CENTEX CORP
Form 10-K
May 27, 2005

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended March 31, 2005

Commission File No. 1-6776

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ü No ___.

On September 30, 2004 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the Centex Corporation common stock held by non-affiliates of the registrant was $6.26 billion based upon the last sale price reported for such date on the New York Stock Exchange. Solely for purposes of determining this amount, Centex Corporation will treat as an affiliate (i) any director or executive officer of Centex Corporation or (ii) any person who beneficially owns more than 10% of the outstanding common stock of Centex Corporation as reflected in a Schedule 13D filed with the Securities and Exchange Commission, unless such person indicates in such filing that it holds such shares solely for investment and not with a view to exercising control over the business or affairs of Centex Corporation. As of May 19, 2005, 127,925,707 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in Part III of this Report:

(a) Proxy statement for the annual meeting of stockholders of Centex Corporation to be held on July 14, 2005.

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PART I

ITEM 1. BUSINESS

General Development of Business

Centex Corporation is a Nevada corporation. Our common stock, par value $.25 per share, began trading publicly in 1969. Our common stock is traded on the New York Stock Exchange, or the NYSE. As of May 19, 2005, 127,925,707 shares of our common stock were outstanding. Any reference herein to we, us, our or the Company includes Centex Corporation and its subsidiary companies.

Since our founding in 1950 as a Dallas, Texas-based residential construction company, we have evolved into a company whose principal operations are focused on residential and commercial construction and related activities, including mortgage financing. As of March 31, 2005, our subsidiary companies operated in three principal business segments: Home Building, Financial Services and Construction Services. We provide a brief overview of each segment below, with a more detailed discussion of each segment later in this section.

Home Building s domestic 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. We have participated in the conventional homebuilding business since 1950. We believe that the Company currently ranks as the 4th largest homebuilder in the United States, based upon publicly reported homebuilding revenues for the most recent twelve-month period for which financial information is available. Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments in the United Kingdom.

Financial Services operations consist primarily of home financing, sub-prime home equity lending and the sale of title insurance and other various insurance coverages. These activities include mortgage origination, servicing, and other related services for homes sold by the Company s subsidiaries and others. We have been in the mortgage lending business since 1973.

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. We entered the Construction Services business in 1966 by acquiring a Dallas-based contractor that had been in business since 1936. We also acquired significant construction companies in 1978, 1982, 1987 and 1990.

Prior to February 2004, our common stock traded in tandem with certain equity securities of 3333 Holding Corporation, or Holding, and Centex Development Company, L.P., or the Partnership, which were separate entities not consolidated in our financial statements. In February 2004, we completed a series of transactions through which we acquired Holding and the Partnership. These transactions terminated the tandem trading relationship between our common stock and the securities of these entities.

Financial Information about Industry Segments

Note (K), Business Segments, of the Notes to Consolidated Financial Statements of this Report contains additional information about our business segments and information on revenues received from external customers located in the United States and the United Kingdom for fiscal 2005, 2004 and 2003.

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Narrative Description of Business

HOME BUILDING

Domestic

Our conventional homebuilding subsidiary, Centex Homes, purchases and develops land or lots and constructs and sells detached and attached single-family homes (including resort and second home properties and lots) and land or lots. Centex Homes is the only company to rank among the nation s top 10 homebuilders for each of the past 35 years according to *Professional Builder* magazine. Home Building sells to both first-time and move-up buyers, as well as active adult and second home buyers. In fiscal 2005, 79% of the homes closed were single-family detached homes, which includes homes from our resort and second home and on-your-lot operations.

Markets

Home Building follows a strategy of reducing exposure to local market volatility by diversifying operations across geographically and economically diverse markets. As of March 31, 2005, Home Building was building in 92 market areas, including Washington, D.C., and in 26 states. Each market is listed below by geographic areas.

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Region	States	Markets	States and Markets (continued)	
Mid-Atlantic	Maryland	Bethesda/Frederick/Gaithersburg	Pennsylvania	Johnstown
		Washington, D.C./Arlington/Alexandria		Pittsburgh
	New Jersey	Edison	South Carolina	Charleston/N. Charleston
		Newark/Union		Myrtle Beach/Conway/N. Myrtle Beach
		Trenton/Ewing	Virginia	Charlottesville
	North Carolina	Charlotte/Gastonia/Concord		Richmond
		Durham		Virginia Beach/Norfolk/Newport News
		Greensboro/High Point		
		Raleigh/Cary		
		Wilmington		
		Winston-Salem		
Southeast	Florida	Cape Coral/Ft. Myers	Georgia	Atlanta/Sandy Springs/Marietta
		Ft. Lauderdale/Pompano Beach/Deerfield Beach	South Carolina	Columbia
				Greenville
		Jacksonville	Tennessee	Nashville/Davidson/Murfreesboro
		Lakeland		
		Naples/Marco Island		
		Orlando		
		Port St. Lucie/Ft. Pierce		
		Punta Gorda		
		Sarasota/Bradenton/Venice		
		Tampa/St. Petersburg/Clearwater		
		West Palm Beach/Boca Raton/Boynton Beach		
Midwest	Colorado	Boulder	Missouri	St. Louis
		Denver/Aurora	Ohio	Akron
		Ft. Collins/Loveland		Canton/Massillon
		Greeley		Cincinnati/Middletown
	Indiana	Indianapolis		Cleveland/Elyria/Mentor
		Ft. Wayne		Columbus
	Illinois	Chicago/Naperville/Joliet		Dayton
		Lake County/Kenosha County		Mansfield
	Kentucky	Louisville		Monroe
	Michigan	Ann Arbor		Sandusky
		Detroit/Livonia/Dearborn		Springfield
		Flint		Toledo
		Warren/Farmington Hills/Troy		Youngstown/Warren/Boardman
	Minnesota	Minneapolis/St. Paul/Bloomington	Utah	Salt Lake City
		Rochester		
Southwest	Arizona	Phoenix/Mesa	Texas	Austin/Round Rock
		Prescott		Dallas/Plano/Irving
	Nevada	Las Vegas/Paradise		Ft. Worth/Arlington
	New Mexico	Albuquerque		Houston/Baytown/Sugar Land

		Santa Fe		Killeen/Temple/Ft. Hood San Antonio
West Coast	California	Bakersfield Fresno Hanford/Corcoran Los Angeles/Long Beach/Glendale Oakland/Fremont/Hayward Oxnard/Thousand Oaks/Ventura Riverside/San Bernardino/Ontario Sacramento/Arden/Arcade/Roseville San Diego/Carlsbad/San Marcos San Francisco/San Mateo/Redwood City San Jose/Sunnyvale/Santa Clara San Luis Obispo/Paso Robles Santa Ana/Anaheim/Irvine Visalia/Porterville	Hawaii Nevada Oregon Washington	Honolulu Reno/Sparks Portland/Vancouver/Beaverton Seattle/Bellevue/Everett Tacoma

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In fiscal 2005, Home Building closed 33,387 homes, including first-time, move-up and, in some markets, custom homes, generally ranging in price from $68.4 thousand to $1.6 million. The average sales price in fiscal 2005 was $269,780.

Our practice has been to acquire land, build homes on the land and sell the homes within 24 to 36 months from the date of land acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. We control a substantial amount of our land, including lots and land to be developed into lots, through option agreements that we can exercise over specified time periods or, in certain cases, as the land or lots are needed. At March 31, 2005, Home Building owned approximately 96,945 lots and had options to purchase approximately 168,350 lots. In addition, Home Building enters into joint ventures with other builders and developers for land acquisition, development and other activities. For additional discussion of our participation in joint ventures and lot option agreements, see Notes (H), Commitments and Contingencies, and (I), Land Held Under Option Agreements Not Owned and Other Land Deposits, of the Notes to Consolidated Financial Statements of this Report.

Our growth strategy for Home Building has been focused primarily on organic growth opportunities through land acquisition and development in existing business units and markets. To a lesser extent, we have also grown the business through the acquisition of other homebuilding companies. Over the last five fiscal years, we have acquired the homebuilding operations of the following companies:

Company	Date Acquired	Description
Real Homes	September 1999	Single-family homes for the first-time and move-up buyer in the Las Vegas, Nevada area.
Selective Group	March 2001	Single-family homes for the first-time and move-up buyer in the Detroit, Michigan area.
CityHomes	March 2001	Urban townhomes and condominiums in the Dallas, Texas area.
Jones Company	January 2003	Single-family homes for the first-time and move-up buyer in the St. Louis, Missouri and Indianapolis, Indiana areas.

In addition, in July 1999, we acquired land and other operating assets for the construction of single-family homes, townhomes and duplexes from Sundance Homes, a suburban Chicago homebuilder. Sundance Homes retained its name and continues to operate in other markets in which we do not compete.

Home Building sells its homes under a variety of brand names including several of the acquired company names listed above. Fox & Jacobs, one of our brand names, primarily markets to first-time buyers. Centex Homes primarily markets its homes to both first-time and move-up buyers. Wayne Homes markets primarily to rural lot owners for construction of a home on their lot. Centex Destination Properties markets to second home/resort home buyers.

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The table below summarizes by geographic area Home Building s domestic home closings, sales (orders) backlog and sales (orders) for the five most recent fiscal years.

Closings (in units):

	For the Years Ended March 31,				
	2005	2004	2003	2002	2001
Mid-Atlantic	**5,823**	5,201	4,501	3,877	3,395
Southeast	**5,879**	5,568	4,851	4,440	4,137
Midwest	**6,712**	5,801	4,695	3,688	3,296
Southwest	**9,158**	8,708	8,157	6,910	5,661
West Coast	**5,815**	5,080	4,223	4,045	4,170
	33,387	30,358	26,427	22,960	20,659
Average Sales Price (in 000 s)	**$ 270**	$ 242	$ 220	$ 214	$ 206

Sales (Orders) Backlog, at the end of the period (in units):

	As of March 31,				
	2005	2004	2003	2002	2001
Mid-Atlantic	**3,461**	2,801	2,148	1,503	1,365
Southeast	**5,006**	3,707	2,713	2,315	1,936
Midwest	**3,273**	3,392	2,920	2,093	2,037
Southwest	**3,688**	2,869	2,258	2,361	2,546
West Coast	**3,161**	2,645	2,011	1,099	1,381
	18,589	15,414	12,050	9,371	9,265

We define backlog units as units that have been sold, as evidenced by a signed contract, but not closed. Substantially all of the orders in sales backlog as of March 31, 2005 are expected to close during fiscal year 2006.

Sales (Orders) (in units):

	For the Years Ended March 31,				
	2005	2004	2003	2002	2001
Mid-Atlantic	**6,483**	5,854	5,146	3,936	3,550

Southeast	**7,178**	6,562	5,249	4,819	4,182
Midwest	**6,593**	6,273	5,087	3,744	3,572
Southwest	**9,977**	9,319	8,054	6,725	6,325
West Coast	**6,331**	5,714	5,132	3,763	4,562
	36,562	33,722	28,668	22,987	22,191

Competition and Other Factors

The conventional homebuilding industry is essentially a local business and is highly competitive. The top 10 builders in calendar year 2004 accounted for approximately 22% of the total for-sale attached and detached new homes sold in the United States. We compete in each of Home Building s domestic market areas with numerous other homebuilders, including national, regional and local builders. Home Building s top six domestic competitors based on revenues for their most recent fiscal year-end are as follows (listed alphabetically): Beazer Homes USA, Inc., D. R. Horton, Inc., KB Homes, Lennar Corporation, Pulte Homes, Inc. and The Ryland Group, Inc. Home Building s domestic operations accounted for an estimated 3% of new homes sold in the United States for the twelve months ended March 31, 2005. Home Building s domestic operations calculate its market share by dividing its new home sales by the total single family new home sales as reported by the census bureau. The main competitive factors affecting Home Building s domestic operations are location/market, sales price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Home Building competes effectively by building a high quality home, maintaining geographic diversity, responding to the specific demands of each market and managing the operations at a local level.

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

The results of Home Building s operations may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above current prevailing levels could affect demand for housing, at least in the short term, and could reduce the ability or willingness of prospective homebuyers to finance home purchases. Although we expect that we would make adjustments in our operations in an effort to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

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

The homebuilding industry is subject to extensive regulations. Home Building and its subcontractors must comply with various federal, state and local laws and regulations, including worker health and safety, zoning, building standards, erosion and storm water pollution control, advertising, consumer credit rules and regulations and the extensive and changing federal, state and local laws, regulations and ordinances governing the protection of the environment, including the protection of endangered species and waters of the United States. Home Building is also subject to other rules and regulations in connection with its manufacturing and sales activities, including requirements as to incorporated building materials and building designs. All of these regulatory requirements are applicable to all homebuilding companies, and, to date, compliance with these requirements has not had a material impact on Home Building. We believe that Home Building is in material compliance with these requirements.

We purchase materials, services and land from numerous sources, and during the past twelve months, have been able to deal effectively with the challenges we have experienced relating to the supply or availability of materials, services and land. The principal raw materials required for home construction include concrete and wood products. In addition, we use a variety of other building materials, including roofing, gypsum insulation, plumbing, and electrical components in the homebuilding process. While raw material prices may fluctuate, due to various factors, including demand or supply shortages, we do have a number of fixed-price contracts with subcontractors and material suppliers which help offset commodity price increases. We also attempt to maintain efficient operations by utilizing standardized materials available from a variety of sources. Our vendor purchase agreements also allow us to leverage our volume through quantity purchase discounts for the purchasing of a number of product categories. In the past, building materials have been generally available to us in adequate supply. We use many subcontractors in our various markets and are not dependent on any single subcontractor.

International

Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments in the United Kingdom. International homebuilding currently has 48 developments located throughout England. In fiscal 2005, our international homebuilding operations delivered 1,563 units, with prices generally ranging from $81.8 thousand to $1.8 million. The average sales price was approximately $314,797. As of March 31, 2005, our international homebuilding operations had 533 units in sales backlog. Substantially all of the orders in sales backlog as of March 31, 2005 are expected to close during fiscal 2006. Home Building s international operations currently account for 1% of the new homes market in the United Kingdom, based on the most recent estimate of the office of the Deputy Prime Minister.

FINANCIAL SERVICES

Our Financial Services operations consist primarily of home financing, sub-prime home equity lending and the sale of title insurance and other various insurance coverages, including property and casualty. These activities include mortgage origination, servicing, and other related services for purchasers of homes sold by the Company s subsidiaries and others.

Prime Mortgage Lending

We established the predecessor of CTX Mortgage Company, LLC and its related companies to provide mortgage financing for homes built by Home Building. By opening CTX Mortgage Company, LLC offices in Home Building s housing markets, we have been able to provide mortgage financing for an average of 71% of Home Building s non-cash unit sales over the past five years and for 73% of them in fiscal 2005. In 1985, we expanded CTX Mortgage Company, LLC s operations to include the origination of mortgage loans that are not associated with the sale of homes built by Home Building. We refer to mortgage financing for homes built by Home Building as Builder loans and to mortgage financing for homes built by others, loans for resale homes and loans for refinance of existing mortgages as Retail loans.

At March 31, 2005, CTX Mortgage Company, LLC originated loans through its loan officers in 243 offices licensed in 46 states and the District of Columbia. The offices vary in size depending on loan volume.

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The following table shows the unit breakdown of Builder and Retail loans for CTX Mortgage Company, LLC and its related companies for the five years ended March 31, 2005:

	For the Years Ended March 31,				
	2005	2004	2003	2002	2001
Loan Types:					
Builder	**22,517**	20,865	18,127	15,435	12,506
Retail [(1)]	**44,816**	67,481	66,807	64,949	48,244
	67,333	88,346	84,934	80,384	60,750
Origination Volume (in millions)	**$ 13,039.0**	$ 15,116.0	$ 13,991.2	$ 12,445.5	$ 8,880.6
Percent of Home Building s Non-Cash Closings Financed	**73%**	74%	73%	72%	64%

(1) For a discussion of the decrease in the number of Retail loans originated, see Management s Discussion and Analysis of Financial Condition and Results of Operations, Fiscal Year 2005 Compared to Fiscal Year 2004, Financial Services, Prime Mortgage Lending.

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

CTX Mortgage Company, LLC s principal sources of income are the sale of mortgage loans, together with all related servicing rights, interest income and other fees. Generally, we sell our right to service the mortgage loans and retain no other residual interests.

We also participate in joint-venture agreements with third-party homebuilders and other real estate professionals to provide mortgage originations for their customers. These joint venture companies are fully consolidated in CTX Mortgage Company, LLC s financial statements. At March 31, 2005, CTX Mortgage Company, LLC had 22 of these agreements, operating in 19 offices licensed in 8 states.

In 1999, CTX Mortgage Company, LLC entered into a mortgage loan purchase agreement, as amended with Harwood Street Funding I, LLC, or HSF-I, that we refer to as the HSF-I Purchase Agreement. HSF-I is a variable interest entity for which we are the primary beneficiary and, as of July 1, 2003, is consolidated with our Financial Services segment pursuant to the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 46 Consolidation of Variable Interest Entities, as revised, which we refer to as FIN 46. 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. Since 1999, CTX Mortgage Company, LLC has sold substantially all conforming and Jumbo A mortgage loans that it originates to HSF-I in accordance with the HSF-I Purchase Agreement. When HSF-I acquires these loans, it 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 mortgage loans into the secondary market. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from its issuance of short-term secured liquidity notes, medium-term debt and subordinated certificates.

Sub-Prime Home Equity Lending

We formed the predecessor of Centex Home Equity Company, LLC, or Home Equity, in fiscal 1995. Home Equity s business involves the origination of primarily nonconforming home equity mortgage loans. The sub-prime lending market is comprised of borrowers whose financing needs are not being met by traditional mortgage lenders for a variety of reasons, including credit histories that may limit a borrower s access to credit or a borrower s need for specialized loan products such as cash-out refinance and jumbo loans. Since its inception, Home Equity has focused on lending to individuals who have substantial equity in their homes but whose financing needs are not being met by traditional mortgage lenders. Home Equity s mortgage loans to these borrowers are made primarily for such purposes as debt consolidation, refinancing, home improvement or educational expenses. Substantially all of Home Equity s mortgage loans are secured by first mortgage liens on one- to four-family residences and have payment schedules ranging from 5 to 30 years.

At March 31, 2005, Home Equity had 166 offices and was doing business in 47 states. Home Equity originates home equity loans through five major origination sources:

- its retail branches;
- a broker referral network;
- referrals from its prime mortgage affiliate, CTX Mortgage Company, LLC;
- a correspondent mortgage banker network; and
- Home Equity s direct sales unit that sources lending opportunities from a variety of channels including through the Internet.

The following table summarizes Home Equity s origination statistics for the five-year period ended March 31, 2005:

	For the Years Ended March 31,				
	2005	2004	2003	2002	2001
Loans	**43,617**	36,659	29,448	26,955	26,418
Origination Volume (in millions)	**$ 5,276.3**	$ 3,920.7	$ 2,506.2	$ 2,092.4	$ 1,717.9

We began servicing loans through Home Equity in fiscal 1997, and we generally service all loans included in Home Equity s portfolio. Servicing fees for sub-prime loans are significantly higher than for prime loans, primarily due to the higher costs associated with more frequent contact with customers. Servicing encompasses, among other activities, the following processes: billing, collection of payments, investor reporting, customer assistance, recovery of delinquent payments and instituting foreclosure and liquidation of the underlying collateral. Home Equity s servicing portfolio also includes loans sold on a whole loan, servicing-retained basis. As of March 31, 2005, Home Equity was servicing a sub-prime loan portfolio of 100,403 loans with a total loan value of approximately $9.31 billion.

From October 1997 through March 2000, a majority of Home Equity s loans originated were included in securitizations that utilized a structure that resulted in the loans being accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result of the sales accounting treatment, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. As of March 31, 2005, Home Equity had a remaining MSRI of $70.1 million, which includes $68.1 million remaining on loans securitized from October

1997 to March 2000 accounted for as gain on sale, $0.5 million related to an acquisition in fiscal 2002, and $1.5 million related to loans sold in fiscal year 2004 to a government sponsored enterprise that we continue to service.

We changed the structure of securitizations beginning April 1, 2000. Since such time, securitizations have been accounted for as borrowings; interest has been recorded over the life of the loans using the interest, or actuarial, method; the mortgage loans receivable and the securitization debt have remained on Home Equity s balance sheet and the related interest margin has been reflected in our income statement. Under both structures, recourse is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The structure of Home Equity s securitizations has no effect on the ultimate amount of profit and cash flow recognized over the life of the mortgages. However, the structure does affect the timing of profit recognition. Interest margin, rather than gain on sale of loans, is Home Equity s primary source of operating income. From April 1, 2000 to March 31, 2005, Home Equity completed 19 securitizations totaling approximately $12.57 billion in loans under this structure.

Other Financial Services Operations

We offer title agent, title underwriting, closing, appraisal and other settlement services in 24 states under the Commerce Title name, including Commerce Title Company, Commerce Title Agency and Commerce Title Insurance Company. Through Westwood Insurance, a multi-line property and casualty insurance agency, we market homeowners and auto insurance to Home Building and Financial Services customers and customers of approximately 6 other homebuilders in 50 states. Westwood Insurance also provides coverage for some commercial customers.

Our Technologies Group, under the Adfitech name, provides outsourced mortgage services including quality control, shipping and delivery. Adfitech currently services over 500 clients throughout the 50 states.

Competition and Other Factors

The financial services industry in the United States is highly competitive. CTX Mortgage Company, LLC competes with commercial banks, other prime mortgage lending companies and other financial institutions to supply mortgage financing at attractive rates to Home Building s customers, as well as to the general public. Home Equity competes with commercial banks, other sub-prime lenders and other financial institutions to supply sub-prime financing at attractive rates. Other large financial institutions have gradually expanded their prime and sub-prime lending capabilities, some of whom have greater access to capital at a cost lower than our cost of capital under our credit facilities. Competition among industry participants can take many forms, including convenience in obtaining a loan, customer service, marketing and distribution channels, amount and term of the loan, loan origination fees and interest rates. Additional competition may lower the rates we can charge borrowers, thereby potentially reducing gain on future loan sales and earnings from securitizations. Our title and insurance operations compete with other providers of title and insurance products to sell their products to purchasers of our homes, as well as to the general public. Many of these competitors have greater resources than we do.

The results of operations of our Financial Services segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above current prevailing levels could reduce the ability or willingness of prospective homebuyers to finance home purchases and/or it could curtail mortgage refinance activity. Although there can be no assurance that these efforts will be successful, we will seek to mitigate the effects of any increase in mortgage interest rates by increasing our market share by adding loan officers and improving their productivity while at the same time seek to improve our operating leverage.

Financial Services operations are subject to extensive state and federal regulations, as well as rules and regulations of, and examinations by, FNMA, FHLMC, FHA, VA, Department of Housing and Urban

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

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

CONSTRUCTION SERVICES

Construction Services provides a range of commercial contracting services, including construction management, general contracting, design-build and preconstruction services. As a general contractor or construction manager, Construction Services provides management personnel for the construction of facilities. Occasionally, Construction Services may perform some of the actual construction work on a project but will generally hire subcontractors to perform the majority of the work.

Historically, Construction Services has conducted its operations through its distinct, largely autonomous operating companies. Construction Services principal operating companies were Centex Construction Company, Inc., Centex Rodgers, Inc. and Centex-Rooney Construction Co., Inc. In December 2004, Construction Services merged these operating companies into two operating companies, Centex Construction, LLC and Centex Construction, Inc. During fiscal year 2004, Construction Services transitioned to one common organizational structure with one brand, standardized operating policies and procedures with an emphasis on certain geographic markets and project niches in which it has expertise. As of March 31, 2005, Construction Services primary offices were located in the metropolitan areas of Dallas, Nashville, Ft. Lauderdale, Charlotte and Washington, D.C.

Construction contracts are primarily procured under one of two methods: negotiated (qualifications-based selection) or competitive bid (price-based selection). At March 31, 2005, approximately 99% of backlog was procured under the negotiated method. The backlog at March 31, 2005 was $2.00 billion compared to $1.75 billion at March 31, 2004. Approximately $1.12 billion of the backlog at March 31, 2005 is projected to be constructed and the related revenues recognized during fiscal year 2006. We define backlog in the Construction Services segment as the uncompleted portion of all signed construction contracts.

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The following table summarizes the total backlog in dollars as a percentage by industry segment and the portion of backlog projected to be revenues in fiscal year 2006 as of March 31, 2005:

Industry Segment	% of Backlog	% of FY 2006 Revenues
Multi-unit Residential	53.7%	31.5%
Education	12.1%	18.3%
Corrections	10.5%	13.3%
Corporate Office Buildings	9.1%	9.5%
Healthcare	7.5%	11.7%
Government	2.0%	2.3%
Transportation	1.9%	3.6%
Hospitality	0.1%	0.2%
Other	3.1%	9.6%
Total	100.0%	100.0%

Competition and Other Factors

The construction industry is very competitive, and Construction Services competes with numerous local, regional and national contractors depending upon the nature of the project. Top-tier construction firms distinguish themselves from regional and local firms based on their project resumes, reputation and financial strength. Construction Services focuses on maintaining a competitive advantage over other top-tier construction firms by utilizing disciplined decision making for market selection, project selection, risk assessment and pricing, and by providing excellence in customer service and recruiting top-quality, experienced industry personnel.

Although national demand for commercial construction is relatively stable, individual markets do experience moderate cyclicality and can be sensitive to overall spending trends in the economy, changes in federal, state and local appropriations for construction projects, financing and capital availability for commercial real estate and competitive pressures on the availability and pricing of construction projects.

Construction Services operations are affected by federal, state and local laws and regulations relating to worker health and safety, as well as environmental laws. Current environmental laws may require Construction Services operating subsidiaries to work in concert with project owners to acquire the necessary permits or other authorizations for certain activities, including the construction of projects located in or near wetland areas. Construction Services operations are also affected by environmental laws regulating among other things, erosion and storm water pollution control and the use and disposal of hazardous materials encountered during demolition operations. We believe that Construction Services current procedures and practices are consistent with industry standards and that compliance with the health and safety laws and environmental laws does not constitute a material burden or expense.

Construction Services operations obtain materials and services from numerous sources. The risk of raw material price fluctuation is primarily transferred to our subcontractors through lump sum contractual arrangements. To the extent that raw material pricing changes create subcontractor performance issues, performance and payment bonds or subcontractor default insurance facilitate mitigation of our risks. Our Construction Services operations have been able to deal effectively with challenges they have experienced relating to the supply or availability of materials and services.

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EMPLOYEES

The following table presents a breakdown of our employees as of March 31, 2005:

Business Segment	Employees
Home Building	8,182
Financial Services	5,858
Construction Services	1,386
Other	1,708
Total	17,134

The 1,708 Other employees include 1,551 employees of our home services operations, which provides home pest control services and corporate employees. The corporate employees are employed by Centex Corporation; all others are employees of our various subsidiaries.

RISK FACTORS RELATING TO OUR BUSINESS

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

HOME BUILDING

Deterioration in economic conditions generally or in the market regions where we operate could decrease demand and pricing for new homes in these areas and adversely affect our business operations.

The residential homebuilding industry is sensitive to changes in regional and national economic conditions such as job growth, interest rates and consumer confidence. Material adverse changes in any of these conditions generally, or in the market regions where we operate, could decrease demand and pricing for new homes in these areas or result in customer defaults on pending contracts, which could adversely affect the number of home deliveries we make or reduce the prices we can charge for homes, either of which could result in a decrease in our revenues and earnings. A material decline in the value of new residential housing could also result in a decreased value for the land, housing inventory and housing work-in-progress that we own. Any pronounced down cycle in the homebuilding industry could cause demand for our homes and land that we own to weaken significantly.

Competition for homebuyers could reduce our deliveries or decrease our profitability.

The homebuilding industry is highly competitive. We compete in each of our markets with many national, regional and local homebuilders. We also compete with resales of existing used or foreclosed homes and available rental housing. Increased competitive conditions in the residential markets in which we operate or related markets could decrease demand for new homes, or cause us to increase our sales incentives or price discounts in order to maintain sales volume, and adversely affect our operating results.

Government entities have adopted or may adopt slow or no growth initiatives, which could adversely affect our ability to build or timely build in these areas.

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

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

The occurrence of natural disasters or adverse weather conditions in the areas in which we operate can delay new home deliveries, increase costs by damaging inventories of homes and construction materials, reduce the availability of raw materials and skilled labor, and negatively impact the demand for new homes in affected areas. When natural disasters such as hurricanes, tornadoes, earthquakes, floods and fires affect an area in which we build, or one nearby, there can be a diversion of labor and materials in the area from new home construction to the rebuilding of the existing homes damaged or destroyed in the natural disaster. This can cause delays in construction and delivery of new homes and/or increase our construction costs.

Supply shortages and other risks related to the demand for building materials and skilled labor could reduce our profits and delay deliveries.

Increased costs or shortages of building materials could cause increases in construction costs and construction delays. Labor disputes, and increased costs or shortages of skilled labor, such as carpenters, plumbers and electricians, could also cause increases in costs and delays. We estimate and forecast construction costs as part of our business, and attempt to plan for possible cost increases due to changes in the cost or availability of materials and labor. However, generally we are unable to pass on unanticipated increases in construction costs to those customers who have already entered into sales contracts, as those sales contracts generally fix the price of the home at the time the contract is signed, which may be well in advance of the construction of the home. We may experience unexpected increases in costs of materials or labor, and pricing competition for materials and labor may restrict our ability to pass on any additional costs to homebuyers, thereby decreasing our profits. These factors could have an adverse effect on our results of operations.

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

We are subject to extensive and complex laws and regulations that affect the land development and homebuilding process, including laws and regulations related to zoning, permitted land uses, levels of density, building design, warranties, storm water and use of open spaces. In addition, we are subject to laws and regulations related to workers health and safety, immigration and the protection of the environment. In some of the markets where we operate, we are required to pay environmental impact fees, use energy-saving construction materials and give commitments to municipalities to provide certain infrastructure such as roads and sewage systems. We generally are required to obtain permits and approvals from local authorities to commence and complete residential development or home construction. Such permits and approvals may, from time-to-time, be opposed or challenged by local governments, neighboring property owners or other interested parties, adding delays, costs and risks of non-approval to the process. Our obligation to comply with the laws and regulations under which we operate, and the obligation of our subcontractors and other agents to comply with these and other laws and regulations, could result in delays in land development and homebuilding activity, cause us to incur substantial costs and prohibit or restrict land development and construction.

Foreign exchange rates and the demand for housing in the United Kingdom may affect our foreign operations.

The results of operations of our international homebuilding operations are affected by fluctuations in the value of the United States dollar as compared to the British pound sterling, and can also be affected by economic, regulatory and competitive factors affecting the homebuilding market in the United Kingdom including the overall demand for housing.

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FINANCIAL SERVICES

Increases in interest rates could hurt our Financial Services operations.

Our Financial Services operations are influenced by borrowers perceptions of and reactions to interest rates. The operations of CTX Mortgage Company, LLC and its related companies are particularly affected by increases in interest rates, as they are likely to result in a decrease in the volume of mortgage loan refinancing transactions, which are a significant component of our business. Although the volume of originations in our Home Equity operations is less sensitive to increases in interest rates than CTX Mortgage Company, LLC and its related companies, interest rate increases can result in decreased interest margins. Any significant increase in mortgage rates above current prevailing levels could adversely affect the volume of loan originations and reduce our revenues, operating margins and earnings. In addition, increased competition for loans from other lenders could reduce our profits on the loans we originate.

Loan and collateral losses could reduce the profitability of our Home Equity operations.

Our Home Equity operations involve holding residential mortgage loans for investment and establishing an allowance for credit losses on these loans. To a lesser extent, our operations also involve holding properties obtained through foreclosure pending resale and establishing an allowance for losses on these properties. Although the amount of these allowances reflects our judgment as to our present loss exposure on these loans and properties, there can be no assurance that it will be sufficient to cover any losses that may ultimately be incurred. Judgments as to loss exposure are subject to significant uncertainties, and the amount of the loss ultimately incurred may be determined by various factors outside our control.

Decline in our ratings as a loan servicer could hurt our Financial Services operations.

Our Home Equity operations involve the servicing of residential home equity mortgages. Our servicing activity is rated by the principal rating agencies and any serious decline in our ratings could adversely affect the profitability of our Home Equity operations.

Changes in lending laws could hurt our Financial Services operations.

Our Financial Services operations are subject to extensive and complex laws and regulations that affect loan origination. Our Home Equity operations and, to a lesser extent, the operations of CTX Mortgage Company, LLC and its related companies, are particularly affected by laws and regulations related to the extension of credit to individuals whose credit ratings do not qualify them for conventional mortgage financing. Changes in these laws or the way that they are enforced may adversely affect the way that we operate or our ability to profitably originate loans.

CONSTRUCTION SERVICES

Supply and labor shortages and other risks could increase costs and delay completion.

Our Construction Services operations could be adversely affected by fluctuating prices and limited supplies of building materials, as well as the cost and availability of labor, particularly trades personnel. These prices and supplies may be further adversely affected by natural disasters and adverse weather conditions. These factors, like the factors identified for our Home Building operations, could cause increased costs and delays in construction that could have an adverse effect upon our Construction Services operations.

We are subject to regional changes in the demand for commercial construction projects.

Although national demand for commercial construction is relatively stable, individual markets experience greater cyclicality and can be sensitive to overall capital spending trends in the economy, changes in federal and state appropriations for construction projects, financing and capital availability for commercial real

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estate and competitive pressures on the availability and pricing of construction projects. These factors can result in a reduction in the supply of suitable projects, increased competition and reduced margins on construction contracts.

Our Construction Services operations are also subject to other risks and uncertainties, including the timing of new awards and the funding of such awards; cancellations of, or changes in the scope of, existing contracts; the ability to meet performance or schedule guarantees and cost overruns.

FACTORS AFFECTING MULTIPLE BUSINESS SEGMENTS

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

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

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

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

In addition, a long-term or serious disruption in the capital markets could make it more difficult or more expensive for us to raise capital for use in our business, for our customers to obtain home loans or for us to sell or securitize loans originated in our business. Further, a flat or inverted yield curve could hurt our ability to profit from our loan origination businesses.

Increases in interest rates may reduce customer demand for homes that we sell and the loans that we offer.

The majority of our homebuyers finance the purchase of their homes through mortgage loans. Increases in interest rates generally increase monthly payments for the same amount to be borrowed, thus making the homes we sell less affordable for potential customers. In addition, increases in interest rates may reduce the demand for new or refinanced mortgage loans offered by our Financial Services operations. Reduced home sales and loan originations may adversely affect our operating results.

The reduction of tax benefits could make home ownership more expensive or less attractive.

Significant expenses of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual s federal, and in some cases state, income taxes, subject to various limitations under current tax law and policy. If the federal government or a state government changes income tax laws to eliminate or substantially modify these income tax deductions, the after-tax costs of owning a new home would increase for the typical homeowner. The resulting loss or limitation of homeowners tax deductions, if such tax law changes were enacted without other offsetting provisions, could adversely impact the demand for, and/or sales prices of, new homes, mortgage loans and home equity loans, and our operations might be negatively affected.

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We incur increased costs related to repairing construction defects in the homes we sell or the buildings we construct.

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

AVAILABLE INFORMATION

Anyone seeking information about our business operations and financial performance can receive copies of the 2005 Annual Report to Stockholders, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other documents filed with the Securities and Exchange Commission in Washington, D.C., without charge, by contacting our Corporate Communications office at (214) 981-6901; by writing to Centex Corporation, Investor Relations, P.O. Box 199000, Dallas, Texas 75219 or via email at ir@centex.com. In addition, all filings with the Securities and Exchange Commission, news releases and quarterly earnings announcements, including live audio and replays of recent quarterly earnings webcasts, can be accessed free of charge on our web site (www.centex.com). We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available on our web site as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission. To retrieve any of this information, go to www.centex.com, select Investor Relations and select SEC Filings. The reference to our web site is merely intended to suggest where additional information may be obtained by investors, and the materials and other information presented on our web site are not incorporated in and should not otherwise be considered part of this Report.

ITEM 2. PROPERTIES

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

Home Building owns property in Phoenix, Arizona; Albemarle, North Carolina and Plant City, Florida. This property consists of office and warehouse space used to support its builder supply business. Home Building also owns smaller parcels of land in rural areas of Ohio, Indiana, Pennsylvania, Florida, North Carolina and Minnesota. Situated on this land are sales offices for its Wayne Homes on-your-lot market segment. Home Building owns a building in Tamworth, Staffordshire, England used by its international operations.

Financial Services owns property in Edmond, Oklahoma. This property consists of two office buildings situated on approximately 12 acres of a 20-acre parcel of land. The remaining eight acres of the parcel are being held for future development.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

In January 2003, we received a request for information from the United States Environmental Protection Agency, the EPA, pursuant to Section 308 of the Clean Water Act seeking information about storm water discharge practices at projects that Centex subsidiaries had completed or were building. Subsequently, the EPA limited its request to Home Building and 30 communities. Home Building has provided the requested information and the United States Department of Justice, the Justice Department, acting on behalf of the EPA, has asserted that some of these and certain other communities (including one of Construction Services projects) have violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Home Building and Construction Services believe they have defenses to the allegations made by the EPA and are exploring methods of settling this matter in continuing negotiations with representatives of the Justice Department and the EPA. Centex does not believe that this matter will have a material impact on the Company s consolidated results of operations or financial position.

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

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

None.

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SEPARATE ITEM. EXECUTIVE OFFICERS OF CENTEX (SEE ITEM 10 OF PART III OF THIS REPORT)

The following is an alphabetical listing of our executive officers as of May 19, 2005, as such term is defined under the rules and regulations of the Securities and Exchange Commission. Officers are generally elected by the Board of Directors at its meeting immediately following our annual stockholders meeting, with each officer serving until a successor has been elected and qualified. There is no family relationship among any of these officers.

Name	Age	Positions with Centex or Business Experience
Leldon E. Echols	49	Executive Vice President and Chief Financial Officer of Centex Corporation since June 2000; Partner and employee at Arthur Andersen LLP from December 1978 to May 2000
Timothy R. Eller	56	Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of Centex Corporation (Chairman of the Board and Chief Executive Officer since April 2004; President and Chief Operating Officer since April 2002); Executive Vice President of Centex Corporation from August 1998 to April 2002; Chairman of the Board of Centex Real Estate Corporation from April 1998 to April 2003; Chief Executive Officer of Centex Real Estate Corporation from July 1991 to April 2002; President and Chief Operating Officer of Centex Real Estate Corporation from January 1990 to April 1998
Andrew J. Hannigan	53	Chairman of the Board, Chief Executive Officer and President of Centex Real Estate Corporation (Chairman of the Board since May 2003; Chief Executive Officer since May 2002; President since April 2005); President and Chief Operating Officer from May 1998 to May 2002
Mark D. Kemp	43	Senior Vice President and Controller of Centex Corporation since September 2004; Vice President and Controller of Centex Corporation from December 2002 to September 2004; Partner and employee at Arthur Andersen LLP from December 1983 to August 2002
Robert S. Stewart	51	Senior Vice President of Centex Corporation since May 2000; Employee at the Weyerhaeuser Company from March 1977 to May 2000, during which time he held a range of key management positions, including positions in strategic planning
Jonathan R. Wheeler	53	Senior Vice President of Centex Corporation since May 2004; Senior Vice President of Centex Real Estate Corporation from October 1997 to May 2004
Brian J. Woram	44	Senior Vice President, Chief Legal Officer, General Counsel and Assistant Secretary of Centex Corporation since March 2005; Senior Vice President, Chief Legal Officer, General Counsel and Secretary of

Centex Corporation from December 2004 to March 2005; Senior Vice President, General Counsel and Assistant Secretary of Centex Real Estate Corporation from September 1998 to December 2004

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Stock Prices and Dividends

	Year Ended March 31, 2005			*Year Ended March 31, 2004*		
	Price			Price		
	High	**Low**	**Dividends**	High	Low	Dividends
Quarter						
First	**$54.77**	**$43.31**	**$ .04**	$43.75	$26.78	$ .02
Second	**$51.96**	**$39.94**	**$ .04**	$41.48	$35.55	$ .02
Third	**$59.98**	**$45.44**	**$ .04**	$56.54	$38.55	$ .02
Fourth	**$66.14**	**$54.60**	**$ .04**	$58.40	$46.27	$ .04

The principal market for our common stock is the New York Stock Exchange (ticker symbol CTX). The approximate number of record holders of our common stock at May 19, 2005 was 3,071.

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

The following table details our common stock repurchases for the three months ended March 31, 2005:

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
Period			5,625,600	2,724,000
January 1-31	5,071	$ 58.65		
February 1-28	6,933	$ 62.78		
March 1-31	9,019	$ 59.47		
Total	21,023	$ 60.37	5,625,600	2,724,000

On February 17, 2004, we publicly announced that the Board of Directors increased our open market share repurchase authorization of common stock to 4,000,000 shares adjusted for our March 2004 two-for-one stock split.

The total number of shares purchased in the third column of the above table represents shares of common stock repurchased pursuant to Board of Directors authorizations including the February 17, 2004 authorization and all prior authorizations. Purchases are made from time-to-time in the open market. The share repurchase authorization has no stated expiration date, and the Board of Directors has authorized all shares repurchased.

The 21,023 shares repurchased for the quarter ended March 31, 2005, represent the delivery by employees or directors of previously issued shares to the Company 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 have been approved by the Board of Directors; however, these transactions are not considered repurchases pursuant to the Company s open market stock repurchase program.

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ITEM 6. SELECTED FINANCIAL DATA

Summary of Selected Financial Data (Unaudited) (1)
(Dollars in thousands, except per share data)

	For the Years Ended March 31,				
	2005	2004	2003	2002	2001
Revenues	**$ 12,859,695**	$ 10,363,391	$ 8,428,705	$ 7,123,794	$ 6,138,577
Earnings from Continuing Operations (2)	**$ 1,011,364**	$ 777,131	$ 526,812	$ 358,402	$ 265,194
Net Earnings	**$ 1,011,364**	$ 827,686	$ 555,919	$ 382,226	$ 281,977
Stockholders Equity	**$ 4,280,757**	$ 3,050,225	$ 2,657,846	$ 2,116,773	$ 1,714,064
Net Earnings as a Percentage of Average Stockholders Equity	**27.6%**	29.0%	23.3%	20.0%	18.0%
Total Assets	**$ 20,011,079**	$ 16,087,454	$ 11,639,707	$ 8,996,991	$ 6,649,968
Deferred Income Tax Assets	**$ 177,735**	$ 176,564	$ 201,411	$ 177,882	$ 127,495
Total Long-term Debt, Consolidated	**$ 10,492,363**	$ 8,615,864	$ 6,181,543	$ 4,776,199	$ 2,758,118
Debt (with Financial Services reflected on the equity method) (3)	**$ 3,246,963**	$ 2,418,190	$ 2,024,953	$ 1,605,797	$ 1,182,250
Financial Services Debt	**9,721,146**	8,302,190	4,998,819	3,485,027	2,054,898
Total Debt, Consolidated	**$ 12,968,109**	$ 10,720,380	$ 7,023,772	$ 5,090,824	$ 3,237,148
Capitalization (with Financial Services reflected on the equity method and excluding lot option minority interest)(3) (4)	**$ 7,568,466**	$ 5,470,263	$ 4,683,755	$ 3,724,827	$ 2,901,394
Financial Services Capitalization (4)	**10,339,756**	8,820,005	5,380,226	3,797,355	2,323,155
Lot Option Minority Interest (4)	**415,413**	332,668			
Consolidation Eliminations	**(617,248)**	(516,280)	(379,671)	(310,353)	(266,124)
Total Capitalization, Consolidated	**$ 17,706,387**	$ 14,106,656	$ 9,684,310	$ 7,211,829	$ 4,958,425
Debt as a Percentage of Capitalization (4)					
With Financial Services reflected on the equity method and excluding lot option minority interest (3)	**42.9%**	44.2%	43.2%	43.1%	40.7%

Consolidated	**73.2%**	76.0%	72.5%	70.6%	65.3%

Per Common Share
Earnings from Continuing
Operations

(1) *The selected financial data presented in this table, excluding stock prices for the periods covered by the financial statements included in this Report and all prior periods, have been derived from our audited financial statements and adjusted to reflect Centex Construction Products, Inc. (spun off in January 2004) and our manufactured housing operations (spun off in June 2003) as discontinued operations.*

(2) *Earnings from Continuing Operations are Before Cumulative Effect of a Change in Accounting Principle adopted in fiscal 2004. For more detailed discussion of the change in accounting principle, see Note (F), Indebtedness of the Notes to Consolidated Financial Statements of this Report.*

(3) *Represents a supplemental presentation that reflects the Financial Services segment as if accounted for under the equity method. We believe that separate disclosure of the consolidating information is useful because the Financial Services subsidiaries 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 have structured their financing programs substantially on a stand alone basis; and we have limited obligations with respect to the indebtedness of our Financial Services subsidiaries. Management uses this information in its financial and strategic planning. We also use this presentation to allow investors to compare us to homebuilders that do not have financial services operations.*

(4) *Capitalization is composed of Debt, Negative Goodwill, Minority Interest and Stockholders Equity. In the calculation of Capitalization, minority interest in fiscal 2005 and 2004 excludes $415.4 million and $332.7 million, respectively, of minority interests recorded in connection with the consolidation of certain entities with which Home Building has lot option agreements. Negative Goodwill arose in conjunction with the combination of Centex Real Estate Corporation with Vista Properties, Inc. in the fiscal year ended March 31, 1997. Fiscal year 2001 includes the accretion of negative goodwill to earnings as a reduction of costs and expenses. During fiscal 2001, negative goodwill was fully accreted.*

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

The following summarizes our results for the three-year period ended March 31, 2005:

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

Fiscal year 2005 represents our ninth consecutive year of growth in revenues and earnings from continuing operations. Revenues increased 24.1% to $12.86 billion as compared to fiscal year 2004. In addition, earnings from continuing operations before income taxes and cumulative effect of a change in accounting principle increased 37.0% to $1.57 billion as compared to fiscal year 2004.

The growth in revenues and operating earnings is primarily attributable to the growth and improvement in operating margin of our Home Building segment. Home Building s operating earnings growth was slightly offset by a decline in operating earnings of our Financial Services segment in fiscal year 2005.

The primary drivers of the growth in our Home Building business are growth in neighborhoods open for sale, increases in closings per neighborhood, increases in average unit selling prices, and improvements in operating margins. In fiscal 2005, we experienced improvements in each of these key areas. Home Building s domestic operating margin (operating earnings as a percentage of revenues) increased to 14.7%. For more specific information on the operating results of our Home Building segment, refer to the Home Building segment information below.

The overall demand for housing in the United States remains favorable, and is driven by population growth, demographics, 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 in the United States 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 2004, the 10 largest homebuilders were producing approximately 22% 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.

Currently, we have homebuilding operations in 38 of the 50 largest housing markets in the United States (2003 housing market data obtained from *Professional Builder* magazine). We have largely completed our geographic diversification plan and are now focused primarily on further penetration in our existing markets.

Financial Services operating results in fiscal year 2005 have been negatively impacted by decreased loan refinancing activity, increases in interest rates and, for our prime mortgage lending operations, an increase in the origination of less profitable adjustable rate mortgages. CTX Mortgage Company, LLC s refinancing activity accounted for 21% of its originations for the year ended March 31, 2005 as compared to 39% for the year ended March 31, 2004. Refinancing activity has declined due to an extended period of relatively low mortgage loan rates, which has reduced the supply of loans likely to be refinanced. Our Financial Services segment will continue to focus on serving the customers of our Home Building segment and increasing the percentage of prime mortgage loans provided to them. For the year ended March 31, 2005, our prime mortgage lending business financed approximately 73% of our Home Building non-cash unit closings. In addition, the Financial Services growth model includes plans to increase the number of loan officers originating prime retail loans and improve their productivity. Our prime mortgage lending business is a fee-based business with low capital requirements. Our Financial Services segment also includes our sub-prime home equity lending operations, which is a portfolio-based model that produces more predictable earnings. Our sub-prime home equity loans are obtained principally through our organically grown origination channels using centrally controlled product, pricing and underwriting. Home Equity s revenues and operating earnings have increased 30.1% and 68.1%, respectively, as compared to fiscal year 2004. The growth in revenues and operating earnings is primarily as a result of continued growth in Home Equity s portfolio of residential mortgage loans held for investment and a program of whole loan sales to third parties. The Financial Services growth model includes plans to continue to grow our portfolio of sub-prime mortgage loans held for investment while adhering to our underwriting criteria. We will primarily securitize these loans and certain loans will be included in whole loan sales.

The results of operations of certain of our segments, including our Home Building and Financial Services operations, may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above current prevailing levels could affect demand for housing, at least in the short term, and could reduce the ability or willingness of prospective home buyers to finance home purchases and/or it 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 interest rates, there can be no assurances that these efforts would be successful.

Our Construction Services segment operating earnings have increased from the prior year, but have not reached the levels achieved in fiscal 2003. Industry conditions have created increased pricing pressure on construction companies, which in turn has reduced our Construction Services operating margins. However, revenues have increased over the last two years due to our focus on increasing market share. The commercial construction environment remains challenged but is showing signs of improvement as evidenced by the increase in backlog. At March 31, 2005, the backlog was $2.00 billion, an increase of 14.6% over the prior year. Strategically, we will continue to focus on our core geographic and selected industry segments to achieve growth in Construction Services revenues and operating earnings.

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In fiscal year 2004, we consummated the tax-free spin-offs to our stockholders of substantially all of our manufactured housing operations in June 2003 and our entire ownership interest in Eagle Materials Inc., formerly known as Centex Construction Products, Inc., a former majority-owned subsidiary which we referred to as Construction Products, on January 30, 2004. Manufactured housing and Construction Products are reported as discontinued operations in our consolidated financial statements.

FISCAL YEAR 2005 COMPARED TO FISCAL YEAR 2004

HOME BUILDING

The following summarizes the results of our Home Building operations for the two-year period ended March 31, 2005 (dollars in millions except per unit data and lot information):

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Revenues Housing	**$ 9,499.1**	**27.7%**	$ 7,438.0	27.8%
Revenues Land Sales and Other	**361.9**	**124.1%**	161.5	55.4%
Cost of Sales Housing	**(6,844.6)**	**25.3%**	(5,460.8)	25.2%
Cost of Sales Land Sales and Other	**(266.9)**	**82.3%**	(146.4)	60.4%
Selling, General and Administrative Expenses	**(1,373.0)**	**31.7%**	(1,042.3)	22.7%
Earnings from Unconsolidated Entities	**68.9**	**24.6%**	55.3	71.7%
Operating Earnings	**$ 1,445.4**	**43.8%**	$ 1,005.3	54.3%
Operating Earnings as a Percentage of Revenues	**14.7%**	**NM**	13.2%	NM

Home Building s results are derived from its domestic and international operations as described below.

Domestic

Home Building s domestic operations 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. The following summarizes the results of our Home Building domestic operations for the two-year period ended March 31, 2005:

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Units Closed	**33,387**	**10.0%**	30,358	14.9%
Average Unit Sales Price	**$ 269,780**	**11.3%**	$ 242,465	10.1%
Operating Earnings Per Unit	**$ 41,298**	**29.8%**	$ 31,816	33.2%
Average Operating Neighborhoods	**589**	**5.6%**	558	7.5%

Closings Per Average Neighborhood	**56.7**	**4.2%**	54.4	6.9%

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	As of March 31,			
	2005		2004	
		% Change		% Change
Backlog Units	**18,589**	**20.6%**	15,414	27.9%
Lots Owned	**96,945**	**25.1%**	77,475	29.5%
Lots Controlled	**168,350**	**45.9%**	115,366	62.7%
Total Lots Owned and Controlled	**265,295**	**37.6%**	192,841	47.5%

Domestic Home Building s financial performance is reflective of changes in the following performance indicators:

Growth in average neighborhoods

Growth in closings per average neighborhood

Increases in average unit sales price

Operating margin improvement

The following summarizes changes in performance indicators for the year ended March 31, 2005 as compared to the prior year.

We define a neighborhood as an individual active selling location targeted to a specific buyer segment. For the year ended March 31, 2005, we opened 336 neighborhoods and closed out of 293 neighborhoods, driving our average operating neighborhoods to 589, a 5.6% increase over the prior year.

Higher sales rates continue to contribute to our growth in closings per average neighborhood. Sales per average neighborhood were 62.1 for the year ended March 31, 2005, a 2.8% increase over the prior year. This sales rate increase can be attributed to our continued focus on market research, enhanced sales and marketing activities and activity-based sales management. Sales orders increased in each of our geographic regions in fiscal year 2005, and sales growth rates were particularly strong in the mid-Atlantic and west coast regions, which achieved increases over the prior year of 10.7% and 10.8%, respectively. For all regions, sales orders totaled 36,562 units for the year ended March 31, 2005, an increase of 8.4% versus the prior year. The increase in sales per average neighborhood, as well as the increase in average operating neighborhoods, resulted in an increase of home closing volume of 10.0% to 33,387 homes for the year ended March 31, 2005, as compared to the prior year.

Current housing market conditions, combined with our geographic, product and segment diversification strategies, continued to drive higher average selling prices. For the year ended March 31, 2005, average selling prices were up 11.3% to $269,780 as compared to the prior year. The increase is primarily due to strong demand in the southeast and west coast regions resulting in pricing power, as well as a greater mix of homes closed in the west coast region. California continues to experience the largest average sales price increase among the states in which we operate as average prices rose to $514,081, a $68,619 increase over the prior year.

Selling, general and administrative expenses increased at a slightly higher rate than revenues for the year ended March 31, 2005 primarily due to increases in employee count to support planned neighborhood growth and increased incentive compensation reflective of the growth in operating earnings.

Operating margins (consisting of operating earnings as a percentage of revenues) for Home Building s domestic operations improved to 14.7% for the year ended March 31, 2005, compared to 12.8% for the year ended March 31, 2004. Increased unit volume, increases in average unit selling price, continued focus on lowering direct construction costs, increased land sales, improved margin on land sales, and earnings from joint ventures resulted in margin improvement throughout Home Building s domestic operations. National and regional purchasing programs and local cost reduction and efficiency efforts have helped partially offset increasing raw material costs experienced throughout the year. We purchase materials, services and land from numerous sources, and during the past twelve months have been able to deal effectively with the challenges we have experienced relating to the supply or availability of materials, services and land.

The above factors contributed to the improvement in our operating earnings, which is reflective of our continued focus on our Quality Growth strategy, consisting of growing revenue and earnings while improving margins.

During the year, we continued to increase our land position to facilitate our short and longer term growth initiatives. Our total land position owned or controlled under option agreements at March 31, 2005 will provide land for approximately 100% of closings for fiscal year 2006, 80% of closings for fiscal year 2007, and 50% of closings for fiscal year 2008 based on our current closing projections.

International

Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments in the United Kingdom. In February 2004, we acquired the Partnership through merger transactions. Prior to the merger, we accounted for our investment in the Partnership on the equity method of accounting. Subsequent to the merger, international homebuilding operations of the Partnership have been consolidated with the Home Building segment. Prior period earnings related to the international homebuilding operations of the Partnership, previously reflected in our investment real estate operations, have been reclassified to the Home Building segment to conform to the presentation subsequent to the merger. The following summarizes the results of Home Building s international operations for the year ended March 31, 2005 (dollars in millions):

	For the Year Ended March 31, 2005	
Revenues	$	501.3
Operating Earnings	$	66.6
Units Closed		1,563

For the year ended March 31, 2004, earnings from unconsolidated entities included $25.3 million related to the international homebuilding operations of the Partnership. Earnings from unconsolidated entities for fiscal 2004 related to international homebuilding operations are not comparative to operating earnings presented above as operating earnings exclude interest expense and taxes.

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 origination, servicing and other related services for purchasers of homes sold by our Home Building operations and other homebuilders, sub-prime home equity lending and the sale of title insurance and various other insurance coverages, including property and casualty.

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The following summarizes the results of our Financial Services operations for the two-year period ended March 31, 2005 (dollars in millions):

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Revenues	**$ 1,107.2**	**5.7%**	$ 1,047.9	22.6%
Cost of Sales	**(284.0)**	**26.9%**	(223.8)	21.3%
Selling, General and Administrative Expenses	**(618.8)**	**4.2%**	(593.8)	16.7%
Operating Earnings	**$ 204.4**	**(11.2%)**	$ 230.3	42.3%
Interest Margin	**$ 364.6**	**20.7%**	$ 302.0	75.2%
Origination Volume	**$ 18,315.3**	**(3.8%)**	$ 19,036.7	15.4%
Number of Loans Originated	**110,950**	**(11.2%)**	125,005	9.3%
Number of Loan Applications	**465,781**	**8.2%**	430,439	27.3%

Financial Services results are primarily derived from prime mortgage lending and sub-prime home equity lending operations as described below.

Prime Mortgage Lending

The following summarizes the results of our prime mortgage lending operations, which are conducted by CTX Mortgage Company, LLC and its related companies, for the two-year period ended March 31, 2005 (dollars in millions):

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Revenues	**$ 421.7**	**(19.1%)**	$ 521.1	14.8%
Cost of Sales	**(32.2)**	**47.0%**	(21.9)	212.9%
Selling, General and Administrative Expenses	**(293.5)**	**(12.0%)**	(333.4)	0.4%
Operating Earnings	**$ 96.0**	**(42.1%)**	$ 165.8	44.6%
Interest Margin	**$ 49.5**	**4.4%**	$ 47.4	457.6%
Average Interest Earning Assets	**$ 1,395.6**	**5.3%**	$ 1,325.4	567.4%
Average Yield	**5.85%**	**NM**	5.72%	NM
Average Interest Bearing Liabilities	**$ 1,364.1**	**9.5%**	$ 1,246.2	841.2%
Average Rate Paid	**2.34%**	**NM**	1.95%	NM

The revenues and operating earnings of CTX Mortgage Company, LLC and its related companies are derived primarily from the sale of mortgage loans, together with all related servicing rights, and 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 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

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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 cash flow 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, as of July 1, 2003, it was consolidated with our Financial Services segment. The consolidation of HSF-I resulted in an increase in our residential mortgage loans held for sale with a corresponding increase in our debt. In addition, interest income and interest expense of HSF-I subsequent to June 30, 2003 are reflected in our financial statements.

The following table quantifies: (1) the volume of loan sales to investors (third parties), and (2) the gains recorded on those sales and related derivative activity, collectively, gain on sale of mortgage loans, which is recorded as revenues for the years ended March 31, 2005 and 2004 (dollars in millions):

	For the Years Ended March 31,		
	2005	**% Change**	2004
Loan Sales to Investors	**$ 9,328.6**	**(28.9%)**	$ 13,114.5
Gain on Sale of Mortgage Loans	**$ 141.7**	**(42.4%)**	$ 245.9

The decreases in loan sales and gain on sale of mortgage loans are the result of a decrease in the volume of loans originated and sold to investors and an increase in the origination of less profitable adjustable rate mortgages, or ARMs. ARMs as a percentage of total originations were 48% and 23% for the years ended March 31, 2005 and 2004, respectively.

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Consistent with decreases in loan sales and gain on sale of mortgage loans, revenues for the year ended March 31, 2005, which include revenues from our title and insurance operations, have also decreased. Decreases in gain on sale of mortgage loans and revenues from our title and insurance operations were slightly offset by increases in our fees received in connection with brokering of loans. The table below provides a comparative analysis of mortgage loan originations and applications for the years ended March 31, 2005 and 2004. CTX Mortgage Company, LLC tracks loan applications until such time as the loan application is canceled. Application data presented below includes loans originated in the period and loans scheduled to close in the subsequent periods. Applications canceled were 16,488 and 20,590 for the fiscal years ended March 31, 2005 and 2004.

	For the Years Ended March 31,			
	2005		2004	
		% **Change**		% Change
Origination Volume (in millions)	**$ 13,039.0**	**(13.7%)**	$ 15,116.0	8.0%
Number of Loans Originated				
Builder	**22,517**	**7.9%**	20,865	15.1%
Retail	**44,816**	**(33.6%)**	67,481	1.0%
	67,333	**(23.8%)**	88,346	4.0%
Number of Loan Applications				
Builder	**24,631**	**2.5%**	24,031	19.5%
Retail	**39,848**	**(39.2%)**	65,514	(6.3%)
	64,479	**(28.0%)**	89,545	(0.5%)
Average Loan Size	**$ 193,600**	**13.2%**	$ 171,100	3.9%
Profit Per Loan	**$ 1,425**	**(24.0%)**	$ 1,876	39.0%

The decrease in loan originations is primarily the result of a significant decrease in refinancing activity, partially offset by an increase in Builder originations, which resulted from an increase in Home Building s closings and our continued focus on serving this customer base. For the year ended March 31, 2005, CTX Mortgage Company, LLC originated 73% of the non-cash unit closings of Home Building s customers, versus 74% for the prior year. Profit per loan decreased in fiscal 2005 due to an increase in the origination of less profitable ARMs, as well as a reduction in operating leverage resulting from a decrease in the volume of loan originations.

CTX Mortgage Company, LLC s operations are influenced by borrowers perceptions of and reactions to interest rates. Refinancing activity accounted for 21% and 39% of originations in the years ended March 31, 2005 and 2004, respectively. Refinancing activity has declined due to an extended period of relatively low mortgage loan rates, which has reduced the supply of loans likely to be refinanced. 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. Although there can be no assurance that these efforts will be successful, we will seek to mitigate the effects of any increase in mortgage interest rates by increasing our market share by adding loan officers and improving their productivity while at the same time seek to improve our operating leverage.

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Sub-Prime Home Equity Lending

The following summarizes the results of our sub-prime home equity lending operations for the two-year period ended March 31, 2005 (dollars in millions):

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Revenues	**$ 685.5**	**30.1%**	$ 526.8	31.3%
Cost of Sales	**(251.8)**	**24.7%**	(201.9)	13.7%
Selling, General and Administrative Expenses:				
Operating Expenses	**(226.5)**	**25.2%**	(180.9)	27.8%
Loan Loss Provision	**(98.8)**	**24.3%**	(79.5)	127.8%
Operating Earnings	**$ 108.4**	**68.1%**	$ 64.5	36.9%
Interest Margin	**$ 315.1**	**23.8%**	$ 254.6	55.3%
Average Interest Earning Assets	**$ 7,274.0**	**30.1%**	$ 5,592.2	43.6%
Average Yield	**7.79%**	**NM**	8.16%	NM
Average Interest Bearing Liabilities	**$ 7,498.7**	**28.8%**	$ 5,822.6	43.8%
Average Rate Paid	**3.36%**	**NM**	3.47%	NM

The revenues of Home Equity increased primarily as a result of continued growth in our portfolio of residential mortgage loans held for investment and as a result of a program of whole loan sales to third parties. Our portfolio growth translated into more interest income, our largest component of revenue. Home Equity recorded approximately $42.3 million in net revenue and operating earnings related to the whole loan sales for the year ended March 31, 2005. Whole loan sales have the effect of increasing current revenues but decreasing future interest margin that would have been recognized had the loans been securitized or retained as inventory. The estimated net impact on operating earnings from resulting gain on sale treatment was approximately $21.0 million. A program of whole loan sales is a component of Home Equity s diversification of funding sources and provides more efficient utilization of capital.

Cost of sales is comprised of interest expense, which increased in fiscal year 2005 commensurate with increases in our average debt outstanding and increases in interest rates since the prior year.

Operating expenses for the year ended March 31, 2005 increased as a result of Home Equity s continued growth. The increase in loan production volume, the expansion of branch offices and the increase in the number of employees led to a corresponding increase in salaries and related costs, rent expense, group insurance costs and advertising expenditures.

The increase in the loan loss provision for the year ended March 31, 2005 occurred primarily because of the increase in residential mortgage loans held for investment. Also, as the portfolio continues to mature and grow, we expect the provision for losses, the loans charged off and the allowance for losses to continue to increase. For a more detailed discussion of our accounting policy and methodology for establishing the provision for losses, see Critical Accounting Estimates-Valuation of Residential Mortgage Loans Held for Investment. Changes in the allowance for losses are included in Note (B), Residential Mortgage Loans Held for Investment, of the Notes to Consolidated Financial Statements of this Report.

The increase in operating earnings for the year ended March 31, 2005 is primarily attributable to the increase in interest margin, which we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans. Interest margin for the year ended March 31, 2005 increased primarily as a result of an increase in the portfolio of mortgage loans held

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for investment. In the current year, interest margin as a percentage of revenues has decreased primarily as a result of an increasing interest rate environment, as well as increased competitive industry conditions. Whole loan sale transactions also contributed to the increase in operating earnings for the year ended March 31, 2005.

Average interest earning assets and liabilities for the year ended March 31, 2005 increased primarily due to an increase in the volume of loan originations and an increase in average loan size (see table below).

The following table provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2005:

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Origination Volume (in millions)	**$ 5,276.3**	**34.6%**	$ 3,920.7	56.4%
Number of Loans Originated	**43,617**	**19.0%**	36,659	24.5%
Number of Loan Applications	**401,302**	**17.7%**	340,894	37.4%
Average Loan Size	**$ 121,000**	**13.2%**	$ 106,900	25.6%

The increase in origination volume was due to an increase in the average loan size and an increase in the overall sales force, which resulted in an increase in the number of loan applications received.

The following summarizes Home Equity s portfolio of mortgage loans, classified by the securitization structure used, as of March 31, 2005 and 2004:

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Servicing Portfolio:				
Number of Loans				
Portfolio Accounting Method	**83,972**	**10.2%**	76,215	24.8%
Serviced for Others	**16,431**	**51.3%**	10,858	(18.5%)
Total	**100,403**	**15.3%**	87,073	17.0%
Dollars in billions				
Portfolio Accounting Method	**$ 7.91**	**21.7%**	$ 6.50	40.1%
Serviced for Others	**1.40**	**118.8%**	0.64	(23.8%)
Total	**$ 9.31**	**30.4%**	$ 7.14	30.3%

Home Equity periodically securitizes its inventory of mortgage loan originations or engages in whole loan sales in order to provide funding for its mortgage operations.

The majority of Home Equity s servicing portfolio is accounted for using the portfolio accounting method in accordance with FASB Statement of Financial Accounting Standards, or SFAS, No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, where (1) loan originations are securitized and accounted for as borrowings; (2) interest income is recorded over the life of the loans using the interest (actuarial) method; (3) the mortgage loans receivable and the securitization debt (asset-backed certificates) remain on Home Equity s balance sheet; and (4) the related interest margin is reflected in the income statement. This structure of securitizations has been utilized since April 1, 2000.

Another component of Home Equity s servicing portfolio includes securitizations accounted for as gain on sale in accordance with FASB SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets

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and Extinguishments of Liabilities, where from October 1997 through March 2000, an estimate of the entire gain resulting from the sale was included in earnings during the period in which the securitization transaction occurred. This is referred to as the gain on sale method and is included in the Serviced for Others category in the above table. Unlike the portfolio accounting method, our balance sheet does not reflect the mortgage loans receivable or the offsetting debt resulting from these securitizations. However, under the gain on sale method, Home Equity s retained residual interest in, as well as the servicing rights to, the securitized loans are reflected on the balance sheet. Home Equity carries MSRI at fair value on the balance sheet.

The Serviced for Others category of Home Equity s servicing portfolio also includes loans sold on a whole loan servicing-retained basis. Home Equity continues to service these loans, which resulted in a $2.8 million servicing asset recorded, based on the present value of estimated future cash flows as of March 31, 2005. For the year ended March 31, 2005, Home Equity s whole loan sales on a servicing-retained basis totaled $920.4 million. No such sales occurred during fiscal year 2004.

The structure of Home Equity s securitizations has no effect on the ultimate amount of profit and cash flow recognized over the life of the mortgages. However, the structure does affect the timing of profit recognition. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations.

The primary risks in Home Equity s operations are consistent with those of the financial services industry and include credit risk associated with its loans, liquidity risk related to funding its loans and interest rate risk prior to securitization of the loans. Although the volume of originations in our Home Equity operations is less sensitive to increases in interest rates than CTX Mortgage Company, LLC and its related companies, interest rate increases generally result in decreased interest margins. In addition, it is also subject to prepayment risks (principal reductions in excess of contractually scheduled reductions) associated with loans securitized prior to April 2000. For additional information on Home Equity s MSRI, see Note (A), Significant Accounting Policies, of the Notes to the Consolidated Financial Statements of this Report.

CONSTRUCTION SERVICES

The following summarizes Construction Services results for the two-year period ended March 31, 2005 (dollars in millions):

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Revenues	**$ 1,738.6**	**8.9%**	$ 1,596.3	5.2%
Operating Earnings	**$ 23.5**	**43.3%**	$ 16.4	(46.6%)
New Contracts Executed	**$ 1,992.9**	**9.3%**	$ 1,823.2	112.7%

	As of March 31,	
	2005	2004

		% Change		% Change
Backlog of Uncompleted Contracts	**$ 2,001.3**	**14.6%**	$ 1,746.4	14.9%

Revenues and operating earnings for the year ended March 31, 2005 increased as compared to the prior year. Revenue increases are due to an increase in the number of active projects and an increase in average contract size. As of March 31, 2005, we had 243 active projects, which represents a 14.1% increase over the prior year. The construction services industry continues to experience pricing pressure; however, industry conditions are improving. The increase in new contracts executed and backlog of uncompleted contracts was

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primarily due to the execution of contracts for multi-unit residential projects. Construction Services defines backlog as the uncompleted portion of all signed contracts.

Construction Services has also been awarded work that is pending execution of a signed contract. At March 31, 2005 and 2004, such work, which is not included in backlog, was approximately $2.61 billion and $2.03 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.

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

	For the Years Ended March 31,			
	2005		2004	
		% Change		% Change
Operating Loss from Home Services Operations	**$ (15.8)**	**587.0%**	$ (2.3)	(76.0%)
Operating Earnings from Investment Real Estate Operations	**21.4**	**(52.2%)**	44.8	31.8%
Corporate General and Administrative Expenses	**(82.9)**	**(21.4%)**	(105.5)	75.0%
Interest Expense	**(22.2)**	**(44.4%)**	(39.9)	(33.8%)
Operating Loss	**$ (99.5)**	**(3.3%)**	$ (102.9)	6.3%

The increase in our home services division s operating loss in the year ended March 31, 2005 is primarily due to an increase in marketing expenses resulting from expansion and growth of our home services operations in the homebuilder customer market, coupled with incremental commissions paid on new sales growth. In addition, in the fourth quarter of fiscal year 2005, we took a charge of $10.0 million to notes receivable received in connection with the sale of our security monitoring center in fiscal year 2004. The fluctuations in our investment real estate division s operating earnings were primarily related to the timing of property sales.

Corporate general and administrative expenses represent corporate employee compensation and other corporate costs such as investor communications, insurance, rent and professional services. The decrease in corporate general and administrative expenses in fiscal year 2005 is primarily related to $16 million in incremental executive compensation costs recorded in the prior year for the retirement of an executive officer.

For the year ended March 31, 2005 and 2004, interest costs include interest expense of $22.2 million and $39.9 million, respectively, and previously capitalized interest included in Home Building s costs and expenses of $137.0 million and $89.1 million, respectively. Total interest costs, excluding Financial Services interest expense, were $159.2 million and $129.0 million for the year ended March 31, 2005 and 2004, respectively. See Note (A), Significant Accounting Policies, of the Notes to Consolidated Financial Statements of this Report for further information on interest costs. The increase in total interest costs is primarily related to an increase in average debt outstanding for the year ended March 31, 2005 as compared to the prior year.

Our effective tax rate related to continuing operations increased to approximately 36% in the year ended March 31, 2005 from 32% in fiscal 2004, primarily due to the reduction in the availability of tax benefits related to the Company s net operating loss carryforwards in fiscal 2005 as compared to the prior year. See Note (L), Income Taxes, of the Notes to Consolidated Financial Statements of this Report for further information on income taxes.

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DISCONTINUED OPERATIONS

In June 2003, we spun off tax-free to our stockholders substantially all of our manufactured housing operations, and in January 2004, we spun off tax-free to our stockholders our entire equity interest in Construction Products. As a result of the spin-offs, the earnings from these operations for fiscal 2004 and all periods prior to the spin-offs have been reclassified to discontinued operations in the Statements of Consolidated Earnings.

For the year ended March 31, 2004, discontinued operations had revenues of $461.9 million, and operating earnings of $49.9 million.

FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

HOME BUILDING

The following summarizes the results of our Home Building operations for the two-year period ended March 31, 2004 (dollars in millions except per unit data and lot information):

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues Housing	$ 7,438.0	27.8%	$ 5,818.8	18.9%
Revenues Land Sales and Other	161.5	55.4%	103.9	34.2%
Cost of Sales Housing	(5,460.8)	25.2%	(4,362.7)	17.8%
Cost of Sales Land Sales and Other	(146.4)	60.4%	(91.3)	40.7%
Selling, General and Administrative Expenses	(1,042.3)	22.7%	(849.2)	16.4%
Earnings from Unconsolidated Entities	55.3	71.7%	32.2	29.3%
Operating Earnings	$ 1,005.3	54.3%	$ 651.7	30.6%
Operating Earnings as a Percentage of Revenues	13.2%	NM	11.0%	NM

Domestic

The following summarizes the results of our Home Building domestic operations for the two-year period ended March 31, 2004:

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Units Closed	30,358	14.9%	26,427	15.1%
Average Unit Sales Price	$ 242,465	10.1%	$ 220,183	3.0%
Operating Earnings Per Unit	$ 31,816	33.2%	$ 23,889	12.7%
Backlog Units	15,414	27.9%	12,050	28.6%

Average Operating Neighborhoods	558	7.5%	519	9.5%
Closings Per Average Neighborhood	54.4	6.9%	50.9	5.2%
Lots Owned	77,475	29.5%	59,844	37.5%
Lots Controlled	115,366	62.7%	70,926	39.6%
Total Lots Owned and Controlled	192,841	47.5%	130,770	38.6%

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The following summarizes changes in performance indicators for the year ended March 31, 2004 as compared to the prior year.

The 7.5% growth in neighborhoods achieved in fiscal 2004 was down slightly from the prior year s growth of 9.5%. During the fiscal year 2004, we added 316 new neighborhoods and closed out of 308 neighborhoods. Our record fourth quarter sales resulted in some existing neighborhoods being closed out (i.e., all remaining units sold) earlier than anticipated. In addition, to maximize our pricing opportunities, we delayed the opening of other neighborhoods.

The increase in closings per average neighborhood in fiscal 2004 was the result of higher sales rates due to our continued focus on market research, activity-based sales management and Internet marketing. Sales orders for the year were strong across all of our operating regions and totaled 33,722 units, an increase of 18% versus the prior year. Home closing volume also increased 15%, to 30,358 homes.

Strong residential housing market conditions, combined with our geographic, product and segment diversification strategies, continued to drive higher average selling prices. For fiscal 2004, average selling prices were up 10% to $242,465. Average selling prices, excluding California, were up 9% to $210,724 and California s average selling price was up 13% to $445,462.

Operating margins for our domestic homebuilding operations improved to 12.8% for the fiscal year from 10.7% in the prior year. Increased unit volume, average selling price increases and continued focus on lowering direct construction and selling, general and administrative costs resulted in margin improvement throughout the Home Building segment. National and regional purchasing programs and local cost reduction and efficiency efforts have helped offset increasing raw material costs experienced throughout the year. We purchase materials, services and land from numerous sources (primarily local vendors), and believe that we can deal effectively with the challenges we may experience relating to the supply or availability of materials, services and land.

The above factors contributed to the improvement in our operating earnings, which is reflective of our continued focus on our Quality Growth strategy, consisting of growing revenue and earnings while expanding margins.

International

In February 2004, we acquired through merger transactions the Partnership, an investment previously accounted for on the equity method of accounting. Subsequent to the merger, international homebuilding operations of the Partnership have been consolidated with the Home Building segment. Prior period earnings related to the international homebuilding operations of the Partnership, previously reflected in our Investment Real Estate segment, have been reclassified to the Home Building segment to conform to the presentation subsequent to the merger. Included in Home Building s operating results were revenues and operating earnings of $80.5 million and $14.1 million, respectively, for the one-month period subsequent to the merger. Earnings from unconsolidated entities related to the international homebuilding operations of the Partnership were $25.3 million for the period from April 1, 2003 through February 29, 2004, the date of the merger transactions, and $20.4 million for the fiscal year ended March 31, 2003.

FINANCIAL SERVICES

The following summarizes the results of our Financial Services operations for the two-year period ended March 31, 2004 (dollars in millions):

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues	$ 1,047.9	22.6%	$ 855.0	22.2%
Cost of Sales	(223.8)	21.3%	(184.5)	16.0%
Selling, General and Administrative Expenses	(593.8)	16.7%	(508.7)	19.4%
Operating Earnings	$ 230.3	42.3%	$ 161.8	41.1%
Interest Margin	$ 302.0	75.2%	$ 172.4	60.1%
Origination Volume	$ 19,036.7	15.4%	$ 16,497.4	13.5%
Number of Loans Originated	125,005	9.3%	114,382	6.6%
Number of Loan Applications	430,439	27.3%	338,136	35.8%

Prime Mortgage Lending

The following summarizes the results of our prime mortgage lending operations, which are conducted by CTX Mortgage Company, LLC and its related companies, for the two-year period ended March 31, 2004 (dollars in millions):

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues	$ 521.1	14.8%	$ 453.9	14.3%
Cost of Sales	(21.9)	212.9%	(7.0)	(50.7%)
Selling, General and Administrative Expenses	(333.4)	0.4%	(332.2)	13.2%
Operating Earnings	$ 165.8	44.6%	$ 114.7	28.0%
Interest Margin	$ 47.4	457.6%	$ 8.5	32.8%
Average Interest Earning Assets	$ 1,325.4	567.4%	$ 198.6	(18.5%)
Average Yield	5.72%	NM	7.18%	NM
Average Interest Bearing Liabilities	$ 1,246.2	841.2%	$ 132.4	(37.3%)
Average Rate Paid	1.95%	NM	4.08%	NM

CTX Mortgage Company, LLC originates mortgage loans, holds them for a short period and sells them to HSF-I and investors. HSF-I is a variable interest entity for which we are the primary beneficiary and, as of July 1, 2003, is consolidated with our Financial Services segment. As a result of the consolidation of HSF-I, we recorded a cumulative effect of a change in accounting principle of $13.3 million, net of tax, in the quarter ended September 30, 2003. This cumulative effect of a change in accounting principle primarily represented the deferral of service release premium income, offset to a lesser extent by the deferral of certain loan origination costs, which was recognized as loans were sold into the secondary market. The consolidation of HSF-I resulted in an increase in our residential mortgage loans held for sale with a corresponding increase in our debt of approximately $1.32 billion at March 31, 2004. In addition, interest income and interest expense of HSF-I subsequent to June 30, 2003 are reflected in our financial statements. As a result of the consolidation,

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interest expense reflected as cost of sales in the table above increased approximately $15 million. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from the issuance of securitized medium term notes, secured liquidity notes and subordinated certificates that are extendable for up to five years. CTX Mortgage Company, LLC and its related companies sold $13.11 billion of mortgage loans to investors during the year ended March 31, 2004. CTX Mortgage Company, LLC sold $10.55 billion of mortgage loans to HSF-I and other investors during the year ended March 31, 2003. CTX Mortgage Company, LLC and its related companies recognized gains on the sale of mortgage loans of $245.9 million and $192.4 million for the years ended March 31, 2004 and 2003, respectively.

In the normal course of its activities, CTX Mortgage Company, LLC carries inventories of loans pending sale to third-party investors and earns an interest margin. CTX Mortgage Company, LLC uses HSF-I and short-term mortgage warehouse facilities to finance these inventories of loans. The significant increase in interest margin is due to the consolidation of HSF-I interest income and expense in our financial statements subsequent to June 30, 2003.

The increase in revenues for the year ended March 31, 2004 is the result of an increase in the volume of loans originated and sold to the secondary market, and to a lesser extent, higher revenues from Title and Insurance operations. The table below provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2004. CTX Mortgage Company, LLC tracks loan applications until such time as the loan application is canceled. Application data presented below includes loans originated in the period and loans scheduled to close in the subsequent periods. Applications canceled were 20,590 and 18,070 for the fiscal years ended March 31, 2004 and 2003.

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Origination Volume	$ 15,116.0	8.0%	$ 13,991.2	12.4%
Number of Loans Originated				
Builder	20,865	15.1%	18,127	17.4%
Retail	67,481	1.0%	66,807	2.9%
	88,346	4.0%	84,934	5.7%
Number of Loan Applications				
Builder	24,031	19.5%	20,103	23.0%
Retail	65,514	(6.3%)	69,883	16.1%
	89,545	(0.5%)	89,986	17.6%
Average Loan Size	$ 171,100	3.9%	$ 164,700	6.4%
Profit Per Loan	$ 1,876	39.0%	$ 1,350	18.7%

The increase in loan originations is primarily reflective of an increase related to loans originated for Home Building s customers. CTX Mortgage Company, LLC originated 74% of the non-cash unit closings of Home Building s customers, an increase of 1% from the prior year. Per-loan profit increased due to increased operational leverage as a result of the increase in the volume of originations, as well as an increase in Title and Insurance earnings.

CTX Mortgage Company, LLC s operations are influenced by borrowers perceptions of and reactions to interest rates. Refinancing activity accounted for 39% and 42% of originations in 2004 and 2003, respectively.

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Sub-Prime Home Equity Lending

The following summarizes the results of our sub-prime home equity lending operations for the two-year period ended March 31, 2004 (dollars in millions):

	For the Years Ended March 31,			
	2004	% Change	2003	% Change
Revenues	$ 526.8	31.3%	$ 401.1	32.6%
Cost of Sales	(201.9)	13.7%	(177.5)	22.5%
Selling, General and Administrative Expenses:				
Operating Expenses	(180.9)	27.8%	(141.6)	22.9%
Loan Loss Provision	(79.5)	127.8%	(34.9)	100.6%
Operating Earnings	$ 64.5	36.9%	$ 47.1	87.6%
Interest Margin	$ 254.6	55.3%	$ 163.9	61.8%
Average Interest Earning Assets	$ 5,592.2	43.6%	$ 3,895.5	48.4%
Average Yield	8.16%	NM	8.76%	NM
Average Interest Bearing Liabilities	$ 5,822.6	43.8%	$ 4,049.2	52.6%
Average Rate Paid	3.47%	NM	4.38%	NM

In fiscal year 2004, Home Equity sold 2% of its mortgage loans originated to a government sponsored enterprise, which were accounted for as sales.

The revenues of Home Equity increased for the year ended March 31, 2004 as a result of continued growth in our portfolio of residential mortgage loans held for investment. Interest margin increased primarily as a result of an increase in the portfolio of mortgage loans held for investment and a decrease in interest rates on debt used to fund mortgage loans.

Average interest earning assets and liabilities increased primarily due to an increase in the volume of loan originations and an increase in average loan size (see table below). The fact that the average rate paid on interest bearing liabilities decreased significantly more than the decrease of the yield earned on interest earning assets, coupled with the increase in originations resulted in the increase in net interest margin.

The following summarizes Home Equity s portfolio of mortgage loans, based on the securitization structure, as of March 31, 2004 and 2003:

	For the Years Ended March 31,			
	2004	% Change	2003	% Change

Servicing Portfolio:				
Number of Loans				
Portfolio Accounting Method	76,215	24.8%	61,073	35.1%
Other	10,858	(18.5%)	13,329	(24.4%)
Total	87,073	17.0%	74,402	18.4%
Dollars in billions				
Portfolio Accounting Method	$ 6.50	40.1%	$ 4.64	42.8%
Other	0.64	(23.8%)	0.84	(25.0%)
Total	$ 7.14	30.3%	$ 5.48	25.4%

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The following table provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2004:

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Origination Volume	$ 3,920.7	56.4%	$ 2,506.2	19.8%
Number of Loans Originated	36,659	24.5%	29,448	9.2%
Number of Loan Applications	340,894	37.4%	248,150	43.9%
Average Loan Size	$ 106,900	25.6%	$ 85,100	9.7%

The increase in origination volume was due to an increase in the average loan size and an increase in the overall sales force, which resulted in an increase in the number of loan applications received.

The increase in Home Equity s operating earnings is primarily the result of the increase in interest margin, as noted above. Interest income will be positively affected as the portfolio of mortgage loans held for investment increases and matures. The increase in interest margin was partially offset by an increase in servicing and production costs, mostly attributable to loan volume and loan servicing growth, and an increase in the provision for losses on residential mortgage loans held for investment.

Home Equity s selling, general and administrative expenses increased as a result of Home Equity s growth. Home Equity s increase in loan production volume, the expansion of its branch offices and the increase in the number of its employees are directly related to a corresponding increase in salaries and related costs, rent expense, group insurance costs and advertising expenditures. The remainder of the increase was due to an increase in the provision for loan losses.

The increase in the provision for losses in fiscal 2004 occurred primarily because the amount of the residential mortgage loans held for investment increased and the residential mortgage loan portfolio continued to mature. As the age and size of the residential mortgage loan portfolio continues to mature and grow, we expect the provision for losses, the loans charged off and the allowance ratios to continue to increase. For a more detailed discussion of our accounting policy and methodology for establishing the provision for losses, see Critical Accounting Estimates Valuation of Residential Mortgage Loans Held for Investment of this Report. Changes in the allowance for losses is included in Note (C), Allowance for Losses on Residential Mortgage Loans Held for Investment, of the Notes to Consolidated Financial Statements of this Report.

CONSTRUCTION SERVICES

The following summarizes Construction Services results for the two-year period ended March 31, 2004 (dollars in millions):

	For the Years Ended March 31,	
	2004	2003

		% Change		% Change
Revenues	$ 1,596.3	5.2%	$ 1,517.9	17.1%
Operating Earnings	$ 16.4	(46.6%)	$ 30.7	(15.2%)
New Contracts Executed	$ 1,823.2	112.7%	$ 857.0	(41.1%)
Backlog of Uncompleted Contracts	$ 1,746.4	14.9%	$ 1,519.5	(30.3%)

Operating earnings for Construction Services decreased as a result of increased pricing pressure, which in turn has reduced Construction Services operating margins. In addition, in fiscal 2004, Construction Services

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recorded a project loss of $4.5 million related to the construction of a distribution facility and incurred approximately $2.7 million of costs associated with its decision to exit the pharmaceutical and industrial construction markets. The increases in new contracts executed and backlog of uncompleted contracts were the result of our strategy to increase market share by focusing on key geographic markets and certain industry markets.

Construction Services has also been awarded work that is pending execution of a signed contract. At March 31, 2004 and 2003, such work, which is not included in backlog, was approximately $2.03 billion and $1.94 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. In June 2003, we spun off tax-free substantially all of our investment in manufactured housing operations, which had previously been included in the Other segment. As a result of the spin-off, manufactured housing operations are reflected as a discontinued operation and not included in the segment information below.

As described in Item 1. Business, the Company acquired Holding and the Partnership in February 2004. Subsequent to the merger, the Company has consolidated the financial results of the Partnership. As a result, the Company has realigned its reporting for the Partnership, such that the Partnership s international homebuilding operations are included in the Home Building business segment. The Partnership s domestic operations continue to be reported within our investment real estate operations. The Company has determined that no significant capital will be allocated to our investment real estate operations for new business development. Beginning April 1, 2004, the financial results of our investment real estate operations are included in the Other business segment. Prior period amounts have been reclassified to conform to the current year presentation.

Other consisted of the following (dollars in millions):

	For the Years Ended March 31,			
	2004	% Change	2003	% Change
Operating Loss from Home Services Operations	$ (2.3)	(76.0%)	$ (9.6)	(340.0%)
Operating Earnings from Investment Real Estate Operations	44.8	31.8%	34.0	(5.0%)
Corporate General and Administrative Expense	(105.5)	75.0%	(60.3)	20.1%
Interest Expense	(39.9)	(33.8%)	(60.3)	2.9%
Other		(100.0%)	(0.6)	%
Operating Loss	$ (102.9)	6.3%	$ (96.8)	39.1%

The decrease in our home services division s operating loss in fiscal 2004 was primarily due to an $8.0 million provision recorded in the fourth quarter of fiscal 2003 to reduce the carrying value of its remaining home security monitoring assets to estimated fair value. Our home services operations sold substantially all of its remaining security monitoring assets in fiscal 2004. The sale of these operations did not have a material effect on home services operating loss in fiscal 2004.

The changes in operating earnings of our investment real estate operations were primarily related to the timing of property sales. Property sales contributed operating earnings of $30.8 million for the year ended March 31, 2004 and $18.3 million for the year ended March 31, 2003. The timing of sales is uncertain and can vary significantly from period to period.

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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 is primarily related to compensation increases reflective of additional personnel to support the growth in our operations and higher performance-related compensation levels due to the expensing of stock options and increases in our earnings and returns. In addition, in fiscal 2004, we recorded an incremental $16 million in employee compensation related to acceleration of certain executive compensation costs for the March 31, 2004 retirement of an executive officer.

Total interest costs, including interest expensed and relieved to Home Building s costs and expenses and excluding interest to Financial Services, for the years ended March 31, 2004 and 2003, were $129.0 million and $109.8 million, respectively. The increase in total interest costs is primarily related to an increase in average debt outstanding for the fiscal year 2004, as compared to the prior year. This increase is offset by slightly lower borrowing costs in the fiscal year 2004, as compared to the prior year. For additional discussion of interest costs, see Note (A), Significant Accounting Policies of the Notes to Consolidated Financial Statements of this Report.

Our effective tax rate related to continuing operations increased to 32% from 30% in the prior year primarily due to the decrease in the utilization of net operating loss carryforwards during fiscal 2004 compared to fiscal 2003.

DISCONTINUED OPERATIONS

In June 2003, we spun off tax-free to our stockholders substantially all of our manufactured housing operations, and in January 2004, we spun off tax-free to our stockholders our entire equity interest in Construction Products. As a result of the spin-offs, the earnings from these operations have been reclassified to discontinued operations in the Statements of Consolidated Earnings. All prior period information related to these discontinued operations has been reclassified to be consistent with the March 31, 2005 presentation.

For the years ended March 31, 2004 and 2003, discontinued operations had revenues of $461.9 million and $643.2 million and operating earnings of $49.9 million and $47.5 million, respectively. In connection with the tax-free distribution of our interests in Construction Products, we recognized, as a component of discontinued operations, a tax benefit of $33.5 million. The tax benefit is a result of the reversal of a deferred tax liability for the difference between the financial carrying amount of our investment in Construction Products and the respective tax basis, which was no longer required given the tax-free nature of the distribution. In connection with the spin-offs, we recorded a dividend to stockholders of $420.3 million representing our net investments in manufactured housing operations and Construction Products on the respective spin-off dates.

FINANCIAL CONDITION AND LIQUIDITY

The consolidating net cash used in or provided by the operating, investing and financing activities for the years ended March 31, 2005, 2004 and 2003 is summarized below (dollars in thousands). See Statements of Consolidated Cash Flows with Consolidating Details of this Report for the detail supporting this summary.

	For the Years Ended March 31,		
	2005	2004	2003
Net Cash (Used in) Provided by Centex*			
Operating Activities	**$ (596,198)**	$ (347,219)	$ (54,859)
Investing Activities	**39,375**	(33,361)	31,127
Financing Activities	**891,926**	99,381	281,645
Effect of Exchange Rate on Cash	**(5,385)**	692	
	329,718	(280,507)	257,913
Financial Services			
Operating Activities	**150,201**	1,090,135	(39,443)
Investing Activities	**(1,526,148)**	(1,931,321)	(1,412,615)
Financing Activities	**1,369,956**	844,373	1,440,015
	(5,991)	3,187	(12,043)
Centex Corporation and Subsidiaries			
Operating Activities	**(458,268)**	675,227	(3,579)
Investing Activities	**(1,523,502)**	(1,896,493)	(1,545,988)
Financing Activities	**2,310,882**	943,254	1,795,437
Effect of Exchange Rate on Cash	**(5,385)**	692	
Net Increase (Decrease) in Cash	**$ 323,727**	$ (277,320)	$ 245,870

** 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 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 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. 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.*

We generally fund our Centex operating and other short-term liquidity needs through cash provided by operations, borrowings from commercial paper 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 fiscal 2005, cash was primarily used in Centex s operating activities to finance increases in Home Building inventories relating to the increased level of sales and resulting units under construction during the year, 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.

We generally fund our Financial Services operating and other short-term liquidity needs through securitizations, committed credit facilities, proceeds from the sale of mortgage loans to investors and cash flows from operations. Financial Services operating cash is derived primarily through sales of mortgage loans, interest income on mortgage loans held for investment and origination and servicing fees. Effective July 1, 2003, Financial Services consolidated $2.48 billion of HSF-I s residential mortgage loans held for sale. The initial consolidation of HSF-I was not reflected in the Statements of Consolidated Cash Flows, as it was a non-cash transaction. As these mortgage loans were sold in the secondary market, an inflow of cash from operating activities occurred. During fiscal 2005, cash was primarily used in Financial Services investing activities to finance increases in residential mortgage loans held for investment. For additional discussion on the consolidation of HSF-I in June 2003, see Note (F), Indebtedness, of the Notes to Consolidated Financial

Statements of this Report. The funds provided by Financial Services financing activities were primarily from new debt used to fund the increased residential mortgage loan activity.

Our future cash requirements for contractual obligations as of March 31, 2005 (in thousands) are illustrated in the following table:

	Payments Due by Period				
	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years	Total
Centex					
Long-term Debt [(1)]	$ 517,754	$ 1,259,721	$ 460,233	$ 1,865,899	$ 4,103,607
Capital Leases	628	505	47		1,180
Operating Leases	41,285	74,534	58,563	51,225	225,607
Purchase Obligations	42,055	5,875	76		48,006
	601,722	1,340,635	518,919	1,917,124	4,378,400
Financial Services					
Long-term Debt [(2)]	2,945,787	3,577,024	924,595	342,188	7,789,594
Operating Leases	22,709	32,341	16,868	14,001	85,919
	2,968,496	3,609,365	941,463	356,189	7,875,513
	$ 3,570,218	$ 4,950,000	$ 1,460,382	$ 2,273,313	$ 12,253,913

(1) *The amount of debt subject to a variable interest rate is $459.4 million, of which $298.0 million was based on the U.S. 3 month Libor rate of 3.12% at March 31, 2005, $22.4 million was based on the U.S. 1 month Libor rate of 2.87% at March 31, 2005 and $139.0 million was based on the U.K. 3 month Libor rate of 4.98% at March 31, 2005.*

(2) *The amount of debt subject to a variable interest rate is $4.39 billion. The basis of the rate is U.S. 1 month Libor which was 2.87% at March 31, 2005.*

As outlined above, our primary contractual obligations are principal and interest payments under long-term debt agreements and lease payments under operating leases. Purchase obligations primarily represent specific performance agreements of our Home Building segment that in essence may require us to purchase the land contingent upon the land seller meeting certain obligations, joint funding obligations and open purchase orders. Financial Services long-term debt associated with Home Equity includes Asset-Backed Certificates related to securitized residential mortgage loans structured as collateralized borrowings. The principal and interest on these certificates are paid from the liquidation of the underlying residential mortgage loans, which serve as collateral for the debt. Accordingly, the timing of the principal payments on these certificates is dependent upon the payments received on the underlying residential mortgage loans. The contractual obligations of this component of long-term debt are based on contractual maturities adjusted for projected prepayments.

Our contractual obligations will be funded in the ordinary course of business through our operating cash flows and through our credit facilities. Centex Corporation currently has an investment-grade credit rating from each of the principal credit rating agencies. Our ability to finance our activities on favorable terms is dependent to a significant extent on whether we are able to maintain our investment-grade credit ratings. We attempt to manage our debt levels in order to maintain investment-grade ratings. If, however, our debt ratings were downgraded, we would not have access to the commercial paper markets and might need to draw on our existing committed backup facility, which exceeds the size of our commercial paper program.

Our existing credit facilities and available capacity as of March 31, 2005 are summarized below (dollars in thousands):

	Existing Credit Facilities	Available Capacity
Centex		
Centex Corporation		
Multi-Bank Revolving Credit Facility	$ 800,000	$ 800,000 *(1)*
Multi-Bank Revolving Letter of Credit Facility	300,000	71,391 *(2)*
	1,100,000	871,391 *(3)*
International Homebuilding		
Multi-Bank Revolving Credit Facility	319,430	180,384
Bonding Facility	14,093	14,093
	333,523	194,477 *(4)*
Financial Services		
Secured Credit Facilities	515,000	324,221 *(5)*
Harwood Street Funding I, LLC Facility	3,000,000	1,494,000
Harwood Street Funding II, LLC Facility	2,500,000	1,574,229
	6,015,000	3,392,450
	$ 7,448,523	$ 4,458,318 *(6)*

(1) This is an unsecured, committed, multi-bank revolving credit facility, maturing in July 2007, which serves as backup for commercial paper borrowings. As of March 31, 2005, there were no borrowings under this backup facility, and our $700 million commercial paper program had no amounts outstanding. We have not borrowed under this revolving credit facility since its inception.

(2) This is an unsecured, committed, multi-bank revolving letter of credit facility, maturing in July 2005. Letters of credit under this facility may expire no later than July 2006.

(3) In conjunction with the issuance of surety bonds in support of our Construction Services activity, Centex Corporation will 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.

(4) The international homebuilding operations maintain a £170 ($319) million unsecured, committed, multi-bank revolving credit facility, maturing in February 2008, and a £7.5 ($14) million unsecured, uncommitted bonding facility, each of which is guaranteed by Centex Corporation.

(5) CTX Mortgage Company, LLC and its related companies and Home Equity share in a $250 million secured, committed credit facility to finance mortgage inventory. CTX Mortgage Company, LLC and its related companies

also maintain $265 million of secured, committed mortgage warehouse facilities to finance mortgages. In April 2005, Home Equity completed a transaction which will permit it to securitize its mortgage servicer advances in an amount up to $100 million with a final maturity of May 2011. This facility has no recourse to Centex Corporation.

(6) The amount of available capacity consists of $4,444.2 million of committed capacity and $14.1 million of uncommitted capacity as of March 31, 2005. Although we believe that the uncommitted capacity is currently available, there can be no assurance that the lenders under these facilities would elect to make advances if and when requested to do so.

CTX Mortgage Company, LLC finances its inventory of mortgage loans held for sale principally through the sale of 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 March 31, 2005, HSF-I had outstanding (1) short-term secured liquidity notes rated A1+ by Standard & Poor s, or S&P, and P-1 by Moody s Investors Service, or Moody s, (2) term notes rated A1+ by S&P and P-1 by Moody s and (3)

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subordinated certificates maturing in September 2009, extendable for up to five years, rated BBB by S&P and Baa2 by Moody s. The purpose of this arrangement is to allow CTX Mortgage Company, LLC to reduce the cost of financing the mortgage loans originated by it and to improve its liquidity. Because HSF-I is a consolidated entity, the debt, interest income and interest expense of HSF-I are reflected in the financial statements of Financial Services.

Home Equity finances its inventory of mortgage loans held for investment principally through Harwood Street Funding II, or HSF-II, a wholly-owned, consolidated entity, under a revolving sales agreement that expires upon final payment of the senior and subordinated debt issued by HSF-II. This arrangement, where HSF-II has committed to finance all eligible loans, gives Home Equity daily access to HSF-II s capacity of $2.5 billion. HSF-II obtains funds by issuing (1) short-term secured liquidity notes, (2) medium-term debt and (3) subordinated notes. As of March 31, 2005, HSF-II had outstanding (1) short-term secured liquidity notes rated A1+ by S&P, P-1 by Moody s and F1+ by Fitch Ratings, or Fitch and (2) subordinated notes rated BBB by S&P, Baa2 by Moody s, and BBB by Fitch. Because HSF-II is a consolidated entity, the debt, interest income and interest expense of HSF-II are reflected in the financial statements of Financial Services.

Under our debt covenants, we are required to maintain certain leverage and interest coverage ratios and a minimum tangible net worth. At March 31, 2005, we were in compliance with all of these covenants.

As of March 31, 2005, our short-term debt was $2.48 billion, most of which 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) as of March 31, 2005 was as follows (due dates are presented in fiscal years):

Centex	
Short-term Debt:	
Short-term Note Payable	$ 7,870
Senior Debt:	
Medium-term Note Programs, weighted-average 4.59%, due through 2008	398,000
Senior Notes, weighted-average 6.32%, due through 2015	2,458,547
Other Indebtedness, weighted-average 5.53%, due through 2015	182,716
Subordinated Debt:	
Subordinated Debentures, 8.75%, due in 2007	99,838
Subordinated Debentures, 7.38%, due in 2006	99,992
	3,246,963
Financial Services	
Short-term Debt:	
Short-term Notes Payable	190,779
Harwood Street Funding I, LLC Term Notes	250,000
Harwood Street Funding I and II, LLC Secured Liquidity Notes	2,027,097
Home Equity Asset-Backed Certificates, weighted-average 3.63%, due through 2035	7,099,520
Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable Certificates, weighted-average 4.87%, due through 2010	60,000
Harwood Street Funding II, LLC Variable-Rate Subordinated Notes, weighted-average 5.02%, due through 2009	93,750

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