CENTEX CORP
Form 10-Q
August 05, 2009

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

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

or

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

Commission File Number: 1-6776

CENTEX CORPORATION
(Exact name of registrant as specified in its charter)

Nevada	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)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the close of business on July 22, 2009: 125,319,612 shares of common stock, par value $ .25 per share.

Centex Corporation and Subsidiaries

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June 30, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	For the Three Months Ended June 30, 2009	2008
Revenues		
Home Building:		
Housing	$ 544,584	$ 1,032,191
Land Sales and Other	6,518	17,508
	551,102	1,049,699
Financial Services	22,871	76,423
	573,973	1,126,122
Cost of Revenues		
Home Building:		
Housing	480,584	909,320
Land Sales and Other	222,255	88,262
	702,839	997,582
Financial Services	2,095	4,725
	704,934	1,002,307
Selling, General and Administrative Expenses	155,114	290,485
Loss from Unconsolidated Entities	15,267	20,297
Interest Expense	26,355	6,180
Interest and Other Income	5,478	10,400
Loss from Continuing Operations Before Income Taxes	(322,219)	(182,747)
Income Tax Benefit	407,334	13,635
Earnings (Loss) from Continuing Operations	85,115	(169,112)
Earnings from Discontinued Operations, net of Tax Provision of $0 and $20,231	–	19,013
Net Earnings (Loss)	$ 85,115	$ (150,099)
Basic and Diluted Earnings (Loss) Per Share		
Continuing Operations	$ 0.68	$ (1.36)
Discontinued Operations	–	0.15
	$ 0.68	$ (1.21)
Average Shares Outstanding		

Basic		123,724,483		124,231,358
Dilutive Securities:				
Other		68,528		–
Diluted		123,793,011		124,231,358
Cash Dividends Per Share	$	–	$	0.04

See Notes to Consolidated Financial Statements.

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

	June 30, 2009	March 31, 2009
Assets		
Cash and Cash Equivalents	$1,443,365	$1,364,556
Restricted Cash	454,834	403,992
Receivables -		
Mortgage Loans, net	187,360	214,179
Taxes, Trade and Other, including Notes of $18,955 and $20,045	143,239	375,762
Inventories -		
Direct Construction	882,914	898,129
Land Under Development	1,567,335	1,792,349
Land Held for Development and Sale	438,527	470,561
Land Held Under Option Agreements Not Owned	99,294	107,614
Other	19,385	21,134
Investments in Joint Ventures	127,839	136,504
Property and Equipment, net	21,076	24,813
Other Assets -		
Deferred Income Taxes, net	37,587	–
Goodwill	9,933	9,933
Deferred Charges and Other, net	92,842	98,588
	$5,525,530	$5,918,114
Liabilities and Stockholders' Equity		
Accounts Payable	$113,089	$96,749
Accrued Liabilities	1,197,463	1,618,775
Senior Notes and Other Debt	3,106,122	3,104,872
Financial Services Mortgage Warehouse Facilities	49,038	119,052
Commitments and Contingencies		
Stockholders' Equity -		
Preferred Stock, Authorized 5,000,000 Shares, None Issued	–	–
Common Stock, $.25 Par Value; Authorized 300,000,000 Shares; Outstanding 125,319,612 and 124,437,033 Shares	32,149	31,940
Capital in Excess of Par Value	87,935	87,341
Noncontrolling Interests	53,462	60,852
Retained Earnings	1,052,108	966,993
Treasury Stock, at Cost; 3,276,380 and 3,323,454 Shares	(165,836)	(168,460)
Total Stockholders' Equity	1,059,818	978,666
	$5,525,530	$5,918,114

See Notes to Consolidated Financial Statements.

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

	For the Three Months Ended June 30, 2009	2008
Cash Flows – Operating Activities		
Net Earnings (Loss)	$ 85,115	$ (150,099)
Adjustments		
Depreciation and Amortization	5,167	11,586
Stock-based Compensation	4,068	6,587
Provision for Losses on Mortgage Loans	(2,379)	646
Impairments and Write-off of Assets	201,811	60,216
Deferred Income Tax (Benefit) Provision	(37,587)	36,419
Reduction in Liability for Uncertain Tax Positions	(370,794)	–
Loss of Joint Ventures	15,267	20,297
Distributions of Earnings of Joint Ventures	400	8,151
Gain (Loss) on Sale of Assets	154	(39,244)
Changes in Assets and Liabilities, Excluding Effect of Dispositions		
(Increase) Decrease in Restricted Cash	(3,713)	1,279
Decrease in Taxes, Trade, Notes and Other Receivables	222,503	606,204
Decrease (Increase) in Mortgage Loans Held for Sale	17,347	(69,078)
Decrease in Direct Construction, Land Under Development and Land Held for Development and Sale	68,567	255,817
Decrease in Other Inventories	10,593	10,834
Decrease in Accounts Payable and Accrued Liabilities	(25,009)	(209,893)
Decrease in Other Assets, net	3,722	3,500
Other	260	(431)
	195,492	552,791
Cash Flows – Investing Activities		
Payments received on (Issuance of) Notes Receivable	998	(1,350)
Decrease in Construction Loans	3,007	16,403
Investment in and Advances to Joint Ventures	(4,659)	(40,528)
Distributions of Capital from Joint Ventures	118	396
Purchases of Property and Equipment, net	(275)	(1,352)
Proceeds from Dispositions	74	136,923
	(737)	110,492
Cash Flows – Financing Activities		
Increase in Restricted Cash	(47,129)	–
Net Issuance (Repayment) of Senior Notes and Other Debt	1,201	(71,732)
Net (Repayment) Issuance of Financial Services Mortgage Warehouse Facilities	(70,014)	63,387
Proceeds from Stock Option Exercises	–	(1,569)
Excess Tax Benefit from Stock-Based Awards	–	126
Purchases of Common Stock, net	(4)	(8)

Dividends Paid		–			(4,942	)
		(115,946	)		(14,738	)
Net Increase in Cash and Cash Equivalents		78,809			648,545	
Cash and Cash Equivalents at Beginning of Period (1)		1,364,556			586,838	
Cash and Cash Equivalents at End of Period	$	1,443,365		$	1,235,383	

See Notes to Consolidated Financial Statements.

(1) Amount includes cash and cash equivalents of discontinued operations of $0 as of March 31, 2009 and $28 as of March 31, 2008.

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Centex Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2009
(Unless otherwise indicated, dollars and shares in thousands, except per share data)
(unaudited)

(A) SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Merger Transaction

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

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

On April 7, 2009, the Company and Pulte Homes, Inc. ("Pulte") entered into a definitive merger agreement pursuant to which the Company will merge with a wholly-owned subsidiary of Pulte, and survive the merger as a wholly-owned subsidiary of Pulte. Under the terms of the agreement, the Company's stockholders will receive 0.975 shares of Pulte common stock for each share of the Company's common stock they own. Upon closing of the transaction, Pulte stockholders will own approximately 68% of the combined company, and the Company's stockholders will own approximately 32%. Although the exchange ratio is fixed, and is not subject to adjustment prior to the date the merger is consummated, the value of the Pulte shares to be received by the Company's stockholders will fluctuate with the market price of Pulte common stock until the merger is consummated. The transaction is subject to approval by Pulte and the Company's stockholders. Pulte and the Company have scheduled their respective special meetings of stockholders for August 18, 2009 and, if stockholder approvals are obtained and other customary closing conditions are satisfied, expect to consummate the merger promptly thereafter.

Except for the matters disclosed in Note (M), "Subsequent Events," the Company has determined that there were no subsequent events to recognize in these consolidated financial statements. The Company has evaluated subsequent events through the time of filing this Form 10-Q on August 4, 2009.

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Interest Expense

Interest expense relating to the Financial Services segment is included in Financial Services cost of revenues. Home Building capitalizes interest incurred as a component of land under development's inventory cost. Capitalized interest is included in Home Building cost of revenues as related housing inventories are sold or otherwise charged to cost of revenues. Due to the reduction in homebuilding inventories, the Company's debt level exceeded its inventory subject to capitalization during the three months ended June 30, 2009 and 2008. As a result, a portion of the interest incurred during the three months ended June 30, 2009 and 2008 was charged directly to interest expense.

	For the Three Months Ended June 30,	
	2009	2008
Total Interest Incurred	$ 55,167	$ 61,752
Less - Interest Capitalized	(27,059)	(51,269)
Financial Services Interest Expense	(1,753)	(4,303)
Interest Expense, net	$ 26,355	$ 6,180
Capitalized Interest Charged to Home Building Cost of Revenues	$ 37,106	$ 25,535

Income Taxes

The Company accounts for income taxes on the deferral method whereby deferred tax assets and liabilities are provided for the tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In accordance with the provisions set forth by the Financial Accounting Standards Board ("FASB") under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" ("SFAS 109"), the Company assesses, on a quarterly basis, the realizability of its deferred tax assets. A valuation allowance must be established when, based upon the evaluation of all available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. For additional information regarding the Company's valuation allowance, please refer to Note (J), "Income Taxes."

In accordance with the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), the Company recognizes in its financial statements the impact of tax return positions or future tax positions if it is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). Tax positions that meet the more likely than not threshold are measured (using a probability weighted approach) at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

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

with regard to individual tax positions. Changes in recognition and measurement estimates are recognized in the period in which the changes occur.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision. The Company's liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of accrued liabilities. For additional information regarding the Company's liability for unrecognized tax benefits, please refer to Note (J), "Income Taxes."

Earnings Per Share

Basic earnings (loss) per share are computed by dividing income (loss) available to common shareholders (the "numerator") by the weighted-average number of shares of common stock, par value $.25 per share, outstanding, including vested shares of restricted stock and vested restricted stock units (the "denominator") for the period. Diluted earnings (loss) per share are computed based upon the basic weighted-average number of shares plus the dilutive

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impact of the stock options, unvested shares of restricted stock and unvested restricted stock units. Stock options, unvested shares of restricted stock and unvested restricted stock units are not considered in the diluted earnings (loss) per share calculation when the Company has a loss from continuing operations.

Effective April 1, 2009, the Company adopted FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). The Company's unvested restricted stock contains nonforfeitable rights to dividends and, therefore, under FSP EITF 03-6-1, is a participating security that is included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 was retrospectively applied, but it did not have an impact on the per share amounts previously disclosed for the three months ended June 30, 2008. The following table presents the calculation of earnings per share of common stock for the three months ended June 30, 2009:

Net Earnings	$	85,115
Earnings attributable to Unvested Restricted Stock		(871)
Net Earnings available to Common Stockholders	$	84,244
Basic and Diluted Earnings Per Share	$	0.68
Average Shares Outstanding		
Basic		123,724,483
Diluted		123,793,011

Stock-Based Employee Compensation Arrangements

The Company accounts for its stock-based compensation arrangements in accordance with the provisions of SFAS No. 123(R), "Share-Based Payment" ("SFAS 123R"). The following information represents the Company's grants of stock-based compensation to employees and directors during the three months ended June 30, 2009 and the year ended March 31, 2009:

Period of Grant	Grant Type	Number of Shares Granted		Fair Value of Grant
For the year ended March 31, 2009	Stock Options	1,827.0	$	14,072.9
	Restricted Stock Units	375.2	$	8,265.7
	Restricted Stock	663.0	$	9,699.8
For the three months ended June 30, 2009	Restricted Stock Units	278.5	$	2,612.2
	Restricted Stock	835.5	$	7,837.0

The Company recognizes compensation expense of a stock-based award over the vesting period based on the fair value of the award on the grant date, net of estimated forfeitures. The fair value of stock units and restricted stock are based on the fair market value of the Company's stock on the date of grant, while the fair value of stock options granted is calculated under the Black-Scholes option-pricing model. If the merger with Pulte is consummated, the restricted stock units awarded during the quarter ended June 30, 2009 will be forfeited in their entirety with no additional payments to the holders.

In addition to the stock-based awards in the above table, the Company issued to officers and employees during the first quarter of fiscal years 2009 and 2008 long-term performance awards that vest after three years. These awards will be settled in cash and adjusted based on the Company's performance relative to its peers in total stockholder return (fiscal year 2009 awards) and in earnings per share growth and return on equity (fiscal year 2008 awards), as well as changes in the Company's stock price between the date of grant and the end of the performance period. The Company's fiscal year 2008 awards are valued using management's estimate of future earnings per share growth, return on equity and changes in stock price. The Company's fiscal year 2009 awards are valued using a lattice model. The awards granted in fiscal year 2008 had an initial aggregate value of $18.9 million and have been adjusted to an aggregate value of $1.4 million as of June 30, 2009. The awards granted in fiscal year 2009 had an initial aggregate value of $28.3 million and have been adjusted to an aggregate value of $4.36 million as of June 30, 2009. In accordance with the provisions of SFAS 123(R), these awards are accounted for as liability awards for which compensation expense will be recognized over the vesting period with a corresponding increase in accrued liabilities.

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If the merger with Pulte is consummated, these awards would be paid out at target level (not the performance adjusted level) based on the Company's stock price the day before the merger.

Statements of Consolidated Cash Flows – Supplemental Disclosures

In accordance with the provisions of SFAS No. 95, "Statement of Cash Flows," the Statements of Consolidated Cash Flows have not been restated for discontinued operations. For further information on the Company's discontinued operations, see Note (L), "Discontinued Operations."

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

	For the Three Months Ended June 30,	
	2009	2008
Cash Paid for Interest (1)	$ 59,794	$ 59,293
Net Cash Refund for Taxes	$ (203,415)	$ (625,105)

(1) Amounts include capitalized interest.

As explained in Note (D), "Inventories," pursuant to the provisions of FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," as revised ("FIN 46"), as of June 30, 2009 and March 31, 2009, the Company consolidated $56.4 million and $64.2 million, respectively, of land as inventory under the caption "land held under option agreements not owned." The Company also recorded $19.4 million as of June 30, 2009 and March 31, 2009 of lot option agreements as financing arrangements pursuant to the provisions of SFAS No. 49, "Accounting for Product Financing Arrangements" ("SFAS 49").

In addition to the items noted above, transfers of mortgage loans between loan categories have been treated as non-cash items.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("SFAS 160"). Under the provisions of SFAS 160, a noncontrolling interest in a subsidiary, or minority interest, must be classified as equity and the amount of consolidated net income specifically attributable to the minority interest must be clearly identified in the statement of consolidated earnings. SFAS 160 also requires consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling interest retained in a deconsolidation. The Company adopted SFAS 160 as of April 1, 2009, and the retrospective presentation and disclosure requirements outlined by SFAS 160 have been incorporated into this report. The adoption of SFAS 160 did not have a material impact on the Company's consolidated financial statements.

In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS No. 157, "Fair Value Measurements" ("SFAS 157") for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. On April 1, 2009, the Company adopted SFAS No. 157 for these assets and liabilities. The adoption of the Statement did not have a material impact on the Company's consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, which clarifies that unvested share-based awards with a right to receive nonforfeitable dividends are participating securities for purposes of applying the two-class method of computing earnings per share. This FSP was effective for the Company on April 1, 2009 and requires retrospective application. The application did not have a material impact on the Company's reported earnings per share.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." The FSP amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," and Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting," to require disclosures about the fair value of financial instruments during interim reporting periods. The FSP is effective for interim and annual periods ending after June 15, 2009, which is June 30, 2009 for the Company. The Company has included the required disclosures into this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009. The adoption of the FSP did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 166"). SFAS 166 eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale,

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clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. SFAS No. 166 is applicable for annual periods beginning after November 15, 2009 and interim periods therein and thereafter. The Company is currently assessing the impact, if any, of SFAS 166 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"). SFAS 167 eliminates Interpretation 46(R)'s exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary of a variable interest entity, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. Earlier application is prohibited. The first such reporting period for the Company will be the fiscal year beginning April 1, 2010. The Company is currently assessing the impact, if any, of SFAS 167 on its consolidated financial statements.

In June 2009, the FASB approved the "FASB Accounting Standards Codification" ("Codification") as the single source of authoritative nongovernmental U.S. GAAP launched on July 1, 2009. The Codification does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered nonauthoritative. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification is effective for the Company during the interim period ending September 30, 2009 and will not have an impact on the Company's financial condition or results of operations. The Company is currently evaluating the impact to its financial reporting process of providing Codification references in its public filings.

Reclassifications

Certain prior year balances have been reclassified to be consistent with the June 30, 2009 presentation.

(B) STOCKHOLDERS' EQUITY

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

	Common Stock		Capital in Excess of Par	Noncontrolling	Retained	Treasury Stock,	
	Shares	Amount	Value	Interests	Earnings	at Cost	Total
Balance, March 31, 2009	124,437	$ 31,940	$ 87,341	$ 60,852	$ 966,993	$ (168,460)	$ 978,666
Issuance of Restricted Stock and Restricted Stock Units	884	209	(3,474)	–	–	2,628	(637)
Stock Compensation	–	–	4,068	–	–	–	4,068
Purchase of Common Stock for Treasury	(1)	–	–	–	–	(4)	(4)
Changes in Agreements	–	–	–	(7,390)	–	–	(7,390)
Net Earnings	–	–	–	–	85,115	–	85,115

Balance, June 30, 2009	125,320	$ 32,149	$ 87,935	$ 53,462	$ 1,052,108	$ (165,836)	$ 1,059,818

Noncontrolling interests are primarily related to land option agreements consolidated under FIN 46. During the quarter ended June 30, 2009, the Company deconsolidated $4.9 million of noncontrolling interests related to the write-off of $0.4 million of option deposits included in Home Building Land Sales and Other Cost of Revenues in the accompanying Statements of Consolidated Operations.

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(C) MORTGAGE LOANS RECEIVABLE

Mortgage loans receivable consists of mortgage loans held for sale and other mortgage loans, net of their related allowances. Mortgage loans held for sale represent mortgage loans originated by Financial Services, which will be sold to third parties. Other mortgage loans include performing and nonperforming construction loans and other nonperforming mortgage loans. Mortgage loans receivable consists of the following:

	As of June 30, 2009			March 31, 2009		
	Gross	Allowance	Net	Gross	Allowance	Net
Mortgage Loans Held for Sale	$ 141,518	$ (775)	$ 140,743	$ 153,416	$ (837)	$ 152,579
Other Mortgage Loans	104,023	(57,406)	46,617	148,683	(87,083)	61,600
Mortgage Loans Receivable	$ 245,541	$ (58,181)	$ 187,360	$ 302,099	$ (87,920)	$ 214,179

Changes in the allowance for losses on mortgage loans receivable for the three months ended June 30, 2009 and the year ended March 31, 2009 were as follows:

	June 30, 2009	March 31, 2009 (1)
Balance at Beginning of Period	$ 87,920	$ 155,696
Provision for Losses	(2,379)	1,723
Charge-offs/Recoveries	(27,360)	(69,499)
Balance at End of Period	$ 58,181	$ 87,920

(1) For the three months ended June 30, 2008, provision for losses and charge-offs/recoveries were $646 and $(14,383), respectively.

During the year ended March 31, 2008, Financial Services ceased originating new construction loans; however, it intends to fulfill its existing funding commitments. As of June 30, 2009, Financial Services is committed, under existing construction loan agreements, to fund up to an additional $0.3 million.

The Company has established a liability for anticipated losses associated with mortgage loans originated and sold. Please refer to Note (G), "Commitments and Contingencies," for information on this reserve at June 30, 2009 and March 31, 2009.

(D) INVENTORIES

For the three months ended June 30, 2009 and 2008, the Company recorded $200.6 million and $50.1 million, respectively, in land-related impairments, which is included in land sales and other cost of revenues in the accompanying Statements of Consolidated Operations. For the three months ended June 30, 2009 and 2008, the Company recorded $2.2 million and $2.1 million, respectively, in real estate owned impairments.

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Land Held for Development and Sale and Land Held Under Option Agreements Not Owned

The Company enters into land option purchase agreements. Under the option agreements, the Company pays a stated deposit or posts a letter of credit in consideration for the right to purchase land at a future time, usually at predetermined prices. These options generally do not contain performance requirements from the Company nor do they obligate the Company to purchase the land, and expire on various dates. A summary of the Company's land option agreements is provided below:

	As of	
	June 30, 2009	March 31, 2009
Number of Land Option Agreements	61	55
Total Cash Deposits in Inventory	$ 26,774	$ 25,684
Letters of Credit	747	747
Total Invested through Deposits or Secured with Letters of Credit	$ 27,521	$ 26,431
Total Purchase Price of Land Option Agreements	$ 445,729	$ 476,974

A summary of the Company's land held for development and sale and land held under option agreements not owned is provided below:

	As of June 30, 2009		As of March 31, 2009	
	Land Held for Development and Sale	Land Held Under Option Agreements Not Owned	Land Held for Development and Sale	Land Held Under Option Agreements Not Owned
Cash Deposits	$ 8,137	$ 18,637	$ 6,397	$ 19,287
Pre-acquisition Development Costs	1,541	4,830	1,687	4,700
Remaining Purchase Price of Land Options Recorded Pursuant to:				
FIN 46 (1)	–	56,448	–	64,231
SFAS 49 (2)	–	19,379	–	19,396
Owned Land Held for Development and Sale (3)	428,849	–	462,477	–
	$ 438,527	$ 99,294	$ 470,561	$ 107,614

(1) In accordance with the provisions of FIN 46, the Company is the primary beneficiary of certain option agreements to purchase land. Land consolidated under FIN 46 is recorded with a corresponding increase to noncontrolling interests. At June 30, 2009, eight land option agreements were consolidated pursuant to FIN 46.

(2) As of June 30, 2009, the Company recorded two land option agreements as financing arrangements pursuant to the provisions of SFAS 49. The remaining obligation under such financing arrangements is recorded in accrued liabilities.

(3) Amount includes owned land, including development costs, that is not currently anticipated to be developed for more than two years and land that the Company intends to sell within one year.

The Company writes off deposits and pre-acquisition costs when it determines that it is probable the property will not be acquired. Write-offs of land deposits and pre-acquisition costs were $1.3 million and $10.1 million for the three months ended June 30, 2009 and 2008, respectively.

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(E) GOODWILL

A summary of goodwill by segment is presented below:

	As of June 30, 2009	March 31, 2009
Home Building		
Central	$ 4,569	$ 4,569
Total Home Building	4,569	4,569
Financial Services	5,364	5,364
Total	$ 9,933	$ 9,933

Goodwill represents the excess of purchase price over net assets of businesses acquired. Goodwill is tested for impairment at the reporting unit level on an annual basis (January 1) or when management determines that due to certain circumstances the carrying amount of goodwill may not be recoverable.

(F) INDEBTEDNESS

A summary of the Company's debt, net of unamortized discounts as applicable, is presented below:

	As of June 30, 2009	March 31, 2009
Senior Notes (unsecured):		
Senior Notes due September 2009 at 5.8%	$ 210,920	$ 210,920
Senior Notes due November 2010 at 4.55%	300,000	300,000
Senior Notes due February 2011 at 7.875%	392,495	392,495
Senior Notes due January 2012 at 7.5%	324,422	324,373
Senior Notes due August 2012 at 5.45%	295,000	295,000
Senior Notes due October 2013 at 5.125%	300,000	300,000
Senior Notes due May 2014 at 5.7%	350,000	350,000
Senior Notes due June 2015 at 5.25%	450,000	450,000
Senior Notes due May 2016 at 6.5%	480,000	480,000
Land Acquisition Notes and Other due through May 2017 (1)	3,285	2,084
Total Senior Notes and Other	3,106,122	3,104,872
Financial Services Mortgage Warehouse Facilities (secured) (2)	49,038	119,052
Total Debt	$ 3,155,160	$ 3,223,924

(1) Weighted-average interest rates of 5.48% and 7.01% at June 30, 2009 and March 31, 2009, respectively.

(2) Weighted-average interest rates of 2.79% and 2.72% at June 30, 2009 and March 31, 2009, respectively.

The weighted-average interest rates, including amortization of related issuance costs, for the Company's debt during the three months ended June 30, 2009 and 2008 were:

	For the Three Months Ended June 30,	
	2009	2008
Centex:		
Senior Notes	6.05%	6.01%
Land Acquisition Notes and Other	5.47%	7.97%
Financial Services:		
Mortgage Warehouse Facilities	6.43%	4.81%

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Maturities of the Company's senior notes and other are as follows:

	For the Fiscal Years Ending March 31,	
2010	$	211,012
2011		692,607
2012		325,799
2013		296,364
2014		300,150
Thereafter		1,280,190
	$	3,106,122

As described in more detail below, the Company is required to maintain compliance with certain financial covenants in the Company's multi-bank revolving credit facility. At June 30, 2009, the Company was in compliance with its financial covenants under such facility.

As described in more detail below, Financial Services maintains a committed mortgage warehouse credit facility that contains various affirmative and negative covenants that are generally customary for a facility of this type. At June 30, 2009, Financial Services was in compliance with its financial covenants under this facility.

Credit Facilities

The Company's credit facilities and available capacity as of June 30, 2009 are summarized below:

	Credit Facilities		Available Capacity	
Multi-Bank Revolving Credit Facility	$	500,000	$	196,639
Financial Services Secured Credit Facility		100,000		53,057
	$	600,000	$	249,696

The Company maintains a $500 million committed, unsecured, multi-bank revolving credit facility, maturing in July 2010 that provides funding for general corporate purposes and letters of credit. Material covenants under the credit facility include a maximum leverage ratio, a minimum tangible net worth and a borrowing base limitation on the availability of borrowings. The borrowing base limitation applies whenever the Company does not have an investment grade senior unsecured debt rating from at least two of the following rating agencies: Standard & Poor's ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"). At June 30, 2009, the Company did not have investment grade ratings and was therefore subject to the borrowing base limitation. At June 30, 2009, the Company's long-term debt ratings were BB-, Ba3 and BB from S&P, Moody's and Fitch, respectively. Under the borrowing base limitation, the sum of the net senior debt (as defined in the credit agreement), any amounts drawn on the revolving credit facility for direct borrowings and outstanding financial letters of credit cannot exceed an amount calculated based on applying certain percentages to various categories of unencumbered homebuilding inventory and other assets. The Company had no amounts drawn on the revolving credit facility for direct borrowings at June 30, 2009 or at any time during the three months then ended. As of June 30, 2009, the Company had $303.4 million of outstanding letters of credit under its facility, including $116.4 million of financial letters of credit. Financial letters of credit are generally issued as a form of financial or payment guaranty. At June 30, 2009, available capacity amounts for the revolving credit facility were also further subject to certain limitations by features in the Company's credit facility

commonly referred to as anti-cash hoarding provisions.

In addition, the Company's credit facility includes an interest coverage ratio, which determines whether the Company is required to establish a liquidity reserve deposit. If the interest coverage ratio is less than 2 to 1, the Company is required to establish a liquidity reserve of cash balances to be maintained in segregated accounts with certain lenders in the credit facility. These amounts are not subject to a security interest, but are classified as restricted cash in the accompanying Consolidated Balance Sheets. The amount of the liquidity reserve is equal to eight times consolidated net interest expense (as defined in the credit agreement) for the most recent completed fiscal quarter.

The Company may withdraw or must increase amounts on deposit in the liquidity reserve at the end of each fiscal quarter if the amount on deposit exceeds or is below the amount required for that fiscal quarter. The Company may withdraw all amounts on deposit once it satisfies the interest coverage ratio of 2 to 1. At June 30, 2009, the liquidity reserve requirement on deposit was $403.5 million.

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Funding of Mortgage Loans

At June 30, 2009, CTX Mortgage Company, LLC was funding its mortgage originations primarily through borrowings under a committed mortgage warehouse credit facility with a commitment of $100 million, which expires in October 2009. Borrowings under the warehouse facility constitute short-term debt of Financial Services. At June 30, 2009, the available capacity under the warehouse facility was $53.1 million. The warehouse facility generally allows CTX Mortgage Company, LLC to sell to the bank, on a revolving basis, mortgage loans up to an aggregate specified amount. Simultaneously, the bank has entered into an agreement to transfer such mortgage loans back to CTX Mortgage Company, LLC on a specified date or on the Company's demand for subsequent sale by CTX Mortgage Company, LLC to third parties. Mortgage loans eligible for sale by CTX Mortgage Company, LLC under the warehouse facility are conforming loans, FHA/VA eligible loans, and jumbo loans meeting conforming underwriting guidelines except as to the size of the loan. Under the committed mortgage warehouse credit facility, the bank has the right to convert the facility to an amortizing loan based on the ultimate sale of the underlying collateral and not to purchase any additional mortgage loans under the warehouse facility if the Company's long-term unsecured debt ratings fall below a specified level. At June 30, 2009, CTX Mortgage Company, LLC had outstanding $2.1 million of short-term debt under a $100 million committed mortgage warehouse credit facility that expired on May 30, 2009. The $2.1 million outstanding represents the remaining balance under the facility and will be repaid as the related mortgage loans are sold in the ordinary course of business.

CTX Mortgage Company, LLC bears the credit risk associated with loans originated until such loans are sold to third parties. In connection with the loans it originates and sells to third parties, CTX Mortgage Company, LLC makes representations and warranties to the effect that each mortgage loan sold satisfies the criteria of the sale agreement. CTX Mortgage Company, LLC may be required to repurchase mortgage loans sold to third parties if such mortgage loans are determined to breach the representations and warranties of CTX Mortgage Company, LLC, as seller. CTX Mortgage Company, LLC establishes a loan origination reserve for its estimated losses for these obligations.

If the current funding source was to become unavailable, Financial Services would need to make other financing arrangements to fund its mortgage loan origination activities, or the Company may be required to fund Financial Services loan originations and make additional capital contributions to Financial Services. Although the Company believes that Financial Services could broker loans to other mortgage companies, sell loans directly to the Federal National Mortgage Association or arrange for alternative financing that is common for other homebuilders and mortgage companies, there can be no assurance that such financing would be available on satisfactory terms, and any delay in obtaining such financing could adversely affect the results of operations of Financial Services.

(G) COMMITMENTS AND CONTINGENCIES

Joint Ventures

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

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

	As of June 30, 2009			As of March 31, 2009		
	Number of JVs (1)	Investments	Centex's Share of Debt (2)	Number of JVs (1)	Investments	Centex's Share of Debt (2)
Unleveraged Joint Ventures	27	$ 124,856	$ –	29	$ 133,149	$ –
Joint Ventures with Debt:						
Repayment Guarantee (3)	1	899	3,819	1	836	4,357
Completion Guarantee (4)	2	2,084	–	3	2,519	84,861
	30	127,839	3,819	33	136,504	89,218
No Recourse or Guarantee	2	–	–	4	–	35,385
	32	$ 127,839	$ 3,819	37	$ 136,504	$ 124,603

(1) The number of joint ventures includes unconsolidated Home Building joint ventures for which the Company has an investment balance as of the end of the period and/or current fiscal year activity. The Company was the managing member of 18 and 22 of the active joint ventures as of June 30, 2009 and March 31, 2009, respectively. The number of joint ventures includes 11 and 13 joint ventures as of June 30, 2009 and March 31, 2009, respectively, for which substantially all of the joint ventures' activities are complete.

(2) Centex's share of debt represents the Company's maximum exposure related to the joint ventures' debt at each date. Amounts shown in the column as of June 30, 2009 do not include $34.9 million in debt-related and other joint venture obligations recorded by the Company as accrued liabilities in its Consolidated Balance Sheets.

(3) The Company has guaranteed repayment of a portion of certain joint venture debt limited to its ownership percentage of the joint venture or a percentage thereof.

(4) Certain joint venture agreements require the Company to guarantee the completion of a project or phase if the joint venture does not perform the required land development. A portion of these completion guarantees are joint and several with the Company's partners.

Total joint venture debt outstanding as of June 30, 2009 and March 31, 2009 was $166.8 million and $270.3 million, respectively, which includes certain joint venture debt of a joint venture in bankruptcy that is not included in the table above and has no recourse to the Company. Debt agreements for joint ventures vary by lender in terms of structure and level of recourse. For certain of the joint ventures, the Company is also liable on a contingent basis, through other guarantees, letters of credit or other arrangements, with respect to a portion of the construction debt. Additionally, the Company has agreed to indemnify the construction lender for certain environmental liabilities in the case of most joint ventures. The Company has recorded obligations in its financial statements to reflect its share of certain completion and repayment guarantees.

Two of the Company's joint ventures were in default as of June 30, 2009. The Company's obligation for one of the joint ventures in default was $22.5 million at June 30, 2009, which has been recorded by the Company. At June 30, 2009, the Company had satisfied its obligation under a completion guarantee for the other joint venture in default.

Letters of Credit and Surety Bonds

In the normal course of business, the Company posts letters of credit and surety bonds: (1) pursuant to certain performance related obligations, (2) as security for certain land option purchase agreements of Home Building, and (3) under various insurance programs. The Company also previously obtained surety bonds, which are reflected as discontinued operations in the table below, pursuant to construction obligations of Construction Services prior to the sale of this segment on March 30, 2007. No event has occurred that has led the Company to believe that these letters of credit or bonds will be drawn upon.

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A summary of the Company's outstanding letters of credit and surety bonds as of June 30, 2009 and March 31, 2009 is presented below (dollars in millions):

	As of June 30, 2009			As of March 31, 2009	
	Letters of Credit	Surety Bonds		Letters of Credit	Surety Bonds
Home Building	$ 82.1	$ 790.7	(1)	$ 85.6	$ 863.3
Financial Services	30.9	7.3		30.9	7.2
Other	158.1	0.2		158.1	0.2
Discontinued Operations (2)	33.1	1,604.3		33.1	1,583.7
	$ 304.2	$ 2,402.5		$ 307.7	$ 2,454.4

(1) The Company estimates that $319.5 million of work remains to be performed on these projects as of June 30, 2009.

(2) After the sale of Construction Services, the Company remains responsible to a surety for certain surety bond obligations relating to Construction Services projects commenced prior to March 30, 2007. These surety bonds have a total face amount of $1.60 billion at June 30, 2009, although the risk of liability with respect to these surety bonds declines as the relevant construction projects are performed. At June 30, 2009, the Company estimates that $177.5 million of work remains to be performed on these projects. In connection with certain of these surety bond obligations, the Company posted a $100 million letter of credit to such surety which is included in Other above. The purchaser of Construction Services agreed to indemnify the Company against losses relating to such surety bond obligations, including amounts drawn under such letter of credit. The Company purchased for its benefit an additional back-up indemnity provided by a financial institution with an A (S&P) and A2 (Moody's) credit rating. The obligation of such financial institution under the back-up indemnity is $400.0 million as of June 30, 2009 and will remain at $400.0 million until termination in 2016.

Community Development and Other Special District Obligations

A Community Development District or similar development authority ("CDD") is a unit of local government created under various state statutes that utilizes the proceeds from the sale of bonds to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds including principal and interest is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. In accordance with EITF 91-10, "Accounting for Special Assessments and Tax Increment Financing," the Company records a liability for future assessments, which are fixed or determinable for a fixed or determinable period. In addition and in accordance with SFAS No. 5, "Accounting for Contingencies," the Company evaluates whether it is contingently liable for any of the debt related to the bond issuance. This is typically the case where bonds issued by the CDD have maturity dates of ten years or less that will be paid by the Company as the developer and current landowner and not by future homeowners. At June 30, 2009 and March 31, 2009, the Company had recorded $297.9 million and $309.7 million, respectively, in accrued liabilities for outstanding CDD obligations.

Warranties and Guarantees

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

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

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Changes in Home Building contractual warranty liability are as follows for the three months ended June 30, 2009 and the year ended March 31, 2009:

	June 30, 2009	March 31, 2009 (1)
Balance at Beginning of Period	$ 13,550	$ 29,155
Warranties Issued	2,368	15,201
Settlements Made	(2,352)	(17,251)
Changes in Liability of Pre-Existing Warranties, Including Expirations	(1,475)	(13,555)
Balance at End of Period	$ 12,091	$ 13,550

(1) For the three months ended June 30, 2008, warranties issued, settlements made and changes in liability of pre-existing warranties were $3,918, $(4,517) and $(3,419), respectively.

Financial Services has established a liability for anticipated losses associated with mortgage loans originated and sold. Changes in Financial Services liability are as follows for the three months ended June 30, 2009 and the year ended March 31, 2009:

	June 30, 2009	March 31, 2009 (1)
Balance at Beginning of Period	$ 28,968	$ 13,903
Provision for Losses	73	765
Settlements	(4,921)	(9,890)
Changes in Pre-Existing Reserves	13,643	24,190
Balance at End of Period	$ 37,763	$ 28,968

(1) For the three months ended June 30, 2008, provision for losses, settlements and changes in pre-existing reserves were $309, $(810) and $2,619, respectively.

Insurance Accruals

The Company has certain self-insured retentions and deductible limits under its workers' compensation, automobile and general liability (including claims for construction defects) insurance policies. The Company establishes reserves for its self-insured retentions and deductible limits based on an analysis of historical claims and an estimate of claims incurred but not yet reported. Projection of losses concerning these liabilities, in particular construction defect exposures, is subject to a high degree of variability due to factors such as claim settlement patterns, litigation trends and legal interpretations, among others. In addition, construction defect claims may occur over an extended period after the closing of a home. On an annual basis, the Company engages actuaries to assist in the evaluation and development of claim rates and required reserves for self insurance including reserves related to construction defects and general liability claims. The Company periodically assesses the adequacy of its insurance accruals and adjusts the amounts as necessary.

Although the Company considers the insurance accruals reflected in its Consolidated Balance Sheets to be adequate, there can be no assurance that this accrual will prove to be sufficient over time to cover ultimate losses. Expenses associated with insurance claims up to the Company's deductible limits for the three months ended June 30, 2009 and 2008 were $2.9 million and $8.0 million, respectively. As of June 30, 2009 and March 31, 2009, accrued insurance included in accrued liabilities in the accompanying Consolidated Balance Sheets was $231.4 million and $235.3 million, respectively, and consisted primarily of general liability retentions associated with construction defects.

Forward Trade and Interest Rate Lock Commitments

Interest rate lock commitments ("IRLCs") represent individual borrower agreements that commit the Company to lend at a specified interest rate for a specified period as long as there is no violation of any condition established in the commitment contract. IRLCs are recorded in the Consolidated Balance Sheets in deferred charges and other assets or accrued liabilities. At June 30, 2009, the Company had loan commitments to prospective borrowers of $112.7 million.

Forward trade commitments represent contracts with investors for delayed delivery of mortgage loans at a specified future date at a specified interest rate. At June 30, 2009, the Company had $108.2 million of commitments to deliver mortgages to investors against interest rate lock commitments. These forward trade commitments are

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recorded in the Consolidated Balance Sheets in deferred charges and other assets or accrued liabilities. In addition, at June 30, 2009, the Company had commitments to deliver approximately $142.6 million of mortgage loan inventory to investors. These forward trade commitments are recorded in the Consolidated Balance Sheets together with the related mortgage loans receivable.

For additional information on forward trade commitments and interest rate lock commitments, please refer to Note (H), “Fair Values of Financial Instruments,” and Note (I), “Derivatives and Hedging.”

Litigation and Related Matters

In the normal course of its business, the Company is involved in claims and disputes and is named as a defendant in certain suits filed in various state and federal courts. These claims, disputes and lawsuits include construction defect claims, contract disputes and employee-related matters. Management believes that none of the litigation matters in which the Company is involved would have a material adverse effect on the consolidated financial condition or operations of the Company.

The Company and its directors are named as defendants in five putative class action lawsuits filed between April 15 and April 23, 2009 in the District Courts of Dallas County, Texas. An additional putative class action lawsuit against the Company and its directors was filed on April 24, 2009 in the District Court of Clark County, Nevada. The cases assert claims in connection with the proposed combination between Centex and Pulte announced on April 8, 2009.

On June 1, 2009, the five cases pending in the District Court of Dallas Country, Texas were consolidated under the case number 09-4396 for all purposes, including pretrial proceedings and trial. The consolidated case is styled In re Centex Corporation Shareholder Class Action Litigation and will proceed in the 160th Judicial District of the District Court of Dallas County, Texas. On June 22, 2009, the plaintiffs filed a consolidated amended class action complaint. This consolidated complaint asserts claims on behalf of a purported class of Centex stockholders against Centex, Pulte and each of Centex’s directors, related to an alleged breach of fiduciary duty in connection with the merger. The consolidated complaint alleges, among other things, that the Centex directors, aided and abetted by Centex and Pulte, breached their fiduciary duties by failing to obtain an adequate price for Centex shares, by conducting a flawed process culminating in the sale of Centex, by engaging in self-dealing, and by soliciting stockholder votes based upon inadequate disclosures. Among other things, the consolidated complaint seeks to enjoin the defendants from completing the merger. The consolidated complaint also seeks a constructive trust into which the court should direct any benefits improperly received by the defendants as a result of their alleged wrongful conduct. No due date has been set for an answer or responsive pleading.

On July 17, 2009, the plaintiffs in In re Centex Corporation Shareholder Class Action Litigation and the defendants entered into a memorandum of understanding reflecting a preliminary settlement of the case. The memorandum of understanding sets forth the general terms of a settlement to be embodied in a stipulation of settlement to be submitted to the court. The settlement is subject to, among other things, approval by the court and additional confirmatory discovery by the plaintiffs. Pursuant to the memorandum of understanding, the defendants agreed to provide certain additional disclosure in the joint proxy statement/prospectus for the merger.

The sixth case, styled Anbar Holdings Ltd. v. Eller, et al. (Case No. 09-588699), asserts claims on behalf of a purported class of Centex stockholders against Centex, Pulte and each of Centex’s directors, related to an alleged breach of fiduciary duty in connection with the merger. The complaint alleges, among other things, that the Centex directors, aided and abetted by Centex and Pulte, breached their fiduciary duties by failing to obtain an adequate price for Centex and by acting to deter competing bids. Among other things, the complaint seeks to enjoin the defendants from completing the merger. The complaint also seeks damages. On June 4, 2009, Centex and the Centex directors responded to the Nevada complaint. Both Centex and its directors moved to stay the Nevada case pending the

resolution of the earlier-filed consolidated action in Dallas County, Texas. In a separate filing, Centex's directors moved to dismiss the claims against them for lack of personal jurisdiction. Finally, Centex moved to dismiss, for failure to state a claim upon which relief can be granted, the allegations against Centex for aiding and abetting the Centex directors' alleged breach of fiduciary duty. On June 23, 2009, Pulte filed a motion joining in the motion to stay, and also filed a separate motion to dismiss the complaint. The plaintiffs filed an amended class action complaint on June 22, 2009, which largely restates the allegations from the complaint filed on April 24, 2009, and adds new allegations asserting, among other things, that the Centex directors, aided and abetted by Centex and Pulte, breached their fiduciary duties by not protecting against alleged conflicts of interest and soliciting stockholder votes based upon inadequate disclosures. No due date has been set for an answer or responsive pleading to the amended complaint.

Based on the facts known to date, the defendants believe that the claims asserted against them are without merit, and the defendants intend to defend vigorously against the claims.

(H) FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company adopted SFAS 157 on April 1, 2008 for its financial instruments measured at fair value. As defined in SFAS 157, fair value is based on exit price, or the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly through corroboration with market data.
Level 3 - Unobservable inputs that reflect the Company's own estimates about the assumptions market participants would use in pricing the asset or liability.

Mortgage loans held for sale, forward trade commitments and interest rate swap agreements are valued based upon quoted market prices for similar instruments. The servicing asset is reflected in deferred charges and other assets in the accompanying Consolidated Balance Sheets and is valued based upon servicing sales contracts entered into with third parties. Interest rate lock commitments are valued at quoted market prices, plus the related service release premium, multiplied by a projected customer close ratio. The service release premium is based upon the Company's servicing sales contracts, and the projected customer close ratio is based upon the Company's historical customer fall-out rate.

The following table presents the Company's financial instruments measured at fair value on a recurring basis at June 30, 2009 for each hierarchy level:

	Level 1	Level 2	Level 3	Total
Assets				
Mortgage Loans Held for Sale	$–	$138,106	$–	$138,106
Servicing Asset	–	194	–	194
Interest Rate Lock Commitments	–	–	2,933	2,933
Forward Trade Commitments				
(Mortgage Loans Held for Sale)	–	2,637	–	2,637
Total	$–	$140,937	$2,933	$143,870
Liabilities				
Interest Rate Swap Agreements	$–	$4,949	$–	$4,949
Forward Trade Commitments				
(Interest Rate Lock Commitments)	–	1,053	–	1,053
Total	$–	$6,002	$–	$6,002

As of June 30, 2009, the aggregate fair value was less than the unpaid principal balance of mortgage loans held for sale by $0.4 million. Changes in the fair value of mortgage loans held for sale are recognized in current earnings within Financial Services revenues. For the three months ended June 30, 2009, the net change in the fair value of mortgage loans held for sale resulted in a loss of $4.3 million. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in Financial Services revenues.

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The following table summarizes changes in Level 3 financial instruments measured at fair value on a recurring basis for the three months ended June 30, 2009:

	Interest Rate Lock Commitments
Balance at beginning of period	$ 3,243
Purchases, issuances, and settlements	(295)
Loss included in earnings due to change in valuation of items held	(15)
Fair value at June 30, 2009	$ 2,933

In addition, certain of the Company's assets are required to be recorded at fair value on a non-recurring basis when events and circumstances indicate that the carrying value may not be recovered. The following table presents for each hierarchy level the Company's assets measured at fair value on a non-recurring basis and represents only those assets whose carrying values were adjusted to fair value during the quarter ended June 30, 2009:

	Level 1	Level 2	Level 3	Total
Assets				
Other Mortgage Loans	$–	$–	$46,617	$46,617
Land Under Development	–	–	291,615	291,615
Land Held for Development and Sale	–	–	22,580	22,580
Other Inventories	–	–	16,198	16,198
	$–	$–	$377,010	$377,010

Other mortgage loans are measured at fair value on a non-recurring basis and include performing and nonperforming construction loans and other nonperforming mortgage loans. Other mortgage loans are reported at their unpaid principal balance less an allowance. The allowance for loans the Company expects to convert to permanent loans that will be held for sale is based on the estimated market value of the loans. The allowance for construction loans and other nonperforming mortgage loans that the Company expects to eventually default is based on the underlying collateral value. The Company recovered $2.4 million in provisions for losses to Other Mortgage Loans during the quarter ended June 30, 2009.

The Company reviews its long lived assets, including Land Under Development, Land Held for Development and Sale, and Real Estate Owned for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If long lived assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is determined primarily based on estimated cash flows discounted for market risks associated with the long-lived assets. During the quarter ended June 30, 2009, the Company recorded $200.6 million in land related impairments.

The fair values of investments in joint ventures were determined in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock," primarily using a discounted cash flow model to value the underlying net assets of the respective entities. During the quarter ended June 30, 2009, the Company did not record any impairments related to its investments in joint ventures.

The estimated fair values shown below have been determined using current quoted market prices where available and, where necessary, estimates based on present value methodology suitable for each category of financial

instruments. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

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The consolidated carrying values of cash and cash equivalents, restricted cash, taxes, trade and other receivables, accounts payable and accrued liabilities, forward trade commitments, IRLCs and short-term debt approximate their fair values. The carrying values and estimated fair values of other financial assets and liabilities were as follows:

	As of June 30, 2009 Carrying Value	Fair Value	March 31, 2009 Carrying Value	Fair Value
Financial Assets:				
Mortgage Loans, net	$ 187,360	$ 187,360	$ 214,179	$ 214,179
Financial Liabilities:				
Senior Notes and Other	$ 3,106,122	$ 2,906,666	$ 3,104,872	$ 2,605,917

The Company adopted SFAS 159 on a prospective basis for mortgage loans held for sale, effective April 1, 2008. In accordance with the provisions of SFAS 159, mortgage loans held for sale originated subsequent to April 1, 2008 are measured at fair value. The adoption of SFAS 159 for mortgage loans held for sale improves consistency of mortgage loan valuation between the date the borrower locks the interest rate on the pending mortgage loan and the date of the mortgage loan sale.

(I) DERIVATIVES AND HEDGING

Financial Services enters into IRLCs with its customers under which it commits to lend at a specified interest rate for a specified period, generally from one to 30 days, if certain conditions are met. Initially, the IRLCs are treated as derivative instruments and their fair value is recorded on the balance sheet. Subsequent changes in the fair value of the IRLCs are recorded as an adjustment to earnings.

The Company is exposed to the risk of interest rate fluctuations on its debt and other obligations. Financial Services enters into mandatory forward trade commitments to manage the interest rate risk related to IRLCs and its portfolio of mortgage loans held for sale. Forward trade commitments are treated as derivative instruments and their initial fair value is recorded on the balance sheet. Subsequent changes in the fair value of forward trade commitments are recorded as an adjustment to earnings.

From time to time, the Company may enter into other forms of derivatives, including interest rate swap agreements, to hedge changes in market values of certain assets and liabilities. These derivatives are designated as fair value hedges, whereby, the gains or losses in the value of the interest rate swap agreements are offset by an equal and opposite gain or loss in the value of the hedged items. The notional value of such derivatives was $63.2 million at June 30, 2009 and $64.2 million at March 31, 2009.

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

	As of June 30, 2009			As of March 31, 2009		
	Mortgage Loans Held for Sale	Deferred Charges and Other Assets	Accrued Liabilities	Mortgage Loans Held for Sale	Deferred Charges and Other Assets	Accrued Liabilities
Derivatives Designated as Hedging Instruments						
Interest Rate Contracts						
Interest Rate Swap Agreements	$ –	$ –	$ 4,949	$ –	$ –	$ 5,000
Derivatives Not Designated as Hedging Instruments						
Interest Rate Contracts						
Interest Rate Lock Commitments	–	2,933	–	–	3,243	–
Forward Trade Commitments	2,637	–	1,053	(4,168)	–	1,342
Total Derivatives Not Designated as Hedging Instruments	2,637	2,933	1,053	(4,168)	3,243	1,342
Total Derivatives	$ 2,637	$ 2,933	$ 6,002	$ (4,168)	$ 3,243	$ 6,342

	For the Three Months Ended June 30,	
	2009 Gain (Loss) on Sale of Mortgage Loans (1)	2008 Gain (Loss) on Sale of Mortgage Loans (1)
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts		
Interest Rate Lock Commitments	$ (310)	$ (3,490)
Forward Trade Commitments	7,094	6,221
Total Derivatives Not Designated as Hedging Instruments	$ 6,784	$ 2,731

(1) Included as a component of Financial Services revenues.

(J) INCOME TAXES

The Company recognized an income tax benefit from continuing operations of $407.3 million and $13.6 million for the three months ended June 30, 2009 and 2008, respectively. The Company's effective tax rate from continuing operations was 126.4% and 7.5% for the three months ended June 30, 2009 and 2008, respectively. The Company's effective tax rate for June 30, 2009 and 2008 differed from the federal statutory rate primarily as a result of the change in uncertain tax positions and the related accrued interest and penalties and changes in the deferred tax asset valuation allowance.

In accordance with the provisions of SFAS 109, the Company assesses, on a quarterly basis, the realizability of its deferred tax assets. A valuation allowance must be established when, based upon the evaluation of all available evidence, it is more likely than not that all or a portion of the deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. SFAS 109 provides that forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years or losses expected in early future years.

The Company's realization of its deferred tax assets ultimately depends on the existence of sufficient taxable income in the carryback and/or carryforward periods (both federal and state). After considering all positive and negative evidence including all potential sources of taxable income, the Company concluded that, as of March 31, 2009, a full valuation allowance was required. As of June 30, 2009, after taking into account the Internal Revenue Service ("IRS") settlements and the related impact to the FIN 48 liability that occurred during the quarter, the Company determined $37.6 million of the deferred tax assets are realizable as a result of the remaining federal uncertain tax positions (and related FIN 48 liability) that generates a future source of taxable income.

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The Company's deferred tax assets before the valuation allowance increased to $1.32 billion as of June 30, 2009 from $1.29 billion as of March 31, 2009. The Company's deferred tax valuation allowance decreased to $1.28 billion as of June 30, 2009 from $1.29 billion as of March 31, 2009. The Company's deferred tax assets before valuation allowance includes $482.1 million resulting from tax credits and net operating loss carryforwards at June 30, 2009. If unused, the various tax credits and net operating loss carryforwards will expire (beginning at various times depending on the tax jurisdiction) in the years 2013 through 2030.

Based on an analysis performed under Internal Revenue Code Section 382 as of June 30, 2009, the Company does not believe it has experienced a change in ownership as defined by Section 382 and, therefore, the Company does not believe, at June 30, 2009, the net operating losses, built-in losses and tax credits are subject to a Section 382 limitation. However, if the proposed merger with Pulte is consummated, the Company will experience an ownership change; therefore, its use of net operating losses, built-in losses and tax credits will be limited pursuant to Section 382.

On May 18, 2009, the Company and the IRS settled several disputed tax issues relating to the audit of the Company's federal income tax returns filed for fiscal years 2001 through 2004. The disputed issues related primarily to the Company's use of net operating losses, among other items. The settlement resulted in a tax liability of approximately $63 million of which $62 million was paid in June 2006. On May 26, 2009, the Company received a Revenue Agent's Report from the IRS proposing certain adjustments to the Company's federal income tax returns for fiscal years 2005 and 2006. The Company believes that its fiscal years 2005 and 2006 tax return positions are supported and will vigorously dispute the proposed adjustments. In addition, on May 28, 2009, the Company settled several disputed tax issues relating to its California income tax for fiscal years 2000 through the current period.

As a result of these developments, the Company, in connection with its quarterly assessment, adjusted its liability for unrecognized tax benefits resulting in an income tax benefit of $372.0 million during the three months ended June 30, 2009. In addition, $8.9 million of the liability for unrecognized tax benefits was reclassified to current income taxes payable in connection with the amounts agreed/settled as payable by the Company to the taxing jurisdictions.

Pursuant to the provisions of FIN 48, the Company's gross unrecognized tax benefits as of June 30, 2009 and March 31, 2009, respectively (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax) is $124.9 million and $374.4 million. The following table summarizes the changes in gross unrecognized tax benefits for the three months ended June 30, 2009 and the year ended March 31, 2009:

	As of June 30, 2009	March 31, 2009
Gross Unrecognized Tax Benefits, Beginning of Period	$374,351	$353,147
Tax positions taken relating to a prior year	(180)	17,576
Tax positions taken relating to the current year	–	4,767
Settlements/Effective Settlements of tax positions with taxing authorities	(249,321)	(1,139)
Gross Unrecognized Tax Benefits, End of Period	$124,850	$374,351
Interest and Penalties relating to Unrecognized Tax Benefits, End of Period	$40,976	$180,392

It is possible that, within the next twelve months, the amount of the Company's unrecognized tax benefits may decrease by as much as $71.1 million as a result of the potential resolution with the IRS of the Company's appeal of the adjustments relating to the audit of the Company's federal income tax returns for fiscal years 2005 and 2006 and the expiration of the statutes of limitations relating to other uncertain tax positions. In addition, within the next twelve months, unrecognized tax benefits relating to state income taxes may decrease as a result of the possible resolution

and expiration of the statutes of limitations relating to various state audits and/or appeals. However, the change that could occur relating to these potential resolutions cannot be estimated at this time.

The Company files numerous income tax returns in both U.S. federal and state jurisdictions. The federal statute of limitations has expired for the Company’s federal tax returns filed for tax years through March 31, 2000.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company’s effective tax rate (excluding any resulting changes related to the deferred tax asset valuation allowance) was $88.3 million and $283.9 million as of June 30, 2009 and March 31, 2009, respectively. For the three months ended June 30, 2009 and 2008, the Company accrued $1.4 million and $7.3 million, respectively, of gross accrued interest and penalties. As of June 30, 2009 and March 31, 2009, gross accrued interest and penalties were $41.0 million and $180.4 million, respectively. The Company’s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of accrued liabilities.

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(K) BUSINESS SEGMENTS

As of June 30, 2009, the Company operated in two principal lines of business: Home Building and Financial Services. These lines of business operate in the United States, and their markets are nationwide. Revenues from any one customer are not significant to the Company.

In April 2008, the Company completed the sale of its home services operations. For additional information regarding the sale of this business, refer to Note (L), "Discontinued Operations." All prior year segment information has been revised to conform to the current year presentation.

Home Building

The Company's Home Building operations currently involve the construction and sale of detached and attached single-family homes. Home Building consists of the following reporting segments that have operations located in the following states:

East: Florida, Georgia, Maryland, New Jersey, North Carolina, South Carolina and Virginia
Central: Colorado, Illinois, Indiana, Michigan, Minnesota, Missouri, Tennessee and Texas
West: Arizona, California, Hawaii, Nevada, New Mexico, Oregon and Washington
Other homebuilding (1)

(1) Other homebuilding includes certain resort/second home projects in Florida that the Company plans to build out and liquidate, and holding companies. In addition, Other homebuilding includes amounts consolidated under the caption "land held under option agreements not owned" and capitalized interest for all regions.

During the first and second quarters of fiscal year 2009, the Company reclassified its Home Building operations to reflect how the Company currently manages its business. These reclassifications were not material to the results of operations of the respective reporting segments. All prior period amounts have been reclassified to conform to current period presentation.

Financial Services

The Company's Financial Services reporting segment consists of its mortgage lending and title insurance and settlement services. Financial Services originates loans for homes sold by the Company and its subsidiaries, which are referred to as "Builder loans." In prior quarters, Financial Services also originated loans for homes built by others, as well as the refinancing of existing mortgages, which are referred to as "Retail loans."

As a result of the significant disruptions in the mortgage markets and the related reductions in the mortgage market liquidity, Financial Services made a decision to cease its Retail loan operations during July 2008. Financial Services, which originally operated approximately 80 retail branches, ceased originating Retail loans during the fourth quarter of fiscal year 2009. In addition, during the fourth quarter of fiscal year 2009, Financial Services transitioned its mortgage operations to a centralized production model.

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The following includes condensed balance sheets and operating earnings for the Company's Financial Services segment:

	As of June 30, 2009	March 31, 2009
Cash and Cash Equivalents	$ 8,104	$ 21,311
Restricted Cash	19,541	18,955
Mortgage Loan Receivables	187,360	214,179
Other Inventories (Real Estate Owned)	16,198	16,367
Goodwill	5,364	5,364
Deferred Charges and Other Assets	22,086	38,301
Total Assets	$ 258,653	$ 314,477
Accounts Payable and Accrued Liabilities	$ 75,109	$ 48,215
Mortgage Warehouse Facilities	49,038	119,052
Members' Equity	134,506	147,210
Total Liabilities and Members' Equity	$ 258,653	$ 314,477

	For the Three Months Ended June 30,	
	2009	2008
Revenues		
Gain on Sale of Mortgages	$ 6,820	$ 30,311
Interest Income	1,737	6,455
Title Policy and Other Income	14,314	39,657
Cost of Revenues		
Interest Expense	(1,753)	(4,303)
Title Policy Expense	(342)	(422)
Selling, General and Administrative Expenses	(33,769)	(65,631)
Earnings (Loss) from Continuing Operations Before Income Taxes	$ (12,993)	$ 6,067

CTX Mortgage Company, LLC and its related companies sold $379.9 million and $1.61 billion of mortgage loans to investors during the three months ended June 30, 2009 and 2008, respectively.

Other

The Company's Other segment consists of corporate general and administrative expense, including Home Building corporate-related general and administrative expense, interest income and interest expense.

The following are components of the Other segment’s loss from continuing operations before income tax:

	For the Three Months Ended June 30,	
	2009	2008
Corporate General and Administrative Expense	$ (44,705)	$ (58,639)
Interest Expense	(26,355)	(6,180)
Interest and Other Income	2,091	6,302
	$ (68,969)	$ (58,517)

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Summary of the Company's Results of Operations by Segment

	For the Three Months Ended June 30, 2009				
	Revenues	Earnings (Loss) from Unconsolidated Entities (1)	Earnings (Loss) from Continuing Operations Before Income Tax	Land-related Impairments	Land-related Write-offs
Home Building					
East	$232,977	$ (4,985)	$(140,605)	$122,878	$1,140
Central	154,971	75	636	–	110
West	162,598	(10,357)	(81,751)	66,577	–
Other homebuilding	556	–	(18,537)	11,106	–
Total Home Building	551,102	(15,267)	(240,257)	200,561	1,250
Financial Services	22,871	–	(12,993)	–	–
Corporate & Other	–	–	(68,969)	–	–
Total	$573,973	$ (15,267)	$(322,219)	$200,561	$1,250

(1) Included in Home Building loss from unconsolidated entities for the three months ended June 30, 2009 is the Company's share of joint ventures' impairments totaling $9.9 million.

	For the Three Months Ended June 30, 2008				
	Revenues	Loss from Unconsolidated Entities (1)	Earnings (Loss) from Continuing Operations Before Income Tax	Land-related Impairments	Land-related Write-offs
Home Building					
East	$308,039	$ (19,983)	$(86,801)	$34,874	$5,182
Central	298,179	(128)	(13,470)	8,465	2,013
West	429,187	(186)	(30,487)	6,776	2,906
Other homebuilding	14,294	–	461	–	–
Total Home Building	1,049,699	(20,297)	(130,297)	50,115	10,101
Financial Services	76,423	–	6,067	–	–
Corporate & Other	–	–	(58,517)	–	–
Total	$1,126,122	$ (20,297)	$(182,747)	$50,115	$10,101

(1) Included in Home Building loss from unconsolidated entities for the three months ended June 30, 2008 is the Company's share of joint ventures' impairments totaling $19.7 million.

Summary of Inventory and Total Assets by Segment

	As of			
	June 30, 2009		March 31, 2009	
	Inventory	Total Assets	Inventory	Total Assets
Home Building				

East	$1,553,639	$1,719,826	$1,712,698	$1,878,751
Central	617,312	635,431	619,555	639,516
West	559,135	653,856		