CENTEX CORP
Form 10-K
May 22, 2007

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

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED MARCH 31, 2007**

**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** | **75-0778259** |
| **(State of incorporation)** | **(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)**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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. (Check one):

Large accelerated filer þ Accelerated filer o Non accelerated filer o

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

On September 30, 2006, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $6.23 billion based upon the last sale price reported for such date on the New York Stock Exchange. As of May 9, 2007, 120,130,388 shares of the registrant s common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain of the information contained in the definitive Proxy Statement for the registrant s Annual Meeting of Stockholders to be held on July 12, 2007 is incorporated by reference into Part III hereof.

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**FORM 10-K**
**March 31, 2007**
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## PART I



## PART II



## PART III



## PART IV

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## PART I

### ITEM 1. BUSINESS

### General Development of Business

Centex Corporation is a Nevada corporation. Our common stock, par value $.25 per share, began trading publicly in 1969. Our common stock is traded on the New York Stock Exchange, or the NYSE. As of May 9, 2007, 120,130,388 shares of our common stock were outstanding. Any reference herein to we, us, our or the Company refers to Centex Corporation and its subsidiary companies or, if the context requires, the particular segment or unit of our business that is being discussed.

Since our founding in 1950 as a Dallas, Texas-based residential construction company, we expanded our business to include a broad range of activities related to construction, construction products and financing, but have more recently refocused our operations on residential construction and related activities, including mortgage financing. As of March 31, 2007, our subsidiary companies operated in two principal lines of business: Home Building and Financial Services. We provide a brief overview of each line of business below, with a more detailed discussion of each line of business later in this section.

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. We have been engaged in homebuilding since 1950.

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 our subsidiaries and others. We have been in the mortgage lending business since 1973.

Over the last several fiscal years, we have simplified our business portfolio. The following table summarizes our principal transactions over the last five fiscal years.

| Business | Date | Description |
|---|---|---|
| Construction Services | March 2007 | We sold our commercial construction operations, which were previously a separate reporting segment. |
| Home Equity | July 2006 | We sold our sub-prime home equity lending operations, which were previously included in the Financial Services segment. |
| International Homebuilding | September 2005 | We sold our international homebuilding operations, which were previously included in the Home Building segment. |
| Commercial Real Estate | February 2004 | We simplified the organizational structure of the Company and its affiliates by acquiring a company whose publicly traded securities had previously traded in tandem with our common stock. Those operations have largely been liquidated. |
| Construction Products | January 2004 | We made a tax-free spin-off to our stockholders of our equity interests in our construction products operations, which were previously a separate reporting segment. |
| Manufactured Homes | June 2003 | We made a tax-free spin-off to our stockholders of substantially all of our manufactured housing operations, which were previously included in our Other segment. |

For all businesses sold or spun off in the table above, the results of operations and financial position of such businesses are reported as discontinued operations for all periods presented. For additional information on our

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discontinued operations, please refer to Note (O), Discontinued Operations of the Notes to Consolidated Financial Statements.

We have refocused our strategy to concentrate on our core homebuilding operations and related activities. Our mortgage lending and title agency services provide Centex homebuyers with a streamlined home-closing and settlement process, which we believe is important to ensuring customer satisfaction in our homebuilding business. The sale of our construction services and sub-prime home equity operations in fiscal year 2007 is consistent with our current strategic focus. The reduction in our portfolio of businesses has also resulted in changes in our internal organization. As a result of the recent changes in our organization, we have determined that our reporting segments have also changed. All prior year segment information has been revised to conform to the current year presentation.

Within our homebuilding operations we have determined that our operating segments are our divisions, which have been aggregated into seven reporting segments. Our homebuilding operations, or Home Building, consist of the following reporting segments: East, Southeast, Central, Texas, Northwest, Southwest and Other homebuilding. For a complete description of the states and markets in each of our homebuilding segments, please refer to the Home Building markets table later in this section.

Our mortgage lending, title agency services and insurance products continue to represent one reporting segment, Financial Services. Our home team service operations are a part of our Other segment.

**Financial Information about Segments**

Note (I), Business Segments, of the Notes to Consolidated Financial Statements contains additional information about our business segments for fiscal years 2007, 2006 and 2005.

**Narrative Description of Business**

**HOME BUILDING**

The business of Home Building consists of purchasing and developing land or lots and constructing and selling detached and attached single-family homes and land or lots. In fiscal year 2007, approximately 80% of the homes closed were single-family, detached homes, which includes homes from our resort and second home and on-your-lot operations.

*Markets*

Home Building follows a strategy of reducing exposure to local market volatility by maintaining operations across geographically and economically diverse markets. As of March 31, 2007, Home Building was building in 79 market areas located in 25 states and the District of Columbia. Each market is listed below within the reporting segment to which it belongs.

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| Segment | States | Markets | States and Markets (continued) | |
|---|---|---|---|---|
| **East** | Georgia | Savannah | North | Wilmington |
| | Maryland | Bethesda/Frederick/Gaithersburg | Carolina (cont) | Winston-Salem |
| | | Washington, D.C./Arlington/Alexandria | South | Charleston/N. Charleston |
| | New Jersey | Edison | Carolina | Myrtle Beach/Conway/ N. Myrtle Beach |
| | | Newark/Union | | |
| | | New York/Wayne/White Plains | Virginia | Richmond |
| | North | Charlotte/Gastonia/Concord | | Virginia Beach/Norfolk/ Newport News |
| | Carolina | Durham | | |
| | | Greensboro/High Point | | Winchester |
| | | Raleigh/Cary | | |
| **Southeast** | Florida | Cape Coral/Ft. Myers | Florida (cont) | Tampa/St. Petersburg/Clearwater |
| | | Ft. Lauderdale/Pompano Beach/ Deerfield Beach | | Vero Beach |
| | | | | West Palm Beach/Boca Raton/Boynton Beach |
| | | Jacksonville | | |
| | | Naples/Marco Island | Georgia | Atlanta/Sandy Springs/Marietta |
| | | Orlando | Tennessee | Nashville/Davidson/ Murfreesboro |
| | | Port St. Lucie/Ft. Pierce | | |
| | | Punta Gorda | | |
| | | Sarasota/Bradenton/Venice | | |
| **Central** | Indiana | Indianapolis | Minnesota | Minneapolis/St. Paul/Bloomington |
| | Illinois | Chicago/Naperville/Joliet | | Rochester |
| | Michigan | Ann Arbor | Missouri | St. Louis |
| | | Detroit/Livonia/Dearborn | Ohio | Akron |
| | | Flint | | Columbus |
| | | Monroe | | Toledo |
| | | Warren/Farmington Hills/Troy | Pennsylvania | Pittsburgh |
| **Texas** | Texas | Austin/Round Rock | Texas (cont) | Houston/Baytown/Sugar Land |
| | | Dallas/Plano/Irving | | Killeen/Temple/Ft. Hood |
| | | Ft. Worth/Arlington | | San Antonio |
| **Northwest** | California | Bakersfield | California | Visalia/Porterville |
| | | Fresno | (cont) | Yuba City |
| | | Hanford/Corcoran | Colorado | Denver/Aurora |
| | | Merced | | Ft. Collins/Loveland |
| | | Modesto | | Greeley |
| | | Oakland/Fremont/Hayward | Hawaii | Honolulu |
| | | Sacramento/Arden/Arcade/Roseville | Nevada | Reno/Sparks |

| | | | | |
|---|---|---|---|---|
| | | San Jose/Sunnyvale/Santa Clara | Oregon | Portland/Vancouver/Beaverton |
| | | Stockton | Washington | Seattle/Bellevue/Everett |
| **Southwest** | Arizona | Phoenix/Mesa | Nevada | Las Vegas/Paradise |
| | California | El Centro | New Mexico | Albuquerque |
| | | Los Angeles/Long Beach/Glendale | | Santa Fe |
| | | Oxnard/Thousand Oaks/Ventura | | |
| | | Riverside/San Bernardino/Ontario | | |
| | | San Diego/Carlsbad/San Marcos | | |
| | | San Luis Obispo/Paso Robles | | |
| | | Santa Ana/Anaheim/Irvine | | |

**Other homebuilding** Other homebuilding includes ancillary businesses (such as framing, carpet and holding companies), and projects that we plan to build out and liquidate in the following states: Florida, New Hampshire, North Carolina 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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In fiscal year 2007, Home Building closed the sale of 35,785 homes, including first-time, move-up and, in some markets, custom homes, generally ranging in price from $76 thousand to $1.8 million. The average revenue per unit in fiscal year 2007 was $307,810.

We believe that our business requires in-depth knowledge of local markets in order to acquire land in desirable locations and on favorable terms, to engage independent contractors, to plan neighborhoods according to local demand, to anticipate consumer preferences in specific markets and to assess the regulatory environment. Our divisional structure is designed to utilize local market expertise.

Our neighborhood development process generally consists of three phases: land acquisition, land development and home construction and sale. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. We acquire land only after we have completed appropriate due diligence and typically after we have obtained the rights or entitlements to begin development. Before we acquire lots or tracts of land, we will, among other things, complete a feasibility study, which includes soil tests, independent environmental studies and other engineering work, and evaluate the status of necessary zoning and other governmental entitlements required to develop and use the property for home construction. Although we purchase and develop land or lots primarily to support our homebuilding activities, we also sell land or lots to other developers and homebuilders.

We control a substantial amount of land, including lots and land to be developed into lots, through option agreements that we can exercise over specified time periods or, in certain cases, as the land or lots are needed. At March 31, 2007, Home Building owned 98,311 lots and had options to purchase 61,709 lots. This is considerably less than the owned 108,828 lots and options of 186,893 at March 31, 2006. In addition, Home Building enters into joint ventures with other builders and developers for land acquisition, development and other activities. For additional discussion of our lot option agreements and participation in joint ventures, see Notes (C), Inventories, and (G), Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

Following the purchase of land and, if necessary, the completion of the entitlement process, we begin marketing homes and constructing model homes. We supervise and direct the development of land (except where we buy developed lots) and the design and building of our residential neighborhoods. Substantially all of our construction work is performed by independent contractors.

We market and sell our homes through commissioned employees and independent real estate brokers. We typically conduct home sales from sales offices located in furnished model homes in each neighborhood. Our sales personnel assist prospective homebuyers by providing them with floor plans, price information, tours of the neighborhood and model homes and assisting them with the selection of options. As market conditions warrant, we may provide potential homebuyers with one or more of a variety of incentives, including discounts and free upgrades, to be competitive in a particular market. In addition to using model homes, in certain markets we build homes in each neighborhood before executing a customer sales contract. These homes enhance our marketing and sales efforts to prospective homebuyers who are relocating to these markets, as well as to independent brokers, who often represent homebuyers requiring a completed home within 60 days.

Our growth strategy for Home Building has been focused primarily on organic growth opportunities through land acquisition and development in existing markets. To a lesser extent, we have also grown the business through the acquisition of other homebuilding companies. In January 2003, we acquired the homebuilding operations of The Jones Company, which builds single-family homes for the first-time and move-up buyer in the St. Louis, Missouri and Indianapolis, Indiana areas. There have been no other acquisitions of home building companies in the last five fiscal years.

Home Building sells its homes under a variety of brand names including several from previous acquisitions. Fox & Jacobs, one of our brand names, primarily markets to first-time buyers. Centex Homes primarily markets its homes to both first-time and move-up buyers. City Homes primarily sells multi-family homes in urban areas. Wayne Homes markets primarily to rural lot owners for construction of a home on their lot, and Centex Destination Properties markets to second home/resort homebuyers.

Beginning in fiscal year 2006, many U.S. housing markets began to experience a significant downturn, which has directly affected our business and results of operations. We expect that our business and results of operations will continue to be affected by the current downturn in U.S. housing markets, at least for the near term. 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 have adjusted

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our operations in response to market conditions by reducing our unsold inventory, generating cash from operations, lowering our costs and reducing our land position. We will continue to adjust our operations to market conditions, and we believe that these actions will position us to capitalize on opportunities when market conditions improve.

The table below summarizes by reporting segment Home Building s units closed, sales orders and backlog units for the five most recent fiscal years.

**Units Closed:**

| | *For the Years Ended March 31,* | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| East | **6,720** | 7,116 | 5,674 | 5,064 | 4,416 |
| Southeast | **5,374** | 6,426 | 4,867 | 4,594 | 4,066 |
| Central | **4,789** | 5,971 | 5,593 | 4,990 | 3,927 |
| Texas | **7,083** | 6,899 | 6,173 | 6,055 | 6,041 |
| Northwest | **4,709** | 4,580 | 3,740 | 3,121 | 2,602 |
| Southwest | **6,209** | 6,786 | 5,614 | 4,981 | 4,136 |
| Other homebuilding | **901** | 1,454 | 1,726 | 1,553 | 1,239 |
| | **35,785** | 39,232 | 33,387 | 30,358 | 26,427 |
| **Average Revenue Per Unit (in 000 s)** | **$ 308** | $ 304 | $ 270 | $ 242 | $ 220 |

**Sales Orders (in Units):**

| | *For the Years Ended March 31,* | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| East | **5,495** | 6,840 | 6,431 | 5,616 | 5,017 |
| Southeast | **3,425** | 5,703 | 6,125 | 5,294 | 4,334 |
| Central | **4,271** | 5,636 | 5,346 | 5,320 | 4,329 |
| Texas | **6,914** | 6,994 | 6,508 | 6,250 | 5,685 |
| Northwest | **4,300** | 4,597 | 4,211 | 3,627 | 3,037 |
| Southwest | **4,539** | 7,196 | 6,137 | 5,694 | 4,755 |
| Other homebuilding | **105** | 1,064 | 1,804 | 1,921 | 1,511 |
| | **29,049** | 38,030 | 36,562 | 33,722 | 28,668 |

**Backlog Units:**

| | *As of March 31,* | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| East | **1,848** | 3,073 | 3,349 | 2,592 | 2,040 |
| Southeast | **1,519** | 3,468 | 4,191 | 2,933 | 2,233 |
| Central | **1,744** | 2,262 | 2,597 | 2,844 | 2,514 |
| Texas | **2,020** | 2,189 | 2,094 | 1,759 | 1,564 |
| Northwest | **1,805** | 2,214 | 2,197 | 1,726 | 1,220 |
| Southwest | **1,503** | 3,173 | 2,763 | 2,240 | 1,527 |
| Other homebuilding | **212** | 1,008 | 1,398 | 1,320 | 952 |
| | **10,651** | 17,387 | 18,589 | 15,414 | 12,050 |

For each unit in backlog, we have received a customer deposit, which is refundable under certain circumstances. The backlog units included in the table above are net of cancellations. Cancellations occur for a variety of reasons including: a customer s inability to obtain financing, customer relocations or other customer financial hardships. Substantially all of the orders in sales backlog as of March 31, 2007 are scheduled to close during fiscal year 2008.

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*Competition and Other Factors*

The homebuilding industry is highly competitive and fragmented. Traditionally, competition in the industry has occurred at a local level among national, regional and local homebuilders. In recent years, national homebuilders have been able to compete more effectively and increase their share of the national homebuilding market. The top 10 builders in calendar year 2006 accounted for approximately 20% of the nation s new housing stock. We believe we currently rank as the fourth largest homebuilder in the United States, based on publicly reported homebuilding revenues for the most recent twelve-month period for which information is available. Home Building s top four competitors based on revenues for their most recent fiscal year-end are as follows (listed alphabetically): D. R. Horton, Inc., KB Home, Lennar Corporation and Pulte Homes, Inc. Our operations accounted for an estimated 3% of new homes sold in the United States for the twelve months ended March 31, 2007. We calculate our market share by dividing our new home sales by the total single family new home sales as reported by the census bureau. The main competitive factors affecting our operations are location/market, sales price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Home Building competes effectively by building a high quality home, maintaining geographic diversity, responding to the specific demands of each market and managing operations at a local level.

We conduct targeted market research to identify what features, amenities and options will be attractive to prospective customers and whether we can satisfy their preferences profitably. Customer preferences can vary across geographical regions and even within them, and can change over time in response to changes in personal taste (such as the interest in some markets for housing with high energy efficiency or for housing located near public transportation) and to changes in economic conditions, like interest rates, which can lead customers to accept smaller or attached housing despite a preference for larger or detached housing. We also use market research techniques to quantify housing supply and demand in a particular market and use this information to guide our strategy for meeting customer demand in the market.

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

The homebuilding industry is subject to extensive regulation. Home Building and its contractors must comply with various federal, state and local laws and regulations, including worker health and safety, zoning and land entitlement, building standards, erosion and storm water pollution control, advertising, consumer credit rules and regulations and the extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, including the protection of endangered species and waters of the United States. We are also subject to other rules and regulations in connection with our construction and sales activities, including requirements as to incorporated building materials and building designs, such as requirements for the use of energy efficient materials or designs. While these regulatory requirements are generally applicable to all regions in which we operate, regulations in coastal markets tend to be more extensive. All of these regulatory requirements are applicable to all homebuilding companies, and, to date, compliance with these requirements has not had a material impact on Home Building. We believe that we are in compliance with these requirements in all material respects.

We purchase materials, services and land from numerous sources. The principal raw materials required for home construction include concrete and wood products. In addition, we use a variety of other building materials, including roofing, gypsum, insulation, plumbing, and electrical components in the homebuilding process. Although raw material prices may fluctuate due to various factors, including demand or supply shortages, we do have a number of fixed-price contracts with contractors and material suppliers, which help limit the effect of commodity price increases on our results of operations during the terms of the relevant contracts. We also attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. A number of our vendor purchase agreements also allow us to leverage our volume through quantity purchase discounts for the purchasing of a number of product categories. We use many contractors in our various markets and are not dependent on any single contractor.

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**FINANCIAL SERVICES**

Our Financial Services operations consist primarily of mortgage lending, title agency services and the sale of title insurance and other insurance products, including property and casualty. These activities include mortgage origination and other related services for purchasers of homes sold by our homebuilding operations and others.

We established the predecessor of CTX Mortgage Company, LLC and its related companies to provide mortgage financing for homes built by Home Building. By opening mortgage offices in Home Building s housing markets, we have been able to provide mortgage financing for an average of 75% of Home Building s non-cash unit sales over the past five years and for 80% of such closings in fiscal year 2007. In 1985, we expanded our mortgage operations to include the origination of mortgage loans that are not associated with the sale of homes built by Home Building. Our strategy is to originate loans for sale, rather than for investment. We refer to mortgage financing for homes built by Home Building as Builder loans and to mortgage financing for homes built by others, loans for existing homes and loans to refinance of existing mortgages as Retail loans.

At March 31, 2007, Financial Services originated loans through its loan officers in 186 offices licensed in 47 states and the District of Columbia. The offices vary in size depending on loan volume.

The following table shows the unit breakdown of Builder and Retail loans for the five years ended March 31, 2007:

| | *For the Years Ended March 31,* | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| **Loan Types (originations):** | | | | | |
| Builder | **27,141** | 27,364 | 22,517 | 20,865 | 18,127 |
| Retail *(1)* | **30,638** | 43,319 | 44,816 | 67,481 | 66,807 |
| | **57,779** | 70,683 | 67,333 | 88,346 | 84,934 |
| **Origination Volume (in millions)** | **$ 13,826.0** | $ 15,827.4 | $ 13,039.0 | $ 15,116.0 | $ 13,991.2 |
| **Percent of Home Building s Closings Financed** *(2)* | **80%** | 75% | 73% | 74% | 73% |

*(1) Over the last five fiscal years, the reduction in retail loan originations is primarily attributable to decreases in refinancing activity and homebuyer demand, and our strategic decision to reduce the number of retail loan officers.*

*(2)*

*Excludes non-financed cash-only closings.*

We provide mortgage origination and other mortgage-related services for Federal Housing Administration (FHA) loans, Department of Veterans Affairs (VA) loans and conventional loans on homes that Home Building or others build and sell, as well as existing homes and refinancing of existing mortgages. Our loans are generally first-lien mortgages secured by the family residence. A significant portion of the loans qualify for inclusion in programs sponsored by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), or the Federal Home Loan Mortgage Corporation (FHLMC). These loans are known in the industry as conforming loans. The remainder of the loans are either pre-approved and individually underwritten by us or by private investors who subsequently purchase the loans, or are funded by private investors who pay a broker fee to us for broker services rendered.

Financial Services principal source of income is the sale of mortgage loans, together with all related servicing rights, interest income and other fees. For substantially all mortgage loans originated, we sell our right to service the mortgage loans and retain no residual interests.

We also participate in joint-venture agreements with third-party homebuilders and other real estate professionals to provide mortgage originations for their customers. As we own majority interests in these joint ventures, they are fully consolidated in our financial statements. At March 31, 2007, Financial Services had 12 of these agreements, operating in 12 offices licensed in nine states.

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, or HSF-I, pursuant to a mortgage loan purchase agreement, as amended, that we refer to as the HSF-I Purchase Agreement. HSF-I is a special purpose entity for which we are the primary beneficiary and, beginning July 1, 2003, was consolidated with our Financial Services segment pursuant to the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 46

Consolidation of Variable Interest Entities,   as revised, which we refer to as FIN 46. 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. 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. HSF-I s debt and subordinated certificates do not have recourse to us, and the consolidation of this debt and subordinated certificates has not changed our debt ratings.

CTX Mortgage Company, LLC also originates construction loans for which it enters into an agreement to finance a specified amount for the construction of a home. As construction of the home progresses, the customer draws on the committed amount. We anticipate that these construction loans will be converted into mortgage loans held for sale once the total commitment has been funded.

We offer title agent, title underwriting, closing and other settlement services in 22 states under the Commerce Title name, including Commerce Title Company, Commerce Title Agency and Commerce Title Insurance Company. Through Westwood Insurance, including Centex Insurance Agency, a multi-line property and casualty insurance agency, we market homeowners and auto insurance to Home Building and Financial Services customers and customers of 15 other homebuilders in 44 states. Westwood Insurance also provides coverage for some commercial customers.

*Competition and Other Factors*

The financial services industry in the United States is highly competitive. Financial Services competes with commercial banks, other mortgage lending companies and other financial institutions to supply mortgage financing at attractive rates to Home Building s customers, as well as to the general public. Key competitive factors among industry participants are varied and include convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Any increase in competition may lower the rates we can charge borrowers, thereby potentially reducing gain on future loan sales. Our title and insurance operations compete with other providers of title and insurance products to sell their products to purchasers of our homes, as well as to the general public. Many of these competitors have greater resources than we do.

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

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

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## EMPLOYEES

The following table presents a breakdown of our employees as of March 31, 2007:

| Line of Business | Employees |
|---|---|
| Home Building | 6,668 |
| Financial Services | 2,787 |
| Other | 1,963 |
| Total | 11,418 |

The 1,963 Other employees include 1,499 employees of our home services operations, which provides home pest control services, and corporate employees.

## NYSE AND SEC CERTIFICATIONS

We submitted our 2006 Annual CEO Certification to the New York Stock Exchange on July 26, 2006. The certification was not qualified in any respect. Additionally, we filed with the Securities and Exchange Commission, or SEC, as exhibits to our Form 10-K for the year ended March 31, 2006, the CEO and CFO certifications required under Section 302 of the Sarbanes-Oxley Act.

## AVAILABLE INFORMATION

Anyone seeking information about our business operations and financial performance can receive copies of the 2007 Annual Report to Stockholders, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other documents filed with the SEC in Washington, D.C., without charge, by contacting our Investor Relations office at (214) 981-5000; by writing to Centex Corporation, Investor Relations, P.O. Box 199000, Dallas, Texas 75219 or via email at ir@centex.com. In addition, all filings with the SEC, news releases and quarterly earnings announcements, including live audio and replays of recent quarterly earnings web casts, can be accessed free of charge on our web site (http://www.centex.com). We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, or Exchange Act, available on our web site as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. To retrieve any of this information, go to http://www.centex.com, select Investors and select SEC Filings. Our web site also includes our Corporate Governance Guidelines, The Centex Way (our Code of Business Conduct and Ethics) and the charters for the Audit Committee, the Corporate Governance and Nominating Committee and the Compensation and Management Development Committee of our Board of Directors. Each of these documents is also available in print to any stockholder who requests a copy by addressing a request to Centex Corporation, attention: Corporate Secretary, 2728 N. Harwood, Dallas, Texas 75201. The reference to our web site is merely intended to suggest where additional information may be obtained by investors, and the materials and other information presented on our web site are not incorporated in and should not otherwise be considered part of this Report.

## ITEM 1A. RISK FACTORS

The foregoing discussion of our business and operations should be read together with the risk factors set forth below. They describe various risks and uncertainties to which we are or may become subject, many of which are outside of our control. These risks and uncertainties, together with other factors described elsewhere in this Report, have affected, or may in the future affect, our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

## HOME BUILDING

***The homebuilding industry is undergoing a significant downturn; further deterioration in industry conditions generally or in the markets where we operate could decrease demand and pricing for new homes and have a material adverse effect on our results of operations.***

The residential homebuilding industry is sensitive to changes in regional and national economic conditions such as job growth, housing demand, housing supply, availability of financing for homebuyers, interest rates and

consumer confidence. At the present time, the U.S. homebuilding industry is undergoing a significant downturn. We believe this market downturn is primarily attributable to a decline in consumer confidence leading to an overall reduced demand for new homes and resulting in an excess supply of homes available for sale. We believe the reduction in demand is in turn due to decreased affordability of homes in certain of our markets, as well as the concerns of prospective homebuyers about the stability of home prices and their ability to sell their existing homes. In addition, in many cases, speculative buyers have withdrawn from the market and are no longer helping to fuel demand. Conditions in the U.S. housing markets had a material adverse effect on our business and results of operations during fiscal year 2007. For example, we experienced significant declines in closings, sales orders and backlog during fiscal year 2007. We also experienced significant declines in revenues and profit margins in fiscal year 2007, and our homebuilding operations generated losses from operations in the last two quarters of the fiscal year. We expect that the industry conditions described above are likely to continue to have a material adverse effect on our business and results of operations, at least in the near term.

Any further adverse changes in any of these conditions on a national level, or in the markets where we operate, could continue to decrease demand and pricing for our homes or cause customers who have entered into purchase contracts for our homes to fail to perform their obligations, which could adversely affect the number of home closings we make or reduce the prices we can charge for homes. Any further adverse changes in these conditions could also result in a decreased value for the land, housing inventory and housing work-in-progress that we own. Any further adverse changes, if they occur, are likely to have a material adverse effect on our business, revenues or earnings.

***The market value of land may fluctuate significantly, which can result in significant decreases in the value of our developed and undeveloped land holdings.***

The risk of owning developed and undeveloped land can be substantial for homebuilders. The market value of undeveloped land, buildable lots and housing inventories can fluctuate significantly as a result of changing economic and market conditions, such as the adverse conditions we are currently experiencing. During the year ended March 31, 2007, we also determined it was probable we would not pursue development and construction in certain areas where we had made land option deposits, which resulted in significant write-offs of land option deposits and pre-acquisition costs. In addition, during the year ended March 31, 2007, we recorded land valuation adjustments, or impairments, to land under development primarily due to challenging market conditions and, to a lesser extent, cost overruns in land development budgets. These write-offs and impairments adversely affected our operating earnings and operating margins during the year ended March 31, 2007. If market conditions deteriorate further in future periods, we may decide not to pursue development and construction in additional areas, and the value of existing land holdings may continue to decline, which would lead to further write-offs of option deposits and pre-acquisition costs and further land impairments.

***Continued cancellations of existing sales contracts may have a material adverse effect on our business.***

Our backlog reflects the number and value of homes for which we have entered into a sales contract with a customer but have not yet closed the home. We have received a customer deposit for each home reflected in our backlog, and generally we have the right to compel the customer to complete the purchase. In many cases, however, a customer may cancel the contract and receive a complete or partial refund of the deposit for reasons such as his or her inability to obtain mortgage financing or to sell his or her current home. Customers may also decide to run the risk of failing to perform under the contract without legal justification. If the current industry downturn continues, or if mortgage financing becomes less available, more homebuyers may cancel their contracts with us. Significant cancellations have had, and could have in the future, a material adverse effect on our business and results of operations.

***Increases in interest rates could make it more difficult or costly for customers to purchase our homes.***

Most of our homebuilding customers finance their home purchases through our Financial Services operations or, in some cases, third-party lenders. In general, housing demand is adversely affected by increases in interest rates or by decreases in the availability of mortgage financing as a result of increased credit standards, deteriorating customer credit quality or other factors. Interest rates have been at relatively low levels for several years. Any future increases in interest rates could cause potential homebuyers to be less willing or able to purchase our homes. In general, if mortgage rates increase, it could become more difficult or costly for customers to purchase our homes, which would have an adverse effect on our results of operations.

***Competition for homebuyers could reduce our closings or decrease our profitability.***

The homebuilding industry is highly competitive. We compete in each of our markets with many national, regional and local homebuilders. In recent years, national homebuilders have been able to compete more effectively and increase their share of the national homebuilding market. Increasing levels of competition from other national homebuilders or from regional and local homebuilders in the markets in which we operate could reduce the number of homes we deliver, or cause us to accept reduced margins in order to maintain sales volume.

We also compete with resales of existing or foreclosed homes, homes offered by investors and housing speculators and available rental housing. Increased competitive conditions in the residential resale or rental market in the markets where we operate could decrease demand for new homes, cause us to increase our sales incentives or price discounts in order to maintain sales volumes, increase the volatility of the market for new homes or lead to cancellations of sales contracts in backlog, any of which could adversely affect our operating results.

***The lag between when we acquire land and when we sell homes in our neighborhoods can make our operations susceptible to the effects of rapid changes in market conditions.***

There is often a significant lag time between when we acquire land for development and when we sell homes in neighborhoods we have planned, developed and constructed. The market value of home inventories, undeveloped land and developed home sites can fluctuate significantly during this time period because of changing market conditions. If the market value of home inventories or other property decline during this period, we may need to sell homes or other property at a loss or at prices that generate lower margins than we anticipated when we acquired the land. In certain situations, to the extent projected sales prices do not exceed the carrying value of the related assets, or if other market conditions deteriorate, we may be required to record an impairment of our land or home inventories. In addition, inventory carrying costs for land can be significant and can result in reduced margins or losses in a poorly performing project or market.

***We may not be able to acquire land suitable for residential homebuilding at reasonable prices, which could limit our ability to expand our homebuilding operations and increase our costs.***

Our ability to expand our homebuilding operations depends upon our ability to acquire land suitable for residential building at reasonable prices and in locations where we want to build. Over the past decade, we have experienced an increase in competition for suitable land as a result of land constraints in certain of our markets. As competition for suitable land increases, and as available land is developed, the availability of suitable land at acceptable prices may decline. Any land shortages or any decrease in the supply of suitable land at reasonable prices in certain specific markets could limit our ability to develop new neighborhoods or result in increased land acquisition costs. There can be no assurance that, if we experience increased land acquisition costs, we will be able to pass these costs through to our customers, which could adversely impact our revenues, earnings and margins.

***Government entities have adopted or may adopt slow or no growth initiatives, which could adversely affect our operations.***

Some municipalities in markets where we operate have approved, and others may approve, slow growth or no growth homebuilding regulations or laws that could negatively impact the availability of land and building opportunities within those localities. Approval of these initiatives could adversely affect our ability to build and sell homes in the affected markets or could require that we satisfy additional administrative and regulatory requirements, which could slow the progress or increase the costs of our homebuilding operations in these markets. Any such delays or costs could have an adverse effect on our revenues and earnings.

***Natural disasters and adverse weather conditions could delay closings or increase costs to build new homes in affected areas.***

The occurrence of natural disasters or adverse weather conditions in the markets in which we operate can delay new home closings, increase costs by damaging inventories of homes and construction materials, reduce the availability of raw materials and skilled labor, and negatively impact the demand for new homes in affected areas. In addition, when natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires affect an area in which we build, or one nearby, there can be a diversion of labor and materials in the area from new home construction to the rebuilding of the existing homes damaged or destroyed in the natural disaster. This can cause delays in construction and closing of new homes and/or increase our construction costs. Furthermore, if our insurance does not fully cover

business interruptions or losses resulting from these events, our earnings, liquidity or capital resources could be adversely affected.

***Supply or labor shortages and other risks related to the demand for building materials and skilled labor could delay closings and affect our results of operations.***

Our ability to conduct and expand our homebuilding operations is dependent on continued access to building materials and skilled labor. Shortages of building materials or skilled labor could delay closings of our homes, which could adversely affect our revenues and earnings. In addition, increased costs or shortages of building materials such as concrete, wood, roofing materials, gypsum, insulation and plumbing and electrical components could cause increases in construction costs and construction delays. Labor disputes or increased costs or shortages of skilled labor, such as carpenters, plumbers and electricians, could also cause increases in costs and delays. We estimate and forecast construction costs as part of our business, and attempt to plan for possible cost increases due to changes in the cost or availability of materials and labor. However, generally we are unable to pass on unanticipated increases in construction costs to those customers who have already entered into sales contracts, as those sales contracts generally fix the price of the home at the time the contract is signed, which may be well in advance of the construction of the home. In general, significant unexpected increases in costs of materials or labor may adversely affect our results of operations.

***Compliance with regulatory requirements affecting our business could have substantial costs both in time and money, and some regulations could prohibit or restrict some homebuilding activity.***

We are subject to extensive and complex laws and regulations that affect the land development and homebuilding process, including laws and regulations related to zoning, permitted land uses, levels of density, building design, warranties, storm water pollution prevention and use of open spaces. In addition, we are subject to a variety of laws and regulations concerning safety and the protection of health and the environment. The particular environmental laws that apply to any given neighborhood vary greatly according to the neighborhood site, the site s environmental conditions and the present and former uses of the site. In some of the markets where we operate, we are required to pay environmental impact fees, use energy-saving construction materials, such as extra insulation or double-paned windows, and make commitments to municipalities to provide certain infrastructure such as roads and sewage systems. We and the contractors that we engage to work on our jobsites are also subject to laws and regulations related to workers health and safety, wage and hour practices and immigration. We generally are required to obtain permits and approvals from local authorities to commence and complete residential development or home construction. Such permits and approvals may from time to time be opposed or challenged by local governments, neighboring property owners or other interested parties, adding delays, costs and risks of non-approval to the process. Our obligation to comply with the laws and regulations under which we operate, or the obligation of our independent contractors to comply with these and other laws and regulations, could result in delays in land development and homebuilding activity, cause us to incur substantial costs and prohibit or restrict land development and construction.

It is possible that increasingly stringent requirements will be imposed on developers and homebuilders in the future. Although we cannot predict with any certainty either the nature of the requirements or the effect on our business, they could result in time-consuming and expensive compliance programs and in substantial expenditures, which could cause delays and increase our cost of operations. The additional costs associated with new regulatory requirements or compliance programs may not be recoverable from our homebuyers in the form of higher sales prices, reducing our profitability.

***We may incur increased costs related to repairing construction defects in the homes we sell.***

Our Home Building operations are subject to warranty and other claims related to construction defects and other construction-related issues, including compliance with building codes. The costs we incur to resolve those warranty and other claims reduce our profitability, and if we were to experience an unusually high level of claims, or unusually severe claims, our profitability could be adversely affected.

***An inability to obtain bonding could limit the number of projects we are able to pursue.***

As is customary in the home building industry, we often are required to provide surety bonds to secure our performance under construction contracts, development agreements and other arrangements. Our ability to obtain surety bonds primarily depends upon our credit rating, capitalization, working capital, past performance, management expertise and certain external factors, including the overall capacity of the surety market. Surety companies consider such factors in relationship to the amount of our backlog and their underwriting standards, which may change from

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time to time. Since 2001, the surety industry has undergone significant changes with several companies withdrawing completely from the industry or significantly reducing their bonding commitment. In addition, certain reinsurers of surety risk have limited their participation in this market. Therefore, we could be unable to obtain surety bonds, when required, which could adversely affect our future results of operations and revenues.

**FINANCIAL SERVICES**

***General business, economic and market conditions may significantly affect the earnings of our Financial Services operations.***

Our Financial Services operations are sensitive to general business and economic conditions in the United States. These conditions include short-term and long-term interest rates, inflation, fluctuations in both debt and equity capital markets, and the strength of the U.S. economy, as well as the local economies in which we conduct business. If any of these conditions worsen, our Financial Services business could be adversely affected. Also, because Financial Services focuses on providing services to customers who are considering the purchase of a home from Home Building or third parties, reduced home sales will likely also impact Financial Services business in the form of reduced home loans, title services and insurance services.

In addition, our Financial Services business is significantly affected by the fiscal and monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the United States. The Federal Reserve Board s policies influence the size of the mortgage origination market. The Federal Reserve Board s policies also influence the yield on our interest-earning assets and the cost of our interest-bearing liabilities. Changes in those policies are beyond our control and difficult to predict and can have a material effect on the results of operations of our Financial Services segment.

***The mortgage financing industry is highly competitive.***

Our Financial Services business operates in a highly competitive industry that could become even more competitive as a result of economic, legislative, regulatory and technological changes. Competition for mortgage loans comes primarily from large commercial banks, mortgage companies and savings and other financial institutions. We face competition in such areas as mortgage product offerings, rates and fees, and customer service. In addition, technological advances such as developments in e-commerce activities have increased consumers accessibility to products and services generally. This has intensified competition among banking as well as nonbanking companies in offering mortgage loans and similar financial products and services.

***Changes in lending laws could hurt our Financial Services operations.***

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

***The volatility of our Financial Services operations due to refinancing activity could negatively impact operations.***

A decline in mortgage rates generally increases the demand for home loans as borrowers refinance. An increase in mortgage rates generally results in a decrease in the demand for home loans and a corresponding decrease in the level of refinancing activity. If mortgage rates increase, they could negatively affect our volume of refinanced home loans and our results of operations.

**FACTORS AFFECTING MULTIPLE BUSINESS SEGMENTS**

***Market conditions in the sub-prime lending industry have worsened significantly, which could cause lenders to tighten qualifications for mortgages and reduce the availability of credit for some purchasers of our homes and reduce the population of potential mortgage customers.***

In spring 2007, the mortgage markets experienced increased default levels at a number of lenders holding sub-prime mortgages as a result of the downturn in the housing market and other conditions. In light of these developments, lenders, investors, regulators and other third parties have questioned the adequacy of loan documentation and credit requirements for the loan programs these borrowers accessed. This event created a broader mortgage market disruption that will likely delay any general improvement in of the housing market. Among other things, perceived deterioration in credit quality among sub-prime borrowers has caused lenders to tighten their underwriting requirements for sub-prime and other mortgage loans in order to mitigate their credit risks. Tighter loan qualifications in turn make it more difficult for some categories of borrowers to finance the purchase of our homes. These developments caused, and may continue to cause, a reduction in the number of available mortgage loan programs and an increase in foreclosed homes in the market. These developments may also cause a more long-term increase in credit quality requirements, including higher down payment requirements that may reduce mortgage loan demand or home demand, which could have a material adverse effect on our business or results of operations.

***Our income tax provision and other tax reserves may be insufficient if any taxing authorities are successful in asserting tax positions that are contrary to our position.***

Significant judgment is required to determine our provision for income taxes and for our reserves for federal, state, local and other taxes. In the ordinary course of our business, there may be matters for which the ultimate tax outcome is uncertain. Although we believe our approach to determining the appropriate tax treatment is reasonable, no assurance can be given that the final tax authority review will not be materially different than that which is reflected in our income tax provision and other tax reserves. Such differences could have a material adverse effect on our income tax provision or benefits, or other tax reserves, in the period in which such determination is made and, consequently, on our net income for such period.

From time to time, we are audited by various federal, state and local authorities regarding tax matters. We fully cooperate with all audits. Our audits are in various stages of completion; however, no outcome for a particular audit can be determined with certainty prior to the conclusion of the audit, appeal and, in some cases, litigation process. As each audit is concluded, adjustments, if any, are appropriately recorded in our financial statements in the period determined. To provide for potential tax exposures, we maintain reserves for tax contingencies based on reasonable estimates of our potential exposure with respect to the tax liabilities that may result from such audits. However, if the reserves are insufficient upon completion of any audit process, there could be an adverse impact on our financial position and results of operations.

***New federal laws that adversely affect liquidity in the secondary mortgage market could hurt our business.***

The Government-sponsored enterprises, principally FNMA and FHLMC, play a significant role in buying home mortgages and packaging them into investment securities that they either sell to investors or hold in their portfolios. Recent federal laws and proposed legislation could have the effect of curtailing the activities of FNMA and FHLMC. These organizations provide liquidity to the secondary mortgage market. Any restriction or curtailment of their activities could affect the ability of our customers to obtain mortgage loans or increase mortgage interest rates, which could reduce demand for our homes and/or the loans that we originate and adversely affect our results of operations.

***We could be adversely affected by a change in our credit rating or a disruption in the capital markets.***

Our ability to continue to grow our business and operations in a profitable manner depends to a significant extent upon our ability to access capital on favorable terms. At the present time, our access to capital is enhanced by the fact that our senior debt securities have an investment-grade credit rating from each of the principal credit rating agencies. If we were to lose our investment-grade credit rating for any reason, it may become more difficult and costly for us to access the capital that is required in order to implement our business plans and achieve our growth objectives.

In addition, a long-term or serious disruption in the capital markets could make it more difficult or more expensive for us to raise capital for use in our business, for our customers to obtain home loans or for us to sell loans originated by our Financial Services segment. Further, a reduction of the positive spread between the rate at which we can borrow and the rate at which we can lend could hurt our ability to profit from our loan origination businesses.

***Reductions in tax benefits could make home ownership more expensive or less attractive.***

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual s federal, and in some cases state, income taxes, subject to various limitations under current tax law and policy. If the federal government or a state government changes income tax laws to eliminate or substantially modify these income tax deductions, the after-tax costs of owning a new home would increase for the typical homeowner. If such tax law changes were enacted without other offsetting provisions or

effects, they could adversely impact the demand for, and/or sales prices of, new homes, mortgage loans and home equity loans, and our operations might be negatively affected.

## FORWARD-LOOKING STATEMENTS

***This report includes various forward-looking statements, which are not facts or guarantees of future performance and which are subject to significant risks and uncertainties.***

Certain information included in this Report or in other materials we have filed or will file with the SEC, as well as information included in oral statements or other written statements made or to be made by us, contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995, as amended. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words believe, expect, intend, estimate, anticipate, project, may, can, could, might, will and similar expressions identify fo statements, including statements related to expected operating and performing results, planned transactions, planned objectives of management, future developments or conditions in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future. Such statements include information related to anticipated operating results, financial resources, changes in interest rates, changes in revenues, changes in profitability, interest expense, growth and expansion, anticipated income to be realized by our investment in unconsolidated entities, the ability to acquire land, the ability to gain approvals and to open new neighborhoods, the ability to sell homes and properties, the ability to deliver homes from backlog, the ability to secure materials and contractors, the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities in the future, the completion of and effects from planned transactions and stock market valuations. From time to time, forward-looking statements also are included in our other periodic reports on Forms 10-K, 10-Q and 8-K, press releases and presentations, on our web site and in other material released to the public.

Forward-looking statements are not historical facts or guarantees of future performance but instead represent only our beliefs at the time the statements were made regarding future events, which are subject to significant risks, uncertainties, and other factors, many of which are outside of the Company s control and certain of which are listed above. Any or all of the forward-looking statements included in this Report and in any other reports or public statements made by us may turn out to be materially inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many of the risks and uncertainties mentioned in this Report or another report or public statement made by us, such as those discussed in these risk factors, will be important in determining whether these forward-looking statements prove to be accurate. Consequently, neither our stockholders nor any other person should place undue reliance on our forward-looking statements and should recognize that actual results may differ materially from those that may be anticipated by us.

All forward-looking statements made in this Report are made as of the date hereof, and the risk that actual results will differ materially from expectations expressed in this Report will increase with the passage of time. We undertake no obligation, and disclaim any duty, to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changes in our expectations or otherwise. However, we may make further disclosures regarding future events, trends and uncertainties in our subsequent reports on Forms 10-K, 10-Q and 8-K to the extent required under the Exchange Act. The above cautionary discussion of risks, uncertainties and possible inaccurate assumptions relevant to our business include factors we believe could cause our actual results to differ materially from expected and historical results. Other factors beyond those listed above, including factors unknown to us and factors known to us which we have not determined to be material, could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995 and all of our forward-looking statements are expressly qualified in their entirety by the cautionary statements contained or referenced in this section.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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## ITEM 2. PROPERTIES

In addition to land held as inventory in connection with our residential construction activities, we own the following properties:

Home Building owns property in Phoenix, Arizona; Albemarle, North Carolina; Plant City, Florida; Hesperia, California and Prosper, Texas. These properties consist of office and warehouse space used to support our business. Home Building also owns smaller parcels of land in rural areas of Ohio, Pennsylvania and Florida. Situated on this land are sales offices for its Wayne Homes on-your-lot market segment.

In addition to land we own and use in our operations, we lease office space under operating leases in the markets in which we operate throughout the United States. For additional information on our operating leases, see Note (G), Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

See Item 1. Business for additional information relating to the Company s properties including land owned or controlled by our Home Building segment.

## ITEM 3. LEGAL PROCEEDINGS

In the normal course of our business, we and/or our subsidiaries are named as defendants in suits filed in various state and federal courts. We believe that none of the litigation matters in which we, or any of our subsidiaries, are involved would have a material adverse effect on our consolidated financial condition or operations.

In January 2003, we received a request for information from the United States Environmental Protection Agency, the 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, which we refer to as the Justice Department, acting on behalf of the 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 Centex to pay civil penalties and sign a consent decree affecting Centex s storm water pollution prevention practices at construction sites.

We previously reported the filing of a purported class action in August 2006 against the administrative committee of our profit sharing plan, Centex and certain of our current and former directors and officers in federal court in Dallas, Texas. The plaintiffs alleged breaches of fiduciary duty and violations of the Employee Retirement Income Security Act of 1974 in connection with investments by the profit sharing plan in shares of our common stock. In May 2007, the case was settled and dismissed, without any material amount being paid by us.

We do not believe that the above matters will have a material impact on our consolidated results of operations or financial position.

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

None.

## ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The following is an alphabetical listing of our executive officers as of May 11, 2007, as such term is defined under the rules and regulations of the SEC. Officers are generally elected by the Board of Directors at its meeting immediately following our annual stockholders meeting, with each officer serving at the pleasure of the Board of Directors until a successor has been elected and qualified. There is no family relationship among any of these officers.

| Name | Age | Positions with Centex or Business Experience |
|---|---|---|
| David L. Barclay | 54 | President, Western Region, of Centex Real Estate Corporation (since April 2007); Co-President and Co-Chief Operating Officer (West Operating Region) of Centex Real Estate Corporation from March 2006 to April 2007; Executive Vice President West Coast Region of Centex Real Estate Corporation from May 2002 to March 2006; President Northern California Division of Centex Real Estate Corporation from June 1996 to May 2002 |
| Joseph A. Bosch | 49 | Senior Vice President Human Resources since July 2006; Senior Vice President Human Resources at Tenet Healthcare Corporation from August 2004 to June 2006; Chief People Officer at Pizza Hut, a unit of YUM! Brands, Inc. from June 1997 to July 2004 |
| Timothy R. Eller | 58 | Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of Centex Corporation (Chairman of the Board and Chief Executive Officer since April 2004; President and Chief Operating Officer since April 2002); Executive Vice President of Centex Corporation from August 1998 to April 2002; Chairman of the Board of Centex Real Estate Corporation from April 1998 to April 2003, and since April 2006; Chief Executive Officer of Centex Real Estate Corporation from July 1991 to April 2002, and since April 2006; President and Chief Operating Officer of Centex Real Estate Corporation from January 1990 to May 1996 |
| Mark D. Kemp | 45 | Senior Vice President and Controller of Centex Corporation since September 2004; interim Chief Financial Officer from June 2006 to October 2006; Vice President and Controller of Centex Corporation from December 2002 to September 2004; Partner and employee at Arthur Andersen LLP from December 1983 to August 2002 |
| Catherine R. Smith | 43 | Executive Vice President and Chief Financial Officer of Centex Corporation since October 2006; Executive Vice President and Chief Financial Officer of Kennametal, Inc. from April 2005 to October 2006; Executive Vice President and Chief Financial Officer of Bell Systems, a business segment of Textron, Inc., from October 2003 to April 2005; various financial positions including Vice President and Chief Financial Officer of the Intelligence and Information Systems business segment of Raytheon Company from August 1986 to September 2003 |
| Robert S. Stewart | 53 | Senior Vice President Strategy and Corporate Development of Centex Corporation since April 2005; Senior Vice President Strategic Planning and Marketing from May 2000 to March 2005; Employee at the Weyerhaeuser Company from March 1977 to May 2000, during which time he held a range of key management positions, including positions in strategic planning |

| | | |
|---|---|---|
| Brian J. Woram | 46 | Senior Vice President, Chief Legal Officer, General Counsel and Assistant Secretary of Centex Corporation (Secretary from December 2004 to March 2005); Senior Vice President, General Counsel and Assistant Secretary of Centex Real Estate Corporation from September 1998 to December 2004 |

## PART II

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

### Stock Prices and Dividends

| | ***Year Ended March 31, 2007*** | | | *Year Ended March 31, 2006* | | |
|---|---|---|---|---|---|---|
| | **Price** | | | Price | | |
| | **High** | **Low** | **Dividends** | High | Low | Dividends |
| **Quarter** | | | | | | |
| First | **$64.62** | **$44.13** | **$.04** | $73.11 | $55.10 | $.04 |
| Second | **$55.70** | **$42.90** | **$.04** | $79.66 | $61.58 | $.04 |
| Third | **$58.42** | **$48.34** | **$.04** | $76.44 | $58.13 | $.04 |
| Fourth | **$56.45** | **$40.41** | **$.04** | $79.40 | $61.40 | $.04 |

*The principal market for our common stock is the New York Stock Exchange (ticker symbol CTX). The approximate number of record holders of our common stock at May 9, 2007 was 2,996.*

*The remaining information called for by this item relating to securities authorized for issuance under equity compensation plans is reported in Note (K), Capital Stock and Employee Benefit Plans, of the Notes to Consolidated Financial Statements.*

### Share Repurchases

We periodically repurchase shares of our common stock pursuant to publicly announced share repurchase programs. The following table details our common stock repurchases for the three months ended March 31, 2007:

| | Issuer Purchases of Equity Securities | | | |
|---|---|---|---|---|
| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plan | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
| **Period** | | | | |
| January 1-31 | | $ | | 9,399,700 |
| February 1-28 | | $ | | 9,399,700 |
| March 1-31 | 10,311 | $ 41.78 | | 9,399,700 |
| Total (1) | 10,311 | $ 41.78 | | |

*(1) The 10,311 shares repurchased for the quarter ended March 31, 2007 represent the delivery to the Company by employees or*

*directors of previously issued shares to satisfy the exercise price of options and/or withholding taxes that arise on the exercise of options or the vesting of restricted stock. These transactions are authorized under the terms of the equity plans under which the options or other equity were awarded; however, these transactions are not considered repurchases pursuant to the Company s share repurchase program.*

On May 11, 2006, the Company s Board of Directors authorized the repurchase of 12 million shares. Purchases are made in the open market or in block purchases, and such transactions may be effected from time to time or pursuant to share repurchase plans under SEC Rule 10b5-1. The share repurchase authorization has no stated expiration date, and the Board of Directors has authorized all shares repurchased.

**Performance Graph**

The following graph compares the yearly change in the cumulative total stockholder return on Centex common stock during the five fiscal years ended March 31, 2007 with the S&P 500 Index and the S&P Home Building Index.

The comparison assumes $100 was invested on March 31, 2002 in Centex common stock and in each of the foregoing indices, and assumes reinvestment of dividends in the form of cash or property. This graph is not intended to forecast the future performance of our common stock and may not be indicative of such future performance.

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On January 30, 2004, Centex spun-off shares of common stock and Class B common stock of Eagle Materials Inc. f/k/a Centex Construction Products, Inc., which we refer to as Construction Products, to its stockholders. For each share of Centex common stock owned, stockholders received 0.044322 shares of Construction Products common stock and 0.149019 shares of Construction Products Class B common stock. On June 30, 2003, Centex spun-off its stock in Cavco Industries, Inc. to its stockholders. For each share of Centex common stock owned, stockholders received 0.05 shares of Cavco. On the respective distribution dates, this number of shares had a public market value of $4.32, $8.13 and $0.97, respectively. For purposes of the following graph, it is assumed that each share of Construction Products and Cavco received in the distribution was immediately sold for its market value and the proceeds reinvested in additional shares of Centex common stock. The value of Centex common stock at March 31, 2007 therefore includes the value of the spin-off shares but not the separate performance of those securities since the respective dates of the spin-offs.

Centex Corporation

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Centex Corporation | $100 | $105 | $223 | $237 | $257 | $174 |
| S&P500 Index | $100 | $ 75 | $102 | $108 | $121 | $136 |
| S&P HB Index | $100 | $105 | $224 | $281 | $309 | $212 |

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## ITEM 6. SELECTED FINANCIAL DATA

**Summary of Selected Financial Data (Unaudited)** *(1)*

**(Dollars in thousands, except per share data)**

| | *For the Years Ended March 31,* | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| Revenues | **$ 12,014,567** | $ 12,851,864 | $ 9,934,282 | $ 8,159,819 | $ 6,509,763 |
| Earnings (Loss) from Continuing Operations (2) | **$ (11,780)** | $ 1,207,089 | $ 885,808 | $ 693,871 | $ 462,296 |
| Net Earnings | **$ 268,366** | $ 1,289,313 | $ 1,011,364 | $ 827,686 | $ 555,919 |
| Stockholders Equity | **$ 5,112,269** | $ 5,011,658 | $ 4,280,757 | $ 3,050,225 | $ 2,657,846 |
| Net Earnings as a Percentage of Average Stockholders Equity | **5.3%** | 27.8% | 27.6% | 29.0% | 23.3% |
| Total Assets | **$ 13,205,759** | $ 21,364,999 | $ 20,011,079 | $ 16,077,260 | $ 11,639,707 |
| Deferred Income Tax Assets | **$ 489,814** | $ 237,021 | $ 187,427 | $ 103,920 | $ 124,151 |
| Total Long-term Debt, Consolidated | **$ 3,962,618** | $ 3,915,027 | $ 3,160,047 | $ 2,456,749 | $ 2,024,953 |
| Debt (with Financial Services reflected on the equity method) (3) | **$ 3,904,425** | $ 3,982,193 | $ 3,107,917 | $ 2,317,749 | $ 2,024,953 |
| Financial Services Debt | **1,663,040** | 2,077,215 | 1,695,855 | 1,676,718 | 204,147 |
| Total Debt, Consolidated | **$ 5,567,465** | $ 6,059,408 | $ 4,803,772 | $ 3,994,467 | $ 2,229,100 |
| Capitalization (with Financial Services reflected on the equity method and excluding lot option minority interest) (3) (4) | **$ 9,039,760** | $ 9,031,515 | $ 7,429,058 | $ 5,369,255 | $ 4,683,107 |
| Financial Services Capitalization (4) | **1,825,467** | 2,742,764 | 2,314,465 | 2,194,533 | 585,554 |
| Lot Option Minority Interest (4) | **152,936** | 492,096 | 415,413 | 332,668 | |
| Consolidating Eliminations | **(161,492)** | (664,376) | (617,248) | (516,280) | (379,671) |
| Total Capitalization, Consolidated | **$ 10,856,671** | $ 11,601,999 | $ 9,541,688 | $ 7,380,176 | $ 4,888,990 |
| Debt as a Percentage of Capitalization (4) With | **43.2%** | 44.1% | 41.8% | 43.2% | 43.2% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial Services reflected on the equity method and excluding lot option minority interest (3) | | | | | | | | | | |
| Consolidated | | **51.3%** | | 52.2% | | 50.3% | | 54.1% | | 45.6% |
| Per Common Share | | | | | | | | | | |
| Earnings (Loss) from Continuing Operations Per Share Basic (2) | **$** | **(0.10)** | $ | 9.51 | $ | 7.08 | $ | 5.63 | $ | 3.80 |
| Earnings (Loss) from Continuing Operations Per Share Diluted (2) | **$** | **(0.10)** | $ | 9.09 | $ | 6.69 | $ | 5.36 | $ | 3.67 |
| Net Earnings Per Share Basic | **$** | **2.23** | $ | 10.16 | $ | 8.08 | $ | 6.71 | $ | 4.57 |
| Net Earnings Per Share Diluted | **$** | **2.23** | $ | 9.71 | $ | 7.64 | $ | 6.40 | $ | 4.41 |
| Cash Dividends | **$** | **0.16** | $ | 0.16 | $ | 0.16 | $ | 0.10 | $ | 0.08 |
| Book Value Based on Shares Outstanding at Year End | **$** | **42.61** | $ | 41.04 | $ | 33.51 | $ | 24.87 | $ | 21.84 |
| Average Shares Outstanding | | | | | | | | | | |
| Basic | | **120,537,235** | | 126,870,887 | | 125,226,596 | | 123,382,068 | | 121,564,084 |
| Diluted | | **120,537,235** | | 132,749,797 | | 132,397,961 | | 129,392,821 | | 126,116,312 |
| Stock Prices | | | | | | | | | | |
| High | **$** | **64.62** | $ | 79.66 | $ | 66.14 | $ | 58.40 | $ | 29.60 |
| Low | **$** | **40.41** | $ | 55.10 | $ | 39.94 | $ | 26.78 | $ | 19.16 |

*(1) The selected financial data presented in this table, excluding stock prices for the periods covered by the financial statements included in this Report and all prior periods, have been derived from our audited financial statements and adjusted to reflect Construction Services (sold in March 2007),*

*Home Equity (sold in July 2006), International Homebuilding (sold in September 2005), Construction Products (spun off in January 2004) and Manufactured Homes (spun off in June 2003) as discontinued operations.*

*(2) Earnings (Loss) from Continuing Operations are Before Cumulative Effect of a Change in Accounting Principle adopted in fiscal year 2004 associated with the initial consolidation of HSF-I pursuant to the provisions of FIN 46.*

*(3) Represents a supplemental presentation that reflects the Financial Services segment as if accounted for under the equity method. We believe that separate disclosure of the consolidating information is useful because the Financial Services subsidiaries and*

*related companies operate in a distinctly different financial environment that generally requires significantly less equity to support their higher debt levels compared to the operations of our other subsidiaries; the Financial Services subsidiaries and related companies have structured their financing programs substantially on a stand alone basis; and we have limited obligations with respect to the indebtedness of our Financial Services subsidiaries and related companies. Management uses this information in its financial and strategic planning. We also use this presentation to allow investors to compare us to homebuilders that do not have financial services operations.*

*(4) Capitalization is composed of Debt, Minority Interest and Stockholders*

*Equity. In the calculation of Capitalization, minority interest in fiscal years 2007, 2006, 2005 and 2004 excludes $152.9 million, $492.1 million, $415.4 million and $332.7 million, respectively, of minority interests recorded in connection with the consolidation of certain entities with which Home Building has lot option agreements. This supplemental presentation is used by management in its financial and strategic planning and allows investors to compare us to other homebuilders, which may not have similar arrangements.*

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## ITEM 7. 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 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**

Fiscal year 2007 was a very challenging year. Our results of operations for the year ended March 31, 2007 were materially affected by continued deteriorating market conditions impacting our homebuilding operations. In recent months, the mortgage markets have also deteriorated due to elevated levels of defaults on sub-prime mortgages held by some lenders. This created a broader mortgage market disruption and a general tightening of mortgage underwriting guidelines that has impacted our homebuilding and mortgage lending operations. A summary of our results of operations is as follows:

| | *For the Years Ended March 31,* | | |
|---|---|---|---|
| | **2007** | 2006 | 2005 |
| Revenues | **$ 12,014,567** | $ 12,851,864 | $ 9,934,282 |
| Earnings (Loss) from Continuing Operations | **$ (11,780)** | $ 1,207,089 | $ 885,808 |
| Earnings from Discontinued Operations | **280,146** | 82,224 | 125,556 |
| Net Earnings | **$ 268,366** | $ 1,289,313 | $ 1,011,364 |

Revenues for the year ended March 31, 2007 decreased 6.5% to $12.0 billion as compared to the year ended March 31, 2006. Earnings (loss) from continuing operations for the year ended March 31, 2007 decreased to a loss of $11.8 million. The decrease in our revenues and the loss from continuing operations during the year ended March 31, 2007 are primarily attributable to deteriorating market conditions affecting our homebuilding operations.

Beginning in fiscal year 2006, many U.S. housing markets began to experience a significant downturn, which has directly affected 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 as to whether now is the best time to buy a home. 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. The decrease in affordability of housing in selected markets reflects significant price appreciation in those markets over the past several years.

These deteriorating market conditions materially impacted our operating results as compared to the prior year and are primarily attributable to the following adverse developments in our homebuilding operations:

- a $857.4 million decrease in homebuilding revenues, net of discounts,
- a $324.8 million increase in write-offs of land deposits and pre-acquisition costs,
- $323.9 million in impairments to land under development, and

$124.5 million in our share of joint ventures impairments and our decision to exit one joint venture .

In addition, customer cancellations in our homebuilding operations continue to be significantly higher than historic levels, which have resulted in declines in sales orders (net of cancellations) of our homes in a majority of markets. For the years ended March 31, 2007 and 2006, cancellation rates were 35.5% and 25.2%, respectively. Our homebuilding operations have also 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. As a percentage of revenues, closing and financing costs have increased from 1.6% to 3.0% and sales commissions have increased from 3.7% to 4.2%. In addition, customer discounts increased to 7.1% of housing revenues for the year ended March 31, 2007, up from 2.6% for fiscal year 2006.

Financial Services operating results for the year ended March 31, 2007 were relatively unchanged as compared to the prior year. Several factors contributed to Financial Services ability to balance the negative impact of the unfavorable market conditions discussed above:

- an increase in the percentage of mortgage loans provided to Home Building s customers from 75% to 80%,
- while the total number of originated mortgage loans decreased, primarily as a result of a decrease in Retail mortgage loans originated, the average originated mortgage loan size increased,
- average income per loan from the sale of mortgage servicing rights increased, and
- selling, general and administrative expenses were reduced.

These positive trends were offset by decreases in interest margin and title policy income. Recent changes in the mortgage market that have reduced the availability of certain loan programs designed for higher risk borrowers did not have a significant impact on Financial Services operating results for the year ended March 31, 2007. However, this shift in the mortgage market has and will continue to reduce the population of potential mortgage customers. In addition, the decline in homebuyer demand as discussed above could 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 current downturn in U.S. housing markets, at least for the near term. Further deterioration in market conditions 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 have adjusted our operations in response to market conditions by reducing our unsold inventory, generating cash from operations, lowering our costs and reducing our land position. Our unsold inventory has decreased from 5,823 units as of March 31, 2006 to 4,909 units as of March 31, 2007. Our cost reduction initiatives include pursuing a reduction in costs from our suppliers and contractors.

During the year ended March 31, 2007, we generated approximately $950 million in cash flows from operating activities and increased our unrestricted cash position as of March 31, 2007 to approximately $880 million. As further discussed below, in fiscal 2007, we disposed of Centex Construction Group, Inc., which we refer to as Construction Services, and Centex Home Equity Company, LLC, which we refer to as Home Equity, consistent with our strategy to focus on our core homebuilding operations and related activities.

On March 30, 2007, we sold Construction Services to an unrelated third party 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. Prior to the sale of Construction Services, cash generated by the operations of Construction Services was frequently used to finance the operations of our other businesses. After the sale of Construction Services, we no longer have access to this source of internal financing.

On July 11, 2006, we sold Home Equity to an unrelated third party and received $518.5 million in cash, net of related expenses and as adjusted for the settlement of post-closing adjustments, which includes the repayment of certain intercompany amounts. The purchase price consisted of a payment based on the book value of the company, plus a premium calculated in accordance with agreed upon formulas and procedures.

For additional information regarding the sales of Construction Services and Home Equity, refer to Note (O), Discontinued Operations, of the Notes to Consolidated Financial Statements.

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**FISCAL YEAR 2007 COMPARED TO FISCAL YEAR 2006**
**HOME BUILDING**

The reduction in our portfolio of businesses has resulted in changes in our internal organization. As a result of the recent changes in our organization, we have determined that our reporting segments have also changed. All prior year segment information has been revised to conform to the current year presentation.

Within our homebuilding operations, we have determined that our operating segments are our divisions, which have been aggregated into seven reporting segments. Home Building consists of the following reporting segments: East, Southeast, Central, Texas, Northwest, Southwest and Other homebuilding.

In connection with the change in our reporting segments at March 31, 2007, we have reclassified certain general and administrative expenses from Home Building to our Other reporting segment to be consistent with the structure of our internal organization. Prior period amounts have been reclassified to conform to the current year presentation.

The following summarizes the results of our Home Building operations for the two-year period ended March 31, 2007 (dollars in thousands except per unit data and lot information):

| | *For the Years Ended March 31,* | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | | **Change** | | Change |
| Revenues Housing | **$ 11,014,975** | **(7.6%)** | $ 11,920,634 | 32.3% |
| Revenues Land Sales and Other | **399,852** | **13.7%** | 351,569 | (0.3%) |
| Cost of Sales Housing | **(8,599,465)** | **1.7%** | (8,458,995) | 30.4% |
| Cost of Sales Land Sales and Other | **(1,044,455)** | **251.7%** | (296,938) | 13.6% |
| Selling, General and Administrative Expenses | **(1,523,001)** | **0.4%** | (1,517,439) | 33.7% |
| Earnings (Loss) from Unconsolidated Entities and Other *(1)* | **(42,553)** | **(149.5%)** | 85,998 | 25.0% |
| Operating Earnings *(2)* | **$ 205,353** | **(90.2%)** | $ 2,084,829 | 34.9% |
| Operating Earnings as a Percentage of Revenues: | | | | |
| Housing Operations *(3)* | **8.1%** | **(8.2)** | 16.3% | 0.9 |
| Total Homebuilding Operations | **1.8%** | **(15.2)** | 17.0% | 0.5 |

*(1) Earnings (Loss) from Unconsolidated Entities and Other includes our share of joint ventures impairments and our decision to exit one joint venture.*

*(2) Operating earnings represent Home Building s*

*earnings exclusive of certain corporate general and administrative expenses.*

(3) *Operating earnings from housing operations is a non-GAAP financial measure, which we believe is useful to investors for the reasons described in our previous reports filed with the SEC, including our Current Report on Form 8-K filed on January 23, 2007. 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 tables above.*

| | *For the Years Ended March 31,* | | | |
|---|---|---|---|---|
| | **2007** | **Change** | 2006 | Change |