CENTEX CORP
Form 10-Q
February 06, 2008

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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 DECEMBER 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
(State of incorporation)
75-0778259
(I.R.S. Employer Identification No.)

2728 N. Harwood, Dallas, Texas 75201
(Address of principal executive offices) (Zip Code)
(214) 981-5000
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 ü

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on January 23, 2008: 122,389,169 shares of common stock, par value $ .25 per share.

Centex Corporation and Subsidiaries

Form 10-Q Table of Contents
December 31, 2007

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	For the Three Months Ended December 31,	
	2007	2006
Revenues		
Home Building	**$ 1,811,084**	$ 2,587,251
Financial Services	**62,203**	107,577
Other	**32,800**	31,388
	1,906,087	2,726,216
Costs and Expenses		
Home Building	**2,375,824**	2,783,488
Financial Services	**122,687**	91,081
Other	**31,217**	32,681
Corporate General and Administrative	**37,850**	72,369
	2,567,578	2,979,619
Loss from Unconsolidated Entities and Other	**(60,525)**	(46,165)
Interest and Other Income	**1,320**	
Earnings (Loss) from Continuing Operations Before Income Taxes	**(720,696)**	(299,568)
Income Tax (Benefit) Provision	**254,492**	(57,223)
Earnings (Loss) from Continuing Operations	**(975,188)**	(242,345)
Earnings from Discontinued Operations, net of Tax Provision of $0 and $8,219		14,199
Net Earnings (Loss)	**$ (975,188)**	$ (228,146)
Basic Earnings (Loss) Per Share		
Continuing Operations	**$ (7.94)**	$ (2.02)

Discontinued Operations				0.12
	$	**(7.94)**	$	(1.90)
Diluted Earnings (Loss) Per Share				
Continuing Operations	**$**	**(7.94)**	$	(2.02)
Discontinued Operations				0.12
	$	**(7.94)**	$	(1.90)
Average Shares Outstanding				
Basic		**122,787,414**		119,935,522
Dilutive Securities:				
Options				
Other				
Diluted		**122,787,414**		119,935,522
Cash Dividends Per Share	**$**	**0.04**	$	0.04

See Notes to Consolidated Financial Statements.

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

	For the Nine Months Ended December 31,	
	2007	2006
Revenues		
Home Building	**$ 5,720,388**	$ 7,895,135
Financial Services	**240,869**	350,896
Other	**102,247**	99,673
	6,063,504	8,345,704
Costs and Expenses		
Home Building	**7,357,765**	7,640,413
Financial Services	**340,466**	285,149
Other	**97,733**	101,465
Corporate General and Administrative	**117,371**	172,137
	7,913,335	8,199,164
Loss from Unconsolidated Entities and Other	**(112,360)**	(36,476)
Interest and Other Income	**24,145**	
Earnings (Loss) from Continuing Operations Before Income Taxes	**(1,938,046)**	110,064
Income Tax (Benefit) Provision	**(187,690)**	99,559
Earnings (Loss) from Continuing Operations	**(1,750,356)**	10,505
Earnings from Discontinued Operations, net of Tax Provision of $2,087 and $36,857	**3,376**	59,006
Net Earnings (Loss)	**$ (1,746,980)**	$ 69,511
Basic Earnings (Loss) Per Share		
Continuing Operations	**$ (14.32)**	$ 0.09
Discontinued Operations	**0.02**	0.49
	$ (14.30)	$ 0.58

Diluted Earnings (Loss) Per Share				
Continuing Operations	**$**	**(14.32)**	$	0.09
Discontinued Operations		**0.02**		0.47
	$	**(14.30)**	$	0.56
Average Shares Outstanding				
Basic		**122,188,922**		120,507,675
Dilutive Securities:				
Options				3,955,648
Other				61,540
Diluted		**122,188,922**		124,524,863
Cash Dividends Per Share	**$**	**0.12**	$	0.12

See Notes to Consolidated Financial Statements.

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

	Centex Corporation and Subsidiaries	
	December 31, 2007	March 31, 2007
Assets		
Cash and Cash Equivalents	**$ 61,872**	$ 882,754
Restricted Cash	**71,493**	146,532
Receivables -		
Mortgage Loans, net	**747,757**	1,687,645
Trade and Other, including Notes of $6,563 and $10,295	**430,707**	227,618
Inventories -		
Housing Projects	**6,354,306**	8,474,883
Land Held for Development and Sale	**454,347**	158,212
Land Held Under Option Agreements Not Owned	**177,763**	282,116
Other	**31,169**	35,868
Investments -		
Joint Ventures and Other	**241,094**	281,644
Unconsolidated Subsidiaries		
Property and Equipment, net	**91,214**	136,172
Other Assets -		
Deferred Income Taxes, net	**626,072**	489,814
Goodwill	**158,207**	219,042
Deferred Charges and Other, net	**184,916**	177,633
	$ 9,630,917	$ 13,199,933
Liabilities and Stockholders Equity		
Accounts Payable	**$ 337,963**	$ 520,833
Accrued Liabilities	**1,822,295**	1,822,429
Debt -		
Centex	**3,623,236**	3,904,425
Financial Services	**569,081**	1,663,040
Payable from Affiliates		
Commitments and Contingencies		
Minority Interests	**81,217**	176,937
Stockholders Equity -		
Preferred Stock: Authorized 5,000,000 Shares, None Issued		
Common Stock: $.25 Par Value; Authorized 300,000,000 Shares; Outstanding 122,250,768 and 119,969,733 Shares	**31,565**	31,041
Capital in Excess of Par Value	**91,739**	48,349
Retained Earnings	**3,281,062**	5,250,873
Treasury Stock, at Cost; 4,010,772 and 4,193,523 Shares	**(207,241)**	(217,994)

Total Stockholders Equity	**3,197,125**	5,112,269
	$ 9,630,917	$ 13,199,933

See Notes to Consolidated Financial Statements.

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

Centex*		Financial Services	
December 31, 2007	March 31, 2007	**December 31, 2007**	March 31, 2007
$ 54,294	$ 870,688	**$ 7,578**	$ 12,066
28,102	56,467	**43,391**	90,065
		747,757	1,687,645
374,975	175,683	**55,732**	51,935
6,354,306	8,474,883		
454,347	158,212		
177,763	282,116		
18,319	27,121	**12,850**	8,747
241,094	281,644		
313,612	137,704		
77,246	119,203	**13,968**	16,969
561,361	465,247	**64,711**	24,567
149,255	210,090	**8,952**	8,952
169,687	163,497	**15,229**	14,136
$ 8,974,361	$ 11,422,555	**$ 970,168**	$ 1,915,082
$ 328,531	$ 510,106	**$ 9,432**	$ 10,727
1,744,966	1,719,753	**77,329**	102,676
3,623,236	3,904,425		
		569,081	1,663,040
		25,826	(23,788)
80,503	176,002	**714**	935
31,565	31,041	**1**	1
91,739	48,349	**478,467**	275,467
3,281,062	5,250,873	**(190,682)**	(113,976)
(207,241)	(217,994)		

3,197,125	5,112,269	**287,786**	161,492
$ 8,974,361	$ 11,422,555	**$ 970,168**	$ 1,915,082

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

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

	Centex Corporation and Subsidiaries *For the Nine Months Ended December 31,*	
	2007	2006
Cash Flows Operating Activities		
Net Earnings (Loss)	$ **(1,746,980)**	$ 69,511
Adjustments		
Depreciation and Amortization	**40,384**	42,958
Stock-based Compensation	**29,620**	52,446
Provision for Losses on Mortgage Loans Held for Investment and Construction Loans	**82,775**	27,836
Impairments and Write-off of Assets	**1,641,304**	499,177
Deferred Income Tax (Benefit) Provision	**(27,029)**	(49,014)
Loss (Earnings) of Joint Ventures and Unconsolidated Subsidiaries	**125,333**	58,973
Distributions of Earnings of Joint Ventures and Unconsolidated Subsidiaries	**6,769**	88,522
Minority Interest, net of Taxes	**(221)**	(411)
Gain on Sale of Assets	**(16,966)**	(126,038)
Changes in Assets and Liabilities, Excluding Effect of Acquisitions		
Decrease (Increase) in Restricted Cash	**27,916**	15,325
(Increase) Decrease in Receivables	**(173,062)**	40,882
Decrease in Mortgage Loans Held for Sale	**751,313**	259,761
Decrease (Increase) in Receivables from Affiliates		
Decrease (Increase) in Housing Projects and Land Held for	**179,189**	(1,455,848)
Development and Sale Decrease (Increase) in Other Inventories	**17,865**	(103)
Decrease in Accounts Payable and Accrued Liabilities	**(449,651)**	(37,953)
Decrease (Increase) in Other Assets, net	**24,455**	(5,132)
Other	**150**	110
	513,164	(518,998)
Cash Flows Investing Activities		
Payments received on Notes Receivable	**4,158**	11,757
Increase in Mortgage Loans Held for Investment		(292,448)
Decrease (Increase) in Construction Loans	**59,546**	(112,946)
Investment in and Advances to Joint Ventures	**(160,877)**	(187,052)
Distributions of Capital from Joint Ventures	**67,755**	148,242
(Increase) Decrease in Investments in and Advances to Unconsolidated Subsidiaries		
Purchases of Property and Equipment, net	**(9,595)**	(26,929)
Proceeds from Dispositions	**21,978**	494,013
Other	**(3,563)**	(6,105)

	(20,598)	28,532
Cash Flows Financing Activities		
Decrease (Increase) in Restricted Cash	**47,123**	(90,182)
(Decrease) Increase in Short-term Debt, net	**(1,034,766)**	294,129
Centex		
Issuance of Long-term Debt		500,641
Repayment of Long-term Debt	**(281,214)**	(192,991)
Financial Services		
Issuance of Long-term Debt		961,126
Repayment of Long-term Debt	**(60,000)**	(746,680)
Proceeds from Stock Option Exercises	**30,543**	53,800
Purchases of Common Stock, net	**(598)**	(263,235)
Dividends Paid and Capital Contributions Received	**(14,536)**	(14,302)
	(1,313,448)	502,306
Net (Decrease) Increase in Cash and Cash Equivalents	**(820,882)**	11,840
Cash and Cash Equivalents at Beginning of Period (1)	**882,754**	47,955
Cash and Cash Equivalents at End of Period (2)	**$ 61,872**	$ 59,795

See Notes to Consolidated Financial Statements.

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

(2) *Amount includes cash and cash equivalents of discontinued operations of $0 as of December 31, 2007 and $1,436 as of December 31, 2006.*

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

Centex *		Financial Services	
For the Nine Months Ended December 31,		*For the Nine Months Ended December 31,*	
2007	2006	**2007**	2006
$ (1,746,980)	$ 69,511	**$ (61,706)**	$ 84,227
35,688	36,198	**4,696**	6,760
29,620	52,446		
		82,775	27,836
1,641,304	499,177		
13,116	(117,029)	**(40,145)**	68,015
187,039	(25,254)		
21,769	684,302		
	(437)	**(221)**	26
(16,966)	(4,772)		(121,266)
28,365	17,229	**(449)**	(1,904)
(202,314)	49,811	**29,252**	(8,929)
		751,313	259,761
		49,614	(15,765)
179,189	(1,455,848)		
8,763	(463)	**9,102**	360
(423,009)	(38,482)	**(26,642)**	(8,173)
25,547	(12,159)	**(1,092)**	7,027
150	110		
(218,719)	(245,660)	**796,497**	297,975
4,158	11,651		106
			(292,448)
		59,546	(112,946)
(160,877)	(187,052)		
67,755	148,242		
(252,614)	12,672		
(7,900)	(20,526)	**(1,695)**	(6,403)
21,978	37,676		468,132
(3,563)	(6,105)		
(331,063)	(3,442)	**57,851**	56,441

		47,123	(90,182)
(807)	179,584	**(1,033,959)**	114,545
	500,641		
(281,214)	(192,991)		
			961,126
		(60,000)	(746,680)
30,543	53,800		
(598)	(263,235)		
(14,536)	(14,302)	**188,000**	(595,780)
(266,612)	263,497	**(858,836)**	(356,971)
(816,394)	14,395	**(4,488)**	(2,555)
870,688	36,711	**12,066**	11,244
$ 54,294	$ 51,106	**$ 7,578**	$ 8,689

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

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Centex Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2007
(Unless otherwise indicated, dollars and shares in thousands, except per share data)
(unaudited)

(A) SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

In the opinion of the Company 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.

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

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Interest Expense

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

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2007	2006	**2007**	2006
Total Interest Incurred	**$ 68,206**	$ 98,150	**$ 226,643**	$ 393,951
Less Interest Capitalized	**(56,999)**	(74,314)	**(178,369)**	(219,623)
Financial Services Interest Expense	**(11,207)**	(23,836)	**(48,274)**	(66,436)
Discontinued Operations				(107,892)
Interest Expense, net	**$**	$	**$**	$
Capitalized Interest Charged to Home Building s Costs and Expenses	**$ 69,854**	$ 66,811	**$ 209,618**	$ 150,664

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 of Financial Accounting Standards Board (FASB) Statement No. 109, Accounting for Income Taxes (SFAS 109), the Company assesses, on a quarterly basis, the realizability of its deferred income tax asset. 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 income tax asset will not be realized. Realization of deferred income 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.

On April 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). The cumulative effect of the adoption of FIN 48 was recorded as a $208.3 million reduction to beginning retained earnings in the first quarter of fiscal year 2008. Please refer to Note (J), Income Taxes, for additional information relating to the adoption of FIN 48.

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

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

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

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

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 123(R)), under which the Company recognizes compensation expense of a stock-based award over the vesting period based on the fair value of the award on the grant date, net of forfeitures. The fair value of stock options granted is calculated under the Black-Scholes option-pricing model.

The following information represents the Company s grants of stock-based compensation to employees and directors during the nine months ended December 31, 2007 and the year ended March 31, 2007:

Period of Grant	Grant Type	Number of Shares Granted	Fair Value of Grant
For the year ended March 31, 2007	Stock Options	1,420.3	$ 28,603.0
	Stock Units	366.2	$ 19,955.4
	Restricted Stock	121.2	$ 6,379.9
For the nine months ended December 31, 2007	**Stock Options**	**646.6**	**$ 10,116.9**
	Stock Units	**261.5**	**$ 11,368.1**
	Restricted Stock	**160.1**	**$ 5,035.0**

In addition to the stock-based awards in the above table, the Company issued to officers and employees during the first quarter of fiscal year 2008 long-term performance awards that vest after three years with an initial aggregate value of $18.9 million. These awards will be settled in cash and adjusted based on the Company s performance relative to its peers in earnings per share growth and return on equity, as well as changes in the Company s stock price between the date of grant and the end of the performance period. In accordance with the provisions of SFAS 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.

Statements of Consolidated Cash Flows Supplemental Disclosures

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

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

	For the Three Months Ended December 31,	*For the Nine Months Ended December 31,*

	2007	2006	**2007**	2006
Cash Paid for Interest	**$ 65,318**	$ 88,930	**$ 219,313**	$ 377,418
Net Cash Paid for Taxes	**$ 81**	$ 19,237	**$ 209,286**	$ 290,104

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 December 31, 2007 and March 31, 2007, the Company consolidated $71.7 million and $152.9 million, respectively, of land as inventory under the caption land held under option agreements not owned. The Company also recorded $68.3 million and $90.5 million as of December 31, 2007 and March 31, 2007, respectively, of lot option agreements for which the Company s deposits exceeded certain thresholds.

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

deferred income taxes, a $329.2 million increase in accrued liabilities and a $213.2 million reduction in stockholders equity in the first quarter of fiscal year 2008. Transfers of mortgage loans between categories (i.e., loans in foreclosure included in trade and other receivables, real-estate owned included in other inventories, etc.) have been treated as non-cash items.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), that serves to define fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 will be effective for the Company as of April 1, 2008. The Company is currently evaluating the impact, if any, of adopting SFAS 157 on its financial statements.

The FASB Staff has exposed for comment a FASB Staff Position (FSP) that would delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of items to which the deferral would apply include, but are not limited to, reporting units measured at fair value in the first step of a goodwill impairment test and long-lived assets (asset groups) measured at fair value for an impairment assessment (e.g. inventory impairment assessments). For the Company, the FSP, as proposed, would defer the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities to April 1, 2009.

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

In November 2007, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings (SAB 109). SAB 109 requires that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan commitments issued or modified beginning January 1, 2008. The Company expects that the adoption of SAB 109 will not have a material impact on its results of operations or financial position.

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. SFAS 160 will be effective for the Company as of April 1, 2009. The Company is currently evaluating the impact, if any, of adopting SFAS 160 on its financial statements.

Reclassifications

Certain prior year balances have been reclassified to be consistent with the December 31, 2007 presentation, including reclassification of certain restricted cash balances to cash flows from financing activities, reclassification of construction lending activity to cash flows from investing activities, reclassification of the construction loan allowance against the related mortgage, reclassification of certain inventory amounts from housing projects to other inventory, and reclassifications of discontinued operations.

(B) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity is presented below:

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Total
Balance, March 31, 2007	119,970	$ 31,041	$ 48,349	$ 5,250,873	$ (217,994)	$ 5,112,269
Adoption of FIN 48			(4,898)	(208,295)		(213,193)
Issuance of Restricted Stock and Stock Units	363	40	(17,419)		11,351	(6,028)
Stock Compensation			29,620			29,620
Exercise of Stock Options Including Tax Benefits	1,934	483	35,948			36,431
Cash Dividends				(14,536)		(14,536)
Purchase of Common Stock for Treasury	(20)				(598)	(598)
Other Stock Transactions	4	1	139			140
Net Loss				(1,746,980)		(1,746,980)
Balance, December 31, 2007	**122,251**	**$ 31,565**	**$ 91,739**	**$ 3,281,062**	**$ (207,241)**	**$ 3,197,125**

(C) MORTGAGE LOANS

Mortgage loans receivable consist of the following:

	As of **December 31, 2007**	March 31, 2007
Mortgage Loans Held for Sale	**$ 569,491**	$ 1,313,561
Construction Loans, net of Allowance of $72,342 and $5,826	**178,266**	374,084
Mortgage Loans Receivable, net	**$ 747,757**	$ 1,687,645

As of December 31, 2007, Financial Services is committed, under existing construction loan agreements, to fund $74.4 million in addition to the construction loan balance shown above. Financial Services has ceased origination of new construction loans; however, it will fulfill its existing funding commitments.

(D) INVENTORIES

Housing Projects and Land Held for Development and Sale

A summary of housing projects is provided below:

	As of	
	December 31, 2007	March 31, 2007
Direct Construction	**$ 2,676,264**	$ 3,041,290
Land Under Development	**3,678,042**	5,433,593
Housing Projects	**$ 6,354,306**	$ 8,474,883

For the three and nine months ended December 31, 2007, the Company recorded $502.9 million and $1,492.4 million, respectively, in land-related impairments due to challenging market conditions. For the three and nine months ended December 31, 2006, the Company recorded $205.4 million and $235.4 million, respectively, in land-related impairments. Land-related impairments during the three months ended December 31, 2007 represented 147 neighborhoods and land investments. Land-related impairments during the nine months ended December 31,

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2007 represented 316 neighborhoods and land investments, certain of which have been impaired more than once. At December 31, 2007, the remaining carrying value of neighborhoods and land investments for which an impairment was recorded in the three months ended December 31, 2007 was $683.0 million.

Land Held Under Option Agreements Not Owned and Other Land Deposits

The Company enters into land option purchase agreements. Under the option agreements, the Company pays a stated deposit or issues a letter of credit in consideration for the right to purchase land at a future time, usually at predetermined prices. These options generally do not contain performance requirements from the Company nor obligate the Company to purchase the land, and expire on various dates. At December 31, 2007, the Company had 161 land option agreements.

In accordance with the provisions of FIN 46, the Company is the primary beneficiary of $71.7 million and $152.9 million as of December 31, 2007 and March 31, 2007, respectively, of land, which represents the remaining purchase price of the land. Land consolidated under FIN 46 is recorded under the caption land held under option agreements not owned, with a corresponding increase to minority interests. At December 31, 2007, 11 land option agreements were consolidated pursuant to FIN 46.

In addition to land options recorded pursuant to FIN 46, the Company determined that five land option agreements represent financing arrangements pursuant to the provisions of SFAS 49, Product Financing Arrangements (SFAS 49). As a result, the Company recorded $68.3 million and $90.5 million as of December 31, 2007 and March 31, 2007, respectively, of land, which represents the remaining purchase price of the land. Land consolidated pursuant to SFAS 49 is recorded under the caption land held under option agreements not owned, with a corresponding increase to accrued liabilities.

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

	As of	
	December 31, 2007	March 31, 2007
Cash Deposits included in:		
Land Held for Development and Sale	**$ 36,688**	$ 89,737
Land Held Under Option Agreements Not Owned	**37,806**	38,642
Total Cash Deposits in Inventory	**74,494**	128,379
Letters of Credit	**1,493**	12,854
Total Invested through Deposits or Secured with Letters of Credit	**$ 75,987**	$ 141,233
Total Purchase Price of Land Option Agreements	**$ 1,812,704**	$ 3,324,636

In addition to deposits, the Company capitalizes pre-acquisition development costs related to land held under option agreements. As of December 31, 2007 and March 31, 2007, pre-acquisition costs recorded to land held for development and sale were $21.8 million and $48.0 million, respectively. Also included in land held for development and sale is owned land that is not currently anticipated to be developed for more than two years and land that the

Company intends to sell within one year, which amounted to $395.9 million and $20.5 million as of December 31, 2007 and March 31, 2007, respectively.

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 amounted to $26.4 million and $87.6 million for the three and nine months ended December 31, 2007, respectively, as compared to $138.0 million and $263.8 million for the three and nine months ended December 31, 2006, respectively.

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(E) GOODWILL

A summary of changes in goodwill by segment for the nine months ended December 31, 2007 is presented below:

	As of March 31, 2007	Goodwill Acquired	Goodwill Disposed	Goodwill Impairments	**As of December 31, 2007**
Home Building					
East	$ 27,945	$	$	$	**$ 27,945**
Southeast	29,160			(22,452)	**6,708**
Central	7,654		(595)	(3,488)	**3,571**
Texas	9,720				**9,720**
Northwest	22,721			(13,755)	**8,966**
Southwest	24,301			(21,627)	**2,674**
Other homebuilding					
Total Home Building	121,501		(595)	(61,322)	**59,584**
Financial Services	8,952				**8,952**
Other	88,589	2,598	(1,516)		**89,671**
Total	$ 219,042	$ 2,598	$ (2,111)	$ (61,322)	**$ 158,207**

Goodwill for the Other segment at December 31, 2007 relates to the Company s home services operations. 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. In the quarter ended September 30, 2007, management determined that events and circumstances had occurred that indicated the remaining goodwill balances within the homebuilding reporting units of the segment may not be recoverable. These events included, but were not limited to, the significant land-related impairments and write-offs taken across all homebuilding segments except for Texas and an unprecedented disturbance within the mortgage markets that made it more difficult for certain homebuilding customers to obtain mortgage financing.

Based on these factors, homebuilding goodwill was evaluated for impairment during the second quarter of fiscal year 2008. As a result of the impairment test, the Company recorded goodwill impairments as outlined in the table above.

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(F) INDEBTEDNESS

A summary of the balances of short-term and long-term debt (debt instruments with original maturities greater than one year) and weighted-average interest rates at December 31, 2007 and March 31, 2007 is presented below. Due dates are presented in fiscal years.

	As of			
	December 31, 2007		March 31, 2007	
		Weighted-Average Interest Rate		Weighted-Average Interest Rate
Short-term Debt:				
Centex	**$**		$ 1,807	
Financial Services				

As of March 31, 2007, Centex s short-term debt consisted of land and land-related acquisition notes of $1.8 million.

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The weighted-average interest rates for short-term and long-term debt during the nine months ended December 31, 2007 and 2006 were:

	For the Nine Months Ended December 31,	
	2007	2006
Short-term Debt:		
Centex		5.33%
Financial Services	**6.05%**	3.57%
Long-term Debt:		
Centex		
Medium-term Note Programs	**5.68%**	6.07%
Senior Notes	**5.86%**	5.85%
Other Indebtedness	**6.69%**	6.05%
Subordinated Debentures		8.75%
Financial Services		
Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable Certificates	**7.42%**	7.31%

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

	Centex	Financial Services	Total
2008	$ 300,637	$	$ 300,637
2009	151,790		151,790
2010	225,411		225,411
2011	700,255		700,255
2012	349,422		349,422
Thereafter	1,895,721		1,895,721
	$ 3,623,236	$	$ 3,623,236

Under debt covenants contained in the Company s multi-bank revolving credit facility, the Company is required to maintain compliance with certain financial covenants. Material covenants include a maximum leverage ratio and a minimum tangible net worth. The Company s credit facility also includes an interest coverage ratio. This ratio is a determinant of the maximum leverage ratio covenant and certain of the credit facility s pricing provisions. In addition, the Company s committed bank warehouse credit facility contains various affirmative and negative covenants that are generally customary for a facility of this type. At December 31, 2007, the Company was in compliance with its debt covenants.

The Company obtained a waiver for the third quarter of fiscal year 2008, waiving any event of default under its financial covenants caused by the recognition of a deferred income tax asset valuation allowance.

The Company will seek an amendment to its multi-bank revolving credit facility in the fourth quarter of fiscal year 2008, which will include modifications to the covenant provisions included in the credit facility. The amendment may also include, among other things, a reduction in the commitment amount under this facility and a borrowing base formula to calculate credit availability, triggered only if the Company s senior unsecured debt falls below investment grade as rated by two out of the three principal rating agencies.

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Credit Facilities

The Company s existing credit facilities and available borrowing capacity as of December 31, 2007 are summarized below:

	Existing Credit Facilities	Available Capacity
Centex		
Multi-Bank Revolving Credit Facility		
Revolving Credit	$ 1,250,000	$ 1,250,000
Letters of Credit	835,000	416,945
	2,085,000	1,666,945 *(1)*
Financial Services		
Secured Credit Facilities	457,000	57,274 *(2)*
Other Facilities	250,000	*(3)*
	707,000	57,274
	$ 2,792,000	$ 1,724,219

(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2010, that serves as funding for general corporate purposes and provides $835 million of letter of credit capacity. As of December 31, 2007, there were no amounts outstanding under the revolving credit facility.

(2) CTX Mortgage Company, LLC maintains $457 million of secured, committed mortgage warehouse facilities.

(3) There will be no additional borrowings under these facilities. Amounts outstanding of $169.4 million as of December 31, 2007 will be repaid using the proceeds from the sale of the loans or the underlying collateral or repaid by Financial Services.

Funding of Mortgage Loans

CTX Mortgage Company, LLC has historically funded its origination of mortgage loans through the sale of such mortgage loans to Harwood Street Funding I, LLC (HSF-I) and, to a lesser extent, through borrowings under more traditional committed bank warehouse credit facilities and mortgage loan sale agreements. As a result of the significant disruptions in the mortgage and asset-backed commercial paper markets, beginning in the second quarter of fiscal year 2008, HSF-I was unable to finance the purchase of mortgage loans from CTX Mortgage Company, LLC. In November 2007, HSF-I and the related swap arrangements were terminated and all outstanding obligations were redeemed. The termination of HSF-I was entirely due to these external market factors and not to any quality or performance issues related to HSF-I or its underlying collateral.

CTX Mortgage Company, LLC is currently funding its mortgage originations primarily through borrowings under a committed bank warehouse credit facility and a mortgage loan sale agreement. 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. The bank has the option 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 BB+ by Standard & Poors (S&P) or Fitch or below Ba1 by Moody s Investors Service (Moody s). The Company s long-term unsecured del is currently rated BBB- by S&P, BBB by Fitch and Ba1 by Moody s. CTX Mortgage Company, LLC may also seek to enter into additional mortgage warehouse facilities with other lenders. Borrowings under the warehouse facility constitute short-term debt of Financial Services.

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 records a liability for its estimated losses for these obligations and such amount is included in its loan origination reserve.

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If the current funding sources were 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 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.

HSF-I was a variable interest entity of which the Company was the primary beneficiary and that was consolidated in the Company s financial statements. Prior to August 2007, substantially all of the mortgage loans originated by CTX Mortgage Company, LLC were funded through the sale of such mortgage loans to HSF-I under the terms of a mortgage loan purchase agreement. HSF-I obtained the funds needed to purchase eligible mortgage loans from CTX Mortgage Company, LLC by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated certificates. As of December 31, 2007, HSF-I had no outstanding secured liquidity notes, medium-term debt or subordinated certificates. All of HSF-I s outstanding secured liquidity notes were redeemed in accordance with their scheduled maturity dates, and in November 2007, all outstanding subordinated certificates were redeemed.

CTX Mortgage Company, LLC and its related companies sold $1.95 billion and $2.31 billion of mortgage loans to investors during the three months ended December 31, 2007 and 2006, respectively, and $7.03 billion and $7.56 billion during the nine months ended December 31, 2007 and 2006, respectively. CTX Mortgage Company, LLC and its related companies recognized gains on sales of mortgage loans and related derivative activity of $21.8 million and $36.4 million during the three months ended December 31, 2007 and 2006, respectively, and $91.2 million and $122.8 million during the nine months ended December 31, 2007 and 2006, respectively.

(G) COMMITMENTS AND CONTINGENCIES

Joint Ventures

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

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

	As of December 31, 2007			*As of March 31, 2007*		
	Active *(1)*	Investments	Centex s Share of Debt	Active *(1)*	Investments	Centex s Share of Debt
Unleveraged Joint Ventures	**25**	**$ 31,655**	**$**	28	$ 33,369	$
Joint Ventures with Debt:	**18**			21		
Limited Maintenance Guarantee *(2) (3) (4)*		**87,866**	**50,833**		108,057	162,425
Repayment Guarantee *(2) (5)*		**2,513**	**14,142**		2,247	16,045
Completion Guarantee *(4)*		**106,513**	**172,783**		126,469	209,927

No Recourse or Guarantee		**12,547**	**24,000**		11,502	24,000
	43	**$ 241,094**	**$ 261,758**	49	$ 281,644	$ 412,397

(1) *The number of active joint ventures includes unconsolidated Home Building joint ventures for which the Company has an investment balance as of the end of the period and/or current fiscal year activity. The Company was the managing member of 24 and 28 of the active joint ventures as of December 31, 2007 and March 31, 2007, respectively.*

(2) *These amounts represent the Company s maximum exposure related to the joint ventures debt at each respective date.*

(3) *The Company has guaranteed that certain of the joint ventures will maintain a specified loan to value ratio. For certain joint ventures, the Company has contributed additional capital in order to maintain loan to value requirements.*

(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. For certain joint ventures, the Company has contributed additional capital in order to complete land development.*

(5) *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.*

Total joint venture debt outstanding as of December 31, 2007 and March 31, 2007 was $571.9 million and $1.0 billion, respectively. 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 and most guarantee arrangements provide that the Company is liable for its proportionate share of the outstanding debt if the joint venture files for voluntary bankruptcy. To date, the Company has not been requested to perform under the environmental liabilities or voluntary bankruptcy guarantees for any of its joint ventures.

During the three months ended December 31, 2007, the lender to certain of the Company s joint ventures has notified the Company that it believes the joint ventures are in default of certain joint venture loan agreements as a result of the Company s joint venture partner not complying with all aspects of the joint ventures loan agreements. The lender has not taken any action against the joint ventures or the Company at this time. Additionally, a lender to two of the Company s other joint ventures has notified the Company that it believes the joint ventures are in default of their joint venture loan agreements for not meeting their contractual obligations. The Company is currently in discussions with the lender. Based upon the terms and debt amounts outstanding for these joint ventures and the terms of the joint venture agreements, the Company does not believe its exposure related to these joint venture defaults will be material to its financial position or results of operations.

A summary of the estimated maturities of our share of joint ventures debt is provided below. The Company has estimated the debt maturities with the assumption that all payments are first applied to pay down the outstanding debt balances as of December 31, 2007, and the Company has not projected the early repayment of joint venture debt.

		For the Fiscal Years Ended March 31,
2008	$	52,511
2009		124,103
2010		34,782
2011		25,601
2012		24,761
Thereafter		
	$	261,758

Letters of Credit and Surety Bonds

In the normal course of business, the Company issues letters of credit and surety bonds: (1) pursuant to certain performance related obligations, (2) as security for certain land option purchase agreements of the Home Building line of business, and (3) under various insurance programs. The Company also previously issued 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. The Company does not expect these letters of credit or bonds will be drawn upon.

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

	As of December 31, 2007		*As of March 31, 2007*	
	Letters of Credit	Surety Bonds	Letters of Credit	Surety Bonds
Home Building	**$ 180.3**	**$ 1,825.6***(1)*	$ 209.1	$ 1,542.3
Financial Services	**25.7**	**13.1**	0.7	10.7
Other	**187.5**	**1.7**	94.4	1.7
Discontinued Operations [(2)]	**25.0**	**3,544.0**	38.1	4,161.8
	$ 418.5	**$ 5,384.4**	$ 342.3	$ 5,716.5

(1) The Company estimates that $670.7 million of work remains to be performed on these projects as of December 31, 2007.

(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 $3.54 billion at December 31, 2007, although the risk of liability with respect to these surety bonds declines as the relevant

construction projects are performed. At December 31, 2007, the Company estimates that $726.8 million of work remains to be performed on these projects. In connection with certain of these surety bond obligations, the Company has provided a $100 million letter of credit to such surety. The purchaser of Construction Services has agreed to indemnify the Company against losses relating to such surety bond obligations, including amounts drawn under any such letter of credit. The Company has purchased for its benefit an additional back-up indemnity provided by a financial institution with an A+ (S&P), A1 (Moody s) credit rating. The obligation of such financial institution under the back-up indemnity is $1.10 billion as of December 31, 2007, which declines to $400 million over time and terminates in 2016.

Community Development and Other Special District Obligations

A Community Development District or similar development authority (CDD) is a unit of local government created under state statutes that utilizes bond financing to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds including principal and interest is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. In accordance with EITF 91-10, Accounting for Special Assessments and Tax Increment Financing, the Company records a liability for future assessments, which are fixed or determinable for a fixed or determinable period. In addition and in accordance with SFAS 5, 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 December 31, 2007 and March 31, 2007, the Company had recorded $304.1 million and $280.2 million, respectively, in accrued liabilities for outstanding CDD obligations.

Warranties and Guarantees

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

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

Changes in Home Building s contractual warranty liability are as follows for the nine months ended December 31, 2007 and the year ended March 31, 2007:

	December 31, 2007	March 31, 2007 *(1)*
Balance at Beginning of Period	**$ 44,293**	$ 47,199
Warranties Issued	**24,634**	42,422
Settlements Made	**(32,762)**	(45,228)
Changes in Liability of Pre-Existing Warranties, Including Expirations	**(863)**	(100)
Balance at End of Period	**$ 35,302**	$ 44,293

(1) For the nine months ended December 31, 2006, warranties issued, settlements made and changes in liability of pre-existing warranties were $37,008, $(37,146) and $(100), respectively.

Financial Services has established a liability for anticipated losses associated with mortgage loans originated. Changes in Financial Services liability are as follows for the nine months ended December 31, 2007 and the year ended March 31, 2007:

	December 31, 2007	March 31, 2007 (1)
Balance at Beginning of Period	**$ 16,863**	$ 18,500
Provision for Losses	**1,270**	2,160
Settlements	**(6,752)**	(1,178)
Changes in Pre-Existing Reserves	**4,614**	(2,619)
Balance at End of Period	**$ 15,995**	$ 16,863

(1) For the nine months ended December 31, 2006, provisions for losses, settlements and changes in pre-existing reserves were $1,561, $(716) and $(2,355), respectively.

Forward Trade and Interest Rate Lock Commitments

Forward trade commitments represent the fair value of contracts with investors for delayed delivery of mortgage loans for which the Company agrees to make delivery at a specified future date at a specified price. The Company utilizes such delayed delivery contracts to hedge market risk based upon the number of commitments issued to mortgagors that are expected to close. Fair value is estimated using quoted market prices for current dealer commitments to purchase loans. At December 31, 2007, the Company had $221.4 million of commitments to deliver mortgages to investors against interest rate lock commitments. In addition, at December 31, 2007, the Company had commitments to deliver approximately $628.0 million of mortgage loan inventory to investors.

Interest rate lock commitments (IRLCs) represent the fair value of individual mortgagor agreements that commit the Company to lend at a specified price for a specified period as long as there is no violation of any condition established in the commitment contract. Fair value is estimated using quoted market prices on fixed loan commitments in the mortgage pipeline. At December 31, 2007, the Company had loan commitments to prospective mortgagors of $238.5 million.

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

Litigation and Related Matters

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

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

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

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(H) COMPREHENSIVE INCOME

A summary of comprehensive income is presented below:

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2007	2006	**2007**	2006
Net Earnings (Loss)	**$ (975,188)**	$ (228,146)	**$ (1,746,980)**	$ 69,511
Other Comprehensive Income, net of Tax:				
Unrealized Loss on Hedging Instruments				7,036
Foreign Currency Translation Adjustments				72
Hedging Gain Reclassified to Net Earnings				(15,738)
Comprehensive Income (Loss)	**$ (975,188)**	$ (228,146)	**$ (1,746,980)**	$ 60,881

The unrealized gain on hedging instruments represented the deferral in other comprehensive income (loss) of the unrealized gain on interest rate swap agreements designated as cash flow hedges. The accumulated other comprehensive income associated with Home Equity s hedging gains for the nine months ended December 31, 2006 was reclassified to earnings from discontinued operations and included in the gain on sale of Home Equity recorded in the second quarter of fiscal year 2007.

(I) BUSINESS SEGMENTS

As of December 31, 2007, the Company operated in two principal lines of business: Home Building and Financial Services. These lines of business operate in the United States, and their markets are nationwide. Revenues from any one customer are not significant to the Company.

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

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

Southeast: Florida, Georgia (Atlanta only) and Tennessee

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

Texas: Texas

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

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

Other homebuilding *(1)*

(1) Other homebuilding includes projects that the Company plans to build-out and liquidate, and ancillary businesses (including framing and holding companies) conducting business in the following states: Florida,

North Carolina, New Hampshire and Texas. In addition, Other homebuilding includes amounts consolidated under the caption land held under option agreements not owned and capitalized interest for all regions.

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

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

Home Building

Home Building s operations currently involve the purchase and development of land or lots and the construction and sale of detached and attached single-family homes and land or lots. During the three months ended December 31, 2007, approximately 80% of the homes closed were single-family, detached homes. Included in Home Building s loss from unconsolidated entities and other for the three and nine months ended December 31, 2007 is the Company s share of joint venture impairments totaling $24.9 million and $88.5 million, respectively. During the three and nine months ended December 31, 2006, the Company recorded $96.4 million and $106.9 million, respectively, as its share of joint venture impairments.

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Financial Services

Financial Services operations consist primarily of mortgage lending, title agency services and the sale of title insurance and other insurance products. These activities include mortgage origination and other related services for homes sold by the Company s subsidiaries and others. Financial Services revenues include interest income of $14.6 million and $32.0 million for the three months, and $61.8 million and $91.2 million for the nine months, ended December 31, 2007 and 2006, respectively. The majority of the Company s interest income in each year is earned by the Financial Services segment. Financial Services cost of sales is comprised of interest expense related to debt issued to fund its home financing activities.

Other

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

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

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2007	2006	**2007**	2006
Operating Earnings (Loss) from Home Services Operations	**$ 1,458**	$ (1,226)	**$ 4,166**	$ (4,324)
Interest Income and Other Income	**1,320**		**24,145**	
Corporate General and Administrative Expense	**(37,850)**	(72,369)	**(117,371)**	(172,137)
Other	**125**	(67)	**348**	2,532
	$ (34,947)	$ (73,662)	**$ (88,712)**	$ (173,929)

A summary of the revenues and earnings or loss of the Company s segments is as follows:

	For the Three Months Ended December 31,					
	2007			2006		
	Revenues	**Earnings (Loss) from Unconsolidated Entities and Other**	**Earnings (Loss) from Continuing Operations Before Income Tax**	Revenues	Earnings (Loss) from Unconsolidated Entities and Other	Earnings (Loss) from Continuing Operations Before Income Tax
Home Building						
East	**$ 376,321**	**$ (7,046)**	**$ (47,892)**	$ 518,342	$ 355	$ (31,231)
Southeast	**206,755**	**729**	**(127,261)**	340,574	2,739	9,615

Central	**184,376**	**(1,379)**	**(39,877)**	246,275	1,506	(27,940)
Texas	**225,290**	**87**	**9,343**	276,819	146	22,595
Northwest	**373,234**	**(27,723)**	**(199,612)**	507,520	(39,308)	(81,885)
Southwest	**411,110**	**(26,242)**	**(186,447)**	603,057	(16,591)	(128,047)
Other homebuilding	**33,998**	**1,049**	**(33,519)**	94,664	4,988	(5,509)
Total Home Building	**1,811,084**	**(60,525)**	**(625,265)**	2,587,251	(46,165)	(242,402)
Financial Services	**62,203**		**(60,484)**	107,577		16,496
Other	**32,800**		**(34,947)**	31,388		(73,662)
Total	**$ 1,906,087**	**$ (60,525)**	**$ (720,696)**	$ 2,726,216	$ (46,165)	$ (299,568)

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	For the Nine Months Ended December 31,					
	2007			2006		
	Revenues	**Earnings (Loss) from Unconsolidated Entities and Other**	**Earnings (Loss) from Continuing Operations Before Income Tax**	Revenues	Earnings (Loss) from Unconsolidated Entities and Other	Earnings (Loss) from Continuing Operations Before Income Tax
Home Building						
East	**$ 1,225,327**	**$ (9,026)**	**$ (12,830)**	$ 1,635,305	$ 1,809	$ 127,304
Southeast	**680,734**	**(22,336)**	**(293,366)**	1,120,665	5,944	93,337
Central	**591,384**	**542**	**(98,345)**	819,717	2,062	(18,119)
Texas	**716,329**	**519**	**43,187**	788,872	344	66,490
Northwest	**1,164,610**	**(50,860)**	**(427,460)**	1,549,103	(28,128)	69,246
Southwest	**1,208,604**	**(32,646)**	**(782,190)**	1,744,098	(25,629)	(136,083)
Other homebuilding	**133,400**	**1,447**	**(178,733)**	237,375	7,122	16,071
Total Home Building	**5,720,388**	**(112,360)**	**(1,749,737)**	7,895,135	(36,476)	218,246
Financial Services	**240,869**		**(99,597)**	350,896		65,747
Other	**102,247**		**(88,712)**	99,673		(173,929)
Total	**$ 6,063,504**	**$ (112,360)**	**$ (1,938,046)**	$ 8,345,704	$ (36,476)	$ 110,064

A summary of the impairments and write-offs of the Company s segments is as follows:

	For the Three Months Ended December 31,					
	2007			2006		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
Home Building						
East	**$**	**$ 41,490**	**$ 10,647**	$	$ 55,957	$ 31,787
Southeast		**115,793**	**830**		9,888	6,606
Central		**26,219**	**3,894**		16,224	15,445
Texas		**363**	**904**		298	370
Northwest		**169,244**	**5,204**		58,864	31,662
Southwest		**120,764**	**4,934**		64,153	52,106
Other homebuilding		**29,076**	**(47)**		(19)	26
Total Home Building		**502,949**	**26,366**		205,365	138,002
Financial Services						
Other						
Total	**$**	**$ 502,949**	**$ 26,366**	$	$ 205,365	$ 138,002

	For the Nine Months Ended December 31,					
	2007			2006		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
Home Building						
East	**$**	**$ 59,599**	**$ 26,252**	$	$ 55,957	$ 37,516
Southeast	**22,452**	**201,262**	**14,685**		16,028	21,183
Central	**3,488**	**68,066**	**12,432**		16,224	25,329
Texas		**363**	**1,768**		298	389
Northwest	**13,755**	**375,121**	**18,357**		58,864	50,175
Southwest	**21,627**	**615,983**	**13,929**		88,037	127,368
Other homebuilding		**172,034**	**131**		(19)	1,828
Total Home Building	**61,322**	**1,492,428**	**87,554**		235,389	263,788
Financial Services						
Other						
Total	**$ 61,322**	**$ 1,492,428**	**$ 87,554**	$	$ 235,389	$ 263,788

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A summary of assets by segment is as follows:

	As of			
	December 31, 2007		March 31, 2007	
	Inventory	**Total Assets**	Inventory	Total Assets
Home Building				
East	**$ 1,336,744**	**$ 1,542,762**	$ 1,477,904	$ 1,663,815
Southeast	**1,421,822**	**1,532,284**	1,703,614	1,821,660
Central	**426,840**	**455,001**	606,508	652,799
Texas	**610,630**	**629,340**	605,200	630,396
Northwest	**1,314,516**	**1,380,767**	1,725,847	1,829,961
Southwest	**1,437,455**	**1,537,078**	2,112,369	2,304,415
Other homebuilding	**454,615**	**1,439,434**	704,868	1,212,444
Total Home Building	**7,002,622**	**8,516,666**	8,936,310	10,115,490
Financial Services	**12,850**	**970,168**	8,747	1,915,082
Other *(1)*	**2,113**	**144,083**	6,022	1,169,361
Total	**$ 7,017,585**	**$ 9,630,917**	$ 8,951,079	$ 13,199,933

(1) The Company s consolidated deferred income tax asset valuation allowance is reflected in the Other segment.

(J) INCOME TAXES

The Company recognized an income tax provision of $254.5 million and an income tax benefit of $57.2 million for the three months ended December 31, 2007 and 2006, respectively. The Company recognized an income tax benefit of $187.7 million for the nine months ended December 31, 2007 versus income tax expense of $99.6 million for the same period of the prior year. The significant changes in the Company s effective tax rate reflect the establishment of a deferred income tax asset valuation allowance, the recognition of a liability for unrecognized tax benefits and related accrued interest, nondeductible compensation, a reduction of the domestic manufacturing deduction and a decrease in pre-tax earnings.

The Company s deferred income tax asset was $626.1 million and $489.8 million as of December 31, 2007 and March 31, 2007, respectively. The increase in the deferred income tax asset was due primarily to land-related impairments, which were partially offset by a $500 million deferred tax asset valuation allowance recorded during the three months ended December 31, 2007.

In accordance with the provisions of SFAS 109, the Company assesses, on a quarterly basis, the realizability of its deferred income tax asset. 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 income tax asset will not be realized. Realization of deferred income 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.

Based on the Company s assessment, including the implementation of certain tax planning strategies, the realization of approximately $500 million of the Company s deferred income tax asset is dependent upon future taxable income.

Based on the Company s consideration of the current homebuilding industry conditions and the related uncertainty in projections of future taxable income, the Company established a valuation allowance, which increased losses from continuing operations by $500 million, or $4.07 per share, during the three months ended December 31, 2007.

Realization of the remaining deferred income tax asset of $626.1 million as of December 31, 2007 is not assured. The valuation allowance may be increased or decreased as conditions change or if the Company is unable to implement certain tax planning strategies.

On April 1, 2007, the Company adopted FIN 48. The cumulative effect of the adoption of FIN 48 was recorded as a $208.3 million reduction to beginning retained earnings in the first quarter of fiscal year 2008. The total amount of gross unrecognized tax benefits as of April 1, 2007 was $341.4 million (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax). The total amount of unrecognized tax benefits that, if recognized, would affect the Company s effective tax rate was $248.8 million as of April 1, 2007.

Since the adoption of FIN 48 on April 1, 2007, there have been no material changes to the components of the Company s total unrecognized tax benefit, including the amounts that, if recognized, would affect the Company s

effective tax rate. It is reasonably possible that, within the next 12 months, total unrecognized tax benefits may decrease as a result of the potential resolution with the IRS relating to issues stemming from fiscal years 2001 through 2004 federal income tax returns, in addition to the resolution of various state income tax audits and/or appeals. However, the change that could occur within the next 12 months cannot be estimated at this time.

The federal statute of limitations has expired for the Company s federal tax returns filed for tax years through March 31, 2000. In July 2007, the Company received a Revenue Agent s Report from the IRS relating to the ongoing audit of the Company s federal income tax returns for fiscal years 2001 through 2004. The Company believes that its tax return positions are supported and will vigorously dispute the proposed adjustments. The IRS has commenced an examination of our federal tax returns for fiscal years 2005 and 2006.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision that is consistent with the Company s historical accounting policy. After the adoption of FIN 48, the total amount of gross accrued interest and penalties was $112.3 million. As of December 31, 2007, gross accrued interest and penalties was $145.9 million. For the three and nine months ended December 31, 2007, the Company accrued $13.6 million and $33.6 million, respectively, of gross accrued interest and penalties. The Company s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of accrued liabilities.

(K) DERIVATIVES AND HEDGING

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

Fair Value Hedges

Financial Services enters into certain forward trade commitments designated as fair value hedges to hedge the interest rate risk related to its portfolio of mortgage loans held for sale. Accordingly, changes in the fair value of the forward trade commitments and the mortgage loans, for which the hedge relationship is deemed effective, are recorded as an adjustment to earnings. To the extent the hedge is effective, gains or losses in the value of the hedged loans due to interest rate movement will be offset by an equal and opposite gain or loss in the value of the forward trade commitment. This will result in no impact to earnings. To the extent the hedge contains some ineffectiveness, the ineffectiveness is recognized immediately in earnings. The amount of hedge ineffectiveness included in earnings was a gain of $0.5 million for the three months and a loss of $10.7 million for the nine months ended December 31, 2007, respectively. For the three and nine months ended December 31, 2006, the amount of hedge ineffectiveness included in earnings was a gain of $4.0 million and $7.1 million, respectively.

Other Derivatives

Financial Services enters into IRLCs with its customers under which Financial Services agrees to make mortgage loans at agreed upon rates within a period of time, 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 in other assets or accrued liabilities. The fair value of these loan commitment derivatives does not include future cash flows related to the associated servicing of the loan or the value of any internally-developed intangible assets. Subsequent changes in the fair value of the IRLCs are recorded as an adjustment to earnings.

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

The net change in the estimated fair value of other derivatives resulted in a gain of $0.1 million for the three months and a loss of $1.6 million for the nine months ended December 31, 2007, respectively, compared to a loss of $0.2 million and $1.9 million for the three and nine months ended December 31, 2006, respectively.

From time to time, the Company may enter into other forms of derivatives to hedge changes in market values of certain assets and liabilities. The notional value of such derivatives was $15.5 million at December 31, 2007.

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(L) DISCONTINUED OPERATIONS

Condensed Financial Information

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

Home Equity

On July 11, 2006, the Company sold Home Equity and received $518.5 million in cash, net of related expenses and as adjusted for the settlement of post-closing adjustments. In connection with the sale, all intercompany accounts with Home Equity were repaid and settled. As a result of the sale, Home Equity is no longer a subsidiary of Centex Corporation and has changed its name to Nationstar Mortgage, LLC. The purchase price was based on the book value of Home Equity, plus a premium calculated in accordance with agreed upon formulas and procedures.

Additionally, the Company has agreed to indemnify the purchaser of Home Equity for certain contingencies. The Company does not believe such contingencies, if paid, will be material to the Company s results of operations or financial position. The net gain on sale recorded in connection with the sale of Home Equity, including post-closing adjustments recognized subsequent to December 31, 2006, is summarized below:

		For the Year Ended March 31, 2007
Sales and Related Proceeds, net of Related Expenses	$	518,500
Assets Sold		(400,706)
Intercompany Liability Paid by Buyer		(11,795)
Deferred Income		(6,100)
Hedging Gain		25,466
Pre-tax Gain on Sale		125,365
Income Tax Expense		(50,390)
Net Gain on Sale	$	74,975

Construction Services

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

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

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The stock purchase agreement provided for a post-closing adjustment, which was intended to reflect a final calculation of, among other things, the final stockholder s equity balance of Construction Services immediately prior to its sale. In connection with the sale, Construction Services was required to pay a dividend to Centex Corporation equal to its stockholder s equity. The effect of the post-closing adjustment was estimated in the Company s calculation of the gain on sale of Construction Services for the year ended March 31, 2007, but was subject to change. During the first quarter of fiscal year 2008, the amount of the post-closing adjustment was determined, which resulted in an additional $5.5 million pre-tax gain on sale. A summary of the Company s calculation of the gain on sale of Construction Services is below:

	For the Nine Months Ended December 31, 2007		*For the Year Ended March 31, 2007*	
Sales and Related Proceeds, net of Related Expenses	**$**	**5,463**	$	344,752
Assets Sold				
Pre-tax Gain on Sale		**5,463**		344,752
Income Tax Expense		**(2,087)**		(131,695)
Net Gain on Sale	**$**	**3,376**	$	213,057

Summarized Financial Information

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

	For the Three Months Ended December 31,				*For the Nine Months Ended December 31,*			
	2007*(1)*		2006*(2)*		**2007***(1)*		2006 *(2)*	
Revenues	**$**		$	558,234	**$**		$	1,705,084
Costs and Expenses				(547,462)				(1,723,657)
Earnings from Unconsolidated Entities and Other				246				612
Earnings (Loss) Before Income Taxes				11,018				(17,961)
Provision (Benefit) for Income Taxes				3,865				(6,623)
Gain on Sale, net of Tax				7,046		**3,376**		70,344
	$		$	14,199	**$**	**3,376**	$	59,006

(1) Includes Construction Services only.

(2) Includes Construction Services and Home Equity.

(M) SUBSEQUENT EVENTS

In the fourth quarter of fiscal year 2008, the Company will seek an amendment to its multi-bank revolving credit facility, which will include modifications to the covenant provisions included in the credit facility. The amendment may also include, among other things, a reduction in the commitment amount under this facility and a borrowing base formula to calculate credit availability, triggered only if the Company s senior unsecured debt falls below investment grade as rated by two out of the three principal rating agencies.

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

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

Executive Summary

Our results of operations for the three and nine months ended December 31, 2007 were materially affected by continuing adverse conditions impacting our homebuilding and mortgage lending operations. The market conditions continued to deteriorate significantly during the three and nine months ended December 31, 2007, and it is uncertain when they will improve. A summary of our results of operations by line of business is as follows (dollars in thousands):

	For the Three Months Ended December 31,		
	2007	2006	Change
Revenues			
Home Building	**$ 1,811,084**	$ 2,587,251	(30.0%)
Financial Services	**62,203**	107,577	(42.2%)
Other	**32,800**	31,388	4.5%
Total	**$ 1,906,087**	$ 2,726,216	(30.1%)
Earnings (Loss) from Continuing Operations Before Income Taxes			
Home Building	**$ (625,265)**	$ (242,402)	157.9%
Financial Services	**(60,484)**	16,496	(466.7%)
Other	**(34,947)**	(73,662)	(52.6%)
Total	**$ (720,696)**	$ (299,568)	140.6%

	For the Nine Months Ended December 31,		
	2007	2006	Change
Revenues			
Home Building	**$ 5,720,388**	$ 7,895,135	(27.5%)
Financial Services	**240,869**	350,896	(31.4%)
Other	**102,247**	99,673	2.6%
Total	**$ 6,063,504**	$ 8,345,704	(27.3%)
Earnings (Loss) from Continuing Operations Before Income Taxes			
Home Building	**$ (1,749,737)**	$ 218,246	(901.7%)
Financial Services	**(99,597)**	65,747	(251.5%)
Other	**(88,712)**	(173,929)	(49.0%)

Total	**$ (1,938,046)**	$ 110,064	(1,860.8%)

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

increased inventory of new and existing homes for sale, including homes in foreclosure,

reduced availability and increased cost of mortgage financing due to the significant mortgage market disruption in recent periods,

a decrease in the affordability of housing in selected markets as a result of significant price appreciation in the years preceding the downturn and tightened credit standards for homebuyers,

a decline in homebuyer demand due to lower consumer confidence in the consumer real estate market and an inability of many homebuyers to sell their existing homes, and

pricing pressures resulting from the need for home prices to meet FHA and other conforming loan limits and the imbalance between housing supply and housing demand as evidenced by homebuilders offering

significant discounts and sales incentives to homebuyers and seeking to liquidate unsold inventories in order to generate cash.

The inventory of new and existing homes for sale remains high as homebuilders have continued to build unsold homes and foreclosures continue to increase. The hesitancy in homebuyer demand can be attributed to concerns of prospective homebuyers that prices will continue to decline and, in fact, the excess supply of homes for sale and the need for builders to generate cash have caused homebuilders and other home sellers to reduce prices. Other prospective homebuyers have been unable to sell their existing homes. Moreover, during 2007, the mortgage markets experienced a significant disruption, which led to an unprecedented combination of reduced investor demand for mortgage loans and mortgage-backed securities, tightened credit requirements for homebuyers, reduced mortgage loan liquidity and increased credit risk premiums. As a result, prospective borrowers experienced more difficulty or more expense in obtaining loans, or were subject to increased credit score or down payment requirements, which further reduced the demand for homes and mortgage loans during the quarter.

These market conditions materially impacted Home Building s operating results for the nine months ended December 31, 2007 as evidenced by the following:

a $2,174.7 million decrease in homebuilding revenues, net of discounts,

$1,492.4 million in land-related impairments,

$88.5 million in our share of joint ventures impairments,

$87.6 million in write-offs of land deposits and pre-acquisition costs, and

$61.3 million in goodwill impairments.

Revenues for the three and nine months ended December 31, 2007 decreased 30.1% and 27.3%, respectively, when compared to the same periods of the prior year. Earnings (loss) from continuing operations before income taxes were losses of $720.7 million and $1,938.0 million for the three and nine months ended December 31, 2007, respectively, as compared to a loss of $299.6 million and earnings of $110.1 million for the three and nine months ended December 31, 2006, respectively.

During the quarter, we assessed our neighborhoods and land for possible land-related impairments. The market conditions during the quarter adversely impacted anticipated future selling prices, sales rates and other assumptions included in our impairment model, and we recorded significant impairments totaling $502.9 million. If market conditions worsen, or if any of our assumptions are adjusted negatively in future periods, we may have additional land-related impairments, which could be significant.

Our homebuilding operations also experienced a significant decline in operating margin primarily attributable to lower home prices, increases in discounts and sales incentives, including increases in financing and closing costs, increases in sales commissions to help stimulate sales and close homes. In addition, customer cancellation rates remain elevated when compared to historical levels. Customer discounts have steadily increased on a quarterly basis since the fourth quarter of fiscal year 2006. Customer discounts increased to 15.2% of housing revenues for the three months ended December 31, 2007, up from 8.3% in the same period of the prior year. For the nine months ended December 31, 2007, customer discounts increased to 11.6% of housing revenues, up from 6.5% in the same period of the prior year. As a percentage of revenues, closing and financing costs have increased from 3.0% to 3.5% for the three months, and from 2.6% to 3.3% for the nine months, ended December 31, 2007 as compared to the same periods of the prior year. Sales commissions, as a percentage of revenues, have increased from 4.3% to 4.9% for the three months, and from 4.0% to 4.7% for the nine months, ended December 31, 2007 as compared to the same periods of the prior year.

Financial Services operating losses for the three and nine months ended December 31, 2007 were $60.5 million and $99.6 million, respectively, as compared to operating earnings of $16.5 million and $65.7 million for the three and nine months ended December 31, 2006, respectively. For the three and nine months ended December 31, 2007, mortgage loan origination volume decreased 33.7% and 24.6%, respectively. These changes are primarily attributable to the adverse conditions in the mortgage markets described above, which also resulted in an increase in reserves and decreases in gain on sale of mortgages, broker fees and net interest income. Continued adverse market conditions and further declines in homebuyer demand could have a negative impact on Financial Services future operating results.

We anticipate that our business and results of operations will continue to be affected by the difficult industry conditions for some time. In general, we believe that our existing sources of funding, including cash flow from operations and our committed credit facilities are adequate to meet our currently anticipated operating needs, capital expenditures and debt service requirements. However, further deterioration in market conditions, including lower

demand or prices for our homes or further disruption of the mortgage markets, would likely result in declines in sales of our homes, accumulation of unsold inventory and margin deterioration, as well as potential additional land-related impairments and write-offs of deposits and pre-acquisition costs, which could reduce cash flow and profits and require that we seek amendments or waivers to our credit facilities to ensure continued availability of committed debt financing.

We believe the fundamentals that support homebuyer demand in the long-term remain solid and the current market conditions will moderate over time; however, we cannot predict the duration and severity of the current market conditions. We continue to adjust our operations in response to market conditions by reducing our unsold inventory, reducing our land position, and lowering our costs. Our unsold inventory has decreased from 6,386 units as of December 31, 2006 to 4,259 units as of December 31, 2007. Since December 31, 2006, our land position has decreased by 67,415 lots or 36.2%. Further, selling, general and administrative expenses have decreased from $370.6 million and $1,123.5 million for the three and nine months ended December 31, 2006, respectively, to $255.0 million and $850.2 million, respectively, for the same periods of the current year. We are also working to reduce the costs of constructing our homes, although in many cases, cost savings will not be realized until future periods.

During the nine months ended December 31, 2007, we generated $513.2 million in cash flows from operating activities, which was primarily derived through sales of mortgage loans that were not reinvested in new mortgage loans.

HOME BUILDING

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

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Revenues Housing	**$ 1,787,990**	**(28.9%)**	$ 2,516,089	(14.9%)
Revenues Land Sales and Other	**23,094**	**(67.5%)**	71,162	50.5%
Cost of Sales Housing	**(1,564,552)**	**(22.6%)**	(2,020,158)	(2.9%)
Cost of Sales Land Sales and Other	**(556,320)**	**41.6%**	(392,758)	762.1%
Selling, General and Administrative Expenses	**(254,952)**	**(31.2%)**	(370,572)	(2.1%)
Goodwill Impairments				
Loss from Unconsolidated Entities and Other [1]	**(60,525)**	**31.1%**	(46,165)	(194.4%)
Operating Earnings (Loss)[2]	**$ (625,265)**	**157.9%**	$ (242,402)	(144.3%)
Operating Earnings (Loss) as a Percentage of Revenues:				
Housing Operations [3]	**(1.8%)**	**(6.8)**	5.0%	(11.8)
Total Homebuilding Operations	**(34.5%)**	**(25.1)**	(9.4%)	(27.6)

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	For the Nine Months Ended December 31,			
	2007	**Change**	2006	Change
Revenues Housing	**$ 5,626,727**	**(26.7%)**	$ 7,679,986	(4.4%)
Revenues Land Sales and Other	**93,661**	**(56.5%)**	215,149	(17.5%)
Cost of Sales Housing	**(4,787,106)**	**(18.2%)**	(5,854,303)	3.1%
Cost of Sales Land Sales and Other	**(1,659,126)**	**150.4%**	(662,605)	237.9%
Selling, General and Administrative Expenses	**(850,211)**	**(24.3%)**	(1,123,505)	6.2%
Goodwill Impairments	**(61,322)**	**100.0%**		
Earnings (Loss) from Unconsolidated Entities and Other [(1)]	**(112,360)**	**208.0%**	(36,476)	(154.2%)
Operating Earnings (Loss)[(2)]	**$ (1,749,737)**	**(901.7%)**	$ 218,246	(84.7%)
Operating Earnings (Loss) as a Percentage of Revenues:				
Housing Operations [(3)]	**(0.2%)**	**(9.3)**	9.1%	(7.0)
Total Homebuilding Operations	**(30.6%)**	**(33.4)**	2.8%	(14.4)

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

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

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

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

East: Georgia (Savannah only), Maryland, New Jersey, North Carolina, South Carolina and Virginia
Southeast: Florida, Georgia (Atlanta only) and Tennessee
Central: Indiana, Illinois, Michigan, Minnesota, Missouri, Ohio and Pennsylvania
Texas: Texas
Northwest: Colorado, Hawaii, Nevada (except Las Vegas), Northern California, Oregon, Washington
Southwest: Arizona, Southern California, Nevada (Las Vegas only), New Mexico
Other homebuilding [(1)]

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

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	For the Three Months Ended December 31,			
	2007	**Change**	2006	Change
Units Closed				
East	**1,229**	**(23.4%)**	1,604	(11.1%)
Southeast	**820**	**(28.3%)**	1,144	(21.4%)
Central	**932**	**(17.4%)**	1,128	(18.7%)
Texas	**1,355**	**(20.5%)**	1,704	(4.1%)
Northwest	**980**	**(14.0%)**	1,140	3.4%
Southwest	**1,252**	**(14.9%)**	1,472	(11.2%)
Other homebuilding	**89**	**(47.0%)**	168	(47.8%)
	6,657	**(20.4%)**	8,360	(12.0%)
Average Revenue Per Unit				
East	**$ 299,578**	**(6.9%)**	$ 321,719	(8.3%)
Southeast	**$ 247,626**	**(14.8%)**	$ 290,778	1.6%
Central	**$ 196,340**	**(9.1%)**	$ 215,955	(1.5%)
Texas	**$ 165,249**	**2.8%**	$ 160,794	7.5%
Northwest	**$ 380,664**	**(12.0%)**	$ 432,751	(12.5%)
Southwest	**$ 326,770**	**(18.3%)**	$ 400,054	(4.7%)
Other homebuilding	**$ 311,101**	**(22.7%)**	$ 402,351	35.0%
Total Home Building	**$ 268,588**	**(10.8%)**	$ 300,968	(3.2%)

	For the Nine Months Ended December 31,			
	2007	**Change**	2006	Change
Units Closed				
East	**3,901**	**(21.7%)**	4,982	(1.2%)
Southeast	**2,501**	**(31.3%)**	3,642	(10.3%)
Central	**2,879**	**(22.6%)**	3,722	(10.4%)
Texas	**4,245**	**(11.9%)**	4,818	(1.5%)
Northwest	**2,976**	**(12.2%)**	3,391	3.9%
Southwest	**3,284**	**(20.1%)**	4,111	(5.3%)
Other homebuilding	**316**	**(41.2%)**	537	(53.0%)
	20,102	**(20.2%)**	25,203	(6.3%)
Average Revenue Per Unit				
East	**$ 307,029**	**(6.2%)**	$ 327,385	(3.1%)
Southeast	**$ 265,589**	**(9.9%)**	$ 294,680	4.5%
Central	**$ 203,799**	**(6.4%)**	$ 217,833	
Texas	**$ 166,930**	**5.6%**	$ 158,124	6.9%
Northwest	**$ 390,042**	**(13.1%)**	$ 448,850	(3.8%)
Southwest	**$ 365,466**	**(11.7%)**	$ 414,082	3.0%
Other homebuilding	**$ 343,237**	**3.1%**	$ 332,912	33.9%

Total Home Building	**$ 279,909**	**(8.1%)**	$ 304,725	2.1%

Revenues

Housing revenues decreased for the three and nine months ended December 31, 2007 as compared to December 31, 2006 primarily due to decreases in units closed and, to a lesser extent, a decrease in average revenue per unit. For the three and nine months ended December 31, 2007, average revenue per unit (which is net of customer discounts) decreased primarily as a result of increases in discounts and lower prices experienced in many of our markets. Customer discounts increased to 15.2% of housing revenues for the three months ended December 31, 2007, up from 8.3% for the three months ended December 31, 2006. For the nine months ended December 31, 2007, customer discounts increased to 11.6% of housing revenues, up from 6.5% in the prior year. For the three and nine months ended December 31, 2007, our closings declined as a result of decreases in sales orders caused principally by the challenging market conditions described above.

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Revenues from land sales and other decreased 67.5% to $23.1 million for the three months and 56.5% to $93.7 million for the nine months ended December 31, 2007 as compared to the same periods in the prior year. Although the timing and amount of land sales vary from period to period, the decrease in revenues from land sales is primarily the result of the imbalance between supply and demand. Most large homebuilders have walked away from a significant amount of lot option contracts and, given the uncertainty with the homebuilding industry, there are fewer land buyers wanting to purchase land.

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

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Average Operating Neighborhoods (1)	**644**	**(7.9%)**	699	10.1%
Closings Per Average Neighborhood	**10.3**	**(14.2%)**	12.0	(20.0%)

	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change
Average Operating Neighborhoods (1)	**659**	**(3.9%)**	686	11.0%
Closings Per Average Neighborhood	**30.5**	**(16.9%)**	36.7	(15.6%)

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

Our neighborhood count peaked at 702 neighborhoods as of December 31, 2006, and it has steadily decreased to a neighborhood count of 636 as of December 31, 2007. The drop in neighborhood count is primarily the result of our decision to build-out and not reinvest in certain markets and our decision to sell virtually all of our assets in the Ohio markets.

Operating Margins

Homebuilding operating margins (consisting of operating earnings or loss as a percentage of revenues) declined to (34.5%) for the three months and (30.6%) for the nine months ended December 31, 2007 as compared to (9.4%) for the three months, and 2.8% for the nine months, ended December 31, 2006. The decrease in homebuilding operating margins as compared to the prior year is primarily attributable to the following factors: (1) decreases in revenues, net of discounts, (2) land-related and goodwill impairments, (3) our share of joint ventures impairments, and (4) write-offs of land deposits and pre-acquisition costs. The $60.5 million in losses from unconsolidated entities and other for the three months ended December 31, 2007 includes $24.9 million of our share of joint ventures impairments and our share of joint ventures losses. The $112.4 million in losses from unconsolidated entities and other for the nine months ended December 31, 2007 is primarily due to $88.5 million of our share of joint ventures impairments.

Homebuilding operating margins were significantly impacted by $502.9 million of land-related impairments in the three months and $1,492.4 million of land-related impairments in the nine months ended December 31, 2007. We periodically reassess our land holdings, including our lot options, taking into consideration changing market conditions and other factors. In connection with our quarterly neighborhood assessments, during the quarter ended December 31, 2007, we reviewed approximately 1,040 housing projects and land investments for potential

land-related impairments. Approximately 940 of these housing projects are owned land positions that are either designated as active neighborhoods or are under development and are not considered active. The remaining 100 housing projects represent controlled land positions approved for purchase. Land-related impairments during the three months ended December 31, 2007 represented 147 neighborhoods and land investments. Land-related impairments during the nine months ended December 31, 2007 represented 316 neighborhoods and land investments, certain of which have been impaired more than once.

In addition to land-related impairments, we recorded $61.3 million in goodwill impairments during the second quarter of fiscal year 2008, which represents 50.5% of our total homebuilding goodwill balance at the beginning of our fiscal year. The goodwill impairments contributed to the decrease in homebuilding operating margins for the nine months ended December 31, 2007.

Also, during the three months ended December 31, 2007, we determined it was probable we would not exercise certain lot option contracts, which resulted in a write-off of 23 option contracts and related pre-acquisition costs, resulting in a remaining balance of 161 outstanding option contracts and deposits (including contracts in the due diligence process) at December 31, 2007.

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

	For the Three Months Ended December 31,					
	2007			2006		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
East	**$**	**$ 41,490**	**$ 10,647**	$	$ 55,957	$ 31,787
Southeast		**115,793**	**830**		9,888	6,606
Central		**26,219**	**3,894**		16,224	15,445
Texas		**363**	**904**		298	370
Northwest		**169,244**	**5,204**		58,864	31,662
Southwest		**120,764**	**4,934**		64,153	52,106
Other homebuilding		**29,076**	**(47)**		(19)	26
	$	**$ 502,949**	**$ 26,366**	$	$ 205,365	$ 138,002

	For the Nine Months Ended December 31,					
	2007			2006		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
East	**$**	**$ 59,599**	**$ 26,252**	$	$ 55,957	$ 37,516
Southeast	**22,452**	**201,262**	**14,685**		16,028	21,183
Central	**3,488**	**68,066**	**12,432**		16,224	25,329
Texas		**363**	**1,768**		298	389
Northwest	**13,755**	**375,121**	**18,357**		58,864	50,175
Southwest	**21,627**	**615,983**	**13,929**		88,037	127,368
Other homebuilding		**172,034**	**131**		(19)	1,828
	$ 61,322	**$ 1,492,428**	**$ 87,554**	$	$ 235,389	$ 263,788

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

Home Building selling, general and administrative expenses decreased $115.6 million and $273.3 million for the three and nine months ended December 31, 2007, respectively, when compared to the same periods in the prior year.

The decrease in selling, general and administrative expenses for the three and nine months ended December 31, 2007 is primarily due to decreases in compensation and benefit costs as a result of reductions in personnel and decreases in our estimated performance-related incentive compensation. The following tables summarize Home Building s selling, general and administrative expenses (dollars in thousands):

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Compensation and Benefits	**$ 83,589**	**(44.4%)**	$ 150,424	(17.8%)
Sales Commissions	**88,340**	**(19.7%)**	110,046	2.0%
Advertising and Marketing	**31,995**	**(38.7%)**	52,152	27.7%
Other	**51,028**	**(11.9%)**	57,950	23.7%
Selling, General and Administrative Expenses	**$ 254,952**	**(31.2%)**	$ 370,572	(2.1%)
SG&A as a Percentage of Revenues	**14.1%**	**(0.2)**	14.3%	1.7

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	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change
Compensation and Benefits	**$ 305,205**	**(37.9%)**	$ 491,358	(3.9%)
Sales Commissions	**270,198**	**(15.0%)**	317,765	8.0%
Advertising and Marketing	**116,423**	**(21.6%)**	148,498	28.7%
Other	**158,385**	**(4.5%)**	165,884	21.7%
Selling, General and Administrative Expenses	**$ 850,211**	**(24.3%)**	$ 1,123,505	6.2%
SG&A as a Percentage of Revenues	**14.9%**	**0.7**	14.2%	1.4

Sales Orders, Backlog Units and Land Holdings

The following tables summarize sales orders and backlog units:

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Sales Orders (in Units)				
East	**934**	**(22.7%)**	1,209	(9.8%)
Southeast	**707**	**20.4%**	587	(56.5%)
Central	**687**	**(15.6%)**	814	(28.1%)
Texas	**1,208**	**(22.6%)**	1,560	(9.8%)
Northwest	**872**	**(14.5%)**	1,020	8.1%
Southwest	**1,070**	**17.5%**	911	(40.3%)
Other homebuilding	**59**	**55.3%**	38	(64.5%)
	5,537	**(9.8%)**	6,139	(24.5%)
Sales Per Average Neighborhood	**8.6**	**(2.3%)**	8.8	(31.3%)

	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change

	As of			
	December 31, 2007	**Change**	March 31, 2007	Change
Backlog Units				
East	**1,280**	**(30.7%)**	1,848	(39.9%)
Southeast	**1,197**	**(21.2%)**	1,519	(56.2%)
Central	**1,432**	**(17.9%)**	1,744	(22.9%)
Texas	**1,685**	**(16.6%)**	2,020	(7.7%)
Northwest	**1,406**	**(22.1%)**	1,805	(18.5%)
Southwest	**1,471**	**(2.1%)**	1,503	(52.6%)
Other homebuilding	**42**	**(80.2%)**	212	(79.0%)
	8,513	**(20.1%)**	10,651	(38.7%)

For the three and nine months ended December 31, 2007, sales orders declined in most of the regions in which we do business when compared to the same periods of the prior year. We expect that the decreases in sales orders in the three and nine months ended December 31, 2007 will continue to impact our closings in the near term.

As previously discussed, some of the factors we believe are contributing to the decrease in sales orders are a continued decline in homebuyer demand due to lower consumer confidence in the consumer real estate market, as well as the inability of prospective buyers to sell their existing homes. The decline in homebuyer demand has also been caused by the tightened homebuyer credit requirements. These factors are evidenced by lower customer traffic and cancellation rates that are much higher than our long-term average cancellation rates ranging from 18% to 26%. For the three and nine months ended December 31, 2007, cancellation rates were 33.0% and 33.2%, respectively. Cancellation rates for the three and nine months ended December 31, 2006 were 38.5% and 36.0%, respectively.

In light of the continuing adverse market conditions, our strategy is to focus on selling homes and reducing inventories, reducing costs, generating cash and simplifying our business. As a percentage of revenues during the three and nine months ended December 31, 2007, we increased advertising costs, sales commissions and sales incentives, when compared to the same periods of the prior year, to help stimulate sales orders and sell our existing inventory. We curtailed housing starts so that we could reduce our speculative inventory. We have also taken steps to reduce our land position. The following table summarizes our land position:

	As of					
	December 31, 2007			March 31, 2007		
	Lots Owned	**Lots Controlled**	**Total Lots**	Lots Owned	Lots Controlled	Total Lots
East	**16,073**	**11,116**	**27,189**	18,604	25,829	44,433
Southeast	**23,547**	**3,301**	**26,848**	25,485	7,113	32,598
Central	**6,746**	**3,375**	**10,121**	8,851	5,303	14,154
Texas	**15,263**	**5,400**	**20,663**	16,113	10,405	26,518
Northwest	**8,339**	**4,441**	**12,780**	10,388	6,224	16,612
Southwest	**13,988**	**3,428**	**17,416**	14,694	6,755	21,449

Other homebuilding	**3,645**		**3,645**	4,176	80	4,256
	87,601	**31,061**	**118,662**	98,311	61,709	160,020
Change	**(10.9%)**	**(49.7%)**	**(25.8%)**	(9.7%)	(67.0%)	(45.9%)

Capitalized costs related to lots owned are included in land under development and land held for development and sale. Lot counts related to completed homes or homes under construction are excluded from the totals above. The dollar amounts related to these lot counts are classified as direct construction, a component of housing projects, in our Consolidated Balance Sheets. The direct construction lot counts as of December 31, 2007 and March 31, 2007 were 18,359 and 13,301, respectively, including 1,599 and 1,608, respectively, of lots for model homes completed or under construction.

We decreased our total land position when compared to March 31, 2007 with the most pronounced declines occurring in lots controlled. The decrease in our land position for the nine months ended December 31, 2007 is a result of our decision to decrease land purchases and new lot option arrangements. Based on current market conditions, we believe we are oversupplied in total lots in certain markets and will continue to take the necessary steps

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to reduce our land position. These steps may include one or more sales of land. Any such sales would require the negotiation of mutually acceptable arrangements with third-party buyers and could take an extended period of time to complete. There can be no assurance that such sales could be completed on terms or within a timeframe acceptable to us. As compared to December 31, 2006, our total land position has decreased by 67,415 lots or 36.2%. Included in our total land position are 4,069 and 4,914 lots controlled through joint venture arrangements as of December 31 and March 31, 2007, respectively. We have completed due diligence on 16,152 lots of the 31,061 lots we control. Generally, lots where we have completed due diligence have more substantial deposits and pre-acquisition costs incurred, and the deposits are non-refundable.

Regional Discussion

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

	For the Three Months Ended December 31,			
	2007	**Change**	2006	Change
Revenues				
East	**$ 376,321**	**(27.4%)**	$ 518,342	(18.2%)
Southeast	**206,755**	**(39.3%)**	340,574	(20.4%)
Central	**184,376**	**(25.1%)**	246,275	(19.4%)
Texas	**225,290**	**(18.6%)**	276,819	2.4%
Northwest	**373,234**	**(26.5%)**	507,520	(8.3%)
Southwest	**411,110**	**(31.8%)**	603,057	(13.3%)
Other homebuilding	**33,998**	**(64.1%)**	94,664	(18.4%)
	$ 1,811,084	**(30.0%)**	$ 2,587,251	(13.9%)
Operating Earnings (Loss)				
East	**$ (47,892)**	**53.3%**	$ (31,231)	(124.4%)
Southeast	**(127,261)**	**NM**	9,615	(85.4%)
Central	**(39,877)**	**42.7%**	(27,940)	(258.1%)
Texas	**9,343**	**(58.7%)**	22,595	(11.0%)
Northwest	**(199,612)**	**143.8%**	(81,885)	(152.5%)
Southwest	**(186,447)**	**45.6%**	(128,047)	(200.3%)
Other homebuilding	**(33,519)**	**508.4%**	(5,509)	(120.4%)
	$ (625,265)	**157.9%**	$ (242,402)	(144.3%)

NM = Not meaningful

	For the Nine Months Ended December 31,	
	2007	2006

		Change		Change
Revenues				
East	**$ 1,225,327**	**(25.1%)**	$ 1,635,305	(5.7%)
Southeast	**680,734**	**(39.3%)**	1,120,665	(9.9%)
Central	**591,384**	**(27.9%)**	819,717	(10.1%)
Texas	**716,329**	**(9.2%)**	788,872	6.4%
Northwest	**1,164,610**	**(24.8%)**	1,549,103	0.9%
Southwest	**1,208,604**	**(30.7%)**	1,744,098	(0.4%)
Other homebuilding	**133,400**	**(43.8%)**	237,375	(36.4%)
	$ 5,720,388	**(27.5%)**	$ 7,895,135	(4.8%)
Operating Earnings (Loss)				
East	**$ (12,830)**	**(110.1%)**	$ 127,304	(60.7%)
Southeast	**(293,366)**	**(414.3%)**	93,337	(56.3%)
Central	**(98,345)**	**442.8%**	(18,119)	(129.4%)
Texas	**43,187**	**(35.0%)**	66,490	11.1%
Northwest	**(427,460)**	**(717.3%)**	69,246	(82.2%)
Southwest	**(782,190)**	**474.8%**	(136,083)	(143.9%)
Other homebuilding	**(178,733)**	**NM**	16,071	(77.0%)
	$ (1,749,737)	**(901.7%)**	$ 218,246	(84.7%)

East

Revenues decreased 27.4% for the three months ended December 31, 2007 primarily due to a 23.4% decrease in units closed when compared to the three months ended December 31, 2006. All markets in the East region experienced decreases in units closed except for the Raleigh and Charleston markets. Average revenue per unit decreased 6.9% as a result of an increase in discounts as a percentage of housing revenues from 6.8% to 13.3% for the three months ended December 31, 2007. Sales orders decreased 22.7% when compared to the same period in the prior year, which represents the largest decrease in sales orders of any of our regions. Significant decreases in sales orders occurring in the Charlotte and Washington, D.C. markets were partially offset by significant increases in sales orders experienced in the Myrtle Beach and Charleston markets. The largest increases in discounts were experienced in the New Jersey and Myrtle Beach markets.

Operating losses increased $16.7 million to $47.9 million for the three months ended December 31, 2007 as compared to the same period in the prior year. Substantially all of the East region s operating losses were experienced in the Washington, D.C. and New Jersey markets as a result of land-related impairments, write-offs of deposits and pre-acquisition costs and our share of joint venture impairments. Most other markets within the East region generated operating earnings.

Revenues decreased 25.1% for the nine months ended December 31, 2007 primarily due to significant decreases in revenues in the Hilton Head, Washington, D.C., New Jersey and Myrtle Beach markets. These same four markets were also primarily the reason for the 21.7% decrease in units closed when compared to the nine months ended December 31, 2006. Average revenue per unit decreased 6.2% when compared to the same period in the prior year, with the largest decrease occurring in the Washington, D.C. market. Discounts increased from 5.5% for the nine months ended December 31, 2006 to 9.7% as all markets in the East region experienced an increase in discounts. Sales orders decreased 16.2% when compared to the same period in the prior year primarily due to decreases in customer traffic and neighborhood counts.

Operating earnings decreased $140.1 million to a loss of $12.8 million for the nine months ended December 31, 2007 as compared to the same period in the prior year with the most of the decrease occurring in the Washington, D.C., Myrtle Beach and New Jersey markets. The decrease in operating earnings is primarily the result of a decrease in average revenue per unit, which was not offset by commensurate reductions in construction costs, and increases in discounts and sales incentives.

Southeast

Revenues decreased 39.3% when compared to the three months ended December 31, 2006. All markets in the Southeast region experienced decreases in revenues, with the largest decreases occurring in the West Florida and Southwest Florida markets. The decrease in revenues was primarily due to a decrease in units closed, with all markets in the region experiencing a decrease in units closed except for the North Florida and Orlando markets. Average revenue per unit also contributed to the decrease in revenues as discounts as a percentage of housing revenues increased from 11.3% to 17.5% for the three months ended December 31, 2007. Sales orders increased 20.4% with significant increases experienced in the Southwest Florida and Orlando markets, and cancellation rates improved significantly from 46.8% to 25.3% for the three months ended December 31, 2007.

The Southeast region incurred an operating loss of $127.3 million for the three months ended December 31, 2007 as compared to earnings of $9.6 million in the same period of the prior year. The Nashville market was the only market in the Southeast region that reported operating earnings for the three months ended December 31, 2007. The most significant decrease in operating earnings occurred in the Southwest Florida, West Florida, and Orlando markets, which incurred total charges of $96.6 million for land-related impairments.

For the nine months ended December 31, 2007, a 31.3% decrease in units closed was the primary contributor to the 39.3% decrease in revenues when compared to the nine months ended December 31, 2006. All markets in the Southeast region experienced substantial decreases in revenues and units closed, with the exception of the Orlando market. Average revenue per unit decreased 9.9% when compared to the same period in the prior year primarily due to an increase in discounts from 8.2% for the nine months ended December 31, 2006 to 15.9%. Although cancellation rates improved from 41.5% to 29.3% for the current year-to-date period, sales orders decreased 9.9%. Significant sales order increases were experienced in the Southwest Florida and North Florida markets, where cancellation rates improved significantly.

The Southeast region incurred an operating loss of $293.4 million for the nine months ended December 31, 2007 as compared to earnings of $93.3 million in the same period of the prior year. The Nashville market was the only market in the Southeast region that reported operating earnings for the nine months ended December 31, 2007. A substantial portion of the operating loss for the third quarter of fiscal year 2008 can be attributed to the Southwest Florida and Southeast Florida markets, which also recorded the majority of the land-related impairments, goodwill impairments and write-offs of deposits and pre-acquisition costs in the region.

Central

Revenues for the three months ended December 31, 2007 decreased 25.1% as all markets within the Central region experienced a decrease in revenues when compared to the same period of the prior year. Contributing to the decrease in revenues were a 17.4% decrease in units closed and a 9.1% decrease in average revenue per unit when compared to three months ended December 31, 2006. Discounts as a percentage of housing revenues contributed to the decrease in average revenue per unit, as discounts increased from 8.5% to 14.1% for the third quarter of fiscal year 2008. All markets within the central region experienced increases in discounts. Sales orders decreased 15.6% versus the third quarter of fiscal year 2007, which is reflective of a 36.7% decrease in customer traffic. The Minnesota market was the only market within the Central region to experience an increase in units closed and sales orders.

The Central region realized an operating loss of $39.9 million for the three months ended December 31, 2007 as compared to a loss of $27.9 million in the same period of the prior year. All markets within the Central region realized an operating loss. The operating loss was primarily the result of land-related impairments recognized in the Detroit and Illinois markets.

Revenues for the nine months ended December 31, 2007 decreased 27.9% primarily due to a 22.6% decrease in units closed as compared to the nine months ended December 31, 2006. All markets in the Central region experienced significant decreases in revenues and units closed. Discounts as a percentage of housing revenues increased from 7.4% to 11.6% for the nine months ended December 31, 2007, which contributed to the 6.4% decrease in average revenue per unit. Sales orders decreased 18.5% as the region experienced a 28.2% decrease in customer traffic. Cancellation rates improved slightly from 34.7% to 32.8% when compared to the same period of the prior year.

A majority of the Central region s operating loss of $98.3 million for the nine months ended December 31, 2007 can be attributed to the Detroit market, which also experienced a majority of the land-related impairments and write-offs of deposits and pre-acquisition costs. All markets within the Central region reported a decrease in operating earnings for the nine months ended December 31, 2007, and the Minnesota market was the only market to report operating earnings.

Texas

Revenues for the Texas region for the three months ended December 31, 2007 decreased 18.6% compared to the prior year, representing the most moderate decrease in revenues for any of our regions. A 20.5% decrease in closings was the primary factor contributing to the decrease in revenues. All markets within the Texas region experienced a decrease in units closed; however, the decrease in units closed was partially offset by an increase in average revenue per unit. The Texas region was the only one of our regions to realize an increase in average revenue per unit. Discounts as a percentage of housing revenues increased slightly in all markets to 6.4% for the three months ended December 31, 2007, which represents the lowest discount percentage for any of our regions for the third quarter of fiscal year 2008. Sales orders decreased 22.6%, with the largest decreases occurring in the Dallas/Ft. Worth and San Antonio markets.

Operating earnings for the three months ended December 31, 2007 decreased $13.3 million to $9.3 million when compared to the same period in the prior year. The majority of the operating earnings were generated in the San Antonio and Central Texas markets. The decrease in operating earnings for the three months ended December 31, 2007 is primarily due to the decrease in units closed.

Revenues for the Texas region for the nine months ended December 31, 2007 decreased 9.2% compared to the same period in the prior year. The decrease in revenues was primarily due to an 11.9% decrease in units closed, which was partially offset by a 5.6% increase in average revenue per unit. The largest decrease in revenues occurred in the Houston market while the only increase occurred in the San Antonio market. Average revenue per unit increased in all markets in the Texas region, despite an increase in discounts from 3.4% to 4.8% for the nine months ended December 31, 2007. Sales orders decreased 23.4%, which represents the largest decrease in sales orders for all

of our regions. The largest decrease in sales orders occurred in the Dallas/Ft. Worth market where customer traffic has declined and cancellation rates have increased.

Operating earnings for the nine months ended December 31, 2007 were $43.2 million, a $23.3 million decrease when compared to the same period in the prior year. The Texas region was the only one of our regions to realize operating earnings. The decrease in operating earnings is primarily the result of discounts and sales incentives. To date, the Texas region has been less affected by the challenging market conditions experienced in other regions, which we believe results from the moderate growth rates and price appreciation realized in this region in prior periods. In addition, the Texas region has been the least impacted by land-related impairments and write-offs of deposits and pre-acquisition costs.

Northwest

Revenues for the three months ended December 31, 2007 decreased 26.5% as compared to the three months ended December 31, 2006. Decreases in both average revenue per unit and units closed contributed to the decrease in revenues. The Reno, Seattle and Bay Area markets all had increases in units closed when compared to the same period in the prior year, but Reno was the only one of the three to achieve increases in both average revenue per unit and units closed. Discounts also contributed to the decrease in revenues as discounts as a percentage of housing revenues increased from 10.6% to 18.3% for the three months ended December 31, 2007. The highest discounting occurred in the Sacramento and Bay Area markets. Sales orders for the three months ended December 31, 2007 decreased 14.5% despite significant increases realized in the Reno and Portland markets.

Operating losses in the Northwest region increased $117.7 million to $199.6 million when compared to the same period of the prior year primarily due to $110.4 million in additional land-related impairments. The majority of the land-related impairments for the third quarter of fiscal year 2008 were recorded in the Bay Area and Sacramento markets.

Revenues for the nine months ended December 31, 2007 decreased 24.8% as compared to the nine months ended December 31, 2006, which was due to a combination of a 13.1% decrease in average revenue per unit and a 12.2% decrease in units closed. All markets in the Northwest region experienced substantial decreases in revenues with the exception of Portland. Discounts as a percentage of housing revenues increased from 8.5% to 13.8% for the nine months ended December 31, 2007, with the largest increase occurring in the Sacramento market. The Denver market was the only market within the region that decreased its discounts. Sales orders for the nine months ended December 31, 2007 decreased 18.5% primarily due to a 20.0% decrease in customer traffic. The Reno market was the only market within the Northwest region to experience an increase in sales orders.

The Northwest region experienced an operating loss of $427.5 million for the nine months ended December 31, 2007 as compared to earnings of $69.2 million in the same period of the prior year. A substantial portion of the operating loss was realized in the Reno and Sacramento markets, which also recognized the majority of the land-related impairments and write-offs of deposits and pre-acquisition costs. In addition, we recorded our share of a joint venture s impairment in the Sacramento market. The Portland market was the only market within the region to generate operating earnings.

Southwest

The decrease in the Southwest region s revenues for the three months ended December 31, 2007 was primarily due to a combination of an 18.3% decrease in average revenue per unit and a 14.9% decrease in units closed when compared to the same period in the prior year. All markets within the Southwest region experienced a decrease in average revenue per unit as discounts increased from 8.6% to 17.5% for the three months ended December 31, 2007.

Significant increases in discounts occurred in the Los Angeles, New Mexico and Phoenix markets. Sales orders increased 17.5% primarily due to increases in the Los Angeles and Phoenix markets. Cancellation rates dropped from 50.4% for the three months ended December 31, 2006 to 35.3%, which also contributed to the increase in sales orders.

The Southwest region experienced an operating loss of $186.4 million for the three months ended December 31, 2007, which was the second largest experienced by all of our regions. The New Mexico market was the only market within the Southwest region to report operating earnings. The operating loss is reflective of $120.8 million in land-related impairments in the three months ended December 31, 2007. The majority of the land-related impairments were recognized in the Inland Empire and Phoenix markets. In addition, we recorded $26.7 million as our share of joint venture losses located in the Southern California market.

The decrease in the Southwest region s revenues for the nine months ended December 31, 2007 was primarily due to a 20.1% decrease in units closed and an 11.7% decrease in average revenue per unit when compared

to the same period in the prior year. The Los Angeles market was the only market within the region to realize an increase in units closed while all other markets within the region experienced a substantial decrease in units closed. Additionally, discounts as a percentage of housing revenues increased from 6.2% to 13.0% for the nine months ended December 31, 2007, with the most significant discounts offered in the Phoenix market. Sales orders decreased 1.2% when compared to the nine months ended December 31, 2006, which represents a small decrease when compared to the decreases experienced in most of our other regions.

The Southwest region experienced an operating loss of $782.2 million for the nine months ended December 31, 2007 as compared to a loss of $136.1 million in the same period of the prior year. The Southwest region incurred the most substantial operating losses of all of our regions for the period. With the exception of the New Mexico market, all markets within the Southwest region reported significant operating losses and land-related impairments. The operating loss includes $651.5 million in land-related impairments, goodwill impairments and write-offs of deposits and pre-acquisition costs in the nine months ended December 31, 2007. The operating loss is also reflective of a decrease in average revenue per unit, which was not offset by commensurate reductions in construction costs and increases in discounts and sales incentives.

Other homebuilding

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

The Other homebuilding region experienced an operating loss of $33.5 million and $178.7 million for the three and nine months ended December 31, 2007, respectively, as compared to a loss of $5.5 million and earnings of $16.1 million in the same periods of the prior year. These decreases in operating earnings are primarily the result of $29.1 million and $172.0 million in land-related impairments in the three and nine months ended December 31, 2007, respectively. These land-related impairments were all recognized on projects located in Florida, Texas and North Carolina.

FINANCIAL SERVICES

The Financial Services segment is primarily engaged in the residential mortgage lending business, as well as other financial services that are in large part related to the residential mortgage market. Its operations include mortgage lending and other related services for purchasers of homes sold by our homebuilding operations and other homebuilders, refinancing of existing mortgages, title agency services and the sale of title insurance and other insurance products, including property and casualty.

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

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

Generally, our business strategy is to originate and sell loans rather than hold them, which reduces our capital investment and related risks. Following unprecedented disruptions to the mortgage markets during the second quarter of fiscal year 2008, CTX Mortgage Company LLC discontinued sales of mortgage loans to Harwood Street Funding I, LLC, which we refer to as HSF-I, and currently is instead relying on a committed bank warehouse credit facility and a mortgage loan sale agreement to provide funding for its loan originations. HSF-I was a variable interest entity of which we were the primary beneficiary and was consolidated in our financial statements. In November 2007, we terminated HSF-I and all of its outstanding obligations were redeemed.

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

	For the Three Months Ended December 31,			
	2007	**Change**	2006	Change
Revenues	**$ 62,203**	**(42.2%)**	$ 107,577	(4.7%)
Cost of Sales	**(11,207)**	**(53.0%)**	(23,836)	37.9%
Selling, General and Administrative Expenses	**(111,480)**	**65.8%**	(67,245)	(9.8%)
Operating Earnings (Loss)	**$ (60,484)**	**(466.7%)**	$ 16,496	(21.4%)
Operating Margin	**(97.2%)**	**(112.5)**	15.3%	(3.3)
Financial Services Margin (1)	**(118.6%)**	**(138.3)**	19.7%	(2.3)
Net Interest Income	**$ 3,375**	**(58.7%)**	$ 8,181	(8.8%)
Average Interest Earning Assets	**$ 863,283**	**(48.4%)**	$ 1,672,593	9.1%
Average Yield	**6.76%**	**(0.90)**	7.66%	0.81
Average Interest Bearing Liabilities	**$ 691,079**	**(57.4%)**	$ 1,622,946	6.3%
Average Rate Paid	**6.79%**	**0.82**	5.97%	1.45

	For the Nine Months Ended December 31,			
	2007	**Change**	2006	Change
Revenues	**$ 240,869**	**(31.4%)**	$ 350,896	2.1%
Cost of Sales	**(48,274)**	**(27.3%)**	(66,436)	38.7%
Selling, General and Administrative Expenses	**(292,192)**	**33.6%**	(218,713)	(5.8%)
Operating Earnings (Loss)	**$ (99,597)**	**(251.5%)**	$ 65,747	3.5%
Operating Margin	**(41.3%)**	**(60.0)**	18.7%	0.2
Financial Services Margin (1)	**(51.7%)**	**(74.8)**	23.1%	1.6
Net Interest Income	**$ 13,547**	**(45.3%)**	$ 24,752	(15.5%)
Average Interest Earning Assets	**$ 1,147,494**	**(27.8%)**	$ 1,589,211	(0.6%)
Average Yield	**7.18%**	**(0.47)**	7.65%	1.22
Average Interest Bearing Liabilities	**$ 1,055,755**	**(31.8%)**	$ 1,546,974	(4.0%)
Average Rate Paid	**6.23%**	**0.47**	5.76%	1.79

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

Financial Services revenues for the three and nine months ended December 31, 2007 decreased as compared to the same periods in the prior year due to decreases in gain on sale of mortgage loans, broker fees and interest income. Contributing to the decrease in interest income and average yield was an increase in contractually delinquent loans that are not accruing interest. Interest accruals are suspended, except for interest accruals related to insured mortgage loans, when the mortgage loan becomes contractually delinquent for 90 days or more. For the three and nine months ended December 31, 2007, cost of sales, which is solely comprised of interest expense, declined as compared to the same periods in the prior year as a result of decreases in average interest bearing liabilities. These decreases in average interest bearing liabilities were partially offset by the effect of higher short-term borrowing costs.

During the three and nine months ended December 31, 2007, Financial Services recorded significant loss provisions as a component of selling, general and administrative expenses. The most significant provision during the three and nine months ended December 31, 2007 was recorded in connection with Financial Services construction loans. A construction loan is a loan supporting the construction of a home on the homebuyer s lot. Construction on the home must be completed before a construction loan can be modified into a permanent loan (i.e., a mortgage loan held for sale) and sold to a third party. Due to their lengthy holding period, construction loans are susceptible to market value and credit risks. As a result of recent changes in the mortgage markets, declining property values and increasing delinquencies, Financial Services recorded significant loss provisions during the three and nine months ended December 31, 2007. Financial Services decided in the second quarter of fiscal year 2008 to discontinue the origination of new construction loans. For additional information on Financial Services provisions, please refer to our Critical Accounting Estimates, Mortgage Loan Allowances and Related Reserve. The following table summarizes Financial Services provisions (dollars in thousands):

	For the Three Months Ended December 31, 2007	*For the Nine Months Ended December 31, 2007*
Provision for Construction Loans	$ 45,401	$ 82,775
Provision for Loans in Foreclosure	16,028	36,740
Provision for Real-estate Owned	48	2,609
Anticipated Losses for Loans Originated	3,176	5,884
Total Provisions	$ 64,653	$ 128,008

For the three and nine months ended December 31, 2006, the total provision was $3.0 million and $7.4 million, respectively.

The increases in selling, general and administrative expenses discussed above were partially offset by decreases in branch operating expenses, branch and corporate compensation, and sales incentives. Operating margin and Financial Services margin for the three and nine months ended December 31, 2007 decreased primarily due to increases in selling, general and administrative expenses.

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

	For the Three Months Ended December 31,			
	2007	**Change**	2006	Change
Loan Sales to Investors				
Volume (in millions)	**$ 1,954.5**	**(15.4%)**	$ 2,310.1	(25.5%)
Number of Loans Sold	**9,733**	**(11.0%)**	10,941	(31.5%)
Gain on Sale of Mortgage Loans	**$ 21,797**	**(40.0%)**	$ 36,352	(10.5%)

Loans Brokered to Third Party Lenders				
Volume (in millions)	**$ 416.4**	**(46.1%)**	$ 772.7	(9.2%)
Number of Brokered Loans	**1,277**	**(49.4%)**	2,523	(14.6%)
Broker Fees	**$ 7,772**	**(49.6%)**	$ 15,435	(2.9%)
Average Loan Size				
Loans Sold to Investors	**$ 200,827**	**(4.9%)**	$ 211,142	8.8%
Loans Brokered to Third Party Lenders	**$ 326,235**	**6.5%**	$ 306,261	6.4%

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	For the Nine Months Ended December 31,			
	2007	**Change**	2006	Change
Loan Sales to Investors				
Volume (in millions)	**$ 7,031.3**	**(7.0%)**	$ 7,562.2	(17.8%)
Number of Loans Sold	**33,605**	**(9.7%)**	37,213	(23.4%)
Gain on Sale of Mortgage Loans	**$ 91,163**	**(25.8%)**	$ 122,824	(2.5%)
Loans Brokered to Third Party Lenders				
Volume (in millions)	**$ 1,463.1**	**(43.6%)**	$ 2,596.2	(0.7%)
Number of Brokered Loans	**4,291**	**(50.4%)**	8,657	(10.5%)
Broker Fees	**$ 26,493**	**(48.4%)**	$ 51,310	(0.5%)
Average Loan Size				
Loans Sold to Investors	**$ 209,236**	**3.0%**	$ 203,217	7.2%
Loans Brokered to Third Party Lenders	**$ 340,976**	**13.7%**	$ 299,901	11.0%

Gain on sale of mortgage loans decreased for the three and nine months ended December 31, 2007 due to unfavorable pricing on mortgage loan sales when compared to the same periods of the prior year, resulting from the disruption in the mortgage markets. The unfavorable pricing on mortgage loans was partially offset by a shift in the product mix of loans originated to more conforming loans, which generate higher service release premiums than nonconforming loans. Broker fee income decreased for the three and nine months ended December 31, 2007 as a result of a decrease in the volume of loans brokered to third party lenders. The decrease in broker volume is also primarily due to the significant disruption in the mortgage markets, including the significant reduction of homebuyers access to nonconforming mortgage products.

We track loan applications until such time as the loan application is closed as an originated loan or cancelled. The application data presented below includes loan applications that resulted in originated loans in the period presented and applications for loans scheduled to close in subsequent periods.

	For the Three Months Ended December 31,			
	2007	**Change**	2006	Change
Open Applications Beginning	**16,099**	**(24.9%)**	21,436	(20.9%)
New Applications	**26,412**	**27.8%**	20,661	(13.2%)
Cancelled Applications	**(17,905)**	**85.3%**	(9,665)	(6.7%)
Originated Loans	**(10,036)**	**(26.2%)**	(13,605)	(17.2%)
Open Applications Ending	**14,570**	**(22.6%)**	18,827	(22.0%)

	For the Nine Months Ended December 31,			
	2007	**Change**	2006	Change
Open Applications Beginning	**17,648**	**(24.0%)**	23,219	(6.8%)

New Applications	**86,607**	**25.9%**	68,779	(17.6%)
Cancelled Applications	**(55,610)**	**82.8%**	(30,416)	(1.0%)
Originated Loans	**(34,075)**	**(20.3%)**	(42,755)	(20.1%)
Open Applications Ending	**14,570**	**(22.6%)**	18,827	(22.0%)

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The tables below provide a comparative analysis of mortgage loan originations:

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Origination Volume (in millions)	**$ 2,183.3**	**(33.7%)**	$ 3,291.0	(11.9%)
Number of Originated Loans				
Builder	**4,991**	**(21.9%)**	6,393	(3.4%)
Retail	**5,045**	**(30.0%)**	7,212	(26.5%)
	10,036	**(26.2%)**	13,605	(17.2%)
Average Loan Size Originated Loans	**$ 217,500**	**(10.1%)**	$ 241,900	6.3%

	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change
Origination Volume (in millions)	**$ 7,640.5**	**(24.6%)**	$ 10,136.9	(14.4%)
Number of Originated Loans				
Builder	**14,977**	**(20.7%)**	18,887	2.2%
Retail	**19,098**	**(20.0%)**	23,868	(31.9%)
	34,075	**(20.3%)**	42,755	(20.1%)
Average Loan Size Originated Loans	**$ 224,200**	**(5.4%)**	$ 237,100	7.2%

Total originations for the three and nine months ended December 31, 2007 decreased primarily as a result of a decline in homebuyer demand and a reduction in the number of mortgage product offerings. Refinancing activity accounted for 23% and 20% of our originations for the three months ended December 31, 2007 and 2006, respectively. Refinancing activity accounted for 19% of our originations for the nine months ended December 31, 2007 and 2006. For the three months ended December 31, 2007 and 2006, Financial Services originated 79% and 80% of the non-cash unit closings of Home Building s customers, respectively. For the nine months ended December 31, 2007 and 2006, Financial Services originated 79% of the non-cash unit closings of Home Building s customers.

Beginning in early 2007, the mortgage markets were affected by declines in values and increased default levels of sub-prime mortgage loans. There is not an industry-wide definition of a sub-prime mortgage loan. In order to assess our financial exposure as a result of these developments, we evaluated mortgages originated by Financial Services during fiscal year 2008. For the purpose of this analysis, we defined a sub-prime mortgage loan as a non-agency eligible loan with all of the following characteristics: unverified income (documentation); borrower credit scores (FICO scores) less than 660; and loan-to-value ratios greater than 90%. We concluded that these sub-prime mortgage loans do not have the potential for a material impact on our operations as of December 31, 2007.

The deterioration of the mortgage markets accelerated during the second quarter of fiscal year 2008, which has resulted in the virtual elimination of the nonconforming mortgage market. As a result, Financial Services has

essentially ceased originating nonconforming loans. Further disruption in the mortgage markets could further reduce the population of potential mortgage customers and/or the profit on loans we originate, and in turn, negatively impact Financial Services future operating results.

OTHER

Our Other segment includes our home services operations, as well as corporate general and administrative expense and interest expense.

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The following summarizes the components of the Other segment s loss from continuing operations before income tax (dollars in thousands):

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Operating Earnings (Loss) from Home Services Operations	**$ 1,458**	**(218.9%)**	$ (1,226)	(21.3%)
Interest Income and Other Revenue	**1,320**	**100.0%**		
Corporate General and Administrative Expense	**(37,850)**	**(47.7%)**	(72,369)	(0.3%)
Other	**125**	**(286.6%)**	(67)	100.0%
Operating Loss	**$ (34,947)**	**(52.6%)**	$ (73,662)	(0.6%)

	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change
Operating Earnings (Loss) from Home Services Operations	**$ 4,166**	**(196.3%)**	$ (4,324)	(31.8%)
Interest Income and Other Revenue	**24,145**	**100.0%**		
Corporate General and Administrative Expense	**(117,371)**	**(31.8%)**	(172,137)	(15.3%)
Other	**348**	**(86.3%)**	2,532	(642.2%)
Operating Loss	**$ (88,712)**	**(49.0%)**	$ (173,929)	(17.2%)

Our home services revenues increased 4.2% and 7.5% for the three and nine months ended December 31, 2007, respectively, as compared to the same periods in the prior year. The increases in revenues for both periods are the result of an expanded customer base. We had 418 thousand pest defense customers as of December 31, 2007 as compared to 397 thousand as of December 31, 2006. The positive operating earnings realized by our home services operations for the three and nine months ended December 31, 2007 are primarily due to the increase in revenues and leverage in selling, general and administrative expenses.

Included in interest income and other revenue for the nine months ended December 31, 2007 is a $12.9 million gain on the sale of an airplane. Corporate general and administrative expenses represent corporate employee compensation and benefits, professional services and other corporate costs such as investor communications, insurance, rent, utilities and travel costs. The following tables summarize corporate general and administrative expenses (dollars in thousands):

	For the Three Months Ended December 31,			
	2007		2006	
		Change		Change
Compensation and Benefits	**$ 23,210**	**(42.2%)**	$ 40,137	(27.8%)
Professional Services	**6,366**	**(7.6%)**	6,893	(1.9%)
Rent and Utilities	**1,498**	**(37.5%)**	2,398	49.8%

Travel	**1,247**	**(27.8%)**	1,727	(33.3%)
Other	**5,529**	**(73.9%)**	21,214	269.4%
General and Administrative Expenses	**$ 37,850**	**(47.7%)**	$ 72,369	(0.3%)

	For the Nine Months Ended December 31,			
	2007		2006	
		Change		Change
Compensation and Benefits	**$ 85,424**	**(35.9%)**	$ 133,232	(16.8%)
Professional Services	**14,283**	**(0.6%)**	14,368	(3.6%)
Rent and Utilities	**4,842**	**(8.9%)**	5,316	20.0%
Travel	**3,858**	**(33.7%)**	5,822	(17.1%)
Other	**8,964**	**(33.1%)**	13,399	(20.1%)
General and Administrative Expenses	**$ 117,371**	**(31.8%)**	$ 172,137	(15.3%)

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The decrease in corporate general and administrative expenses in the three and nine months ended December 31, 2007 versus the same periods in the prior year is primarily related to decreases in compensation and benefits. The decrease in compensation and benefits is a result of reductions in personnel at our corporate offices and decreases in our estimated performance-related incentive compensation.

INCOME TAXES

We recognized an income tax provision of $254.5 million and an income tax benefit of $57.2 million for the three months ended December 31, 2007 and 2006, respectively. We recognized an income tax benefit of $187.7 million for the nine months ended December 31, 2007 versus income tax expense of $99.6 million for the same period of the prior year. The significant changes in our effective tax rate reflect the recognition of a deferred income tax asset valuation allowance, the recognition of a liability for unrecognized tax benefits and related accrued interest, nondeductible compensation, a reduction of the domestic manufacturing deduction and a decrease in pre-tax earnings.

DISCONTINUED OPERATIONS

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.

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, we will also receive an aggregate of $60.0 million in cash to be paid in annual installments of $4.0 million over a 15-year period.

For additional information on our discontinued operations, see Note (L), Discontinued Operations, of the Notes to Consolidated Financial Statements.

Home Equity

Discontinued operations for Home Equity are as follows (dollars in thousands):

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2007	2006	**2007**	2006
Revenues	**$**	$	**$**	$ 170,124
Operating Loss	**$**	$ (260)	**$**	$ (44,300)
Pre-tax Gain on Sale	**$**	$ 11,400	**$**	$ 113,824

Construction Services

Discontinued operations for Construction Services are as follows (dollars in thousands):

	For the Three Months Ended December 31,		*For the Nine Months Ended December 31,*	
	2007	2006	**2007**	2006
Revenues	**$**	$ 558,234	**$**	$ 1,534,960
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