Neptune Technologies & Bioressources Inc.
Form SUPPL
September 26, 2012
Table of Contents

Filed pursuant to
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of Form F-10;
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No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

Information has been incorporated by reference in this Prospectus Supplement from documents filed with securities commissions or similar authorities in Canada. *Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of Neptune Technologies & Bioressources Inc. at 225, Promenade du Centropolis, Suite 200, Laval, Québec, H7T 0B3, telephone: 1 888 664-9166 and are also available electronically at www.sedar.com.*

Prospectus Supplement

(to the Short Form Base Shelf Prospectus dated September 19, 2012)

New Issue September 25, 2012

Neptune Technologies & Bioressources Inc.

US$30,003,800

7,318,000 Common Shares

Neptune Technologies & Bioressources Inc. (**we** , **us** , **our** , **Neptune** or the **Company**) is hereby qualifying the distribution of 7,318,000 common shares of Neptune (the **Common Shares**) at a price of US$4.10 per Common Share (the **Offering Price**) (the **Offering**). The Common Shares are being offered by RBC Dominion Securities Inc. and JMP Securities LLC (together, the **Joint Book-Running Managers**) and Byron Capital Markets Ltd. **(collectively with the Joint Book-Running Managers, the Underwriters**). The Offering Price of the Common Shares was determined by negotiation among the Company and the Joint Book-Running Managers. After the Underwriters have made reasonable efforts to sell the Common Shares at the Offering Price, the Underwriters may sell the Common Shares to the public at prices below the Offering Price. Any such reduction will not affect the proceeds received by the Company.

Price: US$4.10 per Common Share

	Public Offering Price	**Underwriters Commission**	**Net Proceeds to the Company(1)**
Per Common Share	US$4.10	US$0.246	US$3.854
Total Offering(2)	US$30,003,800	US$1,800,228	US$28,203,572

Notes:

(1) After deducting the Underwriters commission but before deducting the Company s expenses of this Offering, estimated at US$900,000 (including the reimbursement to the Underwriters for expenses related to the Offering up to $125,000), and a fee of US$300,000 (the **JTF Fee**) payable to John Thomas Financial, Inc. as compensation for certain financial advisory services, which, together with the Underwriters commission, will be paid from the proceeds of this Offering. See Plan of Distribution and Use of Proceeds .

(2) The Company has granted to the Underwriters an option (the **Over-Allotment Option**) to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30-day period following the date of the closing of the Offering and entitles the Underwriters to purchase up to an aggregate of 1,097,700 additional Common Shares at the Offering Price (being 15% of the aggregate number of Common Shares offered under this Prospectus Supplement). If the Over-Allotment Option is exercised in full, the public offering price, Underwriters commission and net proceeds to the Company, before expenses and the JTF Fee, will be US$34,504,370, US$2,070,262 and US$32,434,108, respectively. This Prospectus Supplement and the accompanying Prospectus also qualify the distribution of the Over-Allotment Option and any Common Shares that may be delivered upon the exercise of the Over-Allotment Option. See Plan of Distribution . A purchaser who acquires Common Shares forming part of the Underwriters over-allocation position acquires those securities under this Prospectus Supplement and the accompanying Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Underwriter s Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	1,097,700 Common Shares	Any time within 30 days after the Closing Date	US$4.10 per Common Share

The Common Shares are listed on the Toronto Stock Exchange (**TSX**) under the symbol NTB and on The Nasdaq Stock Market (**NASDAQ**) under the symbol NEPT . The closing price of the Common Shares on the TSX and NASDAQ on September 24, 2012, the latest practicable date prior to the filing of this Prospectus Supplement, was CDN$4.38 and US$4.47, respectively. The Company has applied to list the Common Shares distributed under this Prospectus Supplement on the TSX and NASDAQ. Listing will be subject to the Company fulfilling all of the listing requirements of the TSX and NASDAQ. The Underwriters may effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market in accordance with applicable market stabilization rules. See Plan of Distribution .

An investment in the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus is speculative and bears certain risks. See Risk Factors in this Prospectus Supplement and the accompanying Prospectus.

This Offering is made by a Canadian issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States and Canada, to prepare this Prospectus Supplement and the accompanying Prospectus in accordance with Canadian disclosure requirements. Prospective investors should be aware that such requirements are different from those of the United States. Financial statements included or incorporated by reference herein have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and are subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies.

Prospective investors should be aware that the acquisition of the Common Shares described herein may have tax consequences both in the United States and Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be fully described herein.

The enforcement by investors of civil liabilities under United States federal securities laws may be affected adversely by the fact that we are incorporated or organized under the laws of Canada, that some or all of the Company s officers and directors are residents of Canada, that all or a substantial portion of the Company s assets and all or a substantial portion of the assets of said persons are located outside the United States and that some or all of the underwriters or experts herein may be residents of Canada.

THE COMMON SHARES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE SEC) NOR HAS THE SECURITIES COMMISSION OF ANY STATE OF THE UNITED STATES OR ANY CANADIAN SECURITIES REGULATOR APPROVED OR DISAPPROVED THE COMMON SHARES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The Common Shares will be issued and sold pursuant to an underwriting agreement dated September 25, 2012 between us and the Underwriters (the **Underwriting Agreement**). Delivery of the Common Shares is expected to be made on or about October 2, 2012 (the **Closing Date**), and in any event not later than October 9, 2012. **After the initial offering, the Offering Price may be changed by the Underwriters. See Plan of Distribution .**

The Underwriters, as principals, offer the Common Shares subject to prior sale if, as and when issued by Neptune and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement and subject to the approval of certain legal matters on behalf of Neptune by Osler, Hoskin & Harcourt LLP, with respect to Canadian and U.S. legal matters, and on behalf of the Underwriters by Stikeman Elliott LLP, with respect to Canadian legal matters, and by Morrison & Foerster LLP, with respect to U.S. legal matters. Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is anticipated that the Common Shares will be issued in book-entry only form and represented by a global certificate or certificates, or be represented by uncertificated securities, registered in the name of CDS Clearing and Depositary Services Inc. (**CDS**) or its nominee and The Depository Trust Company (**DTC**), as directed by the Underwriters, and will be deposited with CDS or DTC, as the case may be. Except in limited circumstances, no beneficial holder of Common Shares will receive definitive certificates representing their interest in Common Shares. Beneficial holders of Common Shares will receive only a customer confirmation from the Underwriters or other registered dealer who is a CDS or DTC participant and from or through whom a beneficial interest in the Common Shares is acquired. Certain other holders will receive definitive certificates representing their interests in Common Shares.

Our head and registered office is located at 225, Promenade du Centropolis, Suite 200, Laval, Québec, Canada, H7T 0B3.

Table of Contents

TABLE OF CONTENTS

PROSPECTUS SUPPLEMENT

PROSPECTUS

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the terms of the Offering and adds to and updates information in the accompanying Prospectus beginning on page 1 and the documents incorporated by reference therein. The second part is the accompanying Prospectus, which provides more general information, some of which may not apply to the Offering. This Prospectus Supplement is deemed to be incorporated by reference into the accompanying Prospectus solely for the purposes of this Offering. This Prospectus Supplement may add, update or change information contained in the accompanying Prospectus. Before investing, you should carefully read both this Prospectus Supplement and the accompanying Prospectus together with the additional information about Neptune to which we refer you in the sections of this Prospectus Supplement entitled Documents Incorporated by Reference and Where You Can Find More Information .

You should rely only on the information contained in or incorporated by reference into this Prospectus Supplement and the accompanying Prospectus. The Company has not authorized anyone to provide you with different information. The Company is not making an offer of the Common Shares in any jurisdiction where the Offering is not permitted. You should not assume that the information contained in this Prospectus Supplement or the accompanying Prospectus is accurate as of any date other than the date on the front of this Prospectus Supplement.

In this Prospectus Supplement, unless the context otherwise requires, references to Neptune , the Company , we , us , our or similar terms refer Neptune Technologies & Bioressources Inc. and its subsidiaries, references to Acasti refer to Acasti Pharma Inc. and references to NeuroBio refer to NeuroBioPharm Inc.

All references in this Prospectus Supplement to dollars , CDN$ and $ refer to Canadian dollars, and references to US$ refer to United States dollars, unless otherwise expressly stated. Potential purchasers should be aware that foreign exchange rate fluctuations are likely to occur from time to time and that the Company does not make any representation with respect to future currency values. Investors should consult their own advisors with respect to the potential risk of currency fluctuations. On September 24, 2012, the closing exchange rate for the Canadian dollar, expressed in United States dollars, as quoted by the Bank of Canada was CDN$1.00 = US$1.0217.

This Prospectus Supplement and the documents incorporated herein by reference contain company names, product names, trade names, trademarks and service marks of Neptune and other organizations, all of which are the property of their respective owners.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement, the accompanying Prospectus and the documents incorporated by reference herein and therein contain certain information that may constitute forward-looking information within the meaning of Canadian securities laws and forward-looking statements within the meaning of U.S. federal securities laws, both of which we refer to as forward-looking information. Forward-looking information can be identified by the use of terms such as may , will , should , expect , plan , anticipate , believe , intend , estimate , predict , potent similar expressions concerning matters that are not statements about the present or historical facts. Forward-looking statements in this Prospectus Supplement include, but are not limited to, statements about:

- Neptune s ability, and the ability of its distribution partners, to continue to successfully commercialize Neptune Krill Oil (NK®) and ECOKRILL Oil (EKO), and the ability of Neptune s subsidiaries, Acasti and NeuroBio, to commercialize other product candidates, in the United States, Canada and internationally;

Table of Contents

- plans of Neptune s subsidiaries, Acasti and NeuroBio, to conduct new clinical trials for product candidates, including the timing and results of these clinical trials;
- the timing and cost of completion of the expansion project of Neptune s manufacturing facility in Sherbrooke, Québec, and the amount of increased production capacity for krill oil at the expanded facility;
- Neptune s ability to maintain and defend its intellectual property rights in NKO® and EKO and in its product candidates;
- Neptune s estimates of the size of the potential markets for NKO® and EKO and its product candidates and the rate and degree of market acceptance of EKO and NKO® and its product candidates;
- the health benefits of NKO® and EKO and its product candidates as compared to other products in the nutraceutical and pharmaceutical markets; and
- Neptune s expectations regarding its financial performance, including its revenues, expenses, gross margins, liquidity, capital resources and capital expenditures.

Although the forward-looking information is based upon what we believe are reasonable assumptions, no person should place undue reliance on such information since actual results may vary materially from the forward-looking information.

In addition, the forward-looking information is subject to a number of known and unknown risks, uncertainties and other factors, including those described under the heading Risk Factors in this Prospectus Supplement and the accompanying Prospectus, many of which are beyond our control, that could cause actual results and developments to differ materially from those that are disclosed in or implied by the forward-looking information, including, without limitation:

- the Company s history of net losses and inability to achieve profitability;
- the successful commercialization of NKO® and EKO ;
- changes in regulatory requirements and interpretations of regulatory requirements;
- the Company s reliance on third parties for the manufacture and distribution of its products and for the supply of raw materials;
- the Company s reliance on a limited number of distributors;
- the Company s ability to manage its growth efficiently;
- the Company s ability to further penetrate core or new markets;

the Company s dependence on a single manufacturing facility;

the Company s ability to attract and retain skilled labor;

the Company s ability to attract, hire and retain key management and personnel;

the success of current and future clinical trials by the Company and its subsidiaries;

the Company s ability to achieve its publicly announced milestones on time or at all;

product liability lawsuits brought against the Company and its subsidiaries;

intense competition from other companies in the pharmaceutical and nutraceutical industry;

the Company s ability to secure and defend its intellectual property rights; and

the fact that the Company does not currently intend to pay any cash dividends on its common shares in the foreseeable future.

Consequently, all the forward-looking information is qualified by this cautionary statement and there can be no guarantee that the results or developments that we anticipate will be realized or, even if substantially realized, that they will have the expected consequences or effects on our business, financial condition or results of operations. Accordingly, you should not place undue reliance on the forward-looking information. Except as required by applicable law, Neptune does not undertake to update or amend any forward-looking information, whether as a result of new information, future events or otherwise. These forward-looking statements are made as of the date of this Prospectus Supplement.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus Supplement is deemed to be incorporated by reference into the accompanying Prospectus solely for the purposes of this Offering. Other documents are also incorporated, or are deemed to be incorporated, by reference into the accompanying Prospectus and reference should be made to the accompanying Prospectus for full particulars thereof.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Neptune at 225, Promenade du Centropolis, Suite 200, Laval, Québec, H7T 0B3, telephone: 1 888 664-9166. These documents are also available through the internet on SEDAR, which can be accessed online at www.sedar.com, and on EDGAR, which can be accessed online at www.sec.gov/edgar.shtml.

The following documents filed by Neptune with the SEC and/or securities commissions or similar authorities in the Provinces of Québec, Ontario, Manitoba, Alberta and British Columbia, as amended from time to time, are specifically incorporated by reference into, and form an integral part of, this Prospectus Supplement:

(a) revised annual information form of the Company dated September 11, 2012 for the fiscal year ended February 29, 2012;

(b) audited consolidated financial statements as at February 29, 2012, February 28, 2011 and March 1, 2010 and for the years ended February 29, 2012 and February 28, 2011, together with the notes thereto and the auditors report thereon, and with the management s discussion and analysis thereon;

(c) management information circular of the Company dated May 18, 2012 prepared in connection with the Company s annual meeting of shareholders held on June 21, 2012; and

(d) unaudited consolidated interim financial statements of the Company as at May 31, 2012 and for the three-month periods ended May 31, 2012 and 2011 (with the exception of the notice on the page preceding page 1 of such financial statements stating: These interim financial statements have not been reviewed by an auditor.), and with the management s discussion and analysis thereon.

Any annual information form, annual or quarterly financial statements, annual or quarterly management s discussion and analysis, management proxy circular, material change report (excluding confidential material change reports), business acquisition report, information circular or other disclosure document required to be incorporated by reference into a prospectus filed under National Instrument 44 101 *Short Form Prospectus Distributions* filed by Neptune with any securities commission or similar authority in Canada after the date of this Prospectus Supplement and prior to the termination of the Offering shall be deemed to be incorporated by reference into this Prospectus Supplement.

In addition, to the extent that any document or information incorporated by reference into this Prospectus Supplement pursuant to the foregoing paragraph is also included in any report filed with or furnished to the SEC by Neptune on Form 6-K or on Form 40-F (or any respective successor form) after the date of this Prospectus Supplement, it shall be deemed to be incorporated by reference as an exhibit to the registration statement of which this Prospectus Supplement forms a part. Further, we may incorporate by reference into the registration statement of which this Prospectus Supplement forms a part, any report on Form 6-K furnished to the SEC, including the exhibits thereto, if and to the extent provided in such report.

Table of Contents

Any statement contained in this Prospectus Supplement, the accompanying Prospectus or in a document incorporated or deemed to be incorporated by reference into this Prospectus Supplement or the accompanying Prospectus shall be deemed to be modified or superseded for the purposes of this Prospectus Supplement and the accompanying Prospectus to the extent that a statement contained in this Prospectus Supplement, or in any subsequently filed document which also is or is deemed to be incorporated by reference into this Prospectus Supplement or the accompanying Prospectus, modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified shall not constitute a part of this Prospectus Supplement or the accompanying Prospectus except as so modified. Any statement so superseded shall not constitute a part of this Prospectus Supplement or the accompanying Prospectus.

ELIGIBILITY FOR INVESTMENT

On the date of issue, provided that the Common Shares are listed at that time on a designated stock exchange (as defined in the Tax Act) (which currently includes the TSX and the NASDAQ), the Common Shares will be qualified investments under the *Income Tax Act* (Canada) and the *Income Tax Regulations* (collectively, the **Tax Act**) for trusts governed by registered retirement savings plans (**RRSP**), registered retirement income funds (**RRIF**), registered education savings plans, deferred profit sharing plans, registered disability savings plans and tax-free savings accounts (**TFSA**), and in the case of an RRSP, an RRIF or a TFSA, provided the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, deals at arm s length with the Company and does not have a significant interest (within the meaning of the Tax Act) in the Company or in a corporation, partnership or trust that does not deal at arm s length with the Company, will not be a prohibited investment under the Tax Act for such RRSP, RRIF or TFSA. The Department of Finance (Canada) has recently indicated that it is prepared to recommend further amendments to the prohibited investment rules contained in the Tax Act (**Tax Proposals**); however, no Tax Proposals have been released as at the date hereof.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights certain information about us, this Offering and selected information contained elsewhere in or incorporated by reference into this Prospectus Supplement or the accompanying Prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in the Common Shares. For a more complete understanding of the Company and this Offering, we encourage you to read and consider carefully the more detailed information in this Prospectus Supplement and the accompanying Prospectus, including the information incorporated by reference in this Prospectus Supplement and the accompanying Prospectus, the information included in any free writing prospectus that the Company has authorized for use in connection with this Offering, and the information under the heading Risk Factors in this Prospectus Supplement on page S-9 *and in the accompanying Prospectus. All capitalized terms used in this summary refer to those definitions contained elsewhere in this Prospectus Supplement and/or the accompanying Prospectus, as applicable.*

Neptune Technologies & Bioressources Inc.

Our Business

Neptune is a biotechnology company engaged primarily in the development, manufacture and commercialization of marine-derived omega-3 polyunsaturated fatty acids, or PUFAs. Neptune produces omega-3 PUFAs through its patented process of extracting oils from Antarctic krill, which omega-3 PUFAs are then principally sold as bulk oil to Neptune s distributors who commercialize them under their private labels primarily in the U.S., European and Australian nutraceutical markets. Neptune s lead products, Neptune Krill Oil (NKO®) and ECOKRILL Oil (EKO), generally come in capsule form and serve as a dietary supplement to consumers.

Having commenced commercial krill oil production in 2002, Neptune pioneered the commercialization of omega-3 PUFAs extracted from krill for human health maintenance and it now continues to further progress its product development based on its proprietary technology. We believe that our ability to provide a safe and effective product is a key factor in building and sustaining our credibility with our distribution partners. In fiscal year 2012, we produced approximately 130,000 kilograms of krill oil, which at the time was our maximum production capacity at our manufacturing facility. We are in the process of completing an expansion of our facility that, when completed, is expected to enable us to produce approximately 300,000 kilograms of krill oil annually. We believe this increase in production capacity will help position us to meet growing market demand for Neptune s krill oil products.

Through Neptune s subsidiaries, Acasti and NeuroBio, in which Neptune respectively holds 57% and 99% of the voting rights, Neptune is also pursuing opportunities in the medical food and prescription drug markets. Neptune has granted licensing rights to both Acasti and NeuroBio which allow them to leverage the intellectual property, clinical data and know-how developed by Neptune to focus on, respectively, the research and development of safe and therapeutically effective compounds for highly prevalent atherosclerotic conditions, such as cardiometabolic disorders and cardiovascular diseases, and for neurodegenerative and inflammation related conditions. Following the payment of the dividend-in-kind described under Corporate Structure Corporate Structure Diagram in the accompanying Prospectus, it is expected that Neptune will control approximately 96% of the voting rights attached to the securities of NeuroBio.

Corporate Information

Neptune was incorporated on October 9, 1998 pursuant to a certificate of incorporation issued under Part 1A of the *Companies Act* (Québec) and is now governed by the *Business Corporations Act* (Québec). The

Table of Contents

Company s head office and registered office is located at 225, Promenade du Centropolis, Suite 200, Laval, Québec, Canada, H7T 0B3.

Neptune has two wholly-owned subsidiaries, Neptune Technologies & Bioressources USA Inc., or Neptune USA, and Neptune Technologies & Bioressources Hong Kong Limited, or Neptune Hong Kong, and two majority-owned subsidiaries, Acasti and NeuroBio.

The Common Shares of Neptune are listed on the TSX under the symbol NTB and on the NASDAQ under the symbol NEPT .

The common shares of Acasti are listed and posted for trading on the TSX Venture Exchange under the symbol APO .

Table of Contents

SUMMARY OF THE OFFERING

Issuer:	Neptune Technologies & Bioressources Inc.
Offering:	US$30,003,800 aggregate amount of Common Shares.
Offering Price:	US$4.10 per Common Share.
Common Shares offered by Neptune:	7,318,000 Common Shares.
Over-Allotment Option:	The Company has granted to the Underwriters an option to purchase up to 1,097,700 additional Common Shares to cover over-allotments, if any, and for market stabilization purposes. The Underwriters may exercise the Over-Allotment Option at any time within 30 days from the date of the Closing Date.
Closing Date:	On or about October 2, 2012.
Common Shares to be outstanding immediately after this Offering:	57,489,061 Common Shares.
	(58,586,761 Common Shares if the Over-Allotment Option is exercised in full)
Use of Proceeds:	Neptune estimates that the net proceeds from the Offering will be approximately US$27,003,572, after deducting the Underwriters commission of US$1,800,228, the JTF Fee of US$300,000 and the Company s estimated expenses of the Offering, which are estimated to be US$900,000. If the Over-Allotment Option is exercised in full, the net proceeds will be approximately US$31,234,108 after deducting the Underwriters commission, JTF Fee and estimated Company s expenses of the Offering. See Plan of Distribution .
	Neptune intends to allocate the net proceeds from the Offering as follows (i) for sales, marketing and krill inventory purchases for NKO® and EKO, (ii) to support Acasti in the development and validation of CaPre® and other product candidates, and to support NeuroBio in the development and validation of its product candidates, (iii) to fund the expansion of its Sherbrooke plant described under Business of the Company Manufacturing and Facilities in the accompanying Prospectus and that is intended to increase Neptune s annual production capacity to 500,000 kilograms of krill oil, (iv) to fund product development, clinical trials and regulatory affairs of Neptune (including management and protection of its intellectual property portfolio), and (v) for general corporate and other working capital purposes. See Use of Proceeds .

TSX symbol:	The Common Shares are listed on the TSX under the symbol NTB .
NASDAQ symbol:	The Common Shares are listed on the NASDAQ under the symbol NEPT .
Risk Factors:	You should carefully read and consider the information set forth in Risk Factors beginning on page S-9 of this Prospectus Supplement and page 21 of the accompanying Prospectus before investing in our Common Shares.

Table of Contents

Unless specifically stated otherwise, the information in this Prospectus Supplement:

- is based on the assumption that the Underwriters will not exercise the option to purchase additional Common Shares under the Over-Allotment Option;
- excludes 6,487,500 Common Shares reserved for issuance upon the exercise of options outstanding as of September 24, 2012;
- excludes 2,244,549 Common Shares reserved for issuance upon the exercise of warrants outstanding as of September 24, 2012.

Table of Contents

RISK FACTORS

An investment in the Common Shares offered hereby involves a high degree of risk. Prospective investors should carefully consider the following risks, as well as the other information contained in this Prospectus Supplement, the accompanying Prospectus and the documents incorporated by reference herein and therein before investing in the Common Shares. Prospective investors should carefully consider the factors set out under Risk Factors in the accompanying Prospectus, in the Company s revised annual information form for the year ended February 29, 2012 (which is incorporated by reference herein) and the factors set out below in evaluating Neptune and its business before making an investment in the Common Shares. If any of such risk factors actually occurs, the Company s business financial condition, liquidity, results of operations and prospects could be materially harmed. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company s business, financial condition, liquidity, results of operations and prospects.

The price of the Company s shares may fluctuate.

Market prices for securities in general, and that of pharmaceutical and nutraceutical companies in particular, tend to fluctuate. Factors such as the announcement to the public or in various scientific or industry forums of technological innovations, new commercial products, patents, exclusive rights obtained by the Company or others, results of pre-clinical and clinical studies by the Company or others, a change of regulations, publications, financial results, public concerns over the risks of pharmaceutical products and dietary supplements, future sales of securities by the Company or its shareholders and many other factors could have considerable effects on the price of the Company s securities. There can be no assurance that the market price of the Common Shares will not experience significant fluctuations in the future.

The Company may allocate the net proceeds from this offering in ways that you and other shareholders may not approve.

The Company currently intends to use the proceeds from this Offering as described under Use of Proceeds . Because of the number and variability of factors that will determine the Company s use of the proceeds from this Offering, its ultimate use may vary substantially from the use disclosed in this Prospectus Supplement. As such, management will have broad discretion in the application of the net proceeds from this Offering and could spend the proceeds in ways that ultimately do not improve the Company s operating results or enhance the value of its common shares. For a further description of the Company s intended use of the proceeds of the Offering, see Use of Proceeds .

You will experience immediate and substantial dilution in the shares that you purchase in this Offering because the per share price in this Offering is substantially higher than the net tangible book value of outstanding common shares.

If you purchase Common Shares in this Offering, you will pay more for your shares than the net tangible book value of outstanding Common Shares. As a result, you will experience an immediate and substantial dilution in the net tangible book value of your shares. The Company has previously granted options to certain officers, directors, consultants and other employees to acquire Common Shares at prices significantly below the Offering Price. To the extent these outstanding options are exercised in the future, you will incur further dilution. See Description of the Share Capital .

The Company does not currently intend to pay any cash dividends on its Common Shares in the foreseeable future.

The Company has never paid any cash dividends on its Common Shares. The Company does not anticipate paying any cash dividends on its Common Shares in the foreseeable future because, among other reasons, the

Table of Contents

Company currently intends to retain any future earnings to finance its business. The future payment of cash dividends will be dependent on factors such as cash on hand and achieving profitability, the financial requirements to fund growth, the Company s general financial condition and other factors the board of directors of the Company may consider appropriate in the circumstances. See Dividend Policy .

The Company does not expect that it will be a passive foreign investment company, or PFIC, for the current taxable, but PFIC classification is fundamentally factual in nature, determined annually and subject to change.

Based on the projected composition of its income and assets, the Company does not expect that it will be a PFIC for the current taxable year ending February 28, 2013. However, whether the Company is a PFIC depends on complex U.S. federal income tax rules whose application to the Company is uncertain, and, since the PFIC status of the Company will depend upon the composition of its income and assets and the fair market value of its assets from time to time and generally cannot be determined until the end of a taxable year, there can be no assurance that the Company will not be a PFIC for the current or subsequent taxable years. If the Company is a PFIC or if it were to become a PFIC in future taxable years while a U.S. Holder (as defined below under the heading Certain Income Tax Considerations United States Federal Income Tax Considerations) holds Common Shares, such U.S. Holder would generally be subject to adverse U.S. federal income tax consequences, including the treatment of gain realized on the sale of Common Shares as ordinary (rather than capital gain) income, potential interest charges on those gains and certain other distributions made by the Company and ineligibility for the preferential tax rates on dividends paid by qualified foreign corporations generally available to certain non-corporate U.S. Holders. For a more detailed discussion of the consequences of the Company being classified as a PFIC, including discussion of certain elections that (if available) could mitigate some of the adverse consequences described above, see below under the heading Certain Income Tax Considerations United States Federal Income Tax Considerations Passive Foreign Investment Company Rules .

Each U.S. purchaser is urged to consult its own tax advisor with respect to the U.S. federal, state, local and non-U.S. tax consequences of the acquisition, ownership, and disposition of the Common Shares as may be applicable to their particular circumstances.

Table of Contents

DIVIDEND POLICY

The Company has not declared or paid any cash dividends on its Common Shares since the date of its incorporation. The Company intends to retain its earnings, if any, to finance the growth and development of its business and does not expect to pay dividends or to make any other distributions in the near future. The Company s Board of Directors will review this policy from time to time having regard to the Company s financing requirements, financial condition and other factors considered to be relevant. On September 5, 2012, a prospectus qualifying the distribution of 2,000,000 Class A subordinate voting shares and 4,000,000 Series 2011-1 warrants of NeuroBio held by Neptune by way of a dividend-in-kind was filed with Canadian securities regulatory authorities. The dividend-in-kind is expected to be paid on October 31, 2012 to holders of record of Neptune s common shares at the close of business on October 15, 2012. See Corporate Structure Corporate Structure Diagram in the accompanying Prospectus.

Table of Contents

CONSOLIDATED CAPITALIZATION

Since May 31, 2012 to the date of this Prospectus Supplement, there have been no material changes in the share and loan capital of the Company other than the issuance of 363,968 common shares from the exercise of warrants and stock options for proceeds of $839,768, the grant of 360,000 stock options under the Company s stock option plan and the grant of 1,000,002 warrants.

The following table sets forth the share capital of the Company at May 31, 2012 (i) before giving effect to this Offering, and (ii) on a pro forma basis after giving effect to this Offering. The table should be read in conjunction with our unaudited consolidated interim financial statements as at May 31, 2012 and for the three-month periods ended May 31, 2012 and 2011 and with the management s discussion and analysis thereon, which are incorporated by reference in this Prospectus Supplement and the accompanying Prospectus.

		As at May 31, 2012(1)		As at May 31, 2012 after giving effect to this Offering(1)(2)	
	Authorized	**Outstanding**	**Book value in dollars**	**Outstanding**	**Book value in dollars(3)(4)**
Common Shares	Unlimited	49,807,093	$ 46,143,016	57,125,093	$72,573,056
Preferred Shares	Unlimited	nil	nil	nil	nil

Notes:

(1) Excluded from the amounts outstanding, and as at September 21, 2012, are a total of 6,487,500 stock options and 2,244,549 warrants. Each stock option and each warrant is exercisable into one Common Share.

(2) Without giving effect to the exercise of the Over-Allotment Option.

(3) After deducting the Underwriters commission of US$1,800,228, the JTF Fee of US$300,000 and the Company s expenses of the Offering, which are estimated to be US$900,000.

(4) After converting the gross proceeds of the Offering of US$30,003,800, the Underwriters commission of US$1,800,228, the JTF Fee of US$300,000 and the estimated Company s expenses of the Offering of US$900,000 into Canadian dollars at the exchange rate of CDN$1.00 = US$1.0217, which was the closing exchange rate for the Canadian dollar, expressed in United States dollars, on September 24, 2012 as quoted by the Bank of Canada.

USE OF PROCEEDS

Neptune estimates that the net proceeds from the Offering will be approximately US$27,003,572, after deducting the Underwriters commission of US$1,800,228, the JTF Fee of US$300,000 and the Company s expenses of the Offering, which are estimated to be US$900,000. If the Over-Allotment Option is exercised in full, the net proceeds will be approximately US$31,234,108 after deducting the Underwriters commission, JTF Fee and estimated Company s expenses of the Offering. See Plan of Distribution .

Neptune intends to allocate the net proceeds from the Offering as follows (i) approximately US$9,000,000 for sales, marketing and krill inventory purchases for NKO® and EKO, (ii) approximately US$8,000,000* to support Acasti in the development and validation of CaPre® and other product candidates, and to support NeuroBio in the development and validation of its product candidates, (*iii) approximately US$5,000,000 to fund the expansion of its Sherbrooke plant described under Business of the Company Manufacturing and Facilities in the accompanying Prospectus and that is intended to increase Neptune s annual production capacity to 500,000 kilograms of krill oil, (iv) approximately US$3,000,000 to fund product development, clinical trials and regulatory affairs of Neptune (including management and protection of its intellectual property portfolio), and (v) the balance for general corporate and other working capital purposes.

Neptune intends to use the net proceeds as outlined above. The actual amount that the Company spends in connection with each of the intended uses of proceeds will depend on a number of factors, including those listed under Risk Factors in or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. Pending the application of the net proceeds, Neptune intends to invest the net proceeds in investment-grade, short term, interest-bearing securities, the primary objectives of which are liquidity and capital preservation.

Table of Contents

DESCRIPTION OF THE SHARE CAPITAL

The authorized share capital of the Company is comprised of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in one or more series. By way of by-law, in accordance with its articles of incorporation, the Company created the Series A Preferred Shares , which are non-voting shares.

As at September 21, 2012, there were a total of (i) 50,171,061 Common Shares and no Preferred Shares issued and outstanding, (ii) 2,244,549 warrants to purchase Common Shares issued and outstanding, and (iii) 6,487,500 options to purchase Common Shares issued and outstanding.

DESCRIPTION OF THE COMMON SHARES

Voting Rights

Each Common Share entitles its holder to receive notice of, and to attend and vote at, all annual or special meetings of the shareholders of the Company. Each Common Share entitles its holder to one vote at any meeting of the shareholders, other than meetings at which only the holders of a particular class or series of shares are entitled to vote due to statutory provisions or the specific attributes of this class or series.

Dividends

Subject to the prior rights of the holders of Preferred Shares ranking before the Common Share as to dividends, the holders of Common Shares are entitled to receive dividends if and as declared by the board of directors of the Company from the Company s funds that are duly available for the payment of dividends.

Winding-up and Dissolution

In the event of the Company s voluntary or involuntary winding-up or dissolution, or any other distribution of the Company s assets among its shareholders for the purposes of winding up its affairs, the holders of Common Shares shall be entitled to receive, after payment by the Company to the holders of Preferred Shares ranking prior to Common Share regarding the distribution of the Company s assets in the case of winding-up or dissolution, share for share, the remainder of the property of the Company, with neither preference nor distinction.

Table of Contents

MARKET FOR SECURITIES

The Company s Common Shares are listed and posted for trading on (i) the TSX under the symbol NTB , and (ii) the NASDAQ under the symbol NEPT . The price ranges and trading volume of the Common Shares for the twelve-month period before the date of this Prospectus Supplement on the TSX and the NASDAQ was as follows:

	TSX (CDN$)			**12,103**	12,018	**3,659**	4,473
Period	**19,940**	17,677					
			19,911	25,340			
	(11,636)	(19,387)	**38,414**	(100,827)			
	(346)	(4,391)					
	15,108	(4,358)					
	29	(751)	**95**	284			
	(525)	876	**(87,353)**	(42,035)			
	38,376	15,525	**4,637**	813			
			356,610	(245,476)			
	(736,908)	(756,452)					
	11	(439)	**155**	1,489			
	(324,174)	(152,129)	**(16,891)**	53,245			
	(22,428)	(31,202)	**5,212**	9,196			
			(30,293)	50,518			
	55						
	(850,138)	(689,343)	**293,278**	(213,622)			
	1,422	20,119	**106**	32			
			(286,691)	(317,935)			
	(54,203)	(69,849)					
	77,764	52,119					
	22,046	(45,067)					
	987	(10,928)	**(1,392)**	(3,964)			
	(3,114)	(1,387)					
	44,902	(54,993)	**(287,977)**	(321,867)			
	623,584	180,697	**(179,926)**	240,134			
	500,489	464,512					
	(103,601)	(300,573)					
			961,114	1,055,206			
			(746,310)	(731,467)			
	15,262	13,202					
	(187,799)	(50,975)					
	(4,806)	(5,136)	**(14,230)**	(25,000)			

843,129	301,727	**20,648**	538,873
	(474)		
37,893	(443,083)	**25,949**	3,384
36,711	490,308	**11,244**	12,278
$ 74,604	$ 47,225	**$ 37,193**	$ 15,662

* *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.*

5

Table of Contents

Notes to Consolidated Financial Statements

Centex Corporation and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2006
(Unless otherwise indicated, dollars and shares in thousands, except per share data)
(unaudited)

(A) BASIS OF PRESENTATION

The consolidated interim financial statements include the accounts of Centex Corporation and all subsidiaries, partnerships and other entities in which Centex Corporation has a controlling interest (the Company). Also included in the consolidated financial statements are certain variable interest entities, as discussed in Note (F), Indebtedness, and Note (H), Land Held Under Option Agreements Not Owned and Other Land Deposits. All significant intercompany balances and transactions have been eliminated. The unaudited statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

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

At June 30, 2006, certain operations have been classified as discontinued. Associated results of operations and financial position are separately reported for all periods presented. For additional information, refer to Note (O), Discontinued Operations. Information in these Notes to Consolidated Financial Statements, unless otherwise noted, does not include the accounts of discontinued operations.

(B) 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 international homebuilding and sub-prime home equity operations, see Note (O), Discontinued Operations. As a result, all international homebuilding cash flows are included with the Centex cash flows and all Centex Home Equity Company, LLC (Home Equity) cash flows 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 June 30,	
	2006	2005
Cash Paid for Interest	**$ 168,783**	$ 141,480
Net Cash Paid for Taxes	**$ 141,972**	$ 176,735

6

Table of Contents

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. For the three months ended June 30, 2006 and 2005, interest expense related to segments other than Financial Services and Home Building is included as a separate line item in the Statements of Consolidated Earnings.

	For the Three Months Ended June 30,	
	2006	2005
Total Interest Incurred	**$ 185,480**	$ 146,911
Less Interest Capitalized	**(72,594)**	(49,850)
Financial Services Interest Expense	**(20,837)**	(12,779)
Discontinued Operations	**(92,049)**	(81,658)
Interest Expense, net	**$**	$ 2,624
Capitalized Interest Relieved to Home Building s Costs and Expenses	**$ 37,050**	$ 34,560

As explained in Note (H), Land Held Under Option Agreements Not Owned and Other Land Deposits, pursuant to the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 46, Consolidation of Variable Interest Entities, as revised (FIN 46), as of June 30, 2006, the Company consolidated $386.0 million of lot option agreements and recorded $47.6 million of deposits related to these options as land held under option agreements not owned. As of March 31, 2006, the Company consolidated $653.3 million of lot option agreements and recorded $89.1 million of deposits related to these options as land held under option agreements not owned. In addition to lot options recorded pursuant to FIN 46, as of June 30, 2006 and March 31, 2006, the Company recorded $45.3 million and $75.5 million, respectively, of land under the caption land held under option agreements not owned related to lot option agreements for which the Company s deposits exceeded certain thresholds.

(C) STOCK-BASED COMPENSATION ARRANGEMENTS

Prior to January 1, 2006, the Company accounted for its stock-based compensation arrangements in accordance with the provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), under which the Company recognized compensation expense of a stock option award over the vesting period based on the fair value of the award on the grant date. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) entitled Share-Based Payment, (SFAS 123R) using the modified-prospective transition method. Accordingly, prior periods have not been restated. The adoption of SFAS 123R was not significant.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits related to deductions resulting from the exercise of stock options as operating activities in the Consolidated Statements of Cash Flows. SFAS 123R requires that cash flows resulting from tax benefits related to tax deductions in excess of the compensation expense recognized for those options (excess tax benefits) be classified as financing cash flows. As a result, the Company classified $5.5 million of excess tax benefits as financing cash inflows for the three months ended June 30, 2006.

Table of Contents

The following information represents the Company s annual grants of stock-based compensation to employees and directors during the three months ended June 30, 2006 and 2005:

Month/ Year of Grant	Grant Type	Number of Shares Granted	Fair Value of Grant
May 2005	Stock Options	1,716.2	$39,301.2
May 2006	Stock Options	1,169.9	$23,311.5
May 2005	Stock Units	556.6	$31,926.9
May 2006	Stock Units	334.0	$18,194.9
May 2005	Restricted Stock	236.2	$13,550.8
May 2006	Restricted Stock	75.5	$ 4,079.5

Stock units and restricted stock are recognized as compensation expense over the vesting period based on the fair market value of the Company s stock on the date of grant. The fair value of stock options granted is calculated under the Black-Scholes option-pricing model, and is recognized as compensation over the vesting period.

(D) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity is presented below:

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income	Total
	Shares	Amount					
Balance, March 31, 2006	122,104	$ 34,132	$ 580,010	$ 5,251,325	$ (862,439)	$ 8,630	$ 5,011,658
Issuance of Restricted Stock	76	19	(19)				
Stock Compensation			19,940				19,940
Exercise of Stock Options Including Tax Benefits	590	148	19,838				19,986
Cash Dividends				(4,806)			(4,806)
Purchase of Common Stock for Treasury	(3,500)				(187,163)		(187,163)
Other Stock Transactions	22		(4,724)		(636)		(5,360)
Net Earnings				160,257			160,257
Unrealized Gain on Hedging Instruments						8,247	8,247
						25	25

Foreign Currency Translation Adjustments							
Balance, June 30, 2006	**119,292**	**$ 34,299**	**$ 615,045**	**$ 5,406,776**	**$ (1,050,238)**	**$ 16,902**	**$ 5,022,784**

(E) GOODWILL

A summary of changes in goodwill by segment for the three months ended June 30, 2006 is presented below:

	Home Building	Financial Services	Construction Services	Other	Total
Balance as of March 31, 2006	$ 121,501	$ 11,737	$ 1,007	$ 84,490	$ 218,735
Goodwill Acquired				2,281	2,281
Balance as of June 30, 2006	**$ 121,501**	**$ 11,737**	**$ 1,007**	**$ 86,771**	**$ 221,016**

8

Goodwill for the Other segment at June 30, 2006 relates to the Company s home services operations.

(F) INDEBTEDNESS

A summary of the balances of short-term and long-term debt (debt instruments with original maturities greater than one year) and weighted average interest rates at June 30, 2006 and March 31, 2006 is presented below. Due dates are presented in fiscal years. Centex, in this note, refers to the consolidation of all subsidiaries and certain debt of variable interest entities other than those included in Financial Services.

	As of			
	June 30, 2006		March 31, 2006	
		Weighted-Average Interest Rate		Weighted-Average Interest Rate
Short-term Debt:				
Centex	**$ 750,750**	**5.42%**	$ 127,166	5.09%
Financial Services				
Financial Institutions	**354,482**	**5.40%**	324,986	5.00%
Harwood Street Funding I, LLC Secured Liquidity Notes	**1,291,503**	**5.27%**	1,692,229	4.84%
Consolidated Short-term Debt	**2,396,735**		2,144,381	
Long-term Debt:				
Centex				
Medium-term Note Programs, due through 2008	**258,000**	**5.98%**	358,000	6.01%
Senior Notes, due through 2017	**3,708,814**	**5.89%**	3,208,762	5.79%
Other Indebtedness, due through 2018	**24,312**	**6.37%**	188,346	9.17%
Subordinated Debentures, due in 2007	**99,941**	**8.75%**	99,919	8.75%
	4,091,067		3,855,027	
Financial Services				
Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable Certificates, due through 2010	**60,000**	**7.33%**	60,000	6.83%
Consolidated Long-term Debt	**4,151,067**		3,915,027	
Total Debt	**$ 6,547,802**		$ 6,059,408	

Centex s short-term debt as of June 30, 2006 and March 31, 2006 consisted of commercial paper of $750.0 million and $125.0 million, respectively, and land and land related acquisition notes of $0.8 million and $2.2 million, respectively. As of March 31, 2006, other indebtedness included $161.2 million of debt at a weighted-average rate of approximately 9.73% held by variable interest entities, for which the Company determined it was the primary beneficiary and which was consolidated pursuant to FIN 46. Subsequent to March 31, 2006, these variable interest entities were restructured such that the Company is no longer the primary beneficiary. As a result, as of June 30, 2006, the variable interest entities were not consolidated.

Table of Contents

The weighted-average interest rates for short-term and long-term debt during the three months ended June 30, 2006 and 2005 were:

	For the Three Months Ended June 30,	
	2006	2005
Short-term Debt:		
Centex	**5.16%**	3.13%
Financial Services	**5.30%**	3.29%
Long-term Debt:		
Centex		
Medium-term Note Programs	**5.88%**	5.13% *(1)*
Senior Notes	**5.87%**	6.24%
Other Indebtedness	**5.84%**	5.57%
Subordinated Debentures	**8.75%**	8.14%
Financial Services		
Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable Certificates	**7.08%**	5.09%

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

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

	Centex	Financial Services	Total
2007	$ 189,147	$	$ 189,147
2008	526,967		526,967
2009	150,307		150,307
2010	225,101	60,000	285,101
2011	700,098		700,098
Thereafter	2,299,447		2,299,447
	$ 4,091,067	$ 60,000	$ 4,151,067

Under Centex Corporation s bank credit facilities, the Company is required to maintain certain leverage and interest coverage ratios and a minimum tangible net worth. At June 30, 2006, Centex was in compliance with all of these covenants.

Table of Contents

Credit Facilities

The Company s existing credit facilities and available borrowing capacity as of June 30, 2006 are summarized below:

	Existing Credit Facilities	Available Capacity
Centex		
Multi-Bank Revolving Credit Facility		
Revolving Credit	$ 1,250,000	$ 500,000
Letters of Credit	835,000	460,974
	2,085,000	960,974 *(1)(2)*
Unsecured Credit Facility	150,000	150,000 *(3)*
	2,235,000	1,110,974
Financial Services		
Secured Credit Facilities	740,000	385,518 *(4)*
Harwood Street Funding I, LLC Facility	3,000,000	1,646,000
	3,740,000	2,031,518
	$ 5,975,000	$ 3,142,492 *(5)*
Discontinued Operations *(6)*		
Mortgage Servicer Advance Facility	$ 100,000	$ 31,882
Secured Credit Facilities	300,000	91,592
Harwood Street Funding II, LLC Facility	4,000,000	2,865,461
	$ 4,400,000	$ 2,988,935

(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2010, which serves as backup for Centex Corporation s $1.25 billion commercial paper program and provides $835 million of letter of credit capacity. As of June 30, 2006, the $1.25 billion commercial paper program had $750 million outstanding, which has been deducted from the available capacity under the back-up facility. There have been no direct borrowings under this revolving credit facility since its inception.

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

(3) Centex Corporation maintains a $150 million unsecured, uncommitted credit facility.

(4) *CTX Mortgage Company, LLC maintains $740 million of secured, committed mortgage warehouse facilities to finance mortgages.*

(5) *The amount of available capacity for continuing operations consists of $2,992.5 million of committed capacity and $150.0 million of uncommitted capacity as of June 30, 2006. Although we believe that the uncommitted capacity is currently available, there can be no assurance that the lender under this facility would elect to make advances if and when requested to do so.*

(6) *In connection with the sale of Home Equity on July 11, 2006, all of these credit facilities have been terminated or called for redemption.*

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

Mortgage loans held for sale are primarily funded by CTX Mortgage Company, LLC s sale of substantially all the mortgage loans it originates to Harwood Street Funding I, LLC (HSF-I), pursuant to a mortgage loan purchase agreement, as amended (the HSF-I Purchase Agreement). Under the terms of the HSF-I Purchase Agreement, CTX Mortgage Company, LLC may elect to sell to HSF-I, and HSF-I is obligated to purchase from CTX Mortgage Company, LLC, mortgage loans that satisfy certain eligibility criteria and portfolio requirements. HSF-I s commitment to purchase eligible mortgage loans continues in effect until the occurrence of certain termination events described in the HSF-I Purchase Agreement. At June 30, 2006, the maximum amount of mortgage loans that HSF-I is allowed to carry in its inventory under the HSF-I Purchase Agreement is $3.0 billion. When HSF-I acquires mortgage loans, it typically holds them on average approximately 60 days and then resells them into the secondary market. In accordance with the HSF-I Purchase Agreement, CTX Mortgage Company, LLC acts as servicer of the loans owned by HSF-I and arranges for the sale of the eligible mortgage loans into the secondary market. HSF-I obtains the funds needed to purchase eligible mortgage loans from CTX Mortgage Company, LLC by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated certificates. As of June 30, 2006, HSF-I had outstanding (1) short-term secured liquidity notes rated A1+ by Standard & Poor s, or S&P, and P-1 by Moody s Investors Service, or Moody s, and (2) subordinated certificates maturing in September 2009, extendable for up to five years, rated BBB by S&P and Baa2 by Moody s. The purposes of this arrangement are to allow CTX Mortgage Company, LLC to reduce funding costs associated with its originations, to improve its liquidity and to eliminate credit risks associated with mortgage warehousing.

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

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

HSF-I s debt and subordinated certificates do not have recourse to the Company, and the consolidation of this debt and subordinated certificates has not changed the Company s debt ratings. The Company does not guarantee the payment of any debt or subordinated certificates of HSF-I and is not liable for credit losses relating to securitized residential mortgage loans sold to HSF-I. However, the Company retains certain risks related to the portfolio of mortgage loans held by HSF-I. In particular, CTX Mortgage Company, LLC makes representations and warranties to HSF-I to the effect that each mortgage loan sold to HSF-I satisfies the eligibility criteria and portfolio requirements discussed above. CTX Mortgage Company, LLC may be required to repurchase mortgage loans sold to HSF-I if such mortgage loans are determined to be ineligible loans or there occur certain other breaches of representations and warranties of CTX Mortgage Company, LLC, as seller or servicer. CTX Mortgage Company, LLC s obligations as servicer, including its obligation as servicer to repurchase such loans, are guaranteed by Centex Corporation. CTX Mortgage Company, LLC records a liability for its estimated losses for these obligations and such amount is included in its loan origination reserve. CTX Mortgage Company, LLC and its related companies sold $2.86 billion and $2.55 billion of mortgage loans to investors during the three months ended June 30, 2006 and 2005, respectively. CTX Mortgage Company, LLC and its related companies recognized gains on sales of mortgage loans and related derivative activity of $46.6 million and $39.4 million during the three months ended June 30, 2006 and 2005, respectively.

In the event Financial Services is unable to finance its inventory of loans through HSF-I, it would draw on other existing credit facilities. In addition, Financial Services would need to make other customary financing arrangements to fund its mortgage loan origination activities. Although the Company believes that Financial Services could arrange for alternative financing that is common for non-investment grade mortgage companies, there can be no assurance that such financing would be available on satisfactory terms, and any delay in obtaining such financing could adversely affect the results of operations of Financial Services.

Table of Contents

(G) COMMITMENTS AND CONTINGENCIES

Joint Ventures

The Company conducts a portion of its land acquisition, development and other activities through its participation in joint ventures in which the Company holds less than a majority interest. These land related activities typically require substantial capital, and partnering with other 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	
	June 30, 2006	March 31, 2006
Number of Joint Ventures	**49**	52
Investment in Joint Ventures	**$ 284,199**	$ 307,779
Total Joint Venture Debt	**$ 1,124,471**	$ 1,053,201
Centex s Share of Joint Venture Debt:		
Based on Centex s Ownership Percentage	**$ 423,854**	$ 388,428
Based on Limited Recourse Provisions:		
Limited Maintenance Guarantee *(1) (3)*	**$ 223,626**	$ 228,603
Repayment Guarantee *(2) (3)*	**13,524**	8,136
Total Limited Recourse Debt	**$ 237,150**	$ 236,739

(1) The Company has guaranteed that certain of the joint ventures will maintain a specified loan to value ratio. The Company could be required to contribute additional capital to these joint ventures to the extent the loan to value ratio falls below the specified ratio. The Company has not been requested to perform under any of its limited maintenance guarantees.

(2) 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.

(3) These amounts represent the Company s maximum exposure based on the joint ventures debt at each respective date.

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

The Company also has investments in joint ventures related to its Construction Services and Other segments totaling $2,677 and $2,605 as of June 30, 2006 and March 31, 2006, respectively.

Letters of Credit and Surety Bonds

In the normal course of business, the Company issues letters of credit and surety bonds pursuant to certain performance related obligations, as security for certain land option purchase agreements of the Home Building segment and under various insurance programs. Based on the information currently available to the Company, the Company does not have any reason to believe that these letters of credit or bonds will be drawn upon.

13

Table of Contents

A summary of the Company s outstanding letters of credit and surety bonds as of June 30, 2006 is presented below (dollars in millions):

	Letters of Credit	Surety Bonds
Home Building	**$ 241.7**	**$ 1,835.0***(1)*
Financial Services	**0.7**	**10.6**
Construction Services	**38.1**	**4,242.0***(2)*
Other	**93.9**	**0.2**
Discontinued Operations		**7.8**
	$ 374.4	**$ 6,095.6**

(1) The Company estimates that $740.6 million of work remains to be performed on these projects.

(2) The Company estimates that $2,060.3 million of work remains to be performed on these projects.

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, building sales, commercial construction and mortgage loan originations. The Company believes that it has established the necessary accruals for these representations, warranties and guarantees. See further discussion of our warranty liability below.

Home Building offers a ten-year limited warranty for most homes constructed and sold. 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 three months ended June 30, 2006 and the year ended March 31, 2006:

	June 30, 2006	March 31, 2006
Balance at Beginning of Period	**$ 47,199**	$ 34,961
Warranties Issued	**15,891**	53,036
Settlements Made	**(14,954)**	(40,173)
Changes in Liability of Pre-Existing Warranties, Including Expirations		(625)
Balance at End of Period	**$ 48,136**	$ 47,199

Loan Loss Reserves

CTX Mortgage Company, LLC has established a liability for anticipated losses associated with loans originated based upon, among other factors, historical loss rates and current trends in loan originations. This liability includes losses associated with certain borrower payment defaults, credit quality issues, or misrepresentations and reflects management s judgment of the loss exposure at the end of the reporting period. Changes in CTX Mortgage Company, LLC s mortgage loan origination reserve are as follows for the three months ended June 30, 2006 and the year ended March 31, 2006:

	June 30, 2006	March 31, 2006
Balance at Beginning of Period	**$ 18,500**	$ 18,803
Provision for Losses	**479**	2,618
Settlements	**(274)**	(2,921)
Balance at End of Period	**$ 18,705**	$ 18,500

14

Table of Contents

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 or any subsidiary 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 was building. Subsequently, the EPA limited its request to Home Building and 30 communities. Home Building has provided the requested information and the United States Department of Justice (the Justice Department), acting on behalf of the EPA, has asserted that some of these and certain other communities (including one of Construction Services projects) have violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Home Building and Construction Services believe they have defenses to the allegations made by the EPA and are exploring methods of settling this matter. 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.

On November 23, 2004, Miami-Dade County, Florida filed suit against Centex-Rooney Construction Co., a wholly-owned subsidiary; John J. Kirlin, Inc.; and M. C. Harry and Associates, Inc., in the County s Circuit Court of the Eleventh Judicial Circuit. Miami-Dade County alleges that, in the course of performing or managing construction work on Concourse F at the Miami International Airport, the defendants caused a jet fuel line rupture on or about July 30, 1987, which resulted in the contamination of soil, groundwater and surface water in and around airport Concourse F. Miami-Dade County seeks damages of approximately $8.0 million for its costs incurred to date and for expected future costs, civil penalties and an order requiring the defendants to address remaining contamination. The Company believes it has substantial defenses to Miami-Dade County s claims, including waiver and release and statute of limitations defenses. The Company also believes insurance coverage may be available to cover defense costs and any potential damages.

In December 2004, certain present and former employees of Centex Home Equity Company, LLC commenced a collective action lawsuit in the United States District Court for Northern District of Georgia. In this litigation, plaintiffs seek to recover unpaid overtime compensation under the Fair Labor Standards Act. As discussed elsewhere in this report, the Company sold Home Equity to an unrelated third party and agreed to indemnify the purchaser against all losses and expenses arising out of this lawsuit in excess of the amount of the reserves established on the books of Home Equity at the time of the closing of the sale transaction.

(H) LAND HELD UNDER OPTION AGREEMENTS NOT OWNED AND OTHER LAND DEPOSITS

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

Table of Contents

The Company has determined that in accordance with the provisions of FIN 46, it is the primary beneficiary of certain land option agreements at June 30, 2006. As a result, the Company recorded $386.0 million and $653.3 million of land as inventory under the caption land held under option agreements not owned, with corresponding increases to minority interests and other indebtedness as of June 30, 2006 and March 31, 2006, respectively. The following table summarizes the Company s investment in land option agreements and their total purchase price (dollars in millions):

	As of	
	June 30, 2006	March 31, 2006
Cash Deposits included in:		
Land Held for Development and Sale	**$ 265.8**	$ 246.2
Land Held Under Option Agreements Not Owned	**47.6**	89.1
Total Cash Deposits in Inventory	**313.4**	335.3
Letters of Credit	**25.4**	29.0
Total Invested through Deposits or Secured with Letters of Credit	**$ 338.8**	$ 364.3
Total Purchase Price of Land Option Agreements	**$ 9,485.1**	$ 9,930.2

In addition to lot options recorded pursuant to FIN 46, the Company recorded $45.3 million and $75.5 million as of June 30, 2006 and March 31, 2006, respectively, of land under the caption land held under option agreements not owned related to lot option agreements for which the Company s deposits exceeded certain thresholds.

(I) COMPREHENSIVE INCOME

A summary of comprehensive income for the three months ended June 30, 2006 and 2005 is presented below:

	For the Three Months Ended June 30,	
	2006	2005
Net Earnings	**$ 160,257**	$ 233,670
Other Comprehensive Income (Loss), net of Tax:		
Unrealized Gain (Loss) on Hedging Instruments	**8,247**	(5,707)
Foreign Currency Translation Adjustments	**25**	(13,683)
Comprehensive Income	**$ 168,529**	$ 214,280

The unrealized gain or loss on hedging instruments represents the deferral in other comprehensive income (loss) of the unrealized gain or loss on interest rate swap agreements designated as cash flow hedges. The accounting for interest rate swaps and other derivative financial instruments in place as of June 30, 2006 is discussed in detail in Note (L), Derivatives and Hedging. Unrealized gain or loss on hedging instruments also includes other comprehensive income of $2.2 million related to terminated hedges executed in connection with the anticipated issuance of fixed-rate debt. This other comprehensive loss will be recognized in earnings over the remaining term of the respective fixed-rate debt. Accumulated other comprehensive income associated with Home Equity as of the date of disposition will be reclassified into earnings.

(J) BUSINESS SEGMENTS

As of June 30, 2006, the Company operated in three principal business segments: Home Building, Financial Services and Construction Services. These segments operate in the United States and their markets are nationwide. Revenues from any one customer are not significant to the Company.

For the three months ended June 30, 2006 and 2005, intersegment revenues and cost of sales are included in the results of operations for the individual segments but have been eliminated in consolidation. Intersegment eliminations include the elimination of Construction Services revenues earned and costs and expenses incurred on multi-unit residential vertical construction with our Home Building business segment.

16

Table of Contents

Home Building

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

In September 2005, the Company sold all of its international homebuilding operations, which had previously been included in the Home Building segment, to a third party for cash. As a result of the sale, the operating results of the international homebuilding operations for the three months ended June 30, 2006 and 2005 have been reclassified to discontinued operations in the Statements of Consolidated Earnings. See Note (O), Discontinued Operations, for additional information.

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 $29.4 million and $23.4 million for the three months ended June 30, 2006 and 2005, respectively. Substantially all of the Company s interest income in each year is earned by the Financial Services segment. Financial Services cost of sales is comprised of interest expense related to debt issued to fund its home financing activities.

On July 11, 2006, the Company completed the sale of Home Equity to an unrelated third party. The operating results of Home Equity for the three months ended June 30, 2006 and 2005 have been reclassified to discontinued operations in the Statements of Consolidated Earnings and all related assets and liabilities have been disclosed separately on the Consolidated Balance Sheets. See Note (O), Discontinued Operations, for additional information.

Construction Services

Construction Services operations involve the construction of buildings for both private and government interests including educational institutions, hospitals, multi-unit residential, correctional institutions, airport facilities, office buildings, hotels and resorts and sports facilities. As this segment generates positive cash flow, intercompany interest income (credited at the prime rate in effect) of $2.4 million and $1.9 million for the three months ended June 30, 2006 and 2005, respectively, is included in management s evaluation of this segment. However, the intercompany interest income is eliminated in consolidation and excluded from the tables presented below.

Other

The Company s Other segment includes corporate general and administrative expenses and interest expense. Also included in the Other segment are the Company s home services operations and investment real estate operations, which are not material for purposes of segment reporting.

	For the Three Months Ended June 30, 2006 (Dollars in millions)					
	Home Building	Financial Services	Construction Services	Other	Intersegment Eliminations	Total

Revenues	$ 2,649.8	$ 122.7	$ 501.5	$ 31.3	$ (31.9)	$ 3,273.4
Cost of Sales	(1,971.3)	(20.8)	(472.2)	(15.5)	30.2	(2,449.6)
Selling, General and Administrative Expenses	(407.8)	(78.8)	(22.5)	(41.8)		(550.9)
Earnings from Unconsolidated Entities	10.7					10.7
Earnings (Loss) Before Income Tax	$ 281.4	$ 23.1	$ 6.8	$ (26.0)	$ (1.7)	$ 283.6

Table of Contents

For the Three Months Ended June 30, 2005
(Dollars in millions)

	Home Building	Financial Services	Construction Services	Other	Intersegment Eliminations	Total
Revenues	$ 2,399.2	$ 110.0	$ 366.1	$ 27.6	$ (3.0)	$ 2,899.9
Cost of Sales	(1,710.7)	(12.8)	(344.3)	(13.7)	2.9	(2,078.6)
Selling, General and Administrative Expenses	(360.0)	(75.9)	(19.2)	(39.8)		(494.9)
Earnings from Unconsolidated Entities	12.4		0.1			12.5
Earnings (Loss) Before Income Tax	$ 340.9	$ 21.3	$ 2.7	$ (25.9)	$ (0.1)	$ 338.9

(K) INCOME TAXES

Income tax expense totaled $108.1 million and $128.1 million for the three months ended June 30, 2006 and 2005, respectively. The Company s effective tax rate was 38.1% for the three months ended June 30, 2006, which was relatively consistent with the 37.8% effective tax rate for the same period in the prior year.

(L) DERIVATIVES AND HEDGING

The Company is exposed to the risk of interest rate fluctuations on its debt and other obligations. As part of its strategy to manage the risks that are subject to changes in interest rates, Home Equity has entered into various interest rate swap agreements, designated as cash flow hedges. Financial Services, through CTX Mortgage Company, LLC, enters into mandatory forward trade commitments (forward trade commitments) designated as fair value hedges to hedge the interest rate risk related to its portfolio of mortgage loans held for sale. In addition, CTX Mortgage Company, LLC enters into other derivatives not designated as hedges. The following discussion summarizes our derivatives used to manage the risk of interest rate fluctuations.

Cash Flow Hedges

Home Equity has interest rate swap agreements that, in effect, fix the variable interest rates on a portion of its outstanding debt. Home Equity also uses interest rate swaps to hedge the market risk associated with the anticipated issuance of fixed-rate securitization debt used to finance sub-prime mortgages. These interest rate swap agreements are designated as cash flow hedges. The following table summarizes the interest rate swap agreements in place as of June 30, 2006 (dollars in thousands except as indicated):

	Notional Value (in millions)	Fixed Interest Rate	Termination Date	Accumulated Other Comprehensive Income
Home Equity				
Interest rate swaps	$ 145.6	5.34% [(1)]		$ 469

Interest rate swaps	$ 2,544.2	4.32% (1)	Through February 2013 Through May 2011	14,238
				$ 14,707

(1) Weighted average fixed interest rates.

The interest rate swap agreements are recorded at their fair value in assets of discontinued operations in the Consolidated Balance Sheets. To the extent the hedging relationship is effective, gains or losses in the fair value of the derivative are deferred as a component of stockholders equity through other comprehensive income (loss). Fluctuations in the fair value of the ineffective portion of the derivative are reflected in the current period earnings, although such amounts were insignificant for the three months ended June 30, 2006. Accumulated other comprehensive income associated with Home Equity as of the date of disposition will be reclassified into earnings.

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

Table of Contents

Fair Value Hedges

Financial Services, through CTX Mortgage Company, LLC, enters into certain forward trade commitments designated as fair value hedges to hedge the interest rate risk related to its portfolio of mortgage loans held for sale, including mortgage loans held by HSF-I. Accordingly, changes in the fair value of the forward trade commitments and the mortgage loans, for which the hedge relationship is deemed effective, are recorded as an adjustment to earnings. To the extent the hedge is effective, gains or losses in the value of the hedged loans due to interest rate movement will be offset by an equal and opposite gain or loss in the value of the forward trade commitment. This will result in no impact to earnings. To the extent the hedge contains some ineffectiveness, the ineffectiveness is recognized immediately in earnings. The amount of hedge ineffectiveness included in earnings was a loss of approximately $0.2 million for the three months ended June 30, 2006. For the three months ended June 30, 2005, the amount of hedge ineffectiveness included in earnings was a gain of approximately $3.0 million.

Other Derivatives

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

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

The net change in the estimated fair value of other derivatives resulted in a loss of approximately $0.3 million for the three months ended June 30, 2006, compared to a loss of approximately $1.6 million for the three months ended June 30, 2005.

(M) RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Staff Position 109-1 (FSP 109-1), Application of FASB Statement No. 109, which clarified that the tax deduction on qualified production activities provided by the American Jobs Creation Act of 2004 should be accounted for as a special deduction and will reduce tax expense in the periods during which the amounts are deductible on the tax return. Based on the guidance provided by FSP 109-1, this deduction is accounted for as a special deduction under SFAS 109 which reduces income tax expense. The tax benefits resulting from the new deduction are reflected in the effective income tax rate of 38.1% and 37.8% for the three months ended June 30, 2006 and 2005, respectively.

In July 2006, the FASB finalized and issued FIN 48, entitled Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position if that position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 will be effective as of the beginning of the Company s fiscal year ending March 31, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The

Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

(N) OFF-BALANCE SHEET OBLIGATIONS

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

19

Table of Contents

(O) DISCONTINUED OPERATIONS

Condensed Financial Information

In September 2005, the Company sold its international homebuilding operations to an unrelated third party. As a result of the sale, international homebuilding s operations have been reclassified to discontinued operations in the Statements of Consolidated Earnings.

On July 11, 2006, the Company completed the sale of its sub-prime home equity lending operation, Home Equity, to an unrelated third party. For more detailed information on the sale of Home Equity, refer to Note (P), Subsequent Events. Home Equity s operations have been reclassified to discontinued operations in the Statements of Consolidated Earnings, and assets and liabilities related to these discontinued operations have been presented separately on the Consolidated Balance Sheets. All prior period information has been reclassified to be consistent with the June 30, 2006 presentation.

Summarized financial information for entities included in discontinued operations is set forth below:

	As of	
	June 30, 2006 *(1)*	March 31, 2006 *(1)*
Assets		
Cash and Cash Equivalents	**$ 26,259**	$ 787
Restricted Cash	**368,293**	277,114
Loans Held for Investment	**7,134,438**	6,867,658
Receivables	**152,466**	153,517
Property and Equipment, net	**16,194**	17,740
Deferred Income Taxes	**29,831**	74,156
Mortgage Securitization Residual Interest	**56,559**	56,831
Deferred Charges and Other, net	**66,662**	62,359
	$ 7,850,702	$ 7,510,162
Liabilities		
Accounts Payable and Accrued Liabilities	**$ 54,208**	$ 70,434
Notes Payable	**1,287,209**	1,095,905
Long-term Debt	**6,050,258**	5,835,454
	$ 7,391,675	$ 7,001,793

	For the Three Months Ended June 30,	
	2006 *(1)*	2005 *(2)*
Revenues	**$ 152,943**	$ 320,714
Costs and Expenses	**(177,685)**	(285,421)

Earnings from Unconsolidated Entities				266
Earnings (Loss) Before Income Taxes		**(24,742)**		35,559
Benefit (Provision) for Income Taxes		**9,432**		(12,728)
	$	**(15,310)**	$	22,831

(1) Includes Home Equity only.

(2) Includes Home Equity and International Home Building.

20

Residential Mortgage Loans Held for Investment

Residential mortgage loans held for investment, including real estate owned, consisted of the following:

	As of	
	June 30, 2006	March 31, 2006
Residential Mortgage Loans Held for Investment	**$ 7,230,705**	$ 6,967,034
Allowance for Losses on Residential Mortgage Loans Held for Investment	**(96,267)**	(99,376)
Residential Mortgage Loans Held for Investment, net of Allowance for Losses	**$ 7,134,438**	$ 6,867,658

Changes in the allowance for losses on residential mortgage loans held for investment were as follows:

	***For the Three Months Ended* June 30, 2006**	*For the Year Ended* March 31, 2006
Balance at Beginning of Period	**$ 99,376**	$ 85,302
Provision for Losses	**19,911**	94,319
Losses Sustained, net of Recoveries of $324 and $1,499	**(23,020)**	(80,245)
Balance at End of Period	**$ 96,267**	$ 99,376

	***For the Three Months Ended* June 30, 2006**	*For the Year Ended* March 31, 2006
Allowance as a Percentage of Gross Loans Held for Investment	**1.3%**	1.4%
Allowance as a Percentage of 90+ Days Contractual Delinquency	**48.5%**	41.0%
90+ Days Contractual Delinquency (based on months)		
Total Dollars Delinquent	**$ 198,629**	$ 242,241
% Delinquent	**2.7%**	3.5%

(P) SUBSEQUENT EVENTS

Sale of Home Equity

On July 11, 2006, the Company completed the sale of Home Equity to an unrelated third party. The estimated total, net after-tax proceeds to the Company from the sale are initially approximately $540 million. These proceeds reflect the initial cash consideration paid by the purchaser in the amount of approximately $550 million (the Initial Purchase

Price), as adjusted for expenses associated with the sale, certain tax benefits to the Company and estimated post-closing adjustments. The Initial Purchase Price was based on an estimate of the book value of Home Equity, plus a premium calculated in accordance with agreed upon formulas and procedures. The book value component and the premium component of the Initial Purchase Price are subject to post-closing adjustments to reflect the actual book value of Home Equity as of the closing date and to reflect, among other things, the amount and value of the home equity loans and certain other assets of Home Equity as of the closing date. The premium component of the Initial Purchase Price is also subject to a post-closing adjustment based upon the volume of mortgage loans originated by Home Equity during a two-year period after the closing date (the Volume Incentive Adjustment) as described below.

Table of Contents

The Company currently expects that the procedures required to effect the post-closing adjustments to the Initial Purchase Price will be completed within approximately 60 to 90 days after the closing date. There can be no assurance as to the timing of the completion of the adjustments or the results thereof.

The Volume Incentive Adjustment will depend primarily upon the total volume of mortgage loans originated by Home Equity during the two-year period after the closing date. The maximum additional amount that could be payable to the Company as a result of the Volume Incentive Adjustment is $30 million. However, under certain circumstances, such provisions could require the Company to repay up to $10 million of the amounts previously received from the purchaser. There can be no assurance as to the results of the Volume Incentive Adjustment, which will depend on the future operating results of Home Equity and other future events, many of which are outside of the Company s control.

Other

In July 2006, the Company repurchased an aggregate of 1.0 million shares of common stock at a total purchase price of $50.8 million, including commissions paid.

In July 2006, the Company granted 49,760 stock options and 20,950 shares of restricted stock to the Company s directors. The total value of these grants was $2.0 million.

(Q) RECLASSIFICATIONS

Certain prior year balances have been reclassified to be consistent with the June 30, 2006 presentation, including reclassification of distribution of earnings from joint ventures to cash flows from operating activities and reclassifications of discontinued operations.

Table of Contents

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

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

Executive Summary

The following charts summarize certain key line items of our results of operations by business segment for the three months ended June 30, 2006 and 2005 (dollars in millions):

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

Revenues for the three months ended June 30, 2006 increased 12.9% to $3.3 billion as compared to the three months ended June 30, 2005. Earnings from continuing operations before income taxes for the three months ended June 30, 2006 decreased 16.2% to $284 million as compared to the same period in the prior year.

The growth in our revenues during the three months ended June 30, 2006 is primarily due to an increase in average sales prices for our homes. The decrease in our operating earnings during the same period is primarily attributable to an increase in discounts and sale incentives for our homes, coupled with an increase in write-offs of land deposits and pre-acquisition costs as compared to the prior year. Increased discounts and sales incentives were primarily the result of higher housing inventories in key markets and other market conditions described below. Write-offs of land deposits and pre-acquisition costs were related primarily to a reevaluation of selected homebuilding projects in light of changing market conditions.

Table of Contents

In the long-term, the overall demand for housing in the United States is driven by population growth, immigration, household formations and increasing home ownership rates. Short-term growth drivers such as mortgage rates, consumer confidence and employment levels can also impact housing demand. The highly fragmented homebuilding industry is in the early stages of a consolidation phase during which large homebuilders grow faster than the industry as a whole. In 1995, based upon single-family permits issued in the United States, the 10 largest homebuilders represented approximately 7.2% of the housing market. In calendar year 2005 (the most recent data available), the 10 largest homebuilders were producing approximately 24% of the nation s new housing stock. We believe industry consolidation will continue to be an important growth factor over the next decade or more as large homebuilders realize the benefits of size, such as capital strength, more efficient operations and technological advantages. As of March 31, 2006, we had homebuilding operations in 38 of the 50 largest housing markets in the United States. We have largely completed our geographic diversification plan and are now focused primarily on further penetration in our existing markets.

In the past few months, we have experienced declines in sales orders. These declines in sales orders are primarily attributable to the following factors, which vary based upon geographic market and product segment:

- increased inventory of new and used homes for sale,
- a decline in homebuyer consumer confidence, and
- an increase in mortgage interest rates

The increase in inventory of new and used homes is reflective of speculative investors becoming net sellers of homes rather than net buyers, as well as, the inability of prospective buyers of new homes to sell their existing homes. The decline in homebuyer consumer confidence can be attributed to concerns of prospective buyers of new homes about the direction of home prices, which has created a decline in urgency based upon a general uncertainty that now may not be the best time to buy a home. Additionally, mortgage interest rates have trended higher over the past twelve months, which negatively impacts the affordability of homes. Consistent with these factors, we continue to experience substantial increases in customer cancellations, which have resulted in declines in sales orders (net of cancellations) of our homes in a majority of markets. For the three months ended June 30, 2006 and 2005, cancellation rates were 32.7% and 20.9%, respectively. We also have experienced a significant decline in operating margin primarily attributable to discounts and sales incentives and other actions taken in response to local market conditions. Continued deterioration in market conditions would result in further declines in sales of our homes and margin deterioration.

Financial Services operating results for the three months ended June 30, 2006 improved as a result of increases in revenues from loan sales to investors and interest income. These positive trends were partially offset by increases in funding costs and selling, general and administrative expenses. Since CTX Mortgage Company, LLC does not recognize revenue on its originated loans until they are sold to third party investors, the decline in Home Building sales could have a negative impact on CTX Mortgage Company, LLC s future operating results. Refinancing activity has declined due to an extended period of relatively low mortgage loan rates, which reduced the supply of loans likely to be refinanced. Recent increases in mortgage loan rates have helped to prolong this trend, which may continue in future periods. CTX Mortgage Company, LLC will continue to focus on serving the customers of our Home Building segment and increasing the percentage of prime mortgage loans provided to them.

The results of operations of certain of our segments, including our Home Building and Financial Services operations, may be adversely affected by increases in short-term and long-term interest rates. A significant increase in short-term interest rates above current prevailing levels could have an adverse effect on funding costs of our Financial Services operations. A significant increase in long-term interest rates above current prevailing levels could increase mortgage interest rates, which could affect the demand for housing, at least in the short term, by reducing the ability or willingness of prospective home buyers to finance home purchases. In addition, an increase in mortgage interest rates could curtail mortgage refinance activity. Although we expect that we would make adjustments in our operations in an effort to mitigate the effects of any increase in mortgage interest rates, there can be no assurances that these efforts would be successful.

Our Construction Services segment operating earnings for the three months ended June 30, 2006 increased as a result of an increase in construction revenue as compared to the prior year and also because approximately $2.5 million in costs were incurred in the quarter ended June 30, 2005 for the merging of two offices. At June 30, 2006, Construction Services backlog was $2.90 billion, an increase of 23.1% over the prior year. Strategically, we will continue to focus on our core geographic and selected industry segments which provide greater opportunity to achieve growth in Construction Services revenues and operating earnings.

On May 11, 2006, our Board of Directors authorized the repurchase of an additional 12 million shares. In the three months ended June 30, 2006, we repurchased an aggregate of 3.5 million shares of our common stock at a total

Table of Contents

purchase price of $187.2 million, including commissions paid. As of June 30, 2006, our remaining share repurchase authorization totaled 11.0 million shares. In July 2006, we repurchased an aggregate of 1.0 million shares of our common stock at a total purchase price of $50.8 million, including commissions paid.

On July 11, 2006, we completed the sale of our sub-prime home equity lending operation. Home Equity, to an unrelated third party. We estimate total, net after-tax proceeds will approximate $540 million, subject to certain post-closing adjustments. 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. Additionally, we have the potential to receive an additional payment based on the volume of mortgage loans originated by Home Equity during the two-year period after the closing. For additional information regarding the sale of Home Equity, refer to Note (P), Subsequent Events, of the Notes to Consolidated Financial Statements and our Current Report on Form 8-K dated July 14, 2006.

HOME BUILDING

The following summarizes the results of our Home Building operations for the three months ended June 30, 2006 and 2005 (dollars in millions):

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Revenues Housing	**$ 2,562.0**	**8.6%**	$ 2,358.1	25.9%
Revenues Land Sales and Other	**87.8**	**113.6%**	41.1	53.4%
Cost of Sales Housing	**(1,866.5)**	**11.5%**	(1,673.6)	22.9%
Cost of Sales Land Sales and Other	**(104.8)**	**182.5%**	(37.1)	5.7%
Selling, General and Administrative Expenses	**(407.8)**	**13.3%**	(360.0)	25.7%
Earnings from Unconsolidated Entities	**10.7**	**(13.7%)**	12.4	59.0%
Operating Earnings	**$ 281.4**	**(17.5%)**	$ 340.9	52.5%
Operating Earnings as a Percentage of Revenues:				
Housing Operations	**11.2%**	**(2.6)**	13.8%	1.8
Total Homebuilding Operations	**10.6%**	**(3.6)**	14.2%	2.4

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Units Closed				
Mid-Atlantic	**1,653**	**7.0%**	1,545	18.6%
Southeast	**1,298**	**(10.7%)**	1,453	11.0%
Midwest	**1,551**	**(0.9%)**	1,565	2.7%
Southwest	**2,314**	**5.8%**	2,188	10.1%
West Coast	**1,502**	**1.2%**	1,484	17.9%
	8,318	**1.0%**	8,235	11.5%

Average Sales Price Per Unit				
Mid-Atlantic	**$ 329,082**	**2.2%**	$ 321,863	12.4%
Southeast	**$ 306,578**	**12.7%**	$ 271,989	12.2%
Midwest	**$ 228,729**	**7.0%**	$ 213,807	1.5%
Southwest	**$ 210,627**	**21.5%**	$ 173,309	9.7%
West Coast	**$ 517,975**	**2.2%**	$ 506,604	16.6%
Total Home Building	**$ 308,014**	**7.6%**	$ 286,354	12.9%

Revenues increased in the three months ended June 30, 2006 as compared to the same period in the prior year primarily due to increases in average sales prices. All regions experienced increases in average sales prices, which are net of any customer discounts. Customer discounts increased 4.8% of housing revenue, up from 1.9% in the prior year. For the three months ended June 30, 2006, our growth rate in closings has declined when compared to the prior year as a result of decreases in sales orders for the past two quarters. We expect that the decreases in sales orders will significantly affect our closings in the near term, and will result in declines in closings in future quarters.

Table of Contents

The increase in unit closings is reflective of an increase in average operating neighborhoods. On the other hand, closings per average neighborhood decreased as outlined in the table below.

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Average Operating Neighborhoods (1)	**669**	**10.6%**	605	6.1%
Closings Per Average Neighborhood	**12.4**	**(8.8%)**	13.6	4.6%

(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.

The increase in average operating neighborhoods for the three months ended June 30, 2006 is primarily the result of the closing out of neighborhoods at a slower rate as compared to the prior year. For the three months ended June 30, 2006, we opened 327 new neighborhoods and closed out of 250 neighborhoods.

Operating margins (consisting of operating earnings as a percentage of revenues) declined to 10.6% for the three months ended June 30, 2006 as compared to 14.2% for the three months ended June 30, 2005. The decrease in operating margins is reflective of an increase in discounts and sales incentives for our homes, coupled with an increase in write-offs of land deposits and pre-acquisition costs as compared to the prior year. We periodically write off deposits and pre-acquisition costs as a component of our ongoing land acquisition process and evaluation of potential market opportunities, which is reflective of our decision not to exercise an option or consummate a land acquisition as a result of changes in market conditions or other factors. Write-offs of land deposits and pre-acquisition costs included in cost of sales land sales and other amounted to $36.3 million for the three months ended June 30, 2006.

Operating margins also decreased due to increases in selling, general and administrative expenses as a percentage of revenues. Selling, general and administrative expenses include all homebuilding employee compensation and related benefits, selling commissions and marketing and advertising costs. Selling, general and administrative expenses increased for the three months ended June 30, 2006 primarily due to increases in advertising, marketing and selling expenses to stimulate sales in light of current housing industry conditions as outlined above, as well as a slight increase in employee compensation and related benefits.

Revenues from land sales and other increased 113.6% to $87.8 million as compared to the prior year. The timing and amount of land sales vary from period to period based on several factors, including the location, size, availability and desirability of the land we own in each market. We deploy disciplined capital allocation and management strategies and processes in each of our markets. We also have individual market-focused land acquisition and entitlement resources. The execution of our capital management strategies, combined with the value created by our land acquisition and entitlement teams, result in sales of parcels of land from time to time. In some cases, the purpose of these sales may be to take advantage of an opportunity to realize value that has been created through the entitlement process for parcels on which we are not likely to be able to build homes for some time. These sales may also fund the acquisition of more desirable tracts in a market. Additionally, in certain situations, we may acquire more land than is required to support our planned growth in a particular geographic area. In addition, our resort and second home operations sell land in the normal course of conducting their operations.

The following tables summarize sales orders and backlog units:

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Sales Orders (in Units)				
Mid-Atlantic	**1,549**	**(22.9%)**	2,010	36.2%
Southeast	**1,039**	**(43.4%)**	1,835	(4.7%)
Midwest	**1,480**	**(9.5%)**	1,635	3.9%
Southwest	**2,563**	**(14.9%)**	3,013	29.0%
West Coast	**1,619**	**(15.9%)**	1,926	12.0%
	8,250	**(20.8%)**	10,419	15.4%
Sales Per Average Neighborhood	**12.3**	**(28.5%)**	17.2	8.9%

	As of			
	June 30, 2006	**Change**	March 31, 2006	Change
Backlog Units				
Mid-Atlantic	**2,969**	**(3.4%)**	3,073	(11.2%)
Southeast	**3,857**	**(6.3%)**	4,116	(17.8%)
Midwest	**2,684**	**(2.6%)**	2,755	(15.8%)
Southwest	**4,343**	**6.1%**	4,094	11.0%
West Coast	**3,466**	**3.5%**	3,349	5.9%
	17,319	**(0.4%)**	17,387	(6.5%)

Sales orders declined in each of the regions in which we do business, with the most pronounced declines being experienced in the Southeast and Mid-Atlantic regions. These declines led to a decrease in backlog in all regions other than the Southwest and West Coast, which experienced relatively small increases in backlog. As previously discussed, some of the factors we believe are contributing to the decrease in sales and backlog are increased inventory of new and used homes for sale, a decline in homebuyer consumer confidence and an increase in mortgage interest rates. Certain of these factors are evidenced by lower customer traffic and increases in cancellation rates. For the three months ended June 30, 2006 and 2005, cancellation rates were 32.7% and 20.9%, respectively.

The following table summarizes our land position as of June 30, 2006 and March 31, 2006:

	As of June 30, 2006			*As of March 31,* 2006		
	Lots Owned	**Lots Controlled**	**Total Lots**	Lots Owned	Lots Controlled	Total Lots
Mid-Atlantic	**20,596**	**45,706**	**66,302**	20,036	49,421	69,457
Southeast	**28,475**	**43,243**	**71,718**	27,830	41,011	68,841
Midwest	**13,955**	**16,564**	**30,519**	14,133	18,724	32,857
Southwest	**29,953**	**36,147**	**66,100**	27,832	40,390	68,222
West Coast	**19,997**	**27,954**	**47,951**	18,997	37,347	56,344
	112,976	**169,614**	**282,590**	108,828	186,893	295,721
Change(1)	**3.8%**	**(9.2%)**	**(4.4%)**	2.1%	(0.1%)	0.7%

(1) From previous quarter.

Our total land position decreased 4.4% as of June 30, 2006 as compared to a slight increase in the prior quarter. The decrease in our land position for the three months ended June 30, 2006 is reflective of our decision to decelerate land purchases and new lot option arrangements, as well as to walk away from certain existing lots controlled under option agreements. Our total land position owned or controlled under option agreements at June 30, 2006 will provide land for approximately 100% of closings for fiscal year 2007, 94% of closings for fiscal year 2008, and 75% of closings for fiscal year 2009 based on our current closing projections. Included in our total land position are approximately 36,555 and 35,063 lots controlled through joint venture arrangements as of June 30, 2006 and

March 31, 2006, respectively. We have completed our due diligence on 70,582 lots that we control (including certain of such lots controlled through joint ventures).

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 Home Building operations and other homebuilders, title agency services and the sale of title insurance and other insurance products, including property and casualty.

Table of Contents

The following summarizes Financial Services results for the three months ended June 30, 2006 and 2005 (dollars in millions):

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Revenues	**$ 122.7**	**11.5%**	$ 110.0	0.8%
Cost of Sales	**(20.8)**	**62.5%**	(12.8)	80.3%
Selling, General and Administrative Expenses	**(78.8)**	**3.8%**	(75.9)	8.4%
Operating Earnings	**$ 23.1**	**8.5%**	$ 21.3	(33.4%)
Operating Margin	**18.8%**	**(0.6)**	19.4%	(9.9)
Interest Margin	**$ 8.5**	**(19.8%)**	$ 10.6	(32.5%)
Average Interest Earning Assets	**$ 1,574.3**	**5.7%**	$ 1,489.5	(10.4%)
Average Yield	**7.46%**	**1.17**	6.29%	0.82
Average Interest Bearing Liabilities	**$ 1,541.3**	**3.6%**	$ 1,488.1	(7.1%)
Average Rate Paid	**5.43%**	**1.97**	3.46%	1.74

The revenues and operating earnings of CTX Mortgage Company, LLC and its related companies are derived from the sale of mortgage loans, together with all related servicing rights, 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 residential 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 its activities, CTX Mortgage Company, LLC and its related companies carry inventories of loans pending sale to third-party investors and earn an interest margin, which we define as the difference between interest revenue on mortgage loans held for sale and interest expense on debt used to fund the mortgage loans.

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

Revenues for the three months ended June 30, 2006 increased year over year due to increases in loan sales to investors and interest income. Loan funding costs also increased as a result of higher short-term interest rates. This increase in funding costs was the primary factor contributing to the decrease in interest margin for the three months ended June 30, 2006. The increase in selling, general and administrative expenses in the three months ended June 30, 2006 is primarily related to an increase in compensation costs related to brokered loan production.

28

Table of Contents

The following table provides a comparative analysis of: (1) the volume of loan sales to investors (third parties) and the gains recorded on those sales and related derivative activity, known collectively as gain on sale of mortgage loans, and (2) loans brokered to third party lenders and fees received for related broker services for the three months ended June 30, 2006 and 2005 (dollars in millions, except average loan size):

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Loan Sales to Investors				
Volume	**$ 2,857.2**	**11.9%**	$ 2,553.2	(0.6%)
Number of Loans Sold	**14,312**	**8.4%**	13,197	(13.2%)
Gain on Sale of Mortgage Loans	**$ 46.6**	**18.3%**	$ 39.4	16.2%
Loans Brokered to Third Party Lenders				
Volume	**$ 957.1**	**9.4%**	$ 874.9	3.3%
Number of Brokered Loans	**3,237**	**(5.1%)**	3,412	(5.3%)
Broker Fees	**$ 18.6**	**3.3%**	$ 18.0	11.8%
Average Loan Size				
Loans Sold to Investors	**$ 199,634**	**3.2%**	$ 193,470	14.5%
Loans Brokered to Third Party Lenders	**$ 295,670**	**15.3%**	$ 256,421	9.0%

Gain on sale of mortgage loans increased at a higher rate than the volume of loan sales to investors as a result of an increase in average income received from mortgage servicing rights.

CTX Mortgage Company, LLC tracks loan applications until such time as the loan application is closed as an originated loan or cancelled. New application data presented below includes loan applications received, which resulted in originated loans in the period presented and applications for loans scheduled to close in subsequent periods.

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Open Applications Beginning	**23,219**	**(6.8%)**	24,912	(7.1%)
New Applications	**25,409**	**(17.8%)**	30,919	1.3%
Canceled Applications	**(10,229)**	**3.8%**	(9,854)	(16.6%)
Net Applications	**15,180**	**(27.9%)**	21,065	12.5%
Originated Loans	**(14,982)**	**(16.4%)**	(17,930)	(6.5%)
Open Applications Ending	**23,417**	**(16.5%)**	28,047	6.4%

The table below provides a comparative analysis of mortgage loan originations for the three months ended June 30, 2006 and 2005.

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Origination Volume (in millions)	**$ 3,488.1**	**(8.7%)**	$ 3,820.7	9.1%
Number of Originated Loans				
Builder	**6,065**	**7.9%**	5,619	12.0%
Retail	**8,917**	**(27.6%)**	12,311	(13.0%)
	14,982	**(16.4%)**	17,930	(6.5%)
Average Loan Size Originated Loans	**$ 232,800**	**9.2%**	$ 213,100	16.7%

29

Builder originations for the three months ended June 30, 2006 increased as a result of an increase in Home Building s closings and our continued focus on serving this customer base. For the three months ended June 30, 2006, CTX Mortgage Company, LLC originated 77% of the non-cash unit closings of Home Building s customers, versus 75% for the same period in the prior year. Total origination volume decreased as a result of a decrease in retail originations caused by higher mortgage interest rates.

CTX Mortgage Company, LLC s operations are influenced by borrowers perceptions of and reactions to interest rates. Refinancing activity accounted for 17% and 20% of its originations for the three months ended June 30, 2006 and 2005, respectively. Any significant increase in mortgage interest rates above current prevailing levels could affect the ability or willingness of prospective homebuyers to finance home purchases and/or curtail mortgage refinance activity.

CONSTRUCTION SERVICES

The following summarizes Construction Services results for the three months ended June 30, 2006 and 2005 (dollars in millions):

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Revenues	**$ 501.5**	**37.0%**	$ 366.1	(15.7%)
Operating Earnings	**$ 6.8**	**151.9%**	$ 2.7	(40.0%)
New Contracts Executed	**$ 442.1**	**(38.4%)**	$ 718.2	112.5%

	As of June 30,			
	2006	**Change**	2005	Change
Backlog of Uncompleted Contracts	**$ 2,897.3**	**23.1%**	$ 2,353.3	42.6%

Construction Services revenues are impacted by the nature and size of construction projects, the stage of completion and the construction schedule as defined by project owners. Revenues for the three months ended June 30, 2006 increased as compared to the same period in the prior year primarily due to a substantial increase in backlog in prior periods resulting in a larger portfolio of work from which revenue was realized in this period. The increase in operating earnings for the three months ended June 30, 2006 is primarily the result of the larger portfolio of jobs and improved job profit margins. For the three months ended June 30, 2006, there has been an increase in active multi-unit residential projects, which have higher profit margins while at the same time lower margin jobs have completed and dropped out of the mix of business. As of June 30, 2006, we had 236 active projects which represent a 5.6% decrease over the same period in the prior year. The decrease in new contracts executed for the three months ended June 30, 2006 was due primarily to several large contracts executed during the three months ended June 30, 2005, which did not occur in the three months ended June 30, 2006. The increase in backlog of uncompleted contracts was primarily due to an increase in the average contract values for projects in backlog as compared to the same period in the prior year. Construction Services defines backlog as the uncompleted portion of all signed contracts. Construction Services multi-unit residential backlog of $1.53 billion includes $256.0 million of vertical construction projects for our Home Building business segment.

Construction Services has also been awarded work that is pending execution of a signed contract. At June 30, 2006 and 2005, such work, which is not included in backlog, was approximately $2.15 billion and $2.24 billion, respectively. There is no assurance that this awarded work will result in future revenues.

OTHER

Our Other segment includes our home services operations, investment real estate operations, corporate general and administrative expense, and interest expense.

Table of Contents

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

	For the Three Months Ended June 30,			
	2006		2005	
		Change		Change
Operating Loss from Home Services Operations	**$ (1.7)**	**(34.6%)**	$ (2.6)	
Operating Loss from Investment Real Estate Operations	**(0.1)**		(0.1)	(101.0%)
Corporate General and Administrative Expense	**(24.2)**	**17.5%**	(20.6)	5.1%
Interest Expense		**(100.0%)**	(2.6)	(40.9%)
Operating Loss	**$ (26.0)**	**0.4%**	$ (25.9)	55.1%

Our home services revenues increased 20.8% to $31.4 million in the three months ended June 30, 2006 as compared to the same period in the prior year. This increase in revenues is the result of an expanded customer base. We had 374 thousand pest defense customers as of June 30, 2006 as compared to 287 thousand as of June 30, 2005. The decrease in our home services division s operating loss for the three months ended June 30, 2006 is primarily due to the increase in revenues and leverage in selling, general and administrative expenses.

Corporate general and administrative expenses represent corporate employee compensation and other corporate costs such as investor communications, insurance, rent and professional services. The increase in corporate general and administrative expenses in the three months ended June 30, 2006 is primarily related to incremental employee compensation related to the acceleration of certain executive compensation costs for the June 30, 2006 retirement of an executive officer.

For further information on interest expense, see Note (B), Statements of Consolidated Cash Flows Supplemental Disclosures, of the Notes to Consolidated Financial Statements.

Our effective tax rate was at 38.1% for the three months ended June 30, 2006, which was relatively consistent with the 37.8% effective tax rate for the same period in the prior year.

DISCONTINUED OPERATIONS

In September 2005, we sold our international homebuilding operations, which had previously been included in the Home Building segment. As a result of the sale, international homebuilding s operations have been reclassified to discontinued operations in the Statements of Consolidated Earnings.

On July 11, 2006, we completed the sale of Home Equity to an unrelated third party. Home Equity s operations have been reclassified to discontinued operations in the Statements of Consolidated Earnings, and any assets and liabilities related to these discontinued operations have been presented separately on the Consolidated Balance Sheets. All prior period information has been reclassified to be consistent with the June 30, 2006 presentation.

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

International Home Building

Discontinued operations for the three months ended June 30, 2005 included international home building operation revenues and operating earnings of $126.9 million and $9.9 million, respectively.

Table of Contents

Sub-Prime Home Equity Lending

The following summarizes the results of our sub-prime home equity lending operations for the three months ended June 30, 2006 and 2005 (dollars in millions):

	For the Three Months Ended June 30,			
	2006	**Change**	2005	Change
Revenues	**$ 154.3**	**(21.0%)**	$ 195.4	18.3%
Cost of Sales	**(92.1)**	**12.9%**	(81.6)	49.5%
Selling, General and Administrative Expenses:				
Operating Expenses	**(65.7)**	**7.7%**	(61.0)	4.8%
Loan Loss Provision	**(19.9)**	**(21.3%)**	(25.3)	(5.6%)
Operating Earnings	**$ (23.4)**	**(185.1%)**	$ 27.5	7.4%
Interest Margin	**$ 48.6**	**(36.7%)**	$ 76.8	(6.2%)
Average Interest Earning Assets	**$ 7,017.4**	**(14.1%)**	$ 8,165.5	21.0%
Average Yield	**8.01%**	**0.25**	7.76%	(0.33)
Average Interest Bearing Liabilities	**$ 7,230.4**	**(13.5%)**	$ 8,355.8	19.7%
Average Rate Paid	**5.09%**	**1.18**	3.91%	0.78

The revenues of Home Equity decreased primarily as a result of a reduction in the total average outstanding portfolio of residential mortgage loans held for investment, a decrease in the volume of performing whole loan sales, and also as a result of non-performing whole loan sales to third parties at a loss. Home Equity recorded $13.3 million in net operating losses related to the whole loan sales for the three months ended June 30, 2006, and $10.6 million in net revenue and operating earnings related to the whole loan sales for the three months ended June 30, 2005. Whole loan sales activity for the three months ended June 30, 2006, was negatively impacted by sales of non-performing loans at a discounted price. The selling of performing whole loans has the effect of increasing current operating earnings but decreasing future interest margin that would have been recognized had the loans been securitized or retained as inventory. Home Equity s strategy is to originate loans for investment with the intent to securitize. However, a program of whole loan sales is a component of Home Equity s diversification of funding sources. Whole loan sales vary from period to period based upon market conditions and Home Equity s funding requirements.

Cost of sales is interest expense, which increased for the three months ended June 30, 2006 as a result of increases in interest rates on floating rate debt, slightly offset by a decrease in our average debt outstanding as compared to the same period in the prior year.

Operating expenses include all employee compensation and related benefits, marketing, advertising and occupancy costs. Operating expenses for the three months ended June 30, 2006 increased primarily as a result of costs related to the sale of Home Equity, including increases in marketing, advertising and legal expenses.

The decrease in operating earnings for the three months ended June 30, 2006 is primarily attributable to the decrease in our portfolio of residential mortgage loans held for investment which translated into a decrease in interest income, as well as a decrease in whole loan sale net revenues. In the three months ended June 30, 2006, interest margin decreased primarily as a result of higher borrowing costs, as well as increased competitive industry conditions.

Average interest earning assets and liabilities for the three months ended June 30, 2006 decreased primarily as a result of the decrease in our portfolio of residential mortgage loans held for investment.

Table of Contents

FINANCIAL CONDITION AND LIQUIDITY

The consolidating net cash used in or provided by the operating, investing and financing activities for the three months ended June 30, 2006 and 2005 is summarized below (dollars in thousands). See Statements of Consolidated Cash Flows with Consolidating Details for the detail supporting this summary.

	For the Three Months Ended June 30,	
	2006	2005
Net Cash Provided by (Used in)		
Centex*		
Operating Activities	**$ (850,138)**	$ (689,343)
Investing Activities	**44,902**	(54,993)
Financing Activities	**843,129**	301,727
Effect of Exchange Rate on Cash		(474)
	37,893	(443,083)
Financial Services		
Operating Activities	**293,278**	(213,622)
Investing Activities	**(287,977)**	(321,867)
Financing Activities	**20,648**	538,873
	25,949	3,384
Centex Corporation and Subsidiaries		
Operating Activities	**(549,044)**	(973,032)
Investing Activities	**(265,121)**	(331,793)
Financing Activities	**878,007**	865,600
Effect of Exchange Rate on Cash		(474)
Net Increase (Decrease) in Cash	**$ 63,842**	$ (439,699)

* *Centex represents a supplemental presentation that reflects the Financial Services segment as if accounted for under the equity method. We believe that separate disclosure of the consolidating information is useful because the Financial Services subsidiaries and related companies operate in a distinctly different financial environment that generally requires significantly less equity to support their higher debt levels compared to the operations of our other subsidiaries; the Financial Services subsidiaries and related companies have structured their financing programs substantially on a stand-alone basis; and Centex has limited obligations with respect to the indebtedness of our Financial Services subsidiaries and related companies. Management uses this information in its financial and strategic planning. We also use this presentation to allow investors to compare us to homebuilders that do not have financial services operations.*

In accordance with the provisions of SFAS No. 95, Statement of Cash Flows, the Statements of Consolidating Cash Flows have not been restated for discontinued operations. As a result, all international homebuilding cash flows are included with the Centex cash flows and all Home Equity cash flows are included with the Financial Services cash flows.

We generally fund our Centex operating and other short-term liquidity needs through cash provided by operations, borrowings from commercial paper and other short-term credit arrangements, and the issuance of senior debt. Centex s operating cash is derived primarily through home and land sales from our Home Building segment and general contracting fees obtained through our Construction Services segment. During the three months ended June 30, 2006 and 2005, cash was primarily used in Centex s operating activities to finance increases in Home Building s inventories relating to the units under construction during the period, and for the acquisition of land held for development. The funds provided by Centex s financing activities were primarily from debt issued to fund the increased homebuilding activity, offset by scheduled debt maturities and share repurchases.

We generally fund our Financial Services operating and other short-term liquidity needs through committed credit facilities, proceeds from the sale of mortgage loans to HSF-I and investors, Home Equity s securitizations and cash flows from operations. Financial Services operating cash is derived primarily through sales of mortgage loans, interest income on mortgage loans held by Home Equity for investment and origination and servicing fees. Financial Services cash used in investing activities was primarily to finance an increase in Home Equity s residential mortgage loans held for investment. The funds provided by Financial Services financing activities were primarily from new debt used to fund residential mortgage loan activity.

Table of Contents

Our existing credit facilities and available capacity as of June 30, 2006 are summarized below (dollars in thousands):

	Existing Credit Facilities	Available Capacity
Centex		
Multi-Bank Revolving Credit Facility		
Revolving Credit	$ 1,250,000	$ 500,000
Letters of Credit	835,000	460,974
	2,085,000	960,974 *(1) (2)*
Unsecured Credit Facility	150,000	150,000 *(3)*
	2,235,000	1,110,974
Financial Services		
Secured Credit Facilities	740,000	385,518 *(4)*
Harwood Street Funding I, LLC Facility	3,000,000	1,646,000
	3,740,000	2,031,518
	$ 5,975,000	$ 3,142,492 *(5)*
Discontinued Operations *(6)*		
Mortgage Servicer Advance Facility	$ 100,000	$ 31,882
Secured Credit Facilities	300,000	91,592
Harwood Street Funding II, LLC Facility	4,000,000	2,865,461
	$ 4,400,000	$ 2,988,935

(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2010, which serves as backup for Centex Corporation s $1.25 billion commercial paper program and provides $835 million of letter of credit capacity. As of June 30, 2006, the $1.25 billion commercial paper program had $750 million outstanding which has been deducted from the available capacity under the back-up facility. There have been no direct borrowings under this revolving credit facility since its inception.

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

(3) Centex Corporation maintains a $150 million unsecured, uncommitted credit facility.

(4) CTX Mortgage Company, LLC maintains $740 million of secured, committed mortgage warehouse facilities to finance mortgages.

(5) *The amount of available capacity for continuing operations consists of $2,992.5 million of committed capacity and $150.0 million of uncommitted capacity as of June 30, 2006. Although we believe that the uncommitted capacity is currently available, there can be no assurance that the lender under this facility would elect to make advances if and when requested to do so.*

(6) *In connection with the sale of Home Equity on July 11, 2006, all of these credit facilities have been terminated or called for redemption.*

Mortgage loans held for sale are primarily funded by CTX Mortgage Company, LLC s sale of mortgage loans to HSF-I. HSF-I acquires mortgage loans from CTX Mortgage Company, LLC, holds them on average approximately 60 days and then resells them into the secondary market. HSF-I obtains the funds needed to purchase eligible mortgage loans from CTX Mortgage Company, LLC by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated certificates. As of June 30, 2006, HSF-I had outstanding (1) short-term secured liquidity notes rated A1+ by Standard & Poor s, or S&P, and P-1 by Moody s Investors Service, or Moody s, and (2) subordinated certificates maturing in September 2009, extendable for up to five years, rated BBB by S&P and Baa2 by Moody s. The purposes of this arrangement are to allow CTX Mortgage Company, LLC to reduce funding costs associated with its originations, to improve its liquidity and to eliminate credit risks associated with mortgage warehousing. HSF-I is consolidated pursuant to the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 46, Consolidation of Variable Interest Entities, as revised, or FIN 46; accordingly, the debt, interest income and interest expense of HSF-I are reflected in the financial statements of Financial Services.

Table of Contents

Under debt covenants contained in our multi-bank revolving credit facility, we are required to maintain certain leverage and interest coverage ratios and a minimum tangible net worth. At June 30, 2006, we were in compliance with all these covenants.

As of June 30, 2006, our short-term debt was $2.40 billion, of which $1.65 billion was applicable to Financial Services. Certain of Centex s short-term borrowings vary on a seasonal basis and are generally financed at prevailing market interest rates under our commercial paper program.

Our outstanding debt (in thousands), excluding discontinued operations, as of June 30, 2006 was as follows (due dates are presented in fiscal years):

Centex	
Short-term Debt:	
Short-term Notes Payable	$ 750,750
Senior Debt:	
Medium-term Note Programs, weighted-average 5.98%, due through 2008	258,000
Senior Notes, weighted-average 5.89%, due through 2017	3,708,814
Other Indebtedness, weighted-average 6.37%, due through 2018	24,312
Subordinated Debt:	
Subordinated Debentures, 8.75%, due in 2007	99,941
	4,841,817
Financial Services	
Short-term Debt:	
Short-term Notes Payable	354,482
Harwood Street Funding I, LLC Secured Liquidity Notes	1,291,503
Harwood Street Funding I, LLC Variable Rate Subordinated Extendable Certificates, weighted-average 7.33%, due through 2010	60,000
	1,705,985
	$ 6,547,802

On May 11, 2006, our Board of Directors authorized the repurchase of an additional 12 million shares. In the three months ended June 30, 2006, we repurchased an aggregate of 3.5 million shares of our common stock at a total purchase price of $187.2 million, including commissions paid. As of June 30, 2006, our remaining share repurchase authorization totaled 11.0 million shares.

During the three months ended June 30, 2006, the principal amount of our outstanding long-term debt increased $236.0 million resulting from (dollars in millions):

	Debt Type	Amount
Centex		

Issuances	Senior Note	$	500.0
Retirements	Medium-term Note		(100.0)
Other Indebtedness	Various		(164.0)
Total		$	236.0

35

Table of Contents

CERTAIN OFF-BALANCE SHEET OBLIGATIONS

The following is a summary of certain off-balance sheet arrangements and other obligations and their possible effects on our liquidity and capital resources.

Joint Ventures

We conduct a portion of our land acquisition, development and other activities through our participation in joint ventures in which we hold less than a majority interest. These land related activities typically require substantial capital, and partnering with other 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 our Home Building joint ventures is presented below (dollars in thousands):

	As of	
	June 30, 2006	March 31, 2006
Number of Joint Ventures	**49**	52
Investment in Joint Ventures	**$ 284,199**	$ 307,779
Total Joint Venture Debt	**$ 1,124,471**	$ 1,053,201
Centex s Share of Joint Venture Debt:		
Based on Centex s Ownership Percentage	**$ 423,854**	$ 388,428
Based on Limited Recourse Provisions:		
Limited Maintenance Guarantee (1) (3)	**$ 223,626**	$ 228,603
Repayment Guarantee (2) (3)	**13,524**	8,136
Total Limited Recourse Debt	**$ 237,150**	$ 236,739

(1) We have guaranteed that certain of the joint ventures will maintain a specified loan to value ratio. We could be required to contribute additional capital to these joint ventures to the extent the loan to value ratio falls below the specified ratio. We have not been requested to perform under any of our limited maintenance guarantees.

(2) We have guaranteed repayment of a portion of certain joint venture debt limited to our ownership percentage of the joint venture or a percentage thereof.

(3) These amounts represent our maximum exposure based on the joint ventures debt at each respective date.

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

We also have investments in joint ventures related to our Construction Services and Other segments totaling $2,677 and $2,605 as of June 30, 2006 and March 31, 2006, respectively.

CRITICAL ACCOUNTING ESTIMATES

Some of our critical accounting policies require the use of judgment in their application or require estimates of inherently uncertain matters. Our accounting policies are in compliance with generally accepted accounting principles; however, a change in the facts and circumstances of the underlying transactions could significantly change the application of the accounting policies and the resulting financial statement impact. Listed below are those policies that we believe are critical and require the use of complex judgment in their application. Our critical accounting estimates have been discussed with the members of the Audit Committee.

Table of Contents

Impairment of Long-Lived Assets

Housing projects, land held for development and sale (including direct construction costs, capitalized interest and real estate taxes) and property, plant and equipment are assessed for recoverability in accordance with the provisions of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, or SFAS No. 144. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of revenues, costs and expenses and other factors. If long-lived assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No significant impairments of long-lived assets were recorded in the three months ended June 30, 2006 and 2005. See additional information on land write-offs under Inventory Valuation below.

Goodwill

Goodwill represents the excess of purchase price over net assets of businesses acquired. See Note (E), Goodwill, of the Notes to Consolidated Financial Statements for a summary of the changes in goodwill by segment. Goodwill is subject to at least an annual assessment for impairment (conducted as of January 1), at the reporting unit level, by applying a fair value-based test. If the carrying amount exceeds the fair value, an impairment has occurred. We continually evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill may not be recoverable. Fair value is estimated using a discounted cash flow or market valuation approach. Such evaluations for impairment are significantly impacted by estimates of future revenues, costs and expenses and other factors. If the goodwill is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the fair value. We had no impairment of goodwill in the three months ended June 30, 2006 and 2005.

Inventory Valuation

Housing projects are stated at the lower of cost (including direct construction costs, capitalized interest and real estate taxes) or fair value less cost to sell.

Home construction costs are accumulated on a specific identification basis. Under the specific identification basis, costs and expenses include all applicable land acquisition, land development and specific construction costs (including direct and indirect costs) of each home paid to third parties. Land acquisition, land development and home construction costs do not include employee related compensation and benefit costs. The specific construction and allocated land costs of each home are included in direct construction. Allocated land acquisition and development costs are estimated based on the total costs expected in a project. Direct construction also includes amounts paid through the closing date of the home for construction materials and subcontractor costs, plus an accrual for estimated costs incurred but not yet paid, based on an analysis of budgeted construction costs. Any changes to the estimated total development costs identified subsequent to the initial home closings in a project are generally allocated to the remaining homes in the project; however, such costs are charged to expense for neighborhoods where all or substantially all homes have already been closed.

Land held for development and sale primarily consists of deposits for land purchases, related acquisition costs and land that will not begin development in the next two years. Whether we elect to go forward with land purchases is dependent on a number of factors, including changes in market conditions in the area where the planned development is located. To the extent we determine that we will not purchase a parcel of land, the deposit and related acquisition costs are charged to cost of sales. During the three months ended June 30, 2006, $36.3 million of land deposits and pre-acquisition costs was written off. Included in the cost of land sales and other were write-offs of option deposits and pre-acquisition costs that were classified as land held for development.

Land Held Under Option Agreements Not Owned

In order to ensure the future availability of land for homebuilding, we enter into land option purchase agreements with unaffiliated third parties. Under the option agreements, we pay a stated deposit in consideration for the right to purchase land at a future time, usually at predetermined prices. These options generally do not contain performance requirements from us nor obligate us to purchase the land. Land option deposits related to these options are also reclassified to land held under option agreements not owned. To the extent we do not exercise our option to purchase such land, the amount of the lot option deposit, any letters of credit, as well as development costs incurred to date, represent our maximum exposure to loss, except in certain circumstances, which would not be material.

Table of Contents

We have evaluated those entities with which we entered into land option agreements in accordance with the provisions of FIN 46. The provisions of FIN 46 require us to consolidate the financial results of a variable interest entity if we are the primary beneficiary of the variable interest entity. Variable interest entities are entities in which (1) equity investors do not have a controlling financial interest and/or (2) the entity is unable to finance its activities without additional subordinated financial support from other parties. The primary beneficiary of a variable interest entity is the owner or investor that absorbs a majority of the variable interest entity s expected losses and/or receives a majority of the variable interest entity s expected residual returns.

We determine if we are the primary beneficiary of variable interest entities based upon analysis of the variability of the expected gains and losses of the variable interest entity. Expected gains and losses of the variable interest entity are highly dependent upon management s estimates of the variability and probabilities of future land prices, the probabilities of expected cash flows and entitlement risks related to the underlying land, among other factors. Based on this evaluation, if we are the primary beneficiary of those entities with which we have entered into land option agreements, the variable interest entity is consolidated. For purposes of consolidation, to the extent financial statements or other information is available, we consolidate the assets and liabilities of the variable interest entity. If financial statements for the variable interest entity are not available, we record the remaining purchase price of land in the Consolidated Balance Sheets under the caption, land held under option agreements not owned, with a corresponding increase in minority interests. See Note (H), Land Held Under Option Agreements Not Owned and Other Land Deposits, of the Notes to Consolidated Financial Statements for further discussion on the results of our analysis of land option agreements.

In addition to land held under option agreements recorded pursuant to the provisions of FIN 46, to the extent our land option deposit exceeds certain thresholds, we recognize the option arrangement by recording land at the total option purchase price and related obligation in accrued liabilities.

Warranty Accruals

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 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. Although we consider the warranty accruals reflected in our consolidated balance sheet to be adequate, there can be no assurance that this accrual will prove to be sufficient over time to cover ultimate losses.

Loan Origination Reserve

CTX Mortgage Company, LLC has established a liability for anticipated losses associated with loans originated based upon, among other factors, historical loss rates and current trends in loan originations. This liability includes losses associated with certain borrower payment defaults, credit quality issues, or misrepresentations and reflects management s judgment of the loss exposure at the end of the reporting period.

Although we consider the loan origination reserve reflected in our consolidated balance sheet at June 30, 2006 to be adequate, there can be no assurance that this reserve will prove to be sufficient over time to cover ultimate losses in connection with our loan originations. This reserve may prove to be inadequate due to unanticipated adverse changes in the economy or discrete events adversely affecting specific customers or industries.

Insurance Accruals

We have certain self-insured retentions and deductible limits under our workers compensation, automobile and general liability insurance policies for which reserves are actuarially determined based on claims filed and an estimate of claims incurred but not yet reported. Projection of losses concerning these liabilities is subject to a high degree of variability due to factors such as claim settlement patterns, litigation trends and legal interpretations, among others. We periodically assess the adequacy of our insurance accruals and adjust the amounts as necessary. Although we consider the insurance accruals reflected in our consolidated balance sheet to be adequate, there can be no assurance that this accrual will prove to be sufficient over time to cover ultimate losses.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the FASB issued Staff Position 109-1, or FSP 109-1, Application of FASB Statement No. 109, which clarified that the tax deduction on qualified production activities provided by the American Jobs Creation Act of 2004 should be accounted for as a special deduction and will reduce tax expense in the periods during which the amounts are deductible on the tax return. Based on the guidance provided by FSP 109-1, this deduction is accounted for as a special deduction under SFAS 109 which reduces income tax expense. The tax benefits resulting from the new deduction are reflected in the effective income tax rate of 38.1% and 37.8% for the three months ended June 30, 2006 and 2005, respectively.

In July 2006, the FASB finalized and issued FIN 48, entitled Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, which defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position if that position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 will be effective as of the beginning of our fiscal year ending March 31, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Certain information included in this Report or in other materials we have filed or will file with the SEC, as well as information included in oral statements or other written statements made or to be made by us, contains or may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995, as amended. You can identify these statements by the fact that they do not relate to matters of a strictly factual or historical nature and generally discuss or relate to forecasts, estimates or other expectations regarding future events. Generally, the words believe, expect, intend, estimate, anticipate, project, may, can, could, might, will and similar e forward-looking statements, including statements related to expected operating and performing results, planned transactions, planned objectives of management, future development in the industries in which we participate and other trends, developments and uncertainties that may affect our business in the future. Such statements include information related to anticipated operating results, financial resources, changes in interest rates, changes in revenues, changes in profitability, interest expense, growth and expansion, anticipated income to be realized by our investment in unconsolidated entities, the ability to acquire land, the ability to gain approvals and to open new communities, supply and demand in the homebuilding market, the ability to sell homes and properties, the ability to deliver homes from backlog, the ability to secure materials and subcontractors, the ability to produce the liquidity and capital necessary to expand and take advantage of opportunities in the future, the completion of and effects from planned transactions and stock market valuations. From time to time, forward-looking statements also are included in our other periodic reports on Forms 10-K, 10-Q and 8-K, press releases and presentations, on our web site and in other material released to the public.

Forward-looking statements are not historical facts or guarantees of future performance but instead represent only our beliefs at the time the statements were made regarding future events, which are subject to significant risks, uncertainties, and other factors, many of which are outside of the Company s control and certain of which are listed above. Any or all of the forward-looking statements included in this Report and in any other reports or public statements made by us may turn out to be materially inaccurate. This can occur as a result of incorrect assumptions or as a consequence of known or unknown risks and uncertainties. Many of the risks and uncertainties mentioned in this Report or another report or public statement made by us, including the risk factor section of our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 (which is hereby incorporated by reference), will be important in determining whether these forward-looking statements prove to be accurate. Consequently, neither our stockholders nor any other person should place undue reliance on our forward-looking statements and should recognize that actual results may differ materially from those that may be anticipated by us.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks related to fluctuations in interest rates on our direct debt obligations and mortgage loans receivable. We utilize derivative instruments, including interest rate swaps, in conjunction with our overall strategy to manage the outstanding debt that is subject to changes in interest rates. We utilize forward sale commitments to mitigate the risk associated with the majority of our mortgage loan portfolio. Other than the forward commitments and interest rate swaps discussed earlier, we do not utilize forward or option contracts on foreign currencies or commodities, or other types of derivative financial instruments.

There have been no material changes in our market risk since March 31, 2006. For further information regarding our market risk, refer to our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 and Note (L), Derivatives and Hedging, of the Notes to Consolidated Financial Statements.

Item 4. Controls and Procedures

An evaluation has been performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2006. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of June 30, 2006 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. There has been no change in our internal controls over financial reporting during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

For a discussion of certain litigation and similar proceedings in which we are involved, please refer to Note (G), Commitments and Contingencies, of the Notes to Consolidated Financial Statements, which is incorporated by reference herein.

Item 1A. Risk Factors

Set forth below is a discussion of the material changes in our risk factors as previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended March 31, 2006 (2006 Form 10-K).

The information presented below updates, and should be read in conjunction with, the risk factors and other information disclosed in our 2006 Form 10-K.

As previously disclosed in a risk factor contained in our 2006 Form 10-K, in recent periods we reported declines or slower growth rates in the volume of homes sold, which could signal a downturn in the homebuilding industry. These trends became more pronounced during the quarter ended June 30, 2006, and we experienced a significant decline in sales orders in all of the principal areas in which we operate. We attribute these developments to, among other things, increased inventory of new and used homes for sale, a decline in homebuyer consumer confidence and an increase in mortgage interest rates. These developments have had and may continue to have a material adverse effect on our financial condition and results of operations. See 2006 Form 10-K, Item 1A, Home Building *Deterioration in economic conditions generally or in the market regions where we operate could decrease demand and pricing for new homes and adversely affect our results of operations*.

As previously disclosed in another risk factor contained in our 2006 Form 10-K, there is often a significant lag time between when we contract to acquire land for development and when we sell homes in neighborhoods we have planned, developed, and constructed. During the quarter ended June 30, 2006, we decided not to pursue development and construction in certain areas where we held land or had made option deposits, which resulted in significant write-offs of land deposits and pre-acquisition costs. These write-offs adversely affected our operating earnings and operating margins during the quarter ended June 30, 2006. If market conditions do not improve in future periods, we may decide not to pursue development and construction in additional areas, which would lead to further write-offs. See 2006 Form 10-K, Item 1A, Home Building *The lag between when we acquire land and when we sell homes in our communities can make our operations susceptible to the effects of rapid changes in market conditions*.

Our 2006 Form 10-K included a risk factor related to our then planned disposition of Home Equity. See 2006 Form 10-K, Item 1A, Discontinued Operations *There are uncertainties associated with our planned disposition of Home Equity*. On July 14, 2006, we announced in a Current Report on Form 8-K the consummation on July 11, 2006 of the sale of Centex Home Equity Company, LLC, our sub-prime home equity lending operations. As a result, the risks relating to the closing of the transaction are no longer applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchases

We regularly repurchase shares of our common stock pursuant to publicly announced share repurchase programs. The following table details our common stock repurchases for the three months ended June 30, 2006:

	Issuer Purchases of Equity Securities			
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
April 1-30	18,225	$ 61.74		2,500,000
May 1-31	2,500,000	$ 54.85	2,500,000	12,000,000
June 1-30	1,016,864	$ 50.04	1,000,000	11,000,000
Total (1) (2)	3,535,089	$ 53.50	3,500,000	

(1) Of the 3,535,089 shares repurchased for the quarter ended June 30, 2006, 35,089 shares represent the delivery to the Company by employees or directors of previously issued shares to satisfy the exercise price of options and/or withholding taxes that arise on the exercise of options or the vesting of restricted stock. These transactions are

authorized under the terms of the equity plans under which the options or other equity were awarded; however, these transactions are not considered repurchases pursuant to the Company s share repurchase program.

(2) *Except as provided in Note (1), all share repurchases were effected in accordance with the safe harbor provisions of Rule 10b-18 of the Securities Exchange Act of 1934.*

In December 2005, the Board of Directors increased our share repurchase authorization by an additional 5.0 million shares. On May 11, 2006, the Company s Board of Directors authorized the repurchase of an additional 12 million shares. Of the 3.5 million shares purchased during the three months ended June 30, 2006, as part of publicly announced plans, 2.5 million shares represent shares of common stock repurchased pursuant to the December 2005 Board of Directors authorization. The 2.5 million share repurchase completed the December 2005 Board of Directors authorization. The remaining 1.0 million shares represent shares of common stock repurchased pursuant to the May 2006 Board of Directors authorization. Purchases are made in the open market or in block purchases, and such transactions may be effected from time to time or pursuant to share repurchase plans under SEC Rule 10b5-1. The share repurchase authorization has no stated expiration date, and the Board of Directors has authorized all shares repurchased.

Table of Contents

Item 6. Exhibits

The following documents are filed as part of this Report.

3.1 Restated Articles of Incorporation of Centex Corporation (Centex), as amended (incorporated by reference from Exhibit 3.1 to Centex s Annual Report on Form 10-K for the fiscal year ended March 31, 2004).

3.2 Amended and Restated By-Laws of Centex dated October 11, 2005 (incorporated by reference from Exhibit 3.1 to Centex s Current Report on Form 8-K filed on October 12, 2005).

4.1 Any instrument with respect to long-term debt, where the securities authorized thereunder do not exceed 10% of the total assets of Centex and its subsidiaries, has not been filed; these instruments relate to (a) long-term senior and subordinated debt of Centex issued pursuant to supplements to the indentures filed as Exhibits 4.5 and 4.6 to Centex s Annual Report on Form 10-K for the fiscal year ended March 31, 2005, which supplements have also been filed with the SEC as exhibits to various Centex registration statements or to reports incorporated by reference in such registration statements, (b) long-term debt issued pursuant to pooling and servicing agreements or similar agreements in connection with certain asset securitizations involving certain subsidiaries of Centex, which agreements have been filed with the SEC as exhibits to various registration statements of CHEC Funding, LLC or to reports incorporated by reference in such registration statements, (c) long-term debt issued pursuant to indentures or other agreements in connection with certain asset securitizations involving certain subsidiaries of Centex in private transactions and (d) other long-term debt of Centex; Centex agrees to furnish a copy of such instruments to the SEC upon request.

10.1 Form of non-employee director stock option agreement for 2003 Equity Incentive Plan.*

10.2 Form of non-employee director restricted stock agreement for 2003 Equity Incentive Plan.*

10.3 Amendment No. 1 to Securities Purchase Agreement dated as of July 11, 2006, among Centex Financial Services, LLC, Centex Home Equity Company, LLC and FIF HE Holdings LLC (incorporated by reference from Exhibit 2.2 to Centex s Current Report on Form 8-K dated July 14, 2006).

10.4 First Amendment to Credit Agreement, dated May 25, 2006, among Centex Corporation, Bank of America, N.A., as Administrative Agent, and the lenders named therein (incorporated by reference from Exhibit 10.2 to Centex s Current Report on Form 8-K dated June 1, 2006).

10.5 First Amendment to Amended and Restated Supplemental Executive Retirement Plan.*

12.1 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of the Chief Executive Officer of Centex Corporation pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of the Chief Financial Officer of Centex Corporation pursuant to Rules 13a-14 and 15d-14 promulgated under the Securities Exchange Act of 1934, as amended.

32.1 Certification of the Chief Executive Officer of Centex Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

42

Table of Contents

32.2 Certification of the Chief Financial Officer of Centex Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement.

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	CENTEX CORPORATION
	Registrant
August 2, 2006	/s/ Mark D. Kemp
	Mark D. Kemp Senior Vice President-Controller and interim Chief Financial Officer (principal financial officer and principal accounting officer)

44