amended to expand the number of swap banks from one to three. Additionally, if the Company s debt ratings fall below BBB- by S&P and Baa3 by Moody s, the Company may be required to post cash or certain other eligible collateral. Please refer to Note (M), Subsequent Events, for additional information on the changes to the Harwood Swap. In the event CTX Mortgage Company, LLC is unable to finance its inventory of loans through HSF-I, it would draw on other existing credit facilities. In addition, Financial Services would need to make other customary financing arrangements to fund its mortgage loan origination activities. Although the Company believes that Financial Services could arrange for alternative financing that is common for non-investment grade mortgage companies, there can be no assurance that such financing would be available on satisfactory terms, and any delay in obtaining such financing could adversely affect the results of operations of Financial Services.

**Table of Contents****(G) COMMITMENTS AND CONTINGENCIES****Joint Ventures**

The Company conducts a portion of its land acquisition, development and other activities through its participation in joint ventures in which the Company holds less than a majority interest. These land-related activities typically require substantial capital, and partnering with other homebuilders or developers and, to a lesser extent, financial partners, allows Home Building to share the risks and rewards of ownership and to provide broader strategic advantages.

A summary of the Company's Home Building joint ventures is presented below:

|  | <b>June 30,<br/>2007</b> | <i>As of</i><br>March 31, 2007 |
|--|--------------------------|--------------------------------|
| Number of Active Joint Ventures <sup>(1)</sup>   | <b>43</b>                | 49                             |
| Investment in Joint Ventures   | <b>\$ 273,872</b>        | \$ 281,644                     |
| Total Joint Venture Debt <sup>(2)</sup>  | <b>\$ 897,370</b>        | \$ 1,000,599                   |
| Centex's Share of Joint Venture Debt:<br>Based on Centex's Ownership Percentage          | <b>\$ 365,494</b>        | \$ 412,397                     |
| Based on Limited Recourse Provisions:<br>Limited Maintenance Guarantee <sup>(3)(5)</sup> | <b>\$ 133,441</b>        | \$ 162,425                     |
| Repayment Guarantee <sup>(4)(5)</sup>  | <b>12,137</b>            | 12,055                         |
| Total Limited Recourse Debt  | <b>\$ 145,578</b>        | \$ 174,480                     |

*(1) The number of active joint ventures includes unconsolidated Home Building joint ventures for which the Company has an investment balance as of the end of the period and/or current fiscal year activity. The Company is the managing member of 23 and 28 of the active joint ventures as of June 30, 2007*

*and March 31,  
2 0 0 7 ,  
respectively.*

*(2) As of June 30,  
2 0 0 7 a n d  
March 31, 2007,  
21 of the active  
joint ventures  
h a v e  
o u t s t a n d i n g  
debt.*

*(3) The Company  
has guaranteed  
that certain of  
t h e j o i n t  
ventures will  
maintain a  
specified loan to  
value ratio. For  
certain joint  
ventures, the  
Company has  
contributed  
additional  
capital in order  
to maintain loan  
t o v a l u e  
requirements.*

*(4) The Company  
has guaranteed  
repayment of a  
p o r t i o n o f  
certain joint  
venture debt  
limited to its  
o w n e r s h i p  
percentage of  
the joint venture  
or a percentage  
thereof.*

*(5) These amounts  
represent the  
C o m p a n y s  
m a x i m u m  
exposure related  
to the joint  
ventures debt*

*a t e a c h*  
*respective date.*

Debt agreements for joint ventures vary by lender in terms of structure and level of recourse. For certain of the joint ventures, the Company is also liable, on a contingent basis, through other guarantees, letters of credit or other arrangements with respect to a portion of the construction debt. Certain joint venture agreements require the Company to guarantee the completion of a project or phase if the joint venture does not perform the required development. To the extent development costs exceed amounts available under the joint venture's credit facility, the Company would be liable for incremental costs to complete development. Additionally, the Company has agreed to indemnify the construction lender for certain environmental liabilities in the case of most joint ventures, and most guarantee arrangements provide that the Company is liable for its proportionate share of the outstanding debt if the joint venture files for voluntary bankruptcy. The Company has not been requested to perform under the other contingent arrangements discussed in this paragraph.

**Letters of Credit and Surety Bonds**

In the normal course of business, the Company issues letters of credit and surety bonds pursuant to: (1) certain performance related obligations, (2) as security for certain land option purchase agreements of the Home Building segment, and (3) under various insurance programs. The Company also issued surety bonds, which are reflected as discontinued operations in the table below, pursuant to construction obligations of Construction Services



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prior to the sale of this segment on March 30, 2007. The Company does not believe that these letters of credit or bonds will be drawn upon.

A summary of the Company's outstanding letters of credit and surety bonds as of June 30, 2007 and March 31, 2007 is presented below (dollars in millions):

|  | <i>As of June 30, 2007</i> |                           | <i>As of March 31, 2007</i> |                 |
|--|----------------------------|---------------------------|-----------------------------|-----------------|
|  | Letters<br>of<br>Credit    | Surety<br>Bonds           | Letters<br>of<br>Credit     | Surety<br>Bonds |
| Home Building                          | \$ 189.8                   | \$ 1,672.9 <sup>(1)</sup> | \$ 209.1                    | \$ 1,542.3      |
| Financial Services                     | 0.7                        | 14.8                      | 0.7                         | 10.7            |
| Other                                  | 81.0                       | 1.7                       | 94.4                        | 1.7             |
| Discontinued Operations <sup>(2)</sup> | 25.0                       | 3,770.0                   | 38.1                        | 4,161.8         |
|  | \$ 296.5                   | \$ 5,459.4                | \$ 342.3                    | \$ 5,716.5      |

(1) *The Company estimates that \$700.9 million of work remains to be performed on these projects.*

(2) *After the sale of Construction Services, the Company remains responsible for certain surety bond obligations relating to Construction Services projects commenced prior to March 30, 2007. These surety bonds have a total face amount of \$3.77 billion, although the risk of liability with respect to these surety*

*bonds declines as the relevant construction projects are performed. At June 30, 2007, the Company estimates that \$1.53 billion of work remains to be performed on these projects. In connection with certain of these surety b o n d obligations, the Company has a g r e e d t o provide certain sureties with letters of credit of up to \$100 million if its public debt ratings fall b e l o w investment grade. The purchaser of Construction Services has a g r e e d t o indemnify Centex against losses relating to such surety b o n d obligations, i n c l u d i n g amounts drawn under any such letters of credit. The Company has purchased for its benefit an a d d i t i o n a l b a c k - u p indemnity provided by a f i n a n c i a l*

*institution with an AA- (S&P), Aa3 (Moody s) credit rating. The obligation of such financial institution under the back-up indemnity is initially subject to a limit of \$2 billion, which declines to \$400 million over time and terminates in 2016.*

### **Community Development and Other Special District Obligations**

A Community Development District or similar development authority ( CDD ) is a unit of local government created under state statutes that utilizes bond financing to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds including principal and interest is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. In accordance with EITF 91-10, Accounting for Special Assessments and Tax Increment Financing, the Company records a liability for future assessments, which are fixed or determinable for a fixed or determinable period. In addition and in accordance with SFAS No. 5, Accounting for Contingencies, the Company evaluates whether it is contingently liable for any of the debt related to the bond issuance. This is typically the case where bonds issued by the CDD have maturity dates of ten years or less that will be paid by the Company as the developer and current landowner and not future homeowners. At June 30, 2007 and March 31, 2007, the Company had recorded \$287.6 million and \$280.2 million, respectively, in accrued liabilities for outstanding CDD obligations.

### **Warranties and Guarantees**

In the normal course of its business, the Company issues certain warranties and guarantees or makes certain representations related to its home sales, land sales and mortgage loan originations. The Company believes that it has established the necessary accruals for these warranties, guarantees and representations. See further discussion of the Company s warranty liability below.

Home Building offers a ten-year limited warranty for most homes constructed and sold. The warranty covers defects in materials or workmanship in the first two years of the customers ownership of the home and certain designated components or structural elements of the home in the third through tenth years. Home Building estimates the costs that may be incurred under its warranty program for which it will be responsible and records a liability at the time each home is closed. Factors that affect Home Building s warranty liability include the number of homes closed, historical and anticipated rates of warranty claims, and cost per claim. Home Building periodically assesses the adequacy of its recorded warranty liability and adjusts the amounts as necessary.

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Changes in Home Building's contractual warranty liability are as follows for the three months ended June 30, 2007 and the year ended March 31, 2007:

|  | <b>June 30,<br/>2007</b> | March 31,<br>2007 <sup>(1)</sup> |
|--|--------------------------|----------------------------------|
| Balance at Beginning of Period   | \$ 44,293                | \$ 47,199                        |
| Warranties Issued  | 9,032                    | 42,422                           |
| Settlements Made   | (11,449)                 | (45,228)                         |
| Changes in Liability of Pre-Existing Warranties, Including Expirations | (608)                    | (100)                            |
| <br>   |                          |                                  |
| Balance at End of Period   | \$ 41,268                | \$ 44,293                        |

*(1) For the three months ended June 30, 2006, warranties issued, settlements made and changes in liability of pre-existing warranties were \$ 15,891, (\$14,954) and \$0, respectively.*

CTX Mortgage Company, LLC has established a liability for anticipated losses associated with mortgage loans originated. Changes in CTX Mortgage Company, LLC's liability are as follows for the three months ended June 30, 2007 and the year ended March 31, 2007:

|                                  | <b>June 30,<br/>2007</b> | March 31,<br>2007 <sup>(1)</sup> |
|----------------------------------|--------------------------|----------------------------------|
| Balance at Beginning of Period   | \$ 16,863                | \$ 18,500                        |
| Provision for Losses             | 448                      | 2,160                            |
| Settlements                      | (935)                    | (1,178)                          |
| Changes in Pre-Existing Reserves | 135                      | (2,619)                          |
| <br>                             |                          |                                  |
| Balance at End of Period         | \$ 16,511                | \$ 16,863                        |

*(1) For the three months ended June 30, 2006, provisions for losses, settlements and changes in pre-existing reserves were*

\$524, (\$274)  
and (\$45),  
respectively.

**Forward Trade and Interest Rate Lock Commitments**

Forward trade commitments represent the fair value of contracts with investors for delayed delivery of mortgage loans for which the Company agrees to make delivery (either directly or in its capacity as sole manager of HSF-I) at a specified future date at a specified price. The Company utilizes such delayed delivery contracts to hedge market risk based upon the number of commitments issued to mortgagors that are expected to close. Fair value is estimated using quoted market prices for current dealer commitments to purchase loans. At June 30, 2007, the Company had \$553.1 million of commitments to deliver mortgages to investors against interest rate lock commitments. In addition, at June 30, 2007, the Company had commitments to deliver approximately \$1.07 billion of mortgage loan inventory to investors.

Interest rate lock commitments (IRLCs) represent the fair value of individual mortgagor agreements that commit the Company to lend at a specified price for a specified period as long as there is no violation of any condition established in the commitment contract. Fair value is estimated using quoted market prices on fixed loan commitments in the mortgage pipeline. At June 30, 2007, the Company had loan commitments to prospective mortgagors of \$379.0 million.

For additional information on forward trade commitments and interest rate lock commitments, please refer to Note (K), Derivatives and Hedging.

**Litigation and Related Matters**

In the normal course of its business, the Company is named as a defendant in certain suits filed in various state and federal courts. Management believes that none of the litigation matters in which the Company is involved, including those described below, would have a material adverse effect on the consolidated financial condition or operations of the Company.

In January 2003, the Company received a request for information from the United States Environmental Protection Agency ( EPA ) pursuant to Section 308 of the Clean Water Act seeking information about storm water pollution prevention practices at projects that Centex subsidiaries had completed or were building. Subsequently, the EPA limited its request to Home Building s operations at 30 neighborhoods. Home Building has provided the requested information and the United States Department of Justice (the Justice Department ), acting on behalf of the

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EPA, has asserted that some of these and certain other neighborhoods have violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Home Building believes it has defenses to the allegations made by the EPA and is exploring methods of settling this matter. In any settlement, the Justice Department will want the Company to pay civil penalties and sign a consent decree affecting the Company's storm water pollution prevention practices at construction sites.

**(H) COMPREHENSIVE INCOME**

A summary of comprehensive income is presented below:

|  | <i>For the Three Months Ended June<br/>30,</i> |            |
|--|--|------------|
|  | <b>2007</b>                                    | 2006       |
| Net Earnings (Loss)                      | \$ (127,959)                                   | \$ 160,257 |
| Other Comprehensive Income, net of Tax:  |  |            |
| Unrealized Gain on Hedging Instruments   |  | 8,247      |
| Foreign Currency Translation Adjustments |  | 25         |
| Comprehensive Income (Loss)              | \$ (127,959)                                   | \$ 168,529 |

The unrealized gain on hedging instruments represented the deferral in other comprehensive income (loss) of the unrealized gain on interest rate swap agreements designated as cash flow hedges. The accumulated other comprehensive income associated with Home Equity's hedging gains for the three months ended June 30, 2006 was reclassified to earnings from discontinued operations and included in the gain on sale of Home Equity recorded in the three months ended September 30, 2006.

**(I) BUSINESS SEGMENTS**

As of June 30, 2007, the Company operated in two principal lines of business: Home Building and Financial Services. These lines of business operate in the United States, and their markets are nationwide. Revenues from any one customer are not significant to the Company.

The Company's Home Building line of business consists of the following reporting segments that have operations located in the following states:

**East:** Georgia (Savannah only), Maryland, New Jersey, North Carolina, South Carolina and Virginia

**Southeast:** Florida, Georgia (Atlanta only) and Tennessee

**Central:** Indiana, Illinois, Michigan, Minnesota, Missouri, Ohio and Pennsylvania

**Texas:** Texas

**Northwest:** Colorado, Hawaii, Nevada (except Las Vegas), Northern California, Oregon, Washington

**Southwest:** Arizona, Southern California, Nevada (Las Vegas only), New Mexico

**Other homebuilding** <sup>(1)</sup>

*(1) Other homebuilding includes projects that the Company plans to build-out and liquidate, and ancillary businesses (including framing, carpet and holding companies) conducting business in the following states: Florida, North Carolina, New Hampshire and Texas. In addition, Other homebuilding includes amounts consolidated under the caption land held under option agreements not owned and capitalized interest for all regions.*

The Company's mortgage lending, title agency services and insurance products represent one reporting segment, Financial Services. Our home team service operations have been combined with our Other segment.

In fiscal year 2007, the Company completed the sale of Construction Services and Home Equity. For additional information regarding the sale of these entities, refer to Note (L), Discontinued Operations. All prior year segment information has been revised to conform to the current year presentation.

**Table of Contents****Home Building**

Home Building's operations currently involve the purchase and development of land or lots and the construction and sale of detached and attached single-family homes and land or lots. During the three months ended June 30, 2007, approximately 80% of the homes closed were single-family, detached homes. Included in Home Building's loss from unconsolidated entities and other for the three months ended June 30, 2007 is the Company's share of joint venture impairments totaling \$27.1 million.

**Financial Services**

Financial Services' operations consist primarily of mortgage lending, title agency services and the sale of title insurance and other insurance products. These activities include mortgage origination and other related services for homes sold by the Company's subsidiaries and others. Financial Services' revenues include interest income of \$26.0 million and \$29.4 million for the three months ended June 30, 2007 and 2006, respectively. Substantially all of the Company's interest income in each year is earned by the Financial Services segment. Financial Services' cost of sales is comprised of interest expense related to debt issued to fund its home financing activities.

**Other**

The Company's Other segment consists of corporate general and administrative expenses, including Home Building corporate-related general and administrative expenses and interest income. Also included in the Other segment are the Company's home services operations and investment real estate operations, which are not material for purposes of segment reporting.

The following are components of Other:

|  | <i>For the Three Months Ended June<br/>30,</i> |             |
|--|--|-------------|
|  | <b>2007</b>                                    | 2006        |
| Operating Earnings (Loss) from Home Services Operations          | \$ <b>1,208</b>                                | \$ (1,728)  |
| Operating Earnings (Loss) from Investment Real Estate Operations |  | (39)        |
| Interest Income and Other Revenue                                | <b>4,926</b>                                   |             |
| Corporate General and Administrative Expense                     | <b>(44,981)</b>                                | (54,770)    |
|  | <b>\$ (38,847)</b>                             | \$ (56,537) |

A summary of the Company's segments is as follows:

|               | <i>For the Three Months Ended June 30,</i> |                   |                  |                       |                   |           |
|---------------|--|-------------------|------------------|-----------------------|-------------------|-----------|
|               | <b>2007</b>                                |                   |                  | 2006                  |                   |           |
|               | <b>Earnings</b>                            | <b>Earnings</b>   |                  | <b>Earnings</b>       | <b>Earnings</b>   |           |
|               | <b>(Loss)</b>                              | <b>(Loss)</b>     |                  | <b>(Loss)</b>         | <b>(Loss)</b>     |           |
|               | <b>from</b>                                | <b>from</b>       |                  | <b>from</b>           | <b>from</b>       |           |
|               | <b>Unconsolidated</b>                      | <b>Continuing</b> |                  | <b>Unconsolidated</b> | <b>Continuing</b> |           |
|               | <b>Entities</b>                            | <b>Operations</b> |                  | <b>Entities</b>       | <b>Operations</b> |           |
|               | <b>and</b>                                 | <b>Before</b>     |                  | <b>and</b>            | <b>Income</b>     |           |
|               | <b>Revenues</b>                            | <b>Income</b>     |                  | <b>Revenues</b>       | <b>Tax</b>        |           |
|               | <b>Other</b>                               | <b>Tax</b>        |                  | <b>Other</b>          | <b>Tax</b>        |           |
| Home Building |  |                   |                  |                       |                   |           |
| East          | \$ <b>360,776</b>                          | \$ <b>65</b>      | \$ <b>18,052</b> | \$ 544,423            | \$ 639            | \$ 82,979 |
| Southeast     | <b>213,857</b>                             | <b>1,934</b>      | <b>(13,017)</b>  | 397,782               | 1,220             | 60,602    |
| Central       | <b>185,069</b>                             | <b>1,415</b>      | <b>(6,367)</b>   | 289,914               | 324               | 9,633     |
| Texas         | <b>234,733</b>                             | <b>114</b>        | <b>14,136</b>    | 244,356               | 101               | 20,347    |
| Northwest     | <b>395,525</b>                             | <b>(24,288)</b>   | <b>(32,081)</b>  | 504,879               | 4,380             | 73,290    |

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|                     |                     |                    |                     |              |           |            |
|---------------------|---------------------|--------------------|---------------------|--------------|-----------|------------|
| Southwest           | <b>371,204</b>      | <b>713</b>         | <b>(115,600)</b>    | 592,033      | 1,951     | 48,170     |
| Other homebuilding  | <b>42,656</b>       | <b>(6)</b>         | <b>(36,902)</b>     | 76,450       | 2,053     | 16,892     |
| Total Home Building | <b>1,803,820</b>    | <b>(20,053)</b>    | <b>(171,779)</b>    | 2,649,837    | 10,668    | 311,913    |
| Financial Services  | <b>97,966</b>       |                    | <b>14,969</b>       | 122,741      |           | 23,087     |
| Other               | <b>39,629</b>       |                    | <b>(38,847)</b>     | 31,322       |           | (56,537)   |
| Total               | <b>\$ 1,941,415</b> | <b>\$ (20,053)</b> | <b>\$ (195,657)</b> | \$ 2,803,900 | \$ 10,668 | \$ 278,463 |



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|                     | <i>For the Three Months Ended June 30,</i> |                   |                    |                   |
|---------------------|--|-------------------|--------------------|-------------------|
|                     | <b>2007</b>                                |                   | <b>2006</b>        |                   |
|                     | <b>Impairments</b>                         | <b>Write-offs</b> | <b>Impairments</b> | <b>Write-offs</b> |
| Home Building       |  |                   |                    |                   |
| East                | \$   | \$ 7,372          | \$                 | \$ 1,918          |
| Southeast           | 7,415                                      | 3,044             |                    | 822               |
| Central             | 4,283                                      | 460               |                    | 1,592             |
| Texas               |  | 57                |                    | 19                |
| Northwest           | 18,296                                     | 4,549             |                    | 9,254             |
| Southwest           | 81,403                                     | 7,212             |                    | 22,697            |
| Other homebuilding  | 31,195                                     | 176               |                    |                   |
| Total Home Building | 142,592                                    | 22,870            |                    | 36,302            |
| Financial Services  |  |                   |                    |                   |
| Other               |  |                   |                    |                   |
| Total               | \$ 142,592                                 | \$ 22,870         | \$                 | \$ 36,302         |

|                     | <i>As of</i>         |                     |                       |                     |
|---------------------|----------------------|---------------------|-----------------------|---------------------|
|                     | <b>June 30, 2007</b> |                     | <b>March 31, 2007</b> |                     |
|                     | <b>Inventory</b>     | <b>Total Assets</b> | <b>Inventory</b>      | <b>Total Assets</b> |
| Home Building       |                      |                     |                       |                     |
| East                | \$ 1,526,490         | \$ 1,698,751        | \$ 1,477,904          | \$ 1,663,815        |
| Southeast           | 1,664,301            | 1,789,998           | 1,703,614             | 1,821,660           |
| Central             | 569,924              | 616,984             | 606,508               | 652,799             |
| Texas               | 628,993              | 643,480             | 605,200               | 630,396             |
| Northwest           | 1,707,088            | 1,755,948           | 1,725,847             | 1,829,961           |
| Southwest           | 2,070,993            | 2,217,885           | 2,112,369             | 2,304,415           |
| Other homebuilding  | 714,454              | 1,392,792           | 704,868               | 1,212,444           |
| Total Home Building | 8,882,243            | 10,115,838          | 8,936,310             | 10,115,490          |
| Financial Services  | 9,905                | 1,706,218           | 8,747                 | 1,915,082           |
| Other               | 2,554                | 622,922             | 6,022                 | 1,169,361           |
| Total               | \$ 8,894,702         | \$ 12,444,978       | \$ 8,951,079          | \$ 13,199,933       |

**(J) INCOME TAXES**

For the three months ended June 30, 2007, the Company recognized an income tax benefit of \$64.3 million as compared to income tax expense of \$106.0 million for the three months ended June 30, 2006. The Company's effective tax rate was 32.9% and 38.1% for the three months ended June 30, 2007 and 2006, respectively. The decrease in the effective tax rate primarily results from an increase in accrued interest expense associated with the Company's liability for unrecognized tax benefits, an increase of nondeductible compensation, a reduction of tax benefits from the domestic manufacturing deduction and a decrease in pre-tax earnings.

On April 1, 2007, the Company adopted FIN 48. The cumulative effect of the adoption of FIN 48 was recorded as a \$208.3 million reduction to beginning retained earnings. The total amount of gross unrecognized tax benefits as of April 1, 2007 was \$341.4 million (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax). The total amount of unrecognized tax benefits that, if recognized, would affect the

Company's effective tax rate was \$248.8 million as of April 1, 2007.

Since the adoption of FIN 48 on April 1, 2007, there have been no material changes to the components of the Company's total unrecognized tax benefit, including the amounts, which if recognized, would affect the Company's effective tax rate. It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease as a result of the potential resolution with the IRS relating to issues stemming from fiscal years 2001 through 2004, in addition to the resolution of various state income tax audits and/or appeals. However, the change that could occur within the next 12 months cannot be estimated at this time.

The federal statute of limitations has expired for the Company's federal tax returns filed for tax years through March 31, 2000. In July 2007, the Company received a Revenue Agent's Report from the IRS relating to the ongoing audit of the Company's federal income tax returns for fiscal years 2001 through 2004. The Company believes that its

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tax return positions are supported and will vigorously dispute the proposed adjustments. The Company anticipates that the IRS will begin an examination of fiscal years 2005 and 2006 during the current fiscal year.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision which is consistent with the Company's historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was \$112.3 million. As of the quarter ended June 30, 2007, gross accrued interest and penalties was \$121.4 million. The Company's liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of accrued liabilities.

**(K) DERIVATIVES AND HEDGING**

The Company is exposed to the risk of interest rate fluctuations on its debt and other obligations. Financial Services, through CTX Mortgage Company, LLC, enters into mandatory forward trade commitments (forward trade commitments) designated as fair value hedges to hedge the interest rate risk related to its portfolio of mortgage loans held for sale. In addition, CTX Mortgage Company, LLC enters into other derivatives not designated as hedges. The following discussion summarizes our derivatives used to manage the risk of interest rate fluctuations.

**Fair Value Hedges**

Financial Services, through CTX Mortgage Company, LLC, enters into certain forward trade commitments designated as fair value hedges to hedge the interest rate risk related to its portfolio of mortgage loans held for sale, including mortgage loans held by HSF-I. Accordingly, changes in the fair value of the forward trade commitments and the mortgage loans, for which the hedge relationship is deemed effective, are recorded as an adjustment to earnings. To the extent the hedge is effective, gains or losses in the value of the hedged loans due to interest rate movement will be offset by an equal and opposite gain or loss in the value of the forward trade commitment. This will result in no impact to earnings. To the extent the hedge contains some ineffectiveness, the ineffectiveness is recognized immediately in earnings. The amount of hedge ineffectiveness included in earnings was a loss of approximately \$0.7 million and \$0.2 million for the three months ended June 30, 2007 and 2006, respectively.

**Other Derivatives**

Financial Services, through CTX Mortgage Company, LLC, enters into IRLCs with its customers under which CTX Mortgage Company, LLC agrees to make mortgage loans at agreed upon rates within a period of time, generally from 1 to 30 days, if certain conditions are met. Initially, the IRLCs are treated as derivative instruments and their fair value is recorded on the balance sheet in other assets or accrued liabilities. The fair value of these loan commitment derivatives does not include future cash flows related to the associated servicing of the loan or the value of any internally-developed intangible assets. Subsequent changes in the fair value of the IRLCs are recorded as an adjustment to earnings.

To offset the interest rate risk related to its IRLCs, CTX Mortgage Company, LLC executes forward trade commitments. Certain forward trade commitments are not designated as hedges and are derivative instruments. Their initial fair value is recorded on the balance sheet in other assets or accrued liabilities. Subsequent changes in the fair value of these forward trade commitments are recorded as an adjustment to earnings.

The net change in the estimated fair value of other derivatives resulted in a gain of approximately \$0.4 million for the three months ended June 30, 2007, compared to a loss of approximately \$0.3 million for the three months ended June 30, 2006.

**(L) DISCONTINUED OPERATIONS****Condensed Financial Information**

In fiscal year 2007, the Company completed the sale of Home Equity and Construction Services to unrelated third parties. Prior to their sale, Home Equity was included in the Financial Services segment and Construction Services was a separate reporting segment. Home Equity and Construction Services were reclassified to discontinued operations in March 2006 and March 2007, respectively. All prior period information has been reclassified to be consistent with the June 30, 2007 presentation. A brief summary of each transaction is provided below.

**Table of Contents****Home Equity**

On July 11, 2006, the Company sold Home Equity and received \$518.5 million in cash, net of related expenses and as adjusted for the settlement of post-closing adjustments. In connection with the sale, all intercompany accounts with Home Equity were repaid and settled. As a result of the sale, Home Equity is no longer a subsidiary of Centex and has changed its name to Nationstar Mortgage, LLC. The purchase price was based on the book value of Home Equity, plus a premium calculated in accordance with agreed upon formulas and procedures. The purchase price is also subject to an adjustment based upon the volume of mortgage loans originated by Home Equity during a two-year period after the closing date (the Volume Incentive Adjustment ) as described below.

The Volume Incentive Adjustment will depend primarily upon the total volume of mortgage loans originated by Home Equity during the two-year period after the closing date, subject to adjustments to reflect a specific acquisition after such date. The maximum additional amount that could be payable to the Company as a result of the Volume Incentive Adjustment is \$30 million. However, under certain circumstances, such provisions, as amended, could require the Company to repay up to \$6.1 million, reduced from \$10.0 million, of the amounts previously received from the purchaser. Contingent amounts received or receivable in future periods under the Volume Incentive Adjustment have been deferred and, therefore, will not be recognized into income until the contingency has been resolved. There can be no assurance as to the results of the Volume Incentive Adjustment, which will depend on the future operating results of Home Equity and other future events, many of which are outside of the Company's control.

Additionally, the Company has indemnified the purchaser of Home Equity for certain contingencies. The Company does not believe such contingencies will be material to the Company's results of operations or financial position. The net gain on sale recorded in connection with the sale of Home Equity is summarized below:

|   |            |
|---|------------|
| Sales and Related Proceeds, net of Related Expenses | \$ 518,500 |
| Assets Sold   | (400,706)  |
| Intercompany Liability Paid by Buyer                | (11,795)   |
| Deferred Income                                     | (6,100)    |
| Hedging Gain  | 25,466     |
| Pre-tax Gain on Sale                                | 125,365    |
| Income Tax Expense                                  | (50,390)   |
| Net Gain on Sale                                    | \$ 74,975  |

**Construction Services**

On March 30, 2007, the Company sold Construction Services and received \$344.8 million in cash, net of related expenses and as adjusted for the estimated settlement of post-closing adjustments. In connection with the sale, all intercompany accounts with Construction Services were repaid and settled. As a result of the sale, Construction Services is no longer a subsidiary of Centex and has changed its name to Balfour Beatty Construction Group, Inc.

The Company will also receive an aggregate of \$60.0 million in cash to be paid in annual installments of \$4.0 million over a 15-year period (the Additional Payments ). The Additional Payments will be made in connection with an election with respect to this transaction pursuant to Section 338(h)(10) of the Internal Revenue Code of 1986, as amended (the Code ). If the Code is amended so that the purchaser is no longer entitled to the benefits of the Section 338(h)(10) election, the amount of the Additional Payments will be subject to change to ensure that any subsequent payments to be made by the purchaser do not exceed 50% of the tax benefits to be realized by it thereafter as a result of such election. The Additional Payments are an unsecured receivable from the purchaser that was not recorded in connection with the sale of Construction Services. As the Additional Payments are received in future periods, the amounts will be reflected in the Consolidated Statement of Earnings.

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The stock purchase agreement provided for a post-closing adjustment, which was intended to reflect a final calculation of, among other things, the final stockholder's equity balance of Construction Services immediately prior to its sale. In connection with the sale, Construction Services was required to pay a dividend to Centex equal to its stockholder's equity. The effect of the post-closing adjustment was estimated in the Company's calculation of the gain on sale of Construction Services for the year ended March 31, 2007, but was subject to change. During the three months ended June 30, 2007, the amount of the post-closing adjustment was determined, which resulted in an additional \$5.5 million pre-tax gain on sale. A summary of the Company's calculation of the gain on sale of Construction Services is below:

|   | <i>For the Three Months<br/>Ended<br/>June 30, 2007</i> |         | <i>For the Year Ended<br/>March 31, 2007</i> |           |
|---|---|---------|--|-----------|
| Sales and Related Proceeds, net of Related Expenses | \$  | 5,463   | \$   | 344,752   |
| Assets Sold   |   |         |  |           |
| Pre-tax Gain on Sale                                |   | 5,463   |  | 344,752   |
| Income Tax Expense                                  |   | (2,087) |  | (131,695) |
| Net Gain on Sale                                    | \$  | 3,376   | \$   | 213,057   |

**Summarized Financial Information**

Earnings from discontinued operations include: the financial information for entities included in discontinued operations, the gains (losses) on the sale of such entities, intercompany eliminations between entities in discontinued operations and entities in continuing operations, and certain general and administrative expenses incurred in the sale of such entities. The following table provides summary information for entities included in discontinued operations:

|   | <i>For the Three Months Ended June<br/>30,</i> |                            |
|---|--|----------------------------|
|   | <b>2007 <sup>(1)</sup></b>                     | <b>2006 <sup>(2)</sup></b> |
| Revenues  | \$   | \$ 622,466                 |
| Costs and Expenses                              |  | (642,124)                  |
| Earnings from Unconsolidated Entities and Other |  | 74                         |
| Loss Before Income Taxes                        |  | (19,584)                   |
| Benefit for Income Taxes                        |  | 7,413                      |
| Gain on Sale, net of Tax                        | <b>3,376</b>                                   |                            |
|   | <b>\$ 3,376</b>                                | <b>\$ (12,171)</b>         |

(1) *Includes  
Construction  
Services only.*

(2) *I n c l u d e s  
Construction  
Services and  
Home Equity.*

**(M) SUBSEQUENT EVENTS**

On July 18, 2007, HSF-I entered into an amended version of the Harwood Swap, which expands the number of participating banks from one to three.

On July 18, 2007, the Company also entered into an International Swaps and Derivatives Association, Inc. Credit Support Annex (each, a CSA) with each of the three swap banks. The CSAs include standard terms industry-wide for all mortgage warehouse facilities, and grant the banks a security interest in collateral posted under the CSAs to secure the Company's obligations to the banks under the swap arrangements. However, the CSAs will only be in effect during such time, if any, as the long-term senior unsecured debt ratings of the Company are less than BBB- by S&P and less than Baa3 by Moody's. The CSAs, when in effect, require the Company to post cash or certain other eligible collateral for the benefit of the banks during such time as the current market value (as defined in the CSAs) of the mortgage loans held by HSF-I is less than the outstanding purchase price (as defined in the CSAs) of such mortgage loans.

On July 20, 2007, the Company's multi-bank revolving credit facility was amended to, among other things, remove the interest coverage ratio covenant. The interest coverage ratio is no longer a covenant, the violation of which could cause an event of default, but it is a determinant of the maximum leverage ratio covenant and certain of the credit facility's pricing provisions.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion is intended to help the reader gain a better understanding of our financial condition and our results of operations. It is provided as a supplement to, and should be read in conjunction with, our financial statements and accompanying notes.

**Executive Summary**

Our results of operations for the three months ended June 30, 2007 were materially affected by challenging market conditions impacting our homebuilding operations. The market conditions remain difficult during the three months ended June 30, 2007, and there can be no assurance that they will improve in the near term, if at all. A summary of our results of operations by line of business is as follows (dollars in thousands):

|   | <i>For the Three Months Ended June 30,</i> |              |          |
|---|--|--------------|----------|
|   | <b>2007</b>                                | 2006         | Change   |
| <b>Revenues</b>   |  |              |          |
| Home Building   | <b>\$ 1,803,820</b>                        | \$ 2,649,837 | (31.9%)  |
| Financial Services  | <b>97,966</b>                              | 122,741      | (20.2%)  |
| Other   | <b>39,629</b>                              | 31,322       | 26.5%    |
| <b>Total</b>  | <b>\$ 1,941,415</b>                        | \$ 2,803,900 | (30.8%)  |
| <b>Earnings (Loss) from Continuing Operations Before Income Taxes</b> |  |              |          |
| Home Building   | <b>\$ (171,779)</b>                        | \$ 311,913   | (155.1%) |
| Financial Services  | <b>14,969</b>                              | 23,087       | (35.2%)  |
| Other   | <b>(38,847)</b>                            | (56,537)     | (31.3%)  |
| <b>Total</b>  | <b>\$ (195,657)</b>                        | \$ 278,463   | (170.3%) |

Revenues for the three months ended June 30, 2007 decreased 30.8% as compared to the three months ended June 30, 2006. Earnings (loss) from continuing operations before income taxes decreased from earnings of \$278.5 million for the three months ended June 30, 2006 to a loss of \$195.7 million for the three months ended June 30, 2007. The decrease in our revenues and the loss from continuing operations before income taxes during the three months ended June 30, 2007 are primarily attributable to challenging market conditions affecting our homebuilding operations.

Beginning in fiscal year 2006, many U.S. housing markets began to experience a significant downturn, which directly affected, and continues to affect, our business and results of operations. We believe the principal factors that have resulted in this downturn include each of the following, the impact of which varies based upon geographic market and product segment:

a decline in homebuyer demand due to lower consumer confidence in the consumer real estate market and a decrease in the affordability of housing in selected markets,

increased inventory of new and existing homes for sale, and

pricing pressures resulting from the imbalance between supply and demand.

The decline in homebuyer demand can be attributed to concerns of prospective buyers of new homes about the direction of home prices, which has increased general uncertainty about whether now is the best time to buy a home. Homebuyer demand has also been affected by a decrease in affordability of housing in selected markets, which reflects significant price appreciation in those markets over the past several years. Another factor contributing to the decrease in homebuyer demand and the affordability of housing is the tightening of the mortgage markets. During the fourth quarter of fiscal year 2007 and the first quarter of fiscal year 2008, the mortgage markets deteriorated due to

significant increases in default rates among nonconforming loans, including sub-prime mortgages. This created a broader mortgage market disruption and a general tightening of mortgage underwriting guidelines for nonconforming mortgages that have continued to impact our homebuilding and mortgage lending operations for the three months ended June 30, 2007. The increase in inventory of new and existing homes is in part a result of speculative investors becoming net sellers of homes rather than net buyers, as well as the inability of prospective buyers of new homes to sell their existing homes and/or to qualify for mortgage financing.

The challenging market conditions discussed above have been further fueled by competition among the homebuilders to convert their inventory to cash by offering significant discounts and sales incentives. These market



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conditions materially impacted Home Building's operating results as compared to the prior year as evidenced by the following:

an \$846.0 million decrease in homebuilding revenues, net of discounts,

\$142.6 million in impairments,

\$27.1 million in our share of joint ventures' impairments, and

\$22.9 million in write-offs of land deposits and pre-acquisition costs.

In addition, elevated customer cancellation rates in our homebuilding operations have contributed to a decline in sales orders (net of cancellations) of our homes in a majority of markets. For the three months ended June 30, 2007 and 2006, cancellation rates were 31.2% and 32.7%, respectively, as compared to our long-term average cancellation rates ranging from 18% to 26%. Our homebuilding operations have experienced a significant decline in operating margin primarily attributable to discounts and sales incentives and other actions taken in response to local market conditions, which were not offset by commensurate cost reductions. Customer discounts increased to 8.8% of housing revenues for the three months ended June 30, 2007, up from 4.8% in the prior year. As a percentage of revenues, closing and financing costs have increased from 2.1% to 3.2% and sales commissions have increased from 3.8% to 4.8%.

Financial Services' operating earnings for the three months ended June 30, 2007 decreased 35.2% compared to the prior year. The primary factors contributing to the decrease in Financial Services' operating results were a 20.6% decrease in mortgage loan origination volume and a 35.0% decrease in interest margin. These negative trends were partially offset by a decrease in selling, general and administrative expenses. Reduced availability of certain loan programs designed for higher risk borrowers and the decline in homebuyer demand as discussed above were the primary factors contributing to the decrease in mortgage loan originations. The decline in homebuyer demand could continue to have a negative impact on Financial Services' future operating results. We will continue to focus on serving our homebuilding customers and increasing operating efficiencies provided by the origination of Retail loans.

We expect that our business and results of operations will continue to be affected by the difficult housing industry conditions, at least for the near term. Further deterioration in market conditions, including tightening of the mortgage markets, would result in declines in sales of our homes, accumulation of unsold inventory and margin deterioration, as well as potential additional impairments and write-offs of deposits and pre-acquisition costs. We believe the long-term fundamentals that support homebuyer demand remain solid and the current market conditions will moderate over time; however, we cannot predict the duration and severity of the current market conditions. We continue to adjust our operations in response to market conditions by reducing our unsold inventory, lowering our costs and reducing our land position. Our unsold inventory has decreased from 5,798 units as of June 30, 2006 to 4,815 units as of June 30, 2007. Our cost reduction initiatives include pursuing a reduction in costs from our suppliers and contractors.

During the three months ended June 30, 2007, we utilized \$374.8 million in cash flows for operating activities.

**Table of Contents****HOME BUILDING**

The following summarizes the results of our Home Building operations (dollars in thousands except per unit data):

|   | <i>For the Three Months Ended June 30,</i> |               |              |               |
|---|--|---------------|--------------|---------------|
|   | <b>2007</b>                                | <b>Change</b> | <b>2006</b>  | <b>Change</b> |
| Revenues Housing  | \$ 1,774,738                               | (30.7%)       | \$ 2,562,058 | 8.6%          |
| Revenues Land Sales and Other   | 29,082                                     | (66.9%)       | 87,779       | 113.8%        |
| Cost of Sales Housing   | (1,481,351)                                | (20.6%)       | (1,866,511)  | 11.5%         |
| Cost of Sales Land Sales and Other                                    | (175,567)                                  | 67.6%         | (104,777)    | 182.3%        |
| Selling, General and Administrative Expenses                          | (298,628)                                  | (20.9%)       | (377,304)    | 16.7%         |
| Earnings (Loss) from Unconsolidated Entities and Other <sup>(1)</sup> | (20,053)                                   | (288.0%)      | 10,668       | (14.1%)       |
| Operating Earnings (Loss) <sup>(2)</sup>                              | \$ (171,779)                               | (155.1%)      | \$ 311,913   | (17.4%)       |

Operating Earnings (Loss) as a Percentage of Revenues:

|                                   |        |        |       |       |
|-----------------------------------|--------|--------|-------|-------|
| Housing Operations <sup>(3)</sup> | (0.3%) | (12.7) | 12.4% | (2.9) |
| Total Homebuilding Operations     | (9.5%) | (21.3) | 11.8% | (3.9) |

*(1) Earnings (Loss) from Unconsolidated Entities and Other include our share of joint ventures impairments.*

*(2) Operating earnings (loss) represent Home Building earnings exclusive of certain homebuilding corporate general and administrative expenses.*

*(3) Operating earnings (loss) from housing operations is a non-GAAP financial measure, which*

*we believe is useful to investors as it allows them to separate housing operations from activities related to land holdings, options to acquire land and related land valuation adjustments. Management uses this non-GAAP financial measure to aid in evaluating the performance of its ongoing housing projects. Operating earnings from housing operations is equal to Housing Revenues less Housing Cost of Sales and Selling, General and Administrative Expenses, all of which are set forth in the table above.*

Home Building consists of the following reporting segments that have operations located in the following states:

**East:** Georgia (Savannah only), Maryland, New Jersey, North Carolina, South Carolina and Virginia

**Southeast:** Florida, Georgia (Atlanta only) and Tennessee

**Central:** Indiana, Illinois, Michigan, Minnesota, Missouri, Ohio and Pennsylvania

**Texas:** Texas

**Northwest:** Colorado, Hawaii, Nevada (except Las Vegas), Northern California, Oregon, Washington

**Southwest:** Arizona, Southern California, Nevada (Las Vegas only), New Mexico

**Other homebuilding** <sup>(1)</sup>

*(1) Other homebuilding*

*includes projects that we plan to build-out and liquidate, and ancillary businesses (including framing, carpet and holding companies) conducting business in the following states: Florida, North Carolina, New Hampshire and Texas. In addition, Other homebuilding includes amounts consolidated under the caption land held under option agreements not owned and capitalized interest for all regions.*

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|                                 | For the Three Months Ended June 30,<br>2007 |         | 2006       |         |
|---------------------------------|---|---------|------------|---------|
|                                 |   | Change  |            | Change  |
| <b>Units Closed</b>             |   |         |            |         |
| East                            | 1,119                                       | (32.3%) | 1,653      | 9.2%    |
| Southeast                       | 716   | (40.0%) | 1,193      | (5.2%)  |
| Central                         | 868   | (34.2%) | 1,320      | 2.4%    |
| Texas                           | 1,400                                       | (7.0%)  | 1,506      | (1.7%)  |
| Northwest                       | 987   | (9.4%)  | 1,090      | 4.5%    |
| Southwest                       | 895   | (34.4%) | 1,364      | 10.3%   |
| Other homebuilding              | 110   | (42.7%) | 192        | (47.0%) |
|                                 | 6,095                                       | (26.7%) | 8,318      | 1.0%    |
| <b>Average Revenue Per Unit</b> |   |         |            |         |
| East                            | \$ 317,134                                  | (3.6%)  | \$ 329,082 | 1.5%    |
| Southeast                       | \$ 290,675                                  | (6.5%)  | \$ 310,987 | 12.6%   |
| Central                         | \$ 210,853                                  | (3.4%)  | \$ 218,383 | 0.5%    |
| Texas                           | \$ 165,994                                  | 7.2%    | \$ 154,833 | 5.4%    |
| Northwest                       | \$ 397,728                                  | (12.1%) | \$ 452,626 | 1.5%    |
| Southwest                       | \$ 411,096                                  | (2.4%)  | \$ 421,361 | 9.7%    |
| Other homebuilding              | \$ 325,836                                  | 8.7%    | \$ 299,667 | 45.8%   |
| Total Home Building             | \$ 291,179                                  | (5.5%)  | \$ 308,014 | 7.6%    |

**Revenues**

Housing revenues decreased for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 primarily due to decreases in units closed and, to a lesser extent, a decrease in average revenue per unit. For the three months ended June 30, 2007, average revenue per unit (which is net of customer discounts) decreased primarily as a result of increases in discounts and pricing pressure experienced in many of our markets. Customer discounts increased to 8.8% of housing revenues for the three months ended June 30, 2007, up from 4.8% for the three months ended June 30, 2006. For the three months ended June 30, 2007, our closings declined when compared to the three months ended June 30, 2006 as a result of decreases in sales orders caused principally by the challenging market conditions described above.

Revenues from land sales and other decreased 66.9% to \$29.1 million for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006. The timing and amount of land sales vary from period to period based on several factors, including changes in the projected needs of our homebuilding operations and the location, size, availability and desirability of the land we own in each market. The execution of our capital management strategy results in sales of parcels of land from time to time. In addition, our resort and second home operations sell land in the normal course of conducting their operations.

Changes in average operating neighborhoods and closings per average neighborhood are outlined in the table below:

|  | For the Three Months Ended June 30,<br>2007 |         | 2006 |        |
|--|---|---------|------|--------|
|  |   | Change  |      | Change |
| Average Operating Neighborhoods <sup>(1)</sup> | 676   | 1.0%    | 669  | 10.6%  |
| Closings Per Average Neighborhood<br>(1)       | 9.0   | (27.4%) | 12.4 | (8.8%) |

*We define a neighborhood as an individual active selling location targeted to a specific buyer segment with greater than ten homes remaining to be sold.*

The increase in average operating neighborhoods for the three months ended June 30, 2007 is a result of closing out of neighborhoods at a slower rate as compared to the three months ended June 30, 2006 due to a deceleration in sales. For the three months ended June 30, 2007, we opened 49 new neighborhoods and closed out of 73 neighborhoods.

**Table of Contents****Operating Margins**

Homebuilding operating margins (consisting of operating earnings or loss as a percentage of revenues) declined to (9.5%) for the three months ended June 30, 2007 as compared to 11.8% for the three months ended June 30, 2006. The decrease in homebuilding operating margins as compared to the prior year is primarily attributable to the following factors: (1) decreases in revenues, (2) impairments, (3) our share of joint ventures impairments, and (4) write-offs of land deposits and pre-acquisition costs. The \$30.7 million decrease in earnings (loss) from unconsolidated entities and other is primarily due to a \$27.1 million impairment taken in one of our joint ventures in the Northwest region.

Homebuilding operating margins were significantly impacted by \$142.6 million of impairments. We periodically reassess our land holdings, including our lot options, and evaluate potential market opportunities while taking into consideration changing market conditions and other factors. In connection with our quarterly neighborhood assessments, during the quarter ended June 30, 2007, we reviewed approximately 1,100 housing projects and land investments for potential impairments. Approximately 960 of these housing projects are owned land positions that are either designated as active neighborhoods or are under development and are not considered active. The remaining 140 housing projects represent controlled land positions approved for purchase. During the three months ended June 30, 2007, we recorded impairments on 29 neighborhoods and land investments.

Also, during the three months ended June 30, 2007, we determined it was probable we would not exercise certain lot option contracts, which resulted in a write-off of 21 option contracts and related pre-acquisition costs, resulting in 234 outstanding option contracts and deposits (including contracts in the due diligence process) at June 30, 2007. These determinations were made in light of local market conditions including housing inventory levels, sales rates and customer traffic.

The following table summarizes Home Building's impairments and write-offs of deposits and pre-acquisition costs excluding our share of joint ventures impairments (dollars in thousands):

|                    | <i>For the Three Months Ended June 30,</i> |                   |                    |                   |
|--------------------|--|-------------------|--------------------|-------------------|
|                    | <b>2007</b>                                |                   | <b>2006</b>        |                   |
|                    | <b>Impairments</b>                         | <b>Write-offs</b> | <b>Impairments</b> | <b>Write-offs</b> |
| East               | \$   | \$ 7,372          | \$                 | \$ 1,918          |
| Southeast          | 7,415                                      | 3,044             |                    | 822               |
| Central            | 4,283                                      | 460               |                    | 1,592             |
| Texas              |  | 57                |                    | 19                |
| Northwest          | 18,296                                     | 4,549             |                    | 9,254             |
| Southwest          | 81,403                                     | 7,212             |                    | 22,697            |
| Other homebuilding | 31,195                                     | 176               |                    |                   |
|                    | <b>\$ 142,592</b>                          | <b>\$ 22,870</b>  | <b>\$</b>          | <b>\$ 36,302</b>  |

We will continue to assess our land holdings considering the challenging market conditions. Continued deterioration in demand and market conditions could result in a decision to not exercise additional lot option contracts and a reevaluation of our land holdings, which may result in additional write-offs and impairments. In addition, we could incur additional losses and impairments through our joint ventures. Please refer to *Inventory Valuation* in the *Critical Accounting Estimates* and to Note (D), *Inventories*, of the Notes to the Consolidated Financial Statements for additional details on our land holdings.

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Home Building selling, general and administrative expenses decreased \$78.7 million when compared to the quarter ended June 30, 2006. These decreases have not been sufficient to offset significant declines in revenue, which have contributed to the decrease in operating margin. The decrease in selling, general and administrative expenses for the three months ended June 30, 2007 is primarily due to decreases in compensation and benefit costs, as we realign our organization in response to current market conditions. The following table summarizes Home Building's selling, general and administrative expenses (dollars in thousands):

|   | <i>For the Three Months Ended June 30,</i> |                |                   |               |
|---|--|----------------|-------------------|---------------|
|   | <b>2007</b>                                | <b>Change</b>  | <b>2006</b>       | <b>Change</b> |
| Compensation and Benefits                           | \$ 117,473                                 | (34.2%)        | \$ 178,477        | 12.3%         |
| Sales Commissions                                   | 86,056                                     | (15.0%)        | 101,261           | 15.0%         |
| Advertising and Marketing                           | 41,939                                     | (11.8%)        | 47,557            | 35.1%         |
| Other   | 53,160                                     | 6.3%           | 50,009            | 21.6%         |
| <b>Selling, General and Administrative Expenses</b> | <b>\$ 298,628</b>                          | <b>(20.9%)</b> | <b>\$ 377,304</b> | <b>16.7%</b>  |
| <br>  |  |                |                   |               |
| SG&A as a Percentage of Revenues                    | 16.6%                                      | 2.4            | 14.2%             | 0.7           |

**Sales Orders, Backlog Units and Land Holdings**

The following tables summarize sales orders and backlog units:

|                                | <i>For the Three Months Ended June 30,</i> |                |              |                |
|--------------------------------|--|----------------|--------------|----------------|
|                                | <b>2007</b>                                | <b>Change</b>  | <b>2006</b>  | <b>Change</b>  |
| <b>Sales Orders (in Units)</b> |  |                |              |                |
| East                           | 1,282                                      | (17.2%)        | 1,549        | (23.1%)        |
| Southeast                      | 743  | (26.9%)        | 1,017        | (34.6%)        |
| Central                        | 973  | (25.6%)        | 1,308        | (7.2%)         |
| Texas                          | 1,435                                      | (21.8%)        | 1,834        | 9.5%           |
| Northwest                      | 914  | (20.2%)        | 1,146        | (6.0%)         |
| Southwest                      | 1,097                                      | (17.5%)        | 1,329        | (38.0%)        |
| Other homebuilding             | 30   | (55.2%)        | 67           | (83.3%)        |
|                                | <b>6,474</b>                               | <b>(21.5%)</b> | <b>8,250</b> | <b>(20.8%)</b> |
| <br>                           |  |                |              |                |
| Sales Per Average Neighborhood | 9.6  | (22.0%)        | 12.3         | (28.5%)        |

|                      | <i>As of</i>         |               |                       |               |
|----------------------|----------------------|---------------|-----------------------|---------------|
|                      | <b>June 30, 2007</b> | <b>Change</b> | <b>March 31, 2007</b> | <b>Change</b> |
| <b>Backlog Units</b> |                      |               |                       |               |
| East                 | 2,011                | 8.8%          | 1,848                 | (39.9%)       |
| Southeast            | 1,546                | 1.8%          | 1,519                 | (56.2%)       |
| Central              | 1,849                | 6.0%          | 1,744                 | (22.9%)       |
| Texas                | 2,055                | 1.7%          | 2,020                 | (7.7%)        |
| Northwest            | 1,732                | (4.0%)        | 1,805                 | (18.5%)       |
| Southwest            | 1,705                | 13.4%         | 1,503                 | (52.6%)       |



|                    |               |                |        |         |
|--------------------|---------------|----------------|--------|---------|
| Other homebuilding | <b>132</b>    | <b>(37.7%)</b> | 212    | (79.0%) |
|                    | <b>11,030</b> | <b>3.6%</b>    | 10,651 | (38.7%) |

For the three months ended June 30, 2007, sales orders declined in all of the regions in which we do business. We expect that the decreases in sales orders in the three months ended June 30, 2007 will continue to impact our closings in the near term.

As previously discussed, some of the factors we believe are contributing to the decrease in sales orders are a continued decline in homebuyer demand due to lower consumer confidence in the consumer real estate market and a decrease in the affordability of housing in selected markets, as well as the inability of prospective buyers to sell their existing homes. The decline in homebuyer demand and the affordability of housing in selected markets has also been caused by the general tightening of the mortgage underwriting guidelines. These factors are evidenced by lower

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customer traffic and cancellation rates that are much higher than our long-term average cancellation rates ranging from 18% to 26%. For the three months ended June 30, 2007 and 2006, cancellation rates were 31.2% and 32.7%, respectively.

In light of the challenging market conditions, our strategy is to focus on increasing our inventory turns and generating cash. As a percentage of revenues, we increased advertising costs, sales commissions and sales incentives to help stimulate sales orders and sell our existing inventory. We curtailed housing starts so that we could reduce our speculative inventory. We have also taken steps to reduce our land position. The following table summarizes our land position:

|                    | <b>June 30, 2007</b>  |                            |                   | <i>As of</i><br><b>March 31, 2007</b> |                            |                   |
|--------------------|-----------------------|----------------------------|-------------------|---------------------------------------|----------------------------|-------------------|
|                    | <b>Lots<br/>Owned</b> | <b>Lots<br/>Controlled</b> | <b>Total Lots</b> | <b>Lots<br/>Owned</b>                 | <b>Lots<br/>Controlled</b> | <b>Total Lots</b> |
| East               | <b>18,170</b>         | <b>23,201</b>              | <b>41,371</b>     | 18,604                                | 25,829                     | 44,433            |
| Southeast          | <b>25,027</b>         | <b>6,537</b>               | <b>31,564</b>     | 25,485                                | 7,113                      | 32,598            |
| Central            | <b>7,837</b>          | <b>5,561</b>               | <b>13,398</b>     | 8,851                                 | 5,303                      | 14,154            |
| Texas              | <b>16,824</b>         | <b>8,419</b>               | <b>25,243</b>     | 16,113                                | 10,405                     | 26,518            |
| Northwest          | <b>9,467</b>          | <b>5,824</b>               | <b>15,291</b>     | 10,388                                | 6,224                      | 16,612            |
| Southwest          | <b>15,170</b>         | <b>4,806</b>               | <b>19,976</b>     | 14,694                                | 6,755                      | 21,449            |
| Other homebuilding | <b>3,870</b>          |                            | <b>3,870</b>      | 4,176                                 | 80                         | 4,256             |
|                    | <b>96,365</b>         | <b>54,348</b>              | <b>150,713</b>    | 98,311                                | 61,709                     | 160,020           |
| Change             | <b>(2.0%)</b>         | <b>(11.9%)</b>             | <b>(5.8%)</b>     | (9.7%)                                | (67.0%)                    | (45.9%)           |

We decreased our total land position when compared to March 31, 2007 with the most pronounced declines occurring in lots controlled. The decrease in our land position for the three months ended June 30, 2007 is a result of our decision to decelerate land purchases and new lot option arrangements. As compared to June 30, 2006, our total land position has decreased 131,877 lots or 46.7%. Included in our total land position are 4,587 and 4,914 lots controlled through joint venture arrangements as of June 30 and March 31, 2007, respectively. We have completed due diligence on 23,666 lots of the 54,348 lots we control. Generally, lots where we have completed due diligence have more substantial deposits and pre-acquisition costs incurred, and the deposits are non-refundable.

We expect our total land position owned or controlled under option agreements at June 30, 2007 to provide land for approximately 98%, 96% and 87% of estimated closings for fiscal years 2008, 2009 and 2010, respectively, based on our current closing projections. Based on current market conditions, we believe we are oversupplied in total lots in certain markets and will continue to take the necessary steps to reduce our land position.

**Table of Contents****Regional Discussion**

Changes in revenues and operating earnings for our homebuilding reporting segments are outlined in the table below (dollars in thousands):

|                                  | <i>For the Three Months Ended June 30,</i> |                 |                     |                |
|----------------------------------|--|-----------------|---------------------|----------------|
|                                  | <b>2007</b>                                |                 | <b>2006</b>         |                |
|                                  |  | <b>Change</b>   |                     | <b>Change</b>  |
| <b>Revenues</b>                  |  |                 |                     |                |
| East                             | \$ 360,776                                 | (33.7%)         | \$ 544,423          | 9.8%           |
| Southeast                        | 213,857                                    | (46.2%)         | 397,782             | 11.1%          |
| Central                          | 185,069                                    | (36.2%)         | 289,914             | 2.6%           |
| Texas                            | 234,733                                    | (3.9%)          | 244,356             | 8.2%           |
| Northwest                        | 395,525                                    | (21.7%)         | 504,879             | 8.2%           |
| Southwest                        | 371,204                                    | (37.3%)         | 592,033             | 24.0%          |
| Other homebuilding               | 42,656                                     | (44.2%)         | 76,450              | (17.5%)        |
|                                  | <b>\$ 1,803,820</b>                        | <b>(31.9%)</b>  | <b>\$ 2,649,837</b> | <b>10.4%</b>   |
| <b>Operating Earnings (Loss)</b> |  |                 |                     |                |
| East                             | \$ 18,052                                  | (78.2%)         | \$ 82,979           | (2.3%)         |
| Southeast                        | (13,017)                                   | (121.5%)        | 60,602              | 20.9%          |
| Central                          | (6,367)                                    | (166.1%)        | 9,633               | (54.8%)        |
| Texas                            | 14,136                                     | (30.5%)         | 20,347              | 35.5%          |
| Northwest                        | (32,081)                                   | (143.8%)        | 73,290              | (35.2%)        |
| Southwest                        | (115,600)                                  | (340.0%)        | 48,170              | (43.7%)        |
| Other homebuilding               | (36,902)                                   | (318.5%)        | 16,892              | 122.3%         |
|                                  | <b>\$ (171,779)</b>                        | <b>(155.1%)</b> | <b>\$ 311,913</b>   | <b>(17.4%)</b> |

**East**

Revenues decreased 33.7% for the three months ended June 30, 2007 primarily due to a 32.3% decrease in units closed when compared to the three months ended June 30, 2006. All markets in the East region experienced substantial decreases in unit closings except for markets in North Carolina. Sales orders decreased in all markets in the East region when compared to the same period in the prior year, with the exception of the Washington D.C. and Raleigh/Durham markets. Cancellation rates for the three months ended June 30, 2007 were 23.3%, as compared to 23.6% for the three months ended June 30, 2006. The Washington D.C. and Myrtle Beach markets realized the most significant improvement in cancellation rates when compared to the first quarter of fiscal year 2007. Discounts as a percentage of revenues in the East region increased to 7.0% versus 4.3% for the three months ended June 30, 2006. The largest discounts were offered in the New Jersey and Washington D.C. markets.

Operating earnings decreased \$64.9 million for the three months ended June 30, 2007 as compared to the same period in the prior year primarily due to decreases in virtually all markets. Additionally, write-offs of deposits and pre-acquisition costs increased \$5.5 million when compared to the three months ended June 30, 2006, the majority of which occurred in the Washington D.C. market.

**Southeast**

Revenues decreased 46.2% when compared to the three months ended June 30, 2006. All markets in the Southeast region experienced significant decreases in revenues and unit closings. Sales orders decreased 26.9% despite the fact that customer traffic remained relatively flat when compared to the same period of the prior year and cancellation rates improved to 30.5% versus 35.1% for the three months ended June 30, 2006. Discounts as a percentage of revenues in

the Southeast region increased significantly from 4.6% to 13.4% for the current period, which contributed to the 6.5% decrease in average revenue per unit. Another factor contributing to the decrease in revenues was a \$20.9 million decrease in land sale revenue when compared to the first quarter of fiscal year 2007.

The Southeast region incurred an operating loss of \$13.0 million for the three months ended June 30, 2007 as compared to earnings of \$60.6 million in the same period of the prior year. The Nashville and Orlando markets were the only markets in the Southeast region that did not realize an operating loss for the three months ended June 30, 2007. The most significant decrease in operating earnings occurred in the Southwest Florida market, which incurred the majority of the impairments and write-offs of deposits and pre-acquisition costs in the region.

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Revenues decreased 36.2% primarily due to a 34.2% decrease in units closed as compared to the three months ended June 30, 2006. All markets in the Central region experienced significant decreases in revenues and unit closings. Discounts as a percentage of revenues increased from 6.6% to 9.5% for the first quarter of fiscal year 2008, which contributed to the 3.4% decrease in average revenue per unit. Sales orders decreased 25.6% primarily due to a 29.4% decrease in customer traffic while cancellation rates improved slightly from 31.2% to 30.6% when compared to the same period of the prior year.

The Central region realized an operating loss of \$6.4 million for the three months ended June 30, 2007 as compared to earnings of \$9.6 million in the same period of the prior year. All markets in the Central region achieved reductions in their selling, general and administrative expenses, which partially offset the decreases in revenues.

**Texas**

Revenues for the Texas region decreased 3.9% compared to the prior year, representing the most moderate decrease in revenues for any of our regions. Average revenue per unit increased in all markets, which helped offset a 7.0% decrease in closings. The San Antonio market achieved an increase in revenues, while all other markets in the Texas region decreased. Discounts as a percentage of revenues were 3.6% for the three months ended June 30, 2007. Sales orders decreased 21.8% as cancellation rates increased to 32.7% compared to 29.0% for the same period in the prior year.

Although operating earnings decreased \$6.2 million when compared to the same period in the prior year, all markets in the Texas region generated operating earnings. To date, the Texas region has been less affected by the challenging market conditions experienced in other regions, which we believe results from the moderate growth rates and price appreciation realized in this region in prior periods.

**Northwest**

Revenues decreased 21.7% as compared to the three months ended June 30, 2006. Decreases in both average revenue per unit and unit closings contributed to the decrease in revenues. Most of the markets in the Northwest region experienced substantial decreases in revenues. The Portland and Central Valley markets were the only markets to achieve increases in revenues. The decrease in revenues is reflective of a reduction in units closed and an increase in discounts from 6.7% to 11.1% for the three months ended June 30, 2007. Sales orders for the three months ended June 30, 2007 decreased 20.2% primarily due to relatively high cancellation rates of 34.7% for the Northwest region.

The Northwest region experienced an operating loss of \$32.1 million for the three months ended June 30, 2007 as compared to earnings of \$73.3 million in the same period of the prior year. Factors contributing to the operating loss for the three months ended June 30, 2007 were our share of a joint venture's impairment in the Sacramento market for \$27.1 million and \$20.0 million in impairments and write-offs of deposits and pre-acquisition costs in the Reno and Central Valley markets. The Central Valley, Bay Area, Portland and Hawaii markets all generated operating earnings.

**Southwest**

The decrease in the Southwest regions' revenues was primarily due to a 34.4% decrease in units closed when compared to the same period in the prior year. The largest decreases in unit closings occurred in the Inland Empire and Las Vegas markets. Discounts as a percentage of revenues rose to 8.4% from 3.9% for the three months ended June 30, 2006, which contributed to the 2.4% decrease in average revenue per unit. For the three months ended June 30, 2007, cancellation rates were 33.8% which is still relatively high when compared to historic levels, despite the fact that the cancellation rates have decreased from 43.4% in the same period of the prior year.

The Southwest region experienced an operating loss of \$115.6 million for the three months ended June 30, 2007 as compared to earnings of \$48.2 million in the same period of the prior year. All markets within the Southwest region reported significant decreases in operating results. The Inland Empire, Los Angeles and Las Vegas markets experienced the largest dollar decreases in operating earnings, which is reflective of \$68.1 million in impairments and write-offs of deposits and pre-acquisition costs in those markets.

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**Other homebuilding**

Other homebuilding is primarily comprised of certain operating segments that are not part of our long-term strategy. The projects in these operating segments will be built out and liquidated. None of the operating segments included in Other homebuilding are significant. Additionally, certain homebuilding ancillary businesses and certain income and expenses that are not allocated to our operating segments are reported in this segment.

The Other homebuilding region experienced an operating loss of \$36.9 million for the three months ended June 30, 2007 as compared to earnings of \$16.9 million in the same period of the prior year. The decrease in operating earnings is primarily the result of \$31.2 million in impairments from our resort and second home operations in Texas and Florida.

**FINANCIAL SERVICES**

The Financial Services segment is 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. Its operations include mortgage lending and other related services for purchasers of homes sold by our homebuilding operations and other homebuilders, title agency services and the sale of title insurance and other insurance products, including property and casualty.

Financial Services revenues and operating earnings are derived primarily from the sale of mortgage loans, together with all related servicing rights, broker fees, title and other various insurance coverages, interest income and other fees. Net origination fees, mortgage servicing rights, and other revenues derived from the origination of mortgage loans are deferred and recognized when the related loan is sold to a third-party purchaser. Interest revenues on mortgage loans receivable are recognized using the interest (actuarial) method. Other revenues, including fees for title insurance, mortgage broker and other services performed in connection with mortgage lending activities, are recognized as earned.

In the normal course of our activities, we carry inventories of loans pending sale to third-party investors and earn an interest margin, which we define as the difference between interest revenue on mortgage loans and interest expense on debt used to fund the mortgage loans.

Our business strategy of selling loans reduces our capital investment and related risks, provides substantial liquidity and is an efficient process given the size and liquidity of the mortgage loan secondary capital markets. CTX Mortgage Company, LLC originates mortgage loans and sells them to Harwood Street Funding I, LLC, which we refer to as HSF-I, and investors. HSF-I is a special purpose entity for which we are the primary beneficiary and is consolidated with our Financial Services segment. HSF-I's debt and subordinated certificates do not have recourse to us. We do not guarantee the payment of any debt or subordinated certificates of HSF-I and are not liable for credit losses relating to securitized mortgage loans sold to HSF-I.

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The following summarizes Financial Services results (dollars in thousands):

|  | <i>For the Three Months Ended June 30,</i> |               |              |               |
|--|--|---------------|--------------|---------------|
|  | <b>2007</b>                                | <b>Change</b> | <b>2006</b>  | <b>Change</b> |
| Revenues                                     | \$ 97,966                                  | (20.2%)       | \$ 122,741   | 11.6%         |
| Cost of Sales                                | (20,488)                                   | (1.7%)        | (20,837)     | 63.1%         |
| Selling, General and Administrative Expenses | (62,509)                                   | (20.7%)       | (78,817)     | 3.8%          |
| Operating Earnings                           | \$ 14,969                                  | (35.2%)       | \$ 23,087    | 8.5%          |
| Operating Margin                             | 15.3%                                      | (3.5)         | 18.8%        | (0.5)         |
| Financial Services Margin <sup>(1)</sup>     | 19.3%                                      | (3.4)         | 22.7%        | 0.8           |
| Net Interest Income                          | \$ 5,552                                   | (35.0%)       | \$ 8,539     | (19.6%)       |
| Average Interest Earning Assets              | \$ 1,445,433                               | (8.2%)        | \$ 1,574,341 | 5.7%          |
| Average Yield                                | 7.21%                                      | (0.25)        | 7.46%        | 1.17          |
| Average Interest Bearing Liabilities         | \$ 1,389,545                               | (9.8%)        | \$ 1,541,255 | 3.6%          |
| Average Rate Paid                            | 5.98%                                      | 0.55          | 5.43%        | 1.97          |

*(1) Financial Services margin is a non-GAAP financial measure, which we believe is useful as it allows investors to assess the operating performance of our Financial Services operations by netting the cost of funding mortgage originations (interest expense) against the related interest income. Financial Services margin is equal to Operating Earnings as a percentage of Financial*

*S e r v i c e s*  
*Revenues less*  
*interest expense,*  
*all of which are*  
*set forth in the*  
*table above.*

Financial Services revenues for the three months ended June 30, 2007 decreased as compared to the same period in the prior year due to a decrease in mortgage loan originations. Cost of sales, which is solely comprised of interest expense, declined slightly as decreases in average interest bearing liabilities were offset by the effect of higher short-term interest rates. Since cost of sales remained relatively flat, the decrease in net interest income for the three months ended June 30, 2007 is attributable to a decrease in interest income. The decrease in selling, general and administrative expenses for the three months ended June 30, 2007 is primarily the result of decreases in branch operating, support and compensation expenses, as well as a decrease in management compensation costs. Operating margin and Financial Services margin for the three months ended June 30, 2007 decreased due to an increase in short-term interest rates, which resulted in an increase in cost of sales as a percentage of revenues.

The following table provides a comparative analysis of: (1) the volume of loan sales to investors (third parties) and the gains recorded on those sales and related derivative activity, known collectively as gain on sale of mortgage loans, and (2) loans brokered to third party lenders and fees received for related broker services (dollars in thousands, except average loan size and volume):

|                                       | <i>For the Three Months Ended June 30,</i> |               |             |               |
|---------------------------------------|--|---------------|-------------|---------------|
|                                       | <b>2007</b>                                | <b>Change</b> | <b>2006</b> | <b>Change</b> |
| Loan Sales to Investors               |  |               |             |               |
| Volume (in millions)                  | \$ 2,353.3                                 | (17.6%)       | \$ 2,857.2  | 11.9%         |
| Number of Loans Sold                  | 10,848                                     | (24.2%)       | 14,312      | 8.4%          |
| Gain on Sale of Mortgage Loans        | \$ 38,634                                  | (17.1%)       | \$ 46,597   | 18.4%         |
| Loans Brokered to Third Party Lenders |  |               |             |               |
| Volume (in millions)                  | \$ 597.8                                   | (37.5%)       | \$ 957.1    | 9.4%          |
| Number of Brokered Loans              | 1,719                                      | (46.9%)       | 3,237       | (5.1%)        |
| Broker Fees                           | \$ 10,657                                  | (42.7%)       | \$ 18,603   | 3.2%          |
| Average Loan Size                     |  |               |             |               |
| Loans Sold to Investors               | \$ 216,946                                 | 8.7%          | \$ 199,634  | 3.2%          |
| Loans Brokered to Third Party Lenders | \$ 347,834                                 | 17.6%         | \$ 295,670  | 15.3%         |



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The volume and number of loans sold to investors decreased for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006. The decreases in the volume and number of these loans sold for the three months ended June 30, 2007 were partially offset by an increase in average income received from the sale of mortgage servicing rights for each loan. Broker fee income decreased as a result of decreases in the volume of loans brokered to third party lenders and the average income per broker