CENTEX CORP
Form 10-Q
February 01, 2006

Table of Contents

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2005**

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

Commission File Number: 1-6776
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 ü 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 ü 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 ü

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on January 25, 2006: 122,775,805 shares of common stock, par value $.25 per share.

Centex Corporation and Subsidiaries
Form 10-Q Table of Contents
December 31, 2005

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)

	For the Three Months Ended December 31,	
	2005	2004
Revenues		
Home Building	**$ 3,003,650**	$ 2,239,451
Financial Services	**326,077**	266,701
Construction Services	**402,927**	445,468
Other, including Intersegment Eliminations	**5,713**	38,075
	3,738,367	2,989,695
Costs and Expenses		
Home Building	**2,547,629**	1,935,720
Financial Services	**272,128**	220,698
Construction Services	**396,516**	439,573
Other, including Intersegment Eliminations	**8,271**	31,737
Corporate General and Administrative	**26,775**	23,137
Interest Expense	**3,009**	4,961
	3,254,328	2,655,826
Earnings from Unconsolidated Entities	**48,957**	43,947
Earnings from Continuing Operations Before Income Taxes	**532,996**	377,816
Income Taxes	**200,247**	135,858
Earnings from Continuing Operations	**332,749**	241,958
Earnings (Loss) from Discontinued Operations, net of Taxes (Benefit) of $(835) and $4,257	**(3,405)**	11,813
Net Earnings	**$ 329,344**	$ 253,771
Basic Earnings Per Share		
Continuing Operations	**$ 2.63**	$ 1.93
Discontinued Operations	**(0.03)**	0.09

	$	**2.60**	$	2.02
Diluted Earnings Per Share				
Continuing Operations	**$**	**2.52**	$	1.82
Discontinued Operations		**(0.03)**		0.09
	$	**2.49**	$	1.91
Average Shares Outstanding				
Basic		**126,572,663**		125,593,379
Dilutive Securities:				
Options		**5,307,073**		6,747,733
Other		**198,027**		206,078
Diluted		**132,077,763**		132,547,190
Cash Dividends Per Share	**$**	**0.04**	$	0.04

See Notes to Consolidated Financial Statements.

Table of Contents

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

	For the Nine Months Ended December 31, 2005	2004
Revenues		
Home Building	**$ 8,291,236**	$ 6,270,124
Financial Services	**956,145**	817,945
Construction Services	**1,160,904**	1,331,913
Other, including Intersegment Eliminations	**53,570**	121,792
	10,461,855	8,541,774
Costs and Expenses		
Home Building	**7,054,047**	5,470,701
Financial Services	**800,735**	661,116
Construction Services	**1,148,023**	1,317,088
Other, including Intersegment Eliminations	**61,776**	110,414
Corporate General and Administrative	**70,935**	61,741
Interest Expense	**8,705**	14,078
	9,144,221	7,635,138
Earnings from Unconsolidated Entities	**67,585**	56,059
Earnings from Continuing Operations Before Income Taxes	**1,385,219**	962,695
Income Taxes	**490,498**	345,531
Earnings from Continuing Operations	**894,721**	617,164
Earnings from Discontinued Operations, net of Taxes of $18,888 and $11,147	**2,823**	24,452
Net Earnings	**$ 897,544**	$ 641,616
Basic Earnings Per Share		
Continuing Operations	**$ 7.00**	$ 4.96
Discontinued Operations	**0.02**	0.20
	$ 7.02	$ 5.16

Diluted Earnings Per Share				
Continuing Operations	**$**	**6.68**	$	4.69
Discontinued Operations		**0.02**		0.18
	$	**6.70**	$	4.87
Average Shares Outstanding				
Basic		**127,933,898**		124,404,141
Dilutive Securities:				
Options		**5,578,959**		6,863,476
Other		**441,420**		435,136
Diluted		**133,954,277**		131,702,753
Cash Dividends Per Share	**$**	**0.12**	$	0.12

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Centex Corporation and Subsidiaries	
	December 31, 2005	March 31, 2005
Assets		
Cash and Cash Equivalents	**$ 78,900**	$ 502,586
Restricted Cash	**469,113**	377,789
Receivables -		
Residential Mortgage Loans Held for Investment, net	**8,758,681**	7,914,426
Residential Mortgage Loans Held for Sale	**1,727,631**	1,775,324
Construction Contracts	**307,545**	302,035
Trade, including Notes of $33,487 and $57,071	**435,310**	490,199
Inventories -		
Housing Projects	**8,292,195**	6,234,005
Land Held for Development and Sale	**381,100**	205,190
Land Held Under Option Agreements Not Owned	**552,984**	456,917
Other	**10,405**	33,439
Investments -		
Joint Ventures and Other	**344,282**	163,944
Financial Services		
Property and Equipment, net	**162,032**	159,722
Other Assets -		
Deferred Income Taxes	**348,523**	180,127
Goodwill	**218,369**	216,537
Mortgage Securitization Residual Interest	**64,582**	70,120
Deferred Charges and Other, net	**272,837**	251,459
Assets of Discontinued Operations		677,260
	$ 22,424,489	$ 20,011,079
Liabilities and Stockholders Equity		
Accounts Payable	**$ 824,883**	$ 590,276
Accrued Liabilities	**1,620,296**	1,519,390
Debt -		
Centex	**4,106,579**	3,107,917
Financial Services	**10,583,348**	9,721,146
Payables to (Receivables from) Affiliates		
Liabilities of Discontinued Operations		334,072
Commitments and Contingencies		
Minority Interests	**538,911**	457,521
Stockholders Equity -		
Preferred Stock: Authorized 5,000,000 Shares, None Issued		
	33,956	33,327

Common Stock: $.25 Par Value; Authorized 300,000,000 Shares; Outstanding 123,786,142 and 127,729,275 Shares		
Capital in Excess of Par Value	**532,440**	407,995
Unamortized Value of Deferred Compensation	**(49)**	(197)
Retained Earnings	**4,864,468**	3,982,306
Treasury Stock, at Cost; 12,038,622 and 5,577,686 Shares	**(688,017)**	(213,801)
Accumulated Other Comprehensive Income	**7,674**	71,127
Total Stockholders Equity	**4,750,472**	4,280,757
	$ 22,424,489	$ 20,011,079

See Notes to Consolidated Financial Statements.

Table of Contents

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

Centex*		Financial Services	
December 31, 2005	March 31, 2005	**December 31, 2005**	March 31, 2005
$ 66,384	$ 490,308	**$ 12,516**	$ 12,278
74,858	53,339	**394,255**	324,450
		8,758,681	7,914,426
		1,727,631	1,775,324
307,545	302,035		
232,004	292,630	**203,306**	197,569
8,292,195	6,234,005		
381,100	205,190		
552,984	456,917		
4,666	27,133	**5,739**	6,306
344,282	163,944		
700,862	572,290		
120,404	116,487	**41,628**	43,235
191,794	161,055	**156,729**	19,072
206,632	204,800	**11,737**	11,737
		64,582	70,120
206,205	172,100	**66,632**	79,359
	677,260		
$ 11,681,915	$ 10,129,493	**$ 11,443,436**	$ 10,453,876
$ 819,895	$ 569,100	**$ 4,988**	$ 21,176
1,467,637	1,381,488	**152,659**	137,902
4,106,579	3,107,917		
		10,583,348	9,721,146
		20,282	(44,958)
	334,072		
537,332	456,159	**1,579**	1,362

33,956	33,327	**1**	1
532,440	407,995	**275,467**	275,467
(49)	(197)		
4,864,468	3,982,306	**397,383**	333,568
(688,017)	(213,801)		
7,674	71,127	**7,729**	8,212
4,750,472	4,280,757	**680,580**	617,248
$ 11,681,915	$ 10,129,493	**$ 11,443,436**	$ 10,453,876

* *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.*

5

Table of Contents

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

	Centex Corporation and Subsidiaries *For the Nine Months Ended December 31,*	
	2005	2004
Cash Flows Operating Activities		
Net Earnings	**$ 897,544**	$ 641,616
Adjustments-		
Depreciation and Amortization	**49,441**	43,125
Stock-based Compensation	**51,326**	36,583
Provision for Losses on Residential Mortgage Loans Held for Investment	**68,032**	71,941
Deferred Income Tax (Benefit) Provision	**(166,994)**	22,833
Undistributed Earnings of Joint Ventures	**21,955**	33,685
Undistributed Earnings of Financial Services		
Minority Interest, net of Taxes	**(517)**	825
Gain on Sale of Discontinued Operations	**(6,500)**	
Changes in Assets and Liabilities, Excluding Effect of Dispositions		
(Increase) Decrease in Restricted Cash	**(91,324)**	(135,598)
Decrease (Increase) in Receivables	**26,379**	(44,219)
Decrease in Residential Mortgage Loans Held for Sale	**47,693**	233,963
Increase in Housing Projects and Land Held for Development and Sale	**(2,254,858)**	(1,823,266)
(Increase) Decrease in Other Inventories	**(163)**	47,167
Increase (Decrease) in Accounts Payable and Accrued Liabilities	**311,776**	101,380
(Increase) Decrease in Other Assets, net	**(24,938)**	16,735
Increase (Decrease) in Payables to Affiliates		
Other	**2,447**	(3,231)
	(1,068,701)	(756,461)
Cash Flows Investing Activities		
Payment on Notes Receivable, net	**23,584**	177
Increase in Residential Mortgage Loans Held for Investment	**(912,287)**	(1,296,615)
Investments in and Advances to Joint Ventures	**(316,085)**	(164,094)
Distributions from Joint Ventures	**134,740**	122,519
(Increase) Decrease in Investment and Advances to Financial Services		
Purchases of Property and Equipment, net	**(42,998)**	(30,183)
Proceeds from Dispositions	**327,415**	9,267
Other	**(2,857)**	(896)
	(788,488)	(1,359,825)
Cash Flows Financing Activities		
Increase in Short-term Debt, net	**1,781,738**	1,501,002

Centex				
Issuance of Long-term Debt		**972,049**		722,759
Repayment of Long-term Debt		**(327,153)**		(41,121)
Financial Services				
Issuance of Long-term Debt		**2,008,372**		1,867,799
Repayment of Long-term Debt		**(2,539,019)**		(2,106,145)
Proceeds from Stock Option Exercises		**28,593**		57,899
Treasury Stock Transactions, net		**(474,216)**		(572)
Dividends Paid		**(15,382)**		(14,848)
		1,434,982		1,986,773
Effect of Exchange Rate on Cash		**(1,479)**		977
Net (Decrease) Increase in Cash and Cash Equivalents		**(423,686)**		(128,536)
Cash and Cash Equivalents at Beginning of Period (1)		**502,586**		178,859
Cash and Cash Equivalents at End of Period (2)	**$**	**78,900**	$	50,323

See Notes to Consolidated Financial Statements.

(1) *Amount includes cash and cash equivalents of discontinued operation of $199 as of March 31, 2004.*

(2) *Amount includes cash and cash equivalents of discontinued operation of $12,276 as of December 31, 2004.*

6

Table of Contents

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

Centex *		Financial Services	
For the Nine Months Ended December 31,		*For the Nine Months Ended December 31,*	
2005	2004	**2005**	2004
$ 897,544	$ 641,616	**$ 88,815**	$ 98,039
36,035	29,756	**13,406**	13,369
51,326	36,583		
		68,032	71,941
(28,981)	14,689	**(138,013)**	8,144
21,955	33,685		
(63,815)	(59,039)		
(734)	750	**217**	75
(6,500)			
(21,519)	5,243	**(69,805)**	(140,841)
32,295	(20,673)	**(5,916)**	(23,546)
		47,693	233,963
(2,254,858)	(1,823,266)		
(730)	44,400	**567**	2,767
313,207	172,417	**(1,222)**	(59,740)
(43,559)	(9,151)	**18,621**	25,886
		64,548	(29,299)
2,447			(3,231)
(1,065,887)	(932,990)	**86,943**	197,527
23,405	158	**179**	19
		(912,287)	(1,296,615)
(316,085)	(164,094)		
134,740	122,519		
(64,757)	18,002		
(31,199)	(13,320)	**(11,799)**	(16,863)
327,415			9,267
(2,857)	(896)		
70,662	(37,631)	**(923,907)**	(1,304,192)
388,889	122,074	**1,392,849**	1,378,928
972,049	722,759		

(327,153)	(41,121)		
		2,008,372	1,867,799
		(2,539,019)	(2,106,145)
28,593	57,899		
(474,216)	(572)		
(15,382)	(14,848)	**(25,000)**	(39,000)
572,780	846,191	**837,202**	1,101,582
(1,479)	977		
(423,924)	(123,453)	**238**	(5,083)
490,308	160,590	**12,278**	18,269
$ 66,384	$ 37,137	**$ 12,516**	$ 13,186

* *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.*

7

Table of Contents

Centex Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2005
(Unless otherwise indicated, dollars and shares in thousands, except per share data)
(unaudited)

(A) 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 (I), Land Held Under Option Agreements Not Owned and Other Land Deposits. 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.

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.

(B) STATEMENTS OF CONSOLIDATED CASH FLOWS SUPPLEMENTAL DISCLOSURES

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

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2005	2004	**2005**	2004
Cash Paid for Interest	**$ 163,326**	$ 113,105	**$ 463,755**	$ 323,607
Net Cash Paid for Taxes	**$ 174,896**	$ 90,445	**$ 600,926**	$ 265,339

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. Interest expense related to segments other than Financial Services and Home Building is included as a separate line item in the Statements of Consolidated Earnings.

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2005	2004	**2005**	2004
Total Interest Incurred	**$ 176,250**	$ 121,867	**$ 490,244**	$ 343,206
Less Interest Capitalized	**(57,162)**	(44,647)	**(163,372)**	(126,705)
Financial Services Interest Expense	**(116,079)**	(72,259)	**(318,167)**	(202,423)
Interest Expense, net	**$ 3,009**	$ 4,961	**$ 8,705**	$ 14,078
Capitalized Interest Relieved to Home Building s Costs and Expenses	**$ 40,241**	$ 31,014	**$ 115,334**	$ 88,859

Table of Contents

In September 2005, the Company sold its international homebuilding operations to an unrelated third party. The sales price was based on international homebuilding operations net assets as defined in the sale and purchase agreement. In December 2005, the sales price was adjusted based upon the international homebuilding operations net asset value, as defined as of the closing date. Total cash proceeds received in the sale were $318.7 million. Net proceeds received on the disposition of the international homebuilding operations may be adjusted based upon the filing of its statutory tax return. Additionally, the Company has indemnified the purchaser for certain contingencies. The Company does not believe such contingencies would be material to the Company s results of operations or financial position. The net loss on sale of these operations is summarized below:

Sales Proceeds	**$ 318,717**
Assets Sold	**(632,956)**
Liabilities Assumed by Buyer	**118,951**
Long-term Debt Assumed by Buyer	**153,434**
Cumulative Foreign Currency Gain	**48,354**
Pre-tax Gain on Sale	**6,500**
Income Tax Expense	**(15,660)**
Net Loss on Sale	**$ (9,160)**

For further information on the sale of our international homebuilding operations, see Note (P), Discontinued Operations.

As explained in Note (I), Land Held Under Option Agreements Not Owned and Other Land Deposits, pursuant to the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, as revised (FIN 46), as of December 31, 2005 and March 31, 2005, the Company consolidated $497.7 million and $415.4 million, respectively, of lot option agreements and recorded $55.3 million and $41.5 million, respectively, of deposits related to these options as land held under option agreements not owned.

(C) STOCK-BASED COMPENSATION ARRANGEMENTS

The Company accounts for its stock-based compensation arrangements in accordance with the provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), under which the Company recognizes compensation expense of a stock option award over the vesting period based on the fair value of the award on the grant date. In December 2004, the FASB issued a revision to SFAS No. 123. See Note (N), Recent Accounting Pronouncements, for further discussion.

In May 2005, the Company granted approximately 1.7 million options to employees and the Company s directors. The fair value of these options is $39.3 million, as calculated under the Black-Scholes option-pricing model, and is recognized as compensation expense over the vesting period.

In May 2005, the Company also granted approximately 562.6 stock units and 236.2 shares of restricted stock to employees. Stock units and restricted stock are recognized as compensation expense over the vesting period based on the fair market value of the Company s stock on the date of grant. The May 2005 stock unit and restricted stock grants had a total value of $45.8 million.

In July 2005, the Company granted approximately 13.2 shares of restricted stock to the Company s directors. The total value of this grant was $1.0 million.

Table of Contents

(D) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity is presented below:

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Unamortized Value of Deferred Compensation	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Total
Balance, March 31, 2005	127,729	$ 33,327	$ 407,995	$ (197)	$ 3,982,306	$ (213,801)	$ 71,127	$ 4,280,757
Issuance of Restricted Stock	249	62	(62)					
Stock Compensation			51,178	148				51,326
Exercise of Stock Options, Including Tax Benefits	2,267	567	81,919					82,486
Cash Dividends					(15,382)			(15,382)
Purchase of Common Stock for Treasury	(6,778)					(478,900)		(478,900)
Other Stock Transactions	319		(8,590)			4,684		(3,906)
Net Earnings					897,544			897,544
Unrealized Loss on Hedging Instruments							(710)	(710)
Foreign Currency Translation Adjustments [(1)]							(62,743)	(62,743)
Balance, December 31, 2005	**123,786**	**$ 33,956**	**$ 532,440**	**$ (49)**	**$ 4,864,468**	**$ (688,017)**	**$ 7,674**	**$ 4,750,472**

(1) Amount includes a reclassification adjustment of $48,354 for foreign currency gain included in net earnings.

(E) RESIDENTIAL MORTGAGE LOANS HELD FOR INVESTMENT

Residential mortgage loans held for investment by Centex Home Equity Company, LLC and its related companies (Home Equity), including real estate owned, consisted of the following:

	December 31, 2005	March 31, 2005
Residential Mortgage Loans Held for Investment	**$ 8,851,538**	$ 7,999,728
Allowance for Losses on Residential Mortgage Loans Held for Investment	**(92,857)**	(85,302)
Residential Mortgage Loans Held for Investment, net of Allowance for Losses	**$ 8,758,681**	$ 7,914,426

Changes in the allowance for losses on residential mortgage loans held for investment were as follows for the nine months ended December 31, 2005 and the year ended March 31, 2005:

	For the Nine Months Ended December 31, 2005	*For the Year Ended* March 31, 2005
Balance at Beginning of Period	**$ 85,302**	$ 56,358
Provision for Losses	**68,032**	98,801
Losses Sustained, net of Recoveries of $953 and $1,226	**(60,477)**	(69,857)
Balance at End of Period	**$ 92,857**	$ 85,302

10

Table of Contents

	December 31, 2005	March 31, 2005
Allowance as a Percentage of Gross Loans Held for Investment	**1.1%**	1.1%
Allowance as a Percentage of 90+ Days Contractual Delinquency	**37.5%**	44.2%
90+ Days Contractual Delinquency (based on months)		
Total Dollars Delinquent	**$ 247,405**	$ 192,835
% Delinquent	**2.8%**	2.4%

(F) GOODWILL

A summary of changes in goodwill by segment for the nine months ended December 31, 2005 is presented below:

	Home Building	Financial Services	Construction Services	Other	Total
Balance as of March 31, 2005	$ 121,501	$ 11,737	$ 1,007	$ 82,292	$ 216,537
Goodwill Acquired				1,832	1,832
Balance as of December 31, 2005	**$ 121,501**	**$ 11,737**	**$ 1,007**	**$ 84,124**	**$ 218,369**

Goodwill for the Other segment at December 31, 2005 relates to the Company s home services operations.

Table of Contents

(G) 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 December 31, 2005 and March 31, 2005 is presented below. Due dates are presented in fiscal years. Centex, in this note, refers to the consolidation of all subsidiaries other than those included in Financial Services.

	December 31, 2005		March 31, 2005	
		Weighted-Average Interest Rate		Weighted-Average Interest Rate
Short-term Debt:				
Centex	**$ 396,759**	**4.49%**	$ 7,870	1.72%
Financial Services				
Financial Institutions	**557,608**	**4.62%**	190,779	3.12%
Medium-term Notes:				
Harwood Street Funding I, LLC		%	250,000	2.90%
Harwood Street Funding II, LLC	**200,000**	**4.44%**		%
Secured Liquidity Notes:				
Harwood Street Funding I, LLC	**1,315,714**	**4.36%**	1,195,076	2.89%
Harwood Street Funding II, LLC	**1,787,403**	**4.40%**	832,021	2.99%
Consolidated Short-term Debt	**4,257,484**		2,475,746	
Long-term Debt:				
Centex				
Medium-term Note Programs, due through 2008	**373,000**	**5.74%**	398,000	4.59%
Senior Notes, due through 2016	**3,208,708**	**5.79%**	2,458,547	6.32%
Other Indebtedness, due through 2015	**28,214**	**5.54%**	43,670	5.57%
Subordinated Debt:				
Subordinated Debentures, due in 2007	**99,898**	**8.75%**	99,838	8.75%
Subordinated Debentures, due in 2006		%	99,992	7.38%
	3,709,820		3,100,047	
Financial Services				
Home Equity Asset-Backed Certificates, due through 2036	**6,512,623**	**4.95%**	7,099,520	3.63%
Harwood Street Funding I, LLC Variable Rate Subordinated Extendable Certificates, due through 2010	**60,000**	**6.39%**	60,000	4.87%
Harwood Street Funding II, LLC Variable Rate Subordinated Notes, due through 2011	**150,000**	**6.25%**	93,750	5.02%

	6,722,623	7,253,270
Consolidated Long-term Debt	**10,432,443**	10,353,317
Total Debt	**$ 14,689,927**	$ 12,829,063

Centex s short-term debt as of December 31, 2005 consisted of commercial paper of $390.0 million and land and land related acquisition notes of $6.8 million. Centex s short-term debt as of March 31, 2005 consisted of $7.9 million in land acquisition notes.

12

Table of Contents

The weighted-average interest rates for short-term and long-term debt during the nine months ended December 31, 2005 and 2004 were:

	For the Nine Months Ended December 31,	
	2005	2004
Short-term Debt:		
Centex	**3.78%**	1.65%
Financial Services	**3.76%**	2.02%
Long-term Debt:		
Centex		
Medium-term Note Programs [(1)]	**5.41%**	5.52%
Senior Notes	**5.91%**	6.49%
Other Indebtedness	**5.34%**	5.10%
Subordinated Debentures	**8.50%**	8.06%
Financial Services		
Centex Home Equity Company, LLC Long-term Debt [(2)]	**4.47%**	3.30%
CTX Mortgage Company, LLC Long-term Debt [(3)]	**5.60%**	3.58%

(1) Interest rates include the effects of an interest rate swap agreement.

(2) Consists of Centex Home Equity Company, LLC Asset-Backed Certificates and Harwood Street Funding II, LLC Variable Rate Subordinated Notes.

(3) Consists of Harwood Street Funding I, LLC Variable Rate Subordinated Extendable Certificates.

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

	Centex	Financial Services	Total
2006	$ 15,920	$ 936,662	$ 952,582
2007	292,351	2,898,026	3,190,377
2008	527,233	1,378,732	1,905,965
2009	150,130	579,005	729,135
2010	225,072	734,787	959,859
Thereafter	2,499,114	195,411	2,694,525
	$ 3,709,820	$ 6,722,623	$ 10,432,443

Financial Services long-term debt associated with Home Equity includes Asset-Backed Certificates of $6.51 billion at December 31, 2005. These Asset-Backed Certificates relate to securitized residential mortgage loans and are structured as collateralized borrowings. The holders of such debt have no recourse for non-payment to Centex Home Equity Company, LLC or Centex Corporation; however, as is common in these structures, Centex Home Equity Company, LLC remains liable for customary loan representations. The principal and interest on these certificates are paid from the liquidation of the underlying residential mortgage loans, which serve as collateral for the debt. Accordingly, the timing of the principal payments on these certificates is dependent upon the payments received on the underlying residential mortgage loans. The expected maturities of this component of long-term debt are based on contractual maturities adjusted for optional redemptions and projected prepayments.

Under debt covenants contained in Centex Corporation s multi-bank revolving credit facility, the Company is required to maintain certain leverage and interest coverage ratios and a minimum tangible net worth. At December 31, 2005, Centex was in compliance with all of these covenants.

Table of Contents

Credit Facilities

The Company s existing credit facilities and available borrowing capacity as of December 31, 2005 are summarized below:

	Existing Credit Facilities	Available Capacity
Centex		
Multi-Bank Revolving Credit Facility		
Revolving Credit	$ 1,000,000	$ 610,000
Letters of Credit	500,000	139,475
	1,500,000	749,475 *(1) (2)*
Unsecured Credit Facility	150,000	150,000 *(3)*
	1,650,000	899,475
Financial Services		
Mortgage Servicer Advance Facility	100,000	17,653 *(4)*
Secured Credit Facilities	990,000	514,739 *(5)*
Harwood Street Funding I, LLC Facility	3,000,000	1,622,800
Harwood Street Funding II, LLC Facility	4,000,000	1,862,597
	8,090,000	4,017,789
	$ 9,740,000	$ 4,917,264 *(6)*

(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2010, which serves as backup for Centex Corporation s $900 million commercial paper program and provides $500 million of letter of credit capacity. As of December 31, 2005, the $900

million commercial paper program had $390 million outstanding which has been deducted from the available capacity under the back-up facility. There have been no direct borrowings under this revolving credit facility since its inception.

(2) *In conjunction with the issuance of surety bonds in support of Construction Services activity, Centex Corporation has agreed to provide letters of credit of up to $100 million if Centex Corporation s public debt ratings fall below investment grade. In support of this ratings trigger, the Company maintains a minimum of $100 million in unused committed credit at all times.*

(3) *Centex Corporation maintains a $150 million*

unsecured, uncommitted credit facility.

(4) *Under this facility, Home Equity is permitted to securitize its mortgage servicer advances in an amount up to $100 million with a final maturity of May 2011. This facility has no recourse to Centex Corporation.*

(5) *CTX Mortgage Company, LLC and its related companies and Home Equity share in a $300 million secured, committed credit facility to finance mortgage inventory. CTX Mortgage Company, LLC and its related companies also maintain $690 million of secured, committed mortgage warehouse facilities to finance mortgages.*

(6) *The amount of available*

capacity consists of $4,767.3 million of committed capacity and $150.0 million of uncommitted capacity as of December 31, 2005. Although the Company believes that the uncommitted capacity is currently available, there can be no assurance that the lender under this facility would elect to make advances if and when requested to do so.

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

CTX Mortgage Company, LLC finances its inventory of mortgage loans held for sale principally through the sale of loans 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. Since 1999, CTX Mortgage Company, LLC has sold substantially all conforming and Jumbo A mortgage loans that it originates to HSF-I in accordance with the HSF-I Purchase Agreement. 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 December 31, 2005, 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 approximately 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 December 31, 2005, 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 the cost of financing the mortgage loans originated by it and to improve its liquidity.

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.

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. Financial Services executes the forward sales of CTX Mortgage Company, LLC s 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 (M), 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 $3.10 billion and $2.10 billion of mortgage loans to investors during the three months ended December 31, 2005 and 2004, respectively, and $9.20 billion and $7.17 billion during the nine months ended December 31, 2005 and 2004, respectively. CTX Mortgage Company, LLC and its related companies recognized gains on sales of mortgage loans and related derivative activity of $40.6 million and $35.8 million during the three months ended December 31, 2005 and 2004, respectively, and $126.0 million and $107.1 million during the nine months ended December 31, 2005 and 2004, respectively.

Centex Home Equity Company, LLC and Harwood Street Funding II, LLC

Home Equity finances its inventory of mortgage loans held for investment principally through Harwood Street Funding II, LLC (HSF-II), a wholly-owned, consolidated entity, under a revolving sales agreement that expires upon final payment of the senior and subordinated debt issued by HSF-II. This arrangement, where HSF-II has committed to finance all eligible loans, gives Home Equity daily access to HSF-II s capacity of $4.0 billion. HSF-II obtains funds for the purchase of eligible loans by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated notes. As of December 31, 2005, HSF-II had outstanding (1) short-term secured liquidity notes and medium-term notes rated A1+ by S&P, P-1 by Moody s and F1+ by Fitch Ratings, or Fitch and (2) subordinated notes rated BBB by S&P, Baa2 by Moody s and BBB by Fitch. Because HSF-II is a consolidated entity, the debt, interest income and interest expense of HSF-II are reflected in the financial statements of Financial Services. HSF-II s debt does not have recourse to the Company and the consolidation of this debt does not change the Company s debt ratings.

Home Equity utilizes a program of whole loan sales as a component of its diverse funding sources to provide more efficient utilization of capital. Home Equity recorded $23.9 million and $4.0 million in net revenue and operating earnings related to whole loan sales for the three months ended December 31, 2005 and 2004, respectively.

Table of Contents

For the nine months ended December 31, 2005 and 2004, Home Equity recorded $50.6 million and $31.4 million in net revenues and operating earnings, respectively, related to whole loan sales.

In the event Financial Services is unable to finance its inventory of loans through HSF-I and HSF-II, 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.

(H) COMMITMENTS AND CONTINGENCIES

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 developers allows Home Building to share the risks and rewards of ownership while providing for efficient asset utilization. The Company s investment in these non-consolidated joint ventures was $344.3 million and $163.9 million at December 31, 2005 and March 31, 2005, respectively. These joint ventures had total outstanding secured construction debt of approximately $1,131.2 million and $426.3 million at December 31, 2005 and March 31, 2005, respectively. The Company s percentage share of this debt, based solely on its aggregate percentage ownership of the joint ventures, was $418.1 million and $160.1 million at December 31, 2005 and March 31, 2005, respectively. For certain of the joint ventures, which the Company refers to as the recourse joint ventures, the Company is liable on a contingent basis, through limited guarantees, letters of credit or other arrangements, with respect to a portion of the construction debt. The Company s maximum potential liability with respect to the debt of the recourse joint ventures, based on the Company s percentage ownership of the recourse joint ventures, was approximately $258.6 million and $139.8 million at December 31, 2005 and March 31, 2005, respectively. For certain of the joint ventures, including the recourse joint ventures, the Company has also guaranteed the completion of the project if the joint venture does not perform the required development and agreed to indemnify the construction lender for certain environmental liabilities with respect to the project. Under a completion guarantee, 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. As of December 31, 2005, the Company does not anticipate it will incur any costs under its completion guarantees.

At December 31, 2005, the Company had $360.9 million in outstanding letters of credit. These letters of credit are primarily issued pursuant to certain performance related obligations and as security for certain land option purchase agreements of the Home Building segment and letters of credit provided under the Company s various insurance programs. In addition, the Company has surety bonds outstanding, primarily related to certain performance related obligations of its homebuilding and construction services operations. The Company does not believe that any outstanding bonds will be drawn upon.

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

Home Building offers a ten-year limited warranty for most homes constructed and sold in the United States. 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.

Table of Contents

Changes in Home Building s contractual warranty liability are as follows for the nine months ended December 31, 2005 and the year ended March 31, 2005:

	December 31, 2005	March 31, 2005
Balance at Beginning of Period	**$ 34,961**	$ 16,683
Warranties Issued	**37,197**	42,591
Settlements Made	**(29,350)**	(31,070)
Changes in Liability of Pre-Existing Warranties, Including Expirations		6,757
Balance at End of Period	**$ 42,808**	$ 34,961

CTX Mortgage Company, LLC has established a liability for anticipated losses associated with loans originated. Changes in CTX Mortgage Company, LLC s mortgage loan origination reserve are as follows for the nine months ended December 31, 2005 and the year ended March 31, 2005:

	December 31, 2005	March 31, 2005
Balance at Beginning of Period	**$ 18,803**	$ 25,045
Provision for Losses	**1,996**	557
Settlements	**(2,359)**	(6,799)
Balance at End of Period	**$ 18,440**	$ 18,803

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 and 30 communities. Home Building has provided the requested information and the United States Department of Justice (the Justice Department), acting on behalf of the EPA, has asserted that some of these and certain other communities (including one of Construction Services projects) have violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Home Building and Construction Services believe they have defenses to the allegations made by the EPA and are exploring methods of settling this matter. Centex does not believe that this matter will have a material impact on the Company s consolidated results of operations or financial position.

On November 23, 2004, Miami-Dade County, Florida filed suit against Centex-Rooney Construction Co., a wholly-owned subsidiary of Centex Corporation; John J. Kirlin, Inc.; and M. C. Harry and Associates, Inc., in the County s Circuit Court of the Eleventh Judicial Circuit. Miami-Dade County alleges that, in the course of performing or managing construction work on Concourse F at the Miami International Airport, the defendants caused a jet fuel line rupture on or about July 30, 1987, which resulted in the contamination of soil, groundwater and surface water in and around airport Concourse F. Miami-Dade County seeks damages of approximately $8.0 million for its costs incurred to date and for expected future costs, civil penalties and an order requiring the defendants to address remaining contamination. Centex believes it has substantial defenses to Miami-Dade County s claims, including waiver and release and statute of limitations defenses. Centex also believes insurance coverage may be available to cover defense costs and any potential damages. Centex does not believe that this lawsuit will have a material impact on the Company s consolidated results of operations or financial position.

In the normal course of its business, the Company and/or its subsidiaries are named as defendants in certain suits filed in various state and federal courts. Management believes that none of the litigation matters in which the Company or any subsidiary is involved would have a material adverse effect on the consolidated financial condition or operations of the Company.

Table of Contents

(I) 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 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 at various dates through the year 2015.

The Company has determined that in accordance with the provisions of FIN 46, it is the primary beneficiary of certain land option agreements at December 31, 2005. As a result, the Company recorded $497.7 million and $415.4 million of land as inventory under the caption land held under option agreements not owned, with a corresponding increase to minority interests as of December 31, 2005 and March 31, 2005, respectively. The following table summarizes the Company s investment in land option agreements and their total purchase price (dollars in millions):

	December 31, 2005	March 31, 2005
Cash Deposits included in:		
Land Held for Development and Sale	**$ 244.7**	$ 141.9
Land Held Under Option Agreements Not Owned	**55.3**	41.5
Total Cash Deposits in Inventory	**300.0**	183.4
Letters of Credit	**25.9**	40.4
Total Invested through Deposits or Secured with Letters of Credit	**$ 325.9**	$ 223.8
Total Purchase Price of Land Option Agreements	**$ 9,522.2**	$ 7,340.5

(J) COMPREHENSIVE INCOME

A summary of comprehensive income for the three and nine months ended December 31, 2005 and 2004 is presented below:

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2005	2004	**2005**	2004
Net Earnings	**$ 329,344**	$ 253,771	**$ 897,544**	$ 641,616
Other Comprehensive Income (Loss), net of Tax:				
Unrealized Gain (Loss) on Hedging Instruments	**(333)**	6,028	**(710)**	11,816
Foreign Currency Translation Adjustment	**4**	21,381	**(14,389)**	17,264
Foreign Currency Gain Reclassified to Net Earnings			**(48,354)**	
Comprehensive Income	**$ 329,015**	$ 281,180	**$ 834,091**	$ 670,696

The unrealized gain or loss on hedging instruments represents the deferral in other comprehensive income (loss) of the unrealized gain or loss on interest rate swap agreements designated as cash flow hedges. The accounting for interest rate swaps and other derivative financial instruments in place as of December 31, 2005 is discussed in detail in Note (M), Derivatives and Hedging. Unrealized gain or loss on hedging instruments also includes other comprehensive loss of $4,828 related to terminated hedges executed in connection with the anticipated issuance of fixed-rate debt. This other comprehensive loss will be recognized in earnings over the remaining term of the respective fixed-rate debt. The foreign currency translation adjustments were reclassified to earnings from discontinued operations in connection with the sale of the Company s international homebuilding operations.

(K) BUSINESS SEGMENTS

As of December 31, 2005, the Company operated in three principal business segments: Home Building, Financial Services and Construction Services. These segments operate primarily in the United States and their markets are nationwide. Revenues from any one customer are not significant to the Company. Investments in joint ventures are not material and are not shown in the following tables. For the three and nine months ended December 31, 2005, intersegment revenues and cost of sales are included in the results of operations for the individual segments but have been eliminated in consolidation. Intersegment eliminations include the elimination of Construction Services revenues earned and costs and expenses incurred on multi-unit residential vertical construction with our Home Building business segment. For the three and nine months ended December 31, 2004, intersegment revenues and cost of sales were nominal.

Home Building

Home Building s operations currently consist of domestic operations relating to the purchase and development of land or lots and the construction and sale of detached and attached single-family homes (including resort and second home properties and lots) and land or lots.

In September 2005, the Company sold all of its international homebuilding operations, which had previously been included in the Home Building segment, to a third party for cash. In December 2005, the sales price was adjusted based upon international homebuilding operations net asset value as defined in the sale and purchase agreement as of the closing date. Cash proceeds received upon the sale were $318.7 million, which resulted in a net loss on the disposition of $9.2 million after taxes. As a result of the sale, the operating results of the international homebuilding operations for the three and nine months ended December 31, 2005 and 2004 have been reclassified to discontinued operations in the statements of consolidated earnings and all related assets and liabilities have been disclosed separately on the consolidated balance sheets. See Note (P), Discontinued Operations, for additional information.

Financial Services

Financial Services operations consist primarily of home financing, sub-prime home equity lending and the sale of title insurance and other various insurance coverages. These activities include mortgage origination, servicing and other related services for homes sold by the Company s subsidiaries and others. Financial Services revenues include interest income of $199.3 million and $160.3 million for the three months and $573.4 million and $479.8 million for the nine months ended December 31, 2005 and 2004, 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 and sub-prime home equity lending activities. For the three and nine months ended December 31, 2005, Financial Services includes the elimination of gains on sales of mortgage loans and related costs from loans originated by CTX Mortgage Company, LLC and sold to Home Equity. For the three and nine months ended December 31, 2004, these loan sales were nominal.

In September 2005, the Company announced that it is exploring strategic alternatives for Home Equity, including a possible sale. The Company received expressions of interest concerning the possible sale of Home Equity from various third parties. The Company is currently engaged in discussions with one or more bidders. There can be no assurance that a sale of Home Equity will be completed or, if a sale is completed, as to the nature of the buyer, the terms or timing of the transaction.

Construction Services

Construction Services operations involve the construction of buildings for both private and government interests including educational institutions, hospitals, military housing, correctional institutions, airport facilities, office buildings, hotels and resorts and sports facilities. As this segment generates positive cash flow, intercompany interest income (credited at the prime rate in effect) of $2.8 million and $2.0 million for the three months and $6.6 million and $4.7 million for the nine months ended December 31, 2005 and 2004, respectively, is included in management s evaluation of this segment. However, the intercompany interest income is eliminated in consolidation and excluded from the tables presented below.

Table of Contents

Other

The Company s Other segment includes corporate general and administrative expenses and interest expense. 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.

For the Three Months Ended December 31, 2005
(Dollars in millions)

	Home Building	Financial Services	Construction Services	Other	Intersegment Eliminations	Total
Revenues	**$ 3,003.6**	**$ 326.1**	**$ 402.9**	**$ 29.1**	**$ (23.3)**	**$ 3,738.4**
Cost of Sales	**(2,126.3)**	**(116.1)**	**(377.9)**	**(14.9)**	**22.3**	**(2,612.9)**
Selling, General and Administrative Expenses	**(421.3)**	**(156.1)**	**(18.6)**	**(45.5)**		**(641.5)**
Earnings from Unconsolidated Entities	**48.9**		**0.1**			**49.0**
Earnings (Loss) Before Income Tax	**$ 504.9**	**$ 53.9**	**$ 6.5**	**$ (31.3)**	**$ (1.0)**	**$ 533.0**

For the Three Months Ended December 31, 2004
(Dollars in millions)

	Home Building	Financial Services	Construction Services	Other	Total
Revenues	$ 2,239.5	$ 266.7	$ 445.5	$ 38.0	$ 2,989.7
Cost of Sales	(1,609.2)	(72.3)	(422.6)	(18.6)	(2,122.7)
Selling, General and Administrative Expenses	(326.5)	(148.4)	(17.0)	(41.2)	(533.1)
Earnings from Unconsolidated Entities	43.4		0.5		43.9
Earnings (Loss) Before Income Tax	$ 347.2	$ 46.0	$ 6.4	$ (21.8)	$ 377.8

For the Nine Months Ended December 31, 2005
(Dollars in millions)

	Home Building	Financial Services	Construction Services	Other	Intersegment Eliminations	Total

Revenues	**$ 8,291.2**	**$ 956.2**	**$ 1,160.9**	**$ 86.8**	**$ (33.2)**	**$10,461.9**
Cost of Sales	**(5,873.0)**	**(318.2)**	**(1,090.9)**	**(43.7)**	**31.8**	**(7,294.0)**
Selling, General and Administrative Expenses	**(1,181.0)**	**(482.6)**	**(57.1)**	**(129.6)**		**(1,850.3)**
Earnings from Unconsolidated Entities	**67.3**		**0.3**			**67.6**
Earnings (Loss) Before Income Tax	**$ 1,304.5**	**$ 155.4**	**$ 13.2**	**$ (86.5)**	**$ (1.4)**	**$ 1,385.2**

	For the Nine Months Ended December 31, 2004 (Dollars in millions)				
	Home Building	Financial Services	Construction Services	Other	Total
Revenues	$ 6,270.1	$ 817.9	$ 1,331.9	$ 121.8	$ 8,541.7
Cost of Sales	(4,562.0)	(202.4)	(1,269.3)	(67.1)	(6,100.8)
Selling, General and Administrative Expenses	(908.7)	(458.7)	(47.8)	(119.1)	(1,534.3)
Earnings from Unconsolidated Entities	54.5		1.6		56.1
Earnings (Loss) Before Income Tax	$ 853.9	$ 156.8	$ 16.4	$ (64.4)	$ 962.7

The following summarizes the components of the Other segment s loss before income tax (dollars in millions):

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2005	2004	**2005**	2004
Operating Loss from Home Services Operations	**$ (1.6)**	$ (0.4)	**$ (6.3)**	$ (5.1)
Operating Earnings (Loss) from Investment Real Estate Operations		6.7	**(0.5)**	16.4
Corporate General and Administrative Expense	**(26.7)**	(23.1)	**(71.0)**	(61.6)
Interest Expense	**(3.0)**	(5.0)	**(8.7)**	(14.1)
	$ (31.3)	$ (21.8)	**$ (86.5)**	$ (64.4)

(L) INCOME TAXES

Income tax expense for earnings from continuing operations for the Company increased from $135.9 million to $200.2 million, and the effective tax rate increased from approximately 36% to 38%, for the three months ended December 31, 2004 and 2005, respectively. The increase in the effective tax rate is primarily the result of a reduction in the availability of tax benefits related to the Company s net operating loss carryforwards. Income tax expense for earnings from continuing operations for the Company increased from $345.5 million to $490.5 million, and the effective tax rate decreased from approximately 36% to 35%, for the nine months ended December 31, 2004 and 2005, respectively. The decrease in the effective tax rate is primarily the result of benefits associated with the new deduction for qualified domestic production activities and a $28.1 million payment in September 2005 from the U.S. Treasury, partially offset by the reduction in net operating loss carryforward benefits. The $28.1 million payment is effectively a tax refund and represents payment on a judgment against the U.S. government for revoking tax benefits the Company had previously claimed in connection with its acquisition and operation of a savings and loan association in the late 1980s and early 1990s.

(M) DERIVATIVES AND HEDGING

The Company is exposed to the risk of interest rate fluctuations on its debt and other obligations. As part of its strategy to manage the risks that are subject to changes in interest rates, Financial Services, through Home Equity, has entered into various interest rate swap agreements designated as cash flow hedges. Financial Services, through CTX

Mortgage Company, LLC and its related companies, 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 and its related companies enter into other

21

derivatives not designated as hedges. The following discussion summarizes our derivatives used to manage the risk of interest rate fluctuations.

Cash Flow Hedges

Financial Services, through Home Equity, has interest rate swap agreements that, in effect, fix the variable interest rates on a portion of its outstanding debt. These interest rate swap agreements are designated as cash flow hedges. The following table summarizes the interest rate swap agreements in place as of December 31, 2005 (dollars in thousands except as indicated):

	Notional Value (in millions)	Fixed Interest Rate	Termination Date	Accumulated Other Comprehensive Income
Financial Services				
Interest rate swaps	$ 1,964.0	3.2% (1)	Through August 2008	$ 12,557

(1) Weighted average fixed interest rates.

Interest rate swap agreements are recorded at their fair value in other assets or accrued liabilities in the Consolidated Balance Sheets. To the extent the hedging relationship is effective, gains or losses in the fair value of the derivative are deferred as a component of stockholders equity through other comprehensive income (loss). Fluctuations in the fair value of the ineffective portion of the derivative are reflected in the current period earnings, although such amounts were insignificant for the three and nine months ended December 31, 2005.

Amounts to be received or paid under the swap agreements are recognized as changes in interest incurred on the related debt instruments.

Fair Value Hedges

Financial Services, through CTX Mortgage Company, LLC and its related companies, 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 net zero 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 gain of approximately $2.5 million and $17.2 million for the three and nine months ended December 31, 2005, respectively. For the three and nine months ended December 31, 2004, the amount of hedge ineffectiveness included in earnings was a gain of approximately $5.7 million and $13.0 million, respectively.

Other Derivatives

Financial Services, through CTX Mortgage Company, LLC and its related companies, enters into interest rate lock commitments (IRLCs) with its customers under which CTX Mortgage Company, LLC and its related companies agree 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 and its related companies execute 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 loss of approximately $1.4 million and $2.1 million for the three and nine months ended December 31, 2005, respectively, compared to a gain of approximately $772 and $438 for the three and nine months ended December 31, 2004, respectively.

Table of Contents

(N) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued a revision to SFAS No. 123 entitled Share-Based Payment (SFAS 123R). Share-based payments are transactions in which an enterprise receives employee services in exchange for (1) equity instruments of the enterprise or (2) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees, but expresses no preference for a type of valuation model. SFAS 123R supersedes APB No. 25 and SFAS No. 123 and is effective for annual periods beginning after June 15, 2005. As discussed in Note (C), Stock-Based Compensation Arrangements, the Company currently accounts for share-based payments pursuant to SFAS No. 123; accordingly, SFAS 123R is not expected to have a material impact on the Company s results of operations or financial position; however, SFAS 123R may impact the timing of recognition of equity-based compensation.

In December 2004, the FASB issued Staff Position 109-1 (FSP 109-1), Application of FASB Statement No. 109 (FASB No. 109), Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. FSP 109-1 clarifies guidance that applies to the new deduction for qualified domestic production activities. When fully phased-in, the deduction will be up to 9% of the lesser of qualified production activities income or taxable income. FSP 109-1 clarifies that the deduction should be accounted for as a special deduction under FASB No. 109 and will reduce tax expense in the period or periods during which the amounts are deductible on the tax return. The new tax deduction for qualified production activities is effective for the Company s fiscal year ending March 31, 2006. An estimate of the benefit is currently reflected in the Company s tax rate for the year; however, the Company continues to assess the potential impact of this new tax benefit. The Company does not expect such tax benefits will be material to the Company s results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement for APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 requires prior period financial statements to be restated for changes in accounting principles. SFAS 154 also redefines restatement as the revision of previously issued financial statements to reflect the correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 is not expected to have a material impact on the Company s results of operations or financial position.

In June 2005, the Emerging Issues Task Force (EITF) released Issue No. 04-5 Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights (EITF 04-5). EITF 04-5 creates a framework for evaluating whether a general partner or a group of general partners controls a limited partnership and therefore should consolidate the partnership. EITF 04-5 states that the presumption of general partner control would be overcome only when the limited partners have certain specific rights as outlined in EITF 04-5. EITF 04-5 is effective immediately for all newly formed limited partnerships and for existing limited partnership agreements that are modified. For general partners in all other limited partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. Implementation of EITF 04-5 is not expected to have a material impact on the Company s results of operations or financial position.

(O) OFF-BALANCE SHEET OBLIGATIONS

The Company enters into various off-balance sheet transactions in the normal course of business in order to facilitate certain homebuilding activities. Further discussion regarding these transactions can be found above in Note (H), Commitments and Contingencies.

(P) DISCONTINUED OPERATIONS

In September 2005, the Company sold its international homebuilding operations, which had previously been included in the Home Building segment. As a result of the sale, international homebuilding s operations have been reclassified to discontinued operations in the statements of consolidated earnings, and any assets or liabilities related to these discontinued operations have been presented separately on the consolidated balance sheets. All prior period information related to these discontinued operations has been reclassified to be consistent with the December 31, 2005 presentation.

23

Table of Contents

Discontinued operations for international homebuilding operations are as follows (dollars in millions):

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2005	2004	**2005**	2004
Revenues	**$**	$ 128.9	**$ 224.4**	$ 327.8
Operating Earnings		16.1	**15.2**	35.6
Pre-tax Gain on Sale	**(4.2)**		**6.5**	

The net loss on the sale of the Company s international homebuilding operations was $9,160. Estimated income taxes of $15,660 associated with the disposition include income taxes on the repatriation of foreign earnings, which the Company had previously considered permanently reinvested.

(Q) SUBSEQUENT EVENTS

On January 24, 2006, the Company completed a previously-announced Rule 10b5-1 share repurchase plan. Total repurchases in January were 1.5 million shares of the Company s common stock at an average price of $75.03 per share.

(R) RECLASSIFICATIONS

Certain prior year balances have been reclassified to be consistent with the December 31, 2005 presentation including reclassification of distribution of earnings from joint ventures to cash flows from operating activities.

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

We currently operate in three principal business segments: Home Building, Financial Services and Construction Services. The following charts summarize certain key line items of our results of operations by business segment for the three months ended December 31, 2005 and 2004 (dollars in millions):

Revenues

Earnings (Loss) from Continuing Operations Before Income Taxes

* Other consists of the financial results of our investment real estate and home services operations, as well as corporate general and administrative expense, interest expense and intersegment eliminations.

Revenues for the three months ended December 31, 2005 increased 25.0% to $3.74 billion as compared to the three months ended December 31, 2004. In addition, earnings from continuing op