CENTEX CORP
Form 10-Q
November 05, 2008

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM __________ TO __________**

Commission File Number: 1-6776
CENTEX CORPORATION
(Exact name of registrant as specified in its charter)
Nevada
(State of incorporation)
75-0778259
(I.R.S. Employer Identification No.)
2728 N. Harwood, Dallas, Texas 75201
(Address of principal executive offices) (Zip Code)
(214) 981-5000
(Registrant s telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the close of business on October 27, 2008: 124,313,681 shares of common stock, par value $.25 per share.

Centex Corporation and Subsidiaries
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September 30, 2008

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

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

	For the Three Months Ended September 30,	
	2008	2007
Revenues		
Home Building	**$ 952,596**	$ 2,105,484
Financial Services	**52,409**	80,700
	1,005,005	2,186,184
Costs and Expenses		
Home Building	**1,057,333**	3,026,395
Financial Services	**96,567**	134,782
Other	**(304)**	(223)
Corporate General and Administrative	**53,435**	34,540
Interest Expense	**4,973**	
	1,212,004	3,195,494
Loss from Unconsolidated Entities	**(12,902)**	(36,840)
Interest and Other Income	**7,856**	22,957
Loss from Continuing Operations Before Income Taxes	**(212,045)**	(1,023,193)
Income Tax Benefit	**(10,425)**	(378,432)
Loss from Continuing Operations	**(201,620)**	(644,761)
Earnings from Discontinued Operations, net of Tax Provision of $18,313 and $572	**29,630**	928
Net Loss	**$ (171,990)**	$ (643,833)
Basic and Diluted Earnings (Loss) Per Share		
Continuing Operations	**$ (1.62)**	$ (5.27)
Discontinued Operations	**0.24**	0.01

	$ (1.38)	$ (5.26)
Average Shares Outstanding		
Basic and Diluted	**124,278,555**	122,301,587
Cash Dividends Per Share	**$ 0.04**	$ 0.04

See Notes to Consolidated Financial Statements.

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

	For the Six Months Ended September 30,	
	2008	2007
Revenues		
Home Building	**$ 2,002,295**	$ 3,909,304
Financial Services	**128,832**	178,666
	2,131,127	4,087,970
Costs and Expenses		
Home Building	**2,221,936**	4,981,941
Financial Services	**166,923**	217,779
Other	**(1,110)**	(223)
Corporate General and Administrative	**112,074**	79,521
Interest Expense	**11,153**	
	2,510,976	5,279,018
Loss from Unconsolidated Entities	**(33,199)**	(62,193)
Interest and Other Income	**18,256**	33,183
Loss from Continuing Operations Before Income Taxes	**(394,792)**	(1,220,058)
Income Tax Benefit	**(24,060)**	(443,216)
Loss from Continuing Operations	**(370,732)**	(776,842)
Earnings from Discontinued Operations, net of Tax Provision of $38,544 and $3,121	**48,643**	5,050
Net Loss	**$ (322,089)**	$ (771,792)
Basic and Diluted Earnings (Loss) Per Share		
Continuing Operations	**$ (2.98)**	$ (6.37)
Discontinued Operations	**0.39**	0.04
	$ (2.59)	$ (6.33)

Average Shares Outstanding				
Basic and Diluted		**124,255,085**		121,888,041
Cash Dividends Per Share	**$**	**0.08**	$	0.08

See Notes to Consolidated Financial Statements.

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Centex Corporation and Subsidiaries
Consolidated Balance Sheets with Consolidating Details
(Dollars in thousands, except per share data)
(unaudited)

	Centex Corporation and Subsidiaries	
	September 30, 2008	March 31, 2008
Assets		
Cash and Cash Equivalents	**$ 1,298,932**	$ 586,810
Restricted Cash	**49,557**	51,440
Receivables -		
Mortgage Loans, net	**419,332**	515,880
Trade and Other, including Notes of $21,701 and $17,388 From Affiliates	**303,080**	823,861
Inventories -		
Housing Projects	**3,887,442**	4,628,860
Land Held for Development and Sale	**624,118**	558,756
Land Held Under Option Agreements Not Owned	**148,395**	147,792
Other	**17,135**	27,023
Investments -		
Joint Ventures	**209,888**	206,822
Unconsolidated Subsidiaries		
Property and Equipment, net	**59,701**	77,931
Other Assets -		
Deferred Income Taxes, net	**64,662**	191,246
Goodwill	**48,034**	51,622
Deferred Charges and Other, net	**154,315**	172,300
Assets of Discontinued Operations		96,989
	$ 7,284,591	$ 8,137,332
Liabilities and Stockholders Equity		
Accounts Payable	**$ 133,177**	$ 259,170
Accrued Liabilities	**1,709,838**	1,805,519
Senior Notes and Other Debt	**3,103,567**	3,325,167
Financial Services Mortgage Warehouse Facilities	**300,326**	337,053
Liabilities of Discontinued Operations		34,001
Commitments and Contingencies		
Minority Interests	**64,292**	77,761
Stockholders Equity -		
Preferred Stock, Authorized 5,000,000 Shares, None Issued		
Common Stock, $.25 Par Value; Authorized 300,000,000 Shares; Outstanding 124,286,179 and 123,278,881 Shares	**31,940**	31,763
Capital in Excess of Par Value	**84,979**	95,088
Retained Earnings	**2,033,658**	2,365,634
Treasury Stock, at Cost; 3,473,756 and 3,774,643 Shares	**(177,186)**	(193,824)

Total Stockholders Equity	**1,973,391**	2,298,661
	$ 7,284,591	$ 8,137,332

See Notes to Consolidated Financial Statements.

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

Centex*		Financial Services	
September 30, 2008	March 31, 2008	**September 30, 2008**	March 31, 2008
$ 1,260,604	$ 562,766	**$ 38,328**	$ 24,044
27,410	28,562	**22,147**	22,878
		419,332	515,880
294,655	800,275	**8,425**	23,586
		40,856	(43,463)
3,887,442	4,628,860		
624,118	558,756		
148,395	147,792		
8,279	16,173	**8,856**	10,850
209,888	206,822		
187,708	292,647		
52,132	65,298	**7,569**	12,633
14,154	119,590	**50,508**	71,656
42,670	42,670	**5,364**	8,952
139,798	145,719	**14,517**	26,581
	96,989		
$ 6,897,253	$ 7,712,919	**$ 615,902**	$ 673,597
$ 129,003	$ 250,096	**$ 4,174**	$ 9,074
1,627,299	1,727,684	**82,539**	77,835
3,103,567	3,325,167		
		300,326	337,053
	34,001		
63,993	77,310	**299**	451
31,940	31,763	**1**	1
84,979	95,088	**527,467**	478,467
2,033,658	2,365,634	**(298,904)**	(229,284)
(177,186)	(193,824)		

	1,973,391		2,298,661		**228,564**		249,184
$	**6,897,252**	$	7,712,919	**$**	**615,902**	$	673,597

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

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

	Centex Corporation and Subsidiaries *For the Six Months Ended September 30,*	
	2008	2007
Cash Flows Operating Activities		
Net Loss	**$ (322,089)**	$ (771,792)
Adjustments		
Depreciation and Amortization	**20,359**	26,239
Stock-based Compensation	**14,266**	21,939
Provision for Losses on Mortgage Loans and Real Estate Owned	**5,599**	60,647
Impairments and Write-off of Assets	**151,052**	1,111,989
Deferred Income Tax Provision (Benefit)	**114,514**	(375,859)
Loss of Joint Ventures and Unconsolidated Subsidiaries	**33,199**	62,193
Distributions of Earnings of Joint Ventures and Unconsolidated Subsidiaries	**8,401**	1,669
Gain on Sale of Assets	**(84,745)**	(18,408)
Changes in Assets and Liabilities, Excluding Effect of Dispositions		
Decrease (Increase) in Restricted Cash	**1,883**	26,006
Decrease (Increase) in Trade Receivables, Notes and Other	**520,916**	(114,782)
Decrease in Mortgage Loans Held for Sale	**54,725**	653,352
Decrease in Receivables from Affiliates		
Decrease (Increase) in Housing Projects and Land Held for Development and Sale	**498,177**	(52,739)
Decrease in Other Inventories	**8,752**	8,975
Decrease in Accounts Payable and Accrued Liabilities	**(231,560)**	(341,686)
Decrease (Increase) in Other Assets, net	**18,221**	21,958
Other	**(564)**	(282)
	811,106	319,419
Cash Flows Investing Activities		
(Issuance of) Payments received on Notes Receivable	**(3,128)**	2,188
Decrease in Construction Loans	**32,823**	34,591
Investment in and Advances to Joint Ventures	**(50,667)**	(100,548)
Distributions of Capital from Joint Ventures	**5,414**	48,417
Distributions from (Investment in and Advances to) Unconsolidated Subsidiaries		
Purchases of Property and Equipment, net	**(1,951)**	(4,615)
Proceeds from Dispositions	**188,782**	10,813
Other		(3,563)
	171,273	(12,717)

Cash Flows Financing Activities		
Decrease in Restricted Cash		(577)
Decrease in Short-term Debt, net	**(40,777)**	(862,201)
Centex		
Issuance of Long-term Debt		107
Repayment of Long-term Debt	**(217,705)**	(245,776)
Proceeds from Stock Option Exercises	**624**	26,346
Excess Tax (Shortfall) Benefit from Stock-Based Awards	**(2,526)**	2,413
Purchases of Common Stock, net	**(14)**	(411)
(Dividends Paid) and Capital Contributions Received	**(9,887)**	(9,668)
	(270,285)	(1,089,767)
Net Increase (Decrease) in Cash and Cash Equivalents	**712,094**	(783,065)
Cash and Cash Equivalents at Beginning of Period *(1)*	**586,838**	882,754
Cash and Cash Equivalents at End of Period *(2)*	**$ 1,298,932**	$ 99,689

See Notes to Consolidated Financial Statements.

(1) Amount includes cash and cash equivalents of discontinued operations of $28 as of March 31, 2008 and $220 as of March 31, 2007.

(2) Amount includes cash and cash equivalents of discontinued operations of $0 as of September 30, 2008 and $20 as of September 30, 2007.

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

Centex *		Financial Services	
For the Six Months Ended September 30,		*For the Six Months Ended September 30,*	
2008	2007	**2008**	2007
$ (322,089)	$ (771,792)	**$ (5,920)**	$ (24,310)
17,909	23,101	**2,450**	3,138
14,266	21,939		
		5,599	60,647
151,052	1,111,989		
93,366	(357,289)	**21,148**	(18,570)
39,119	86,503		
72,101	16,669		
(39,379)	(18,408)	**(45,366)**	
1,152	28,121	**731**	(2,115)
506,713	(122,161)	**14,203**	7,379
		54,725	653,352
		(65,319)	(6,239)
498,177	(52,739)		
3,357	4,874	**5,395**	4,101
(228,998)	(320,087)	**(2,562)**	(21,599)
6,267	30,294	**11,954**	(8,336)
(412)	(104)	**(152)**	(178)
812,601	(319,090)	**(3,114)**	647,270
(3,128)	2,188		
		32,823	34,591
(50,667)	(100,548)		
5,414	48,417		
35,319	(196,761)		
(1,613)	(3,430)	**(338)**	(1,185)
133,442	10,813	**55,340**	
	(3,563)		
118,767	(242,884)	**87,825**	33,406
			(577)

	(4,050)		(249)		**(36,727)**		(861,952)
			107				
	(217,705)		(245,776)				
	624		26,346				
	(2,526)		2,413				
	(14)		(411)				
	(9,887)		(9,668)		**(33,700)**		188,000
	(233,558)		(227,238)		**(70,427)**		(674,529)
	697,810		(789,212)		**14,284**		6,147
	562,794		870,688		**24,044**		12,066
$	**1,260,604**	$	81,476	**$**	**38,328**	$	18,213

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

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Centex Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2008
(Unless otherwise indicated, dollars and shares in thousands, except per share data)
(unaudited)

(A) SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

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

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

Interest Expense

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

	For the Three Months Ended September 30,		*For the Six Months Ended September 30,*	
	2008	2007	**2008**	2007
Total Interest Incurred	**$ 52,838**	$ 76,086	**$ 114,590**	$ 158,437
Less Interest Capitalized	**(44,322)**	(59,507)	**(95,591)**	(121,370)
Financial Services Interest Expense	**(3,543)**	(16,579)	**(7,846)**	(37,067)
Interest Expense, net	**$ 4,973**	$	**$ 11,153**	$
Capitalized Interest Charged to Home Building s Costs and Expenses	**$ 27,232**	$ 96,698	**$ 52,767**	$ 139,764

Income Taxes

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

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

In accordance with the provisions of FIN 48, the Company recognizes in its financial statements the impact of a tax position if a tax return s position or future tax position is more likely than not to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). Tax positions that meet the more likely than not threshold are measured (using a probability weighted approach) at the largest amount of tax benefit that has a greater than fifty percent likelihood of being realized upon settlement.

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

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the financial statements as a component of the income tax provision. The Company s liability for accrued interest and penalties, net of unrecognized tax benefits, is reflected as a component of accrued liabilities.

Stock-Based Employee Compensation Arrangements

The Company accounts for its stock-based compensation arrangements in accordance with the provisions of SFAS No. 123(R), Share-Based Payment (SFAS 123R). The following information represents the Company s grants of stock-based compensation to employees and directors during the six months ended September 30, 2008 and the year ended March 31, 2008:

Period of Grant	Grant Type	Number of Shares Granted	Fair Value of Grant
For the year ended March 31, 2008	Stock Options	646.6	$10,116.9
	Stock Units	283.3	$11,901.2
	Restricted Stock	160.1	$ 5,035.0
For the six months ended September 30, 2008	**Stock Options**	**1,827.0**	**$14,072.9**
	Stock Units	**375.2**	**$ 8,265.7**
	Restricted Stock	**663.0**	**$ 9,699.8**

The Company recognizes compensation expense of a stock-based award over the vesting period based on the fair value of the award on the grant date, net of forfeitures. The fair value of stock units and restricted stock are based on the fair market value of the Company s stock on the date of grant, while the fair value of stock options granted is calculated under the Black-Scholes option-pricing model.

In addition to the stock-based awards in the above table, the Company issued to officers and employees during the first quarter of fiscal years 2009 and 2008 long-term performance awards that vest after three years. These awards will be settled in cash and adjusted based on the Company s performance relative to its peers in total shareholder return (fiscal year 2009 awards) and in earnings per share growth and return on equity (fiscal year 2008 awards), as well as changes in the Company s stock price between the date of grant and the end of the performance period. Those awards granted during the first quarter of fiscal year 2009 had an initial aggregate value of $28.3 million and were adjusted to an aggregate value of $17.9 million as of September 30, 2008. Those awards granted during the first quarter of fiscal year 2008 were adjusted to an aggregate value of $5.2 million as of September 30, 2008. In accordance with the provisions of SFAS 123(R), these awards are accounted for as liability awards for which compensation expense will be recognized over the vesting period with a corresponding increase in accrued liabilities.

Statements of Consolidated Cash Flows Supplemental Disclosures

In accordance with the provisions of SFAS No. 95, Statement of Cash Flows, the Statements of Consolidated Cash Flows have not been restated for discontinued operations. For further information on the sale of Westwood Insurance Agency, the Company s home services operations and the Company s construction services operations (Construction Services), see Note (L), Discontinued Operations. Accordingly, all amounts reported in discontinued operations are included with the Company s cash flows.

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

	For the Three Months Ended September 30,		*For the Six Months Ended September 30,*	
	2008	2007	**2008**	2007
Cash Paid for Interest [(1)]	**$ 47,640**	$ 75,126	**$ 106,933**	$ 153,995
Net Cash Paid (Refund) for Taxes	**$ (726)**	$ 31,760	**$ (625,831)**	$ 209,205

(1) Amounts include capitalized interest.

As explained in Note (D), Inventories, pursuant to the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as revised (FIN 46), as of September 30, 2008 and March 31, 2008, the Company consolidated $66.1 million and $75.3 million, respectively, of land as inventory under the caption land held under option agreements not owned. The Company also recorded $46.6 million and $38.1 million as of September 30, 2008 and March 31, 2008, respectively, of lot option agreements for which the Company s deposits exceeded certain thresholds.

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In addition to the items noted above, the Company s adoption of FIN 48, effective April 1, 2007, was treated as a non-cash item in the Statements of Consolidated Cash Flows. The adoption of FIN 48 resulted in a $116.0 million increase to deferred income taxes, a $329.2 million increase in accrued liabilities and a $213.2 million reduction in stockholders equity in the first quarter of fiscal year 2008. Transfers of mortgage loans between categories have been treated as non-cash items.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), that serves to define fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Company adopted SFAS 157 effective April 1, 2008. For additional information, refer to Note (H), Fair Values of Financial Instruments. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2 which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of items to which this FSP applies include, but are not limited to, reporting units measured at fair value in the first step of a goodwill impairment test and long-lived assets (asset groups) measured at fair value for an impairment assessment (i.e., inventory impairment assessments). This FSP defers the effective date for nonfinancial assets and nonfinancial liabilities of SFAS 157 for the Company to April 1, 2009. The Company is currently evaluating the impact, if any, of SFAS 157 related to nonfinancial assets and nonfinancial liabilities on the Company s results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). Under the provisions of SFAS 159, companies may elect to measure specified financial instruments, warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings. The election, called the fair value option, enables companies to reduce the volatility in reported earnings caused by measuring related assets and liabilities differently, and it is simpler than using the complex hedge-accounting requirements in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) to achieve similar results. The Company adopted SFAS 159 effective April 1, 2008. For additional information, refer to Note (H), Fair Values of Financial Instruments.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51 (SFAS 160). Under the provisions of SFAS 160, a noncontrolling interest in a subsidiary, or minority interest, must be classified as equity and the amount of consolidated net income specifically attributable to the minority interest must be clearly identified in the statement of consolidated operations. SFAS 160 also requires consistency in the manner of reporting changes in the parent s ownership interest and requires fair value measurement of any noncontrolling interest retained in a deconsolidation. SFAS 160 will be effective for the Company as of April 1, 2009. The Company does not expect the adoption of SFAS 160 to have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment to FASB Statement No. 133 (SFAS 161). SFAS 161 requires disclosures about why the Company utilizes derivative instruments and how it accounts for them as well as how the instruments and the related hedged items affect the Company s financial position, results of operations, and cash flows. SFAS 161 applies to all derivative instruments and hedged items accounted for under SFAS 133 and will be effective for the Company on January 1, 2009. The Company does not expect the adoption of SFAS 161 to have a material impact on its financial statements.

Reclassifications

Certain prior year balances have been reclassified to be consistent with the September 30, 2008 presentation, including reclassifications of discontinued operations.

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(B) STOCKHOLDERS EQUITY

A summary of changes in stockholders equity is presented below:

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock, at Cost	Total
Balance, March 31, 2008	123,279	$ 31,763	$ 95,088	$ 2,365,634	$ (193,824)	$ 2,298,661
Issuance of Restricted Stock and Stock Units	965	166	(22,462)		16,652	(5,644)
Stock Compensation			14,266			14,266
Exercise of Stock Options	37	9	531			540
Tax Shortfall from Stock-Based Awards			(2,526)			(2,526)
Cash Dividends				(9,887)		(9,887)
Purchase of Common Stock for Treasury					(14)	(14)
Other Stock Transactions	5	2	82			84
Net Loss				(322,089)		(322,089)
Balance, September 30, 2008	**124,286**	**$ 31,940**	**$ 84,979**	**$ 2,033,658**	**$ (177,186)**	**$ 1,973,391**

(C) MORTGAGE LOANS RECEIVABLE AND REAL ESTATE OWNED

Mortgage loans receivable consist of mortgage loans held for sale and other mortgage loans, net of their related allowances. Mortgage loans held for sale represent mortgage loans originated by Financial Services, which will be sold to third parties. Other mortgage loans include performing and nonperforming construction loans and other nonperforming mortgage loans. Real estate owned is foreclosed property that once served as the underlying collateral for a mortgage loan receivable. Real estate owned is reflected as a component of other inventory in the Consolidated Balance Sheets. Mortgage loans receivable and real estate owned consist of the following:

	As of					
	September 30, 2008			March 31, 2008		
	Gross	**Allowance**	**Net**	Gross	Allowance	Net
Mortgage Loans Held for Sale	**$ 330,299**	**$ (491)**	**$ 329,808**	$ 388,385	$ (4,092)	$ 384,293
Other Mortgage Loans	**210,630**	**(121,106)**	**89,524**	283,191	(151,604)	131,587
Mortgage Loans Receivable	**$ 540,929**	**$ (121,597)**	**$ 419,332**	$ 671,576	$ (155,696)	$ 515,880
Real Estate Owned	**$ 24,436**	**$ (15,580)**	**$ 8,856**	$ 23,635	$ (12,785)	$ 10,850

Changes in the allowance for losses on mortgage loans receivable and real estate owned for the six months ended September 30, 2008 and the year ended March 31, 2008 were as follows:

	September 30, 2008	March 31, 2008 (1)
Balance at Beginning of Period	**$ 168,481**	$ 17,576
Provision for Losses	**5,599**	176,109
Charge-offs/Recoveries	**(36,903)**	(25,204)
Balance at End of Period	**$ 137,177**	$ 168,481

(1) For the six months ended September 30, 2007, provision for losses and charge-offs/recoveries were $60,647 and $(4,798), respectively.

As of September 30, 2008, Financial Services is committed, under existing construction loan agreements, to fund an additional $8.8 million. During the year ended March 31, 2008, Financial Services ceased originating new construction loans; however, it intends to fulfill its existing funding commitments.

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The Company has established a liability for anticipated losses associated with mortgage loans originated and sold. Please refer to Note (G), Commitments and Contingencies, for information on this reserve at September 30, 2008 and March 31, 2008.

(D) INVENTORIES

Housing Projects

A summary of housing projects is provided below:

	As of	
	September 30, 2008	March 31, 2008
Direct Construction	**$ 1,480,967**	$ 1,746,016
Land Under Development	**2,406,475**	2,882,844
Housing Projects	**$ 3,887,442**	$ 4,628,860

For the three and six months ended September 30, 2008, the Company recorded $76.9 million and $127.0 million, respectively, in land-related impairments. For the three and six months ended September 30, 2007, the Company recorded $846.9 million and $989.5 million, respectively, in land-related impairments.

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

The Company enters into land option purchase agreements. Under the option agreements, the Company pays a stated deposit or issues a letter of credit in consideration for the right to purchase land at a future time, usually at predetermined prices. These options generally do not contain performance requirements from the Company nor obligate the Company to purchase the land, and expire on various dates. At September 30, 2008, the Company had 78 land option agreements.

In accordance with the provisions of FIN 46, the Company is the primary beneficiary of certain option agreements to purchase land, for which the remaining purchase price of land was $66.1 million and $75.3 million as of September 30, 2008 and March 31, 2008, respectively. Land consolidated under FIN 46 is recorded under the caption land held under option agreements not owned, with a corresponding increase to minority interests. At September 30, 2008, 11 land option agreements were consolidated pursuant to FIN 46.

In addition to land options recorded pursuant to FIN 46, the Company determined that eight land option agreements represent financing arrangements pursuant to the provisions of SFAS 49, Product Financing Arrangements (SFAS 49). As a result, the Company recorded $46.6 million and $38.1 million as of September 30, 2008 and March 31, 2008, respectively, of land, which represents the remaining purchase price of the land. Land consolidated pursuant to SFAS 49 is recorded under the caption land held under option agreements not owned, with a corresponding increase to accrued liabilities.

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

	As of	
	September 30, 2008	March 31, 2008
Cash Deposits included in:		
Land Held for Development and Sale	**$ 10,456**	$ 20,711
Land Held Under Option Agreements Not Owned	**29,788**	33,230

Total Cash Deposits in Inventory	**40,244**		53,941
Letters of Credit	**1,006**		943
Total Invested through Deposits or Secured with Letters of Credit	**$ 41,250**	$	54,884
Total Purchase Price of Land Option Agreements	**$ 687,567**	$	1,131,976

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In addition to deposits, the Company capitalizes pre-acquisition development costs related to land held under option agreements. As of September 30, 2008 and March 31, 2008, pre-acquisition development costs classified as land held under option agreements not owned were $5.9 million and $1.1 million, respectively, and classified as land held for development and sale were $6.1 million and $10.8 million, respectively. Included in land held for development and sale is owned land that is not currently anticipated to be developed for more than two years and land that the Company plans to sell in its current condition within one year, which amounted to $607.6 million and $527.2 million as of September 30, 2008 and March 31, 2008, respectively.

The Company writes off deposits and pre-acquisition costs when it determines that it is probable the property will not be acquired. Write-offs of land deposits and pre-acquisition costs amounted to $13.9 million and $24.0 million for the three and six months ended September 30, 2008, respectively, and $38.3 million and $61.2 million for the three and six months ended September 30, 2007, respectively.

(E) GOODWILL

A summary of goodwill by segment is presented below:

	As of March 31, 2008	Goodwill Disposed	**As of September 30, 2008**
Home Building			
East	$ 30,594	$	**$ 30,594**
Central	9,671		**9,671**
West	2,405		**2,405**
Other homebuilding			**-**
Total Home Building	42,670		**42,670**
Financial Services	8,952	(3,588)[(1)]	**5,364**
Total	$ 51,622	$ (3,588)	**$ 48,034**

(1) Represents disposal of goodwill related to the sale of Westwood Insurance Agency.

(F) INDEBTEDNESS

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

	As of **September 30, 2008**	March 31, 2008
Centex:		
Senior Notes (unsecured):		
Senior Notes due August 2008 at 4.875%	**$**	$ 150,000
Senior Notes due September 2009 at 5.8%	**210,920**	225,000

Senior Notes due November 2010 at 4.55%	**300,000**	300,000
Senior Notes due February 2011 at 7.875%	**392,493**	399,992
Senior Notes due January 2012 at 7.5%	**324,276**	349,198
Senior Notes due August 2012 at 5.45%	**295,000**	315,000
Senior Notes due October 2013 at 5.125%	**300,000**	300,000
Senior Notes due May 2014 at 5.7%	**350,000**	350,000
Senior Notes due June 2015 at 5.25%	**450,000**	450,000
Senior Notes due May 2016 at 6.5%	**480,000**	480,000
Land Acquisition Notes and Other due through May 2017 *(1)*	**878**	5,977
Total Senior Notes and Other	**3,103,567**	3,325,167
Financial Services (secured):		
Mortgage Warehouse Facilities *(2)*	**300,326**	337,053
Total Debt	**$ 3,403,893**	$ 3,662,220

(1) Weighted average interest rates of 10.00% and 6.45% at September 30, 2008 and March 31, 2008, respectively.

(2) Weighted average interest rates of 5.13% and 3.63% at September 30, 2008 and March 31, 2008, respectively.

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The weighted-average interest rates for the Company s debt during the six months ended September 30, 2008 and 2007 were:

	For the Six Months Ended September 30,	
	2008	2007
Centex:		
Senior Notes	**5.99%**	5.88%
Land Acquisition Notes and Other	**9.04%**	6.71%
Medium-term Note Programs		5.68%
Financial Services:		
Mortgage Warehouse Facilities	**5.01%**	5.92%
Harwood Street Funding I, LLC Variable-Rate Subordinated Extendable Certificates		7.47%

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

	For the Fiscal Years Ending March 31,
2009	$ 46
2010	211,021
2011	692,605
2012	324,400
2013	295,136
Thereafter	1,580,359
	$ 3,103,567

The Company is required to maintain compliance with certain financial covenants in the Company s multi-bank revolving credit facility. Material covenants include a maximum leverage ratio, a minimum tangible net worth and a borrowing base limitation on the availability of borrowings. The Company s credit facility also includes an interest coverage ratio. This ratio is a determinant of the maximum leverage ratio covenant and certain of the credit facility s pricing provisions. In addition, Financial Services committed mortgage warehouse credit facilities contain various affirmative and negative covenants that are generally customary for facilities of this type. At September 30, 2008, the Company was in compliance with its financial covenants.

Credit Facilities

The Company s existing credit facilities and available borrowing capacity as of September 30, 2008 are summarized below:

	Existing Credit Facilities	Available Capacity
Centex		
Multi-Bank Revolving Credit Facility		
Revolving Credit	$ 750,000	$ 644,980

Letters of Credit		600,000	234,885
		1,350,000	879,865
Financial Services			
Secured Credit Facilities		475,000	174,674
	$	1,825,000	$ 1,054,539

The Company maintains a $1.35 billion committed, unsecured, multi-bank revolving credit facility, maturing in July 2010, that provides funding for general corporate purposes and letters of credit up to a sub limit of $600 million. The revolving credit facility includes a borrowing base limitation when the Company does not have an investment grade senior unsecured debt rating from at least two of the following rating agencies: Standard & Poor s (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch). The Company currently does not have investment grade ratings and is therefore subject to the borrowing base limitation. The Company s long-term debt ratings are currently BB, Ba3 and BB+ from S&P, Moody s and Fitch, respectively. Given the uncertainty of current market conditions, the Company anticipates operating under the borrowing base limitation for the foreseeable future. Under the borrowing base limitation, the sum of the net senior debt (as defined in the credit agreement), any amounts drawn on the revolving credit facility and outstanding financial letters of credit may not exceed an amount calculated based on applying certain percentages to various categories of unencumbered homebuilding inventory and other assets. The Company had no amounts drawn on the revolving credit facility at September 30, 2008 or at any time during the six months then ended. As of September 30, 2008, the Company had $365.1 million of outstanding letters of credit under its facility, including $154.9 million of financial letters of credit. Financial letters of credit are generally issued as a form of financial or payment guaranty. Available capacity amounts for the revolving credit facility shown above reflect the borrowing base limitation, but they are also further subject to certain limitations by features in the Company s credit facility commonly referred to as anti-cash hoarding provisions.

Funding of Mortgage Loans

CTX Mortgage Company, LLC historically funded its origination of mortgage loans through the sale of such mortgage loans to Harwood Street Funding I, LLC (HSF-I) and, to a lesser extent, through borrowings under more traditional committed mortgage warehouse credit facilities and mortgage loan sale agreements. As a result of the significant disruptions in the mortgage and asset-backed commercial paper markets, beginning in the second quarter of fiscal year 2008, HSF-I was unable to finance the purchase of mortgage loans from CTX Mortgage Company, LLC. In November 2007, HSF-I and the related swap arrangements were terminated and all outstanding obligations were redeemed.

CTX Mortgage Company, LLC is currently funding its mortgage originations primarily through borrowings under two committed mortgage warehouse credit facilities with commitments of $325 million and $150 million at September 30, 2008. Borrowings under the warehouse facilities constitute short-term debt of Financial Services. The warehouse facilities generally allow CTX Mortgage Company, LLC to sell to the banks, on a revolving basis, mortgage loans up to an aggregate specified amount. Simultaneously, the banks have entered into an agreement to transfer such mortgage loans back to CTX Mortgage Company, LLC on a specified date or on the Company s demand for subsequent sale by CTX Mortgage Company, LLC to third parties. Mortgage loans eligible for sale by CTX Mortgage Company, LLC under the warehouse facilities are conforming loans, FHA/VA eligible loans, and jumbo loans meeting conforming underwriting guidelines except as to the size of the loan. Under the $325 million committed mortgage warehouse credit facility, the bank had the right to convert the facility to an amortizing loan based on the ultimate sale of the underlying collateral and not to purchase any additional mortgage loans under the warehouse facility if the Company s long-term unsecured debt ratings fell below BB by S&P and Fitch or below Ba2 by Moody s.

On October 8, 2008, Moody s lowered the Company s debt rating from Ba2 to Ba3 which triggered the debt ratings provision in the $325 million committed bank warehouse credit facility discussed above. On October 30, 2008, CTX Mortgage Company, LLC executed an amendment to the bank warehouse credit facility that lowered (at the Company s request) the commitment amount, established a new debt ratings trigger and extended the maturity date of the facility to October 2009. See Note (M), Subsequent Events, for further discussion.

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

CTX Mortgage Company, LLC and its related companies sold $1.07 billion and $2.72 billion of mortgage loans to investors during the three months ended September 30, 2008 and 2007, respectively, and $2.68 billion and $5.08 billion during the six months ended September 30, 2008 and 2007, respectively. CTX Mortgage Company, LLC and its related companies recognized gains on sales of mortgage loans and related derivative activity of $16.5 million and $30.7 million during the three months ended September 30, 2008 and 2007, respectively, and $46.8 million and $69.4 million during the six months ended September 30, 2008 and 2007, respectively.

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(G) COMMITMENTS AND CONTINGENCIES

Joint Ventures

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

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

	As of September 30, 2008			As of March 31, 2008		
	Number of JVs (1)	Investments	Centex's Share of Debt (2)	Number of JVs (1)	Investments	Centex's Share of Debt (2)
Unleveraged Joint Ventures	**26**	**$ 164,472**	**$**	29	$ 70,043	$
Joint Ventures with Debt:	**11**			13		
Limited Maintenance Guarantee (3) (4)					43,311	27,500
Repayment Guarantee (5)		**(253)**	**14,297**		3,154	13,692
Completion Guarantee (4)		**45,669**	**127,381**		78,274	133,935
No Recourse or Guarantee			**24,000**		12,040	24,000
	37	**$ 209,888**	**$ 165,678**	42	$ 206,822	$ 199,127

(1) The number of joint ventures includes unconsolidated Home Building joint ventures for which the Company has an investment balance as of the end of the period and/or current fiscal year activity. The Company was the managing member of 22 and 23 of the active joint ventures as of September 30, 2008 and

March 31, 2008, respectively. The number of joint ventures includes 12 and 17 joint ventures as of September 30, 2008 and March 31, 2008, respectively, for which substantially all of the joint ventures activities are complete.

(2) *Centex s share of debt represents the Company s maximum exposure related to the joint ventures debt at each respective date.*

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

(4) *Certain joint venture agreements require the Company to*

guarantee the completion of a project or phase if the joint venture does not perform the required land development. A portion of these completion guarantees are joint and several with the Company s partners.

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

Total joint venture debt outstanding as of September 30, 2008 and March 31, 2008 was $349.2 million and $423.2 million, respectively. Debt agreements for joint ventures vary by lender in terms of structure and level of recourse. For certain of the joint ventures, the Company is also liable on a contingent basis, through other guarantees, letters of credit or other arrangements, with respect to a portion of the construction debt. Additionally, the Company has agreed to indemnify the construction lender for certain environmental liabilities in the case of most joint ventures, and most guarantee arrangements provide that the Company is liable for its proportionate share of the outstanding debt if the joint venture files for voluntary bankruptcy. To date, the Company has not been requested to perform under the environmental liabilities or voluntary bankruptcy guarantees for any of its joint ventures.

Five of the Company s joint ventures are in default of their joint venture debt agreements as of September 30, 2008. In addition, the Company expects three other joint ventures to be in default of their joint venture debt agreements subsequent to September 30, 2008. The Company s share of the total debt of these joint ventures that are either in default, or expected to be in default, is $143.4 million and is included in the table above. The Company is in discussions with the joint venture partners and lenders with respect to each joint venture. For all of the Company s joint ventures, recourse under debt agreements is limited to the Company s share of the debt, the underlying collateral or completion obligations of the joint venture partners.

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A summary of the estimated maturities of the Company s share of joint ventures debt is provided below. The Company has estimated the debt maturities with the assumption that all payments are first applied to pay down the outstanding debt balances as of September 30, 2008. The Company s share of joint ventures debt for which the joint ventures are in default is included in fiscal year ending 2009 in the table below.

		For the Fiscal Years Ending March 31,
2009	$	151,850
2010		4,410
2011		8,663
2012		755
	$	165,678

Letters of Credit and Surety Bonds

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

A summary of the Company s outstanding letters of credit and surety bonds as of September 30, 2008 and March 31, 2008 is presented below (dollars in millions):

	As of September 30, 2008		*As of March 31, 2008*	
	Letters of Credit	Surety Bonds	Letters of Credit	Surety Bonds
Home Building	**$ 131.9**	**$ 1,167.8** *(1)*	$ 168.6	$ 1,527.9
Financial Services	**30.9**	**10.1**	35.7	12.3
Other	**168.5**	**0.2**	167.0	0.2
Discontinued Operations (2)	**34.7**	**2,204.1**	35.3	3,093.9
	$ 366.0	**$ 3,382.2**	$ 406.6	$ 4,634.3

(1) The Company estimates that $423.6 million of work remains to be performed on these projects as of September 30, 2008.

(2) *After the sale of Construction Services, the Company remains responsible to a surety for certain surety bond obligations relating to Construction Services projects commenced prior to March 30, 2007. These surety bonds have a total face amount of $2.20 billion at September 30, 2008, although the risk of liability with respect to these surety bonds declines as the relevant construction projects are performed. At September 30, 2008, the Company estimates that $352.2 million of work remains to be performed on these projects. In connection with certain of these surety bond obligations, the Company has provided a $100 million letter of credit*

to such surety which is included in Other above. The purchaser of Construction Services has agreed to indemnify the Company against losses relating to such surety bond obligations, including amounts drawn under any such letter of credit. The Company has purchased for its benefit an additional back-up indemnity provided by a financial institution with an A (S&P) and A2 (Moody s) credit rating. The obligation of such financial institution under the back-up indemnity is $400.0 million as of September 30, 2008 and will remain at $400.0 million until termination in 2016.

Community Development and Other Special District Obligations

A Community Development District or similar development authority (CDD) is a unit of local government created under various state statutes that utilizes bond financing to finance the construction or acquisition of infrastructure assets of a development. A portion of the liability associated with the bonds including principal and interest is assigned to each parcel of land within the development. This debt is typically paid by subsequent special assessments levied by the CDD on the landowners. In accordance with EITF 91-10, Accounting for Special Assessments and Tax Increment Financing, the Company records a liability for future assessments, which are fixed or determinable for a fixed or determinable period. In addition and in accordance with SFAS No. 5, Accounting for Contingencies, the Company evaluates whether it is contingently liable for any of the debt related to the bond issuance. This is typically the case where bonds issued by the CDD have maturity dates of ten years or less that will be paid by the Company as the developer and current landowner and not by future homeowners. At September 30, 2008 and March 31, 2008, the Company had recorded $331.8 million and $351.9 million, respectively, in accrued liabilities for outstanding CDD obligations.

Warranties and Guarantees

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

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

Changes in Home Building s contractual warranty liability are as follows for the six months ended September 30, 2008 and the year ended March 31, 2008:

	September 30, 2008	March 31, 2008 *(1)*
Balance at Beginning of Period	**$ 29,155**	$ 44,293
Warranties Issued	**8,065**	27,858
Settlements Made	**(9,244)**	(40,915)
Changes in Liability of Pre-Existing Warranties, Including Expirations	**(7,826)**	(2,081)
Balance at End of Period	**$ 20,150**	$ 29,155

(1) For the six months ended September 30, 2007, warranties issued, settlements made and changes in liability of pre-existing warranties were $19,067, $(25,279) and $(689), respectively.

Financial Services has established a liability for anticipated losses associated with mortgage loans originated and sold. Changes in Financial Services liability are as follows for the six months ended September 30, 2008 and the year ended March 31, 2008:

		September 30, 2008		March 31, 2008 (1)
Balance at Beginning of Period	$	**13,903**	$	16,863
Provision for Losses		**531**		1,676
Settlements		**(4,873)**		(9,251)
Changes in Pre-Existing Reserves		**15,736**		4,615
Balance at End of Period	$	**25,297**	$	13,903

(1) For the six months ended September 30, 2007, provisions for losses, settlements and changes in pre-existing reserves were $908, $(5,890) and $1,800, respectively.

Insurance Accruals

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

Although the Company considers the insurance accruals reflected in its Consolidated Balance Sheets to be adequate, there can be no assurance that this accrual will prove to be sufficient over time to cover ultimate losses. Expenses associated with insurance claims up to the Company s deductible limits for the six months ended September 30, 2008 were $14.9 million and $47.0 million for fiscal year 2008. As of September 30, 2008 and March 31, 2008, accrued insurance included in accrued liabilities in the accompanying Consolidated Balance Sheets was $235.4 million and $221.0 million, respectively, and consisted primarily of general liability retentions associated with construction defects.

Forward Trade and Interest Rate Lock Commitments

Forward trade commitments represent contracts with investors for delayed delivery of mortgage loans for which the Company agrees to make delivery at a specified future date at a specified price. The Company utilizes such delayed delivery contracts to hedge market risk based upon the number of commitments issued to borrowers that are expected to close. At September 30, 2008, the Company had $244.1 million of commitments to deliver mortgages to investors against interest rate lock commitments. These forward trade commitments are recorded on the balance sheet in other assets or accrued liabilities. In addition, at September 30, 2008, the Company had commitments to deliver approximately $326.7 million of mortgage loan inventory to investors. These forward trade commitments are recorded on the balance sheet together with the related mortgage loan receivables.

Interest rate lock commitments (IRLCs) represent individual borrower agreements that commit the Company to lend at a specified price for a specified period as long as there is no violation of any condition established in the commitment contract. IRLCs are recorded on the balance sheet in other assets or accrued liabilities. At September 30, 2008, the Company had loan commitments to prospective borrowers of $225.4 million.

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

Litigation and Related Matters

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

Beginning in January 2003, the United States Department of Justice (the Justice Department), acting on behalf of the United States Environmental Protection Agency (EPA), has asserted that certain of Home Building s neighborhoods violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Although Home Building disputes the Justice Department s assertions, to settle the matter, in May 2008, Home Building signed a consent decree with the EPA and various states with respect to the Company s prior and future storm water pollution prevention practices at all of Home Building s sites. The Justice Department filed suit on June 11, 2008, in the United States District Court for the Eastern District of Virginia (Alexandria Division) in accordance with the accepted practice in matters of this nature, at which time it submitted the proposed consent decree for approval by the Court. The Court entered the consent decree on July 30, 2008. Under the consent decree, Home Building paid a civil penalty of $1.5 million, and agreed to implement certain management, record keeping and reporting practices related to controlling storm water discharges at all of Home Building s sites.

(H) FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company adopted SFAS 157 on April 1, 2008 for its financial instruments measured at fair value. SFAS 157 establishes a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy can be summarized as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly through corroboration with market data.

Level 3 Unobservable inputs that reflect the Company s own estimates about the assumptions market participants would use in pricing the asset or liability.

Mortgage loans held for sale and forward trade commitments are valued based upon quoted market prices for similar instruments. The servicing asset is valued based upon servicing sales contracts entered into with third parties. Interest rate lock commitments are valued at quoted market prices, plus the related service release premium, multiplied

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by a projected customer close ratio. The service release premium is based upon the Company s servicing sales contracts, and the projected customer close ratio is based upon the Company s historical customer fall-out rate.

The following table presents the Company s financial instruments measured at fair value on a recurring basis at September 30, 2008 for each hierarchy level:

	Level 1	Level 2	Level 3	Total
Assets				
Mortgage Loans Held for Sale	$	$ 333,069	$	$ 333,069
Forward Trade Commitments (Interest Rate Lock Commitments)		459		459
Servicing Asset		17		17
Interest Rate Lock Commitments			3,928	3,928
Total	$	$ 333,545	$ 3,928	$ 337,473
Liabilities				
Interest Rate Swap Agreements	$	$ 5,700	$	$ 5,700
Forward Trade Commitments (Mortgage Loans Held for Sale)		3,260		3,260
Total	$	$ 8,960	$	$ 8,960

As of September 30, 2008, the aggregate fair value exceeded the unpaid principal balance of mortgage loans held for sale by $2.7 million and, accordingly, this amount has been recognized as a gain in current earnings within Financial Services revenues. Interest income on mortgage loans held for sale is calculated based upon the stated interest rate of each loan and is included in Financial Services revenues.

The following table summarizes changes in Level 3 financial instruments measured at fair value on a recurring basis for the six months ended September 30, 2008:

	Interest Rate Lock Commitments
Balance at beginning of period	$ 9,271
Purchases, issuances, and settlements	(5,343)
Loss included in earnings due to change in valuation of items held	-
Fair value at September 30, 2008	$ 3,928

Other mortgage loans are measured at fair value on a nonrecurring basis and include performing and nonperforming construction loans and other nonperforming mortgage loans. Other mortgage loans are reported at their unpaid principal balance less an allowance. The allowance for loans the Company expects to convert to permanent loans that will be held for sale is based on the estimated market value of the loans. The allowance for construction loans and other nonperforming mortgage loans that the Company expects to eventually default is based on the underlying collateral value.

The following table presents for each hierarchy level the Company s financial instruments measured at fair value on a nonrecurring basis at September 30, 2008:

	Level 1	Level 2	Level 3	Total
Assets				
Other Mortgage Loans	**$**	**$**	**$ 89,524**	**$ 89,524**

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

(I) BUSINESS SEGMENTS

As of September 30, 2008, the Company operated in two principal lines of business: Home Building and Financial Services. These lines of business operate in the United States, and their markets are nationwide. Revenues from any one customer are not significant to the Company.

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

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

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

During the first quarter of fiscal year 2009, the Company reclassified its Colorado operations to the Central reporting segment from the Northwest reporting segment and its New Mexico operations to the Texas reporting segment from the Southwest reporting segment. During the second quarter of fiscal year 2009, the Company consolidated its seven reporting segments into the four reporting segments set forth above. The reclassifications reflect how the Company currently manages its business and were not material to the results of operations of the respective reporting segments. All prior period amounts have been reclassified to conform to current period presentation.

The Company s mortgage lending, title agency services and insurance products represent one reporting segment, Financial Services.

In fiscal year 2007, the Company completed the sale of Construction Services. In April 2008, the Company completed the sale of its home services operations. In September 2008, the Company completed the sale of Westwood Insurance Agency, its property and casualty insurance agency. For additional information regarding the sale of these businesses, refer to Note (L), Discontinued Operations. All prior year segment information has been revised to conform to the current year presentation.

Home Building

Home Building s operations currently involve the construction and sale of detached and attached single-family homes. Included in Home Building s loss from unconsolidated entities for the three and six months ended September 30, 2008 is the Company s share of joint ventures impairments totaling $12.0 million and $31.7 million, respectively. During the three and six months ended September 30, 2007, the Company recorded $36.6 million and $63.7 million, respectively, as its share of joint venture impairments.

Financial Services

Financial Services originates loans for homes sold by the Company and its subsidiaries, which are referred to as Builder Loans. Financial Services also originates loans for homes built by others, as well as the refinancing of existing mortgages, which are referred to as Retail Loans. As a result of the significant disruptions in the mortgage markets and the related reductions in the mortgage market liquidity, the Company has begun to focus its mortgage operations on Builder Loans to support Home Building. Financial Services operations consist primarily of mortgage lending, title agency services and the sale of title insurance and other insurance products.

During July 2008, the Company made a decision to wind down its Retail Loan operations. The wind-down will be completed on an orderly basis over the next several months. Financial Services, which originally operated approximately 80 retail branches, had ceased originating Retail Loans as of September 30, 2008. During the three months ended September 30, 2008, the Company recorded $26.2 million in costs related to the wind-down of the Retail Loan operations including $19.4 million of severance costs, primarily associated with the reduction of personnel in the retail branches, $3.3 million of contract termination costs related to various lease agreements associated with the retail branch locations, and $3.5 million of asset write-downs. At September 30, 2008, accrued expenses related to the wind-down of the Retail Loan operations amounted to $18.1 million and primarily related to accrued severance costs.

Financial Services revenues include interest income of $5.7 million and $21.2 million for the three months, and $12.2 million and $47.2 million for the six months, ended September 30, 2008 and 2007, respectively. Financial Services cost of sales is comprised of interest expense related to debt issued to fund its home financing activities.

Other

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

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

	For the Three Months Ended September 30,		*For the Six Months Ended September 30,*	
	2008	2007	**2008**	2007
Corporate General and Administrative Expense	**$ (53,435)**	$ (34,540)	**$ (112,074)**	$ (79,521)
Interest Expense	**(4,973)**		**(11,153)**	
Interest and Other Income	**5,285**	18,122	**12,393**	23,048
	$ (53,123)	$ (16,418)	**$ (110,834)**	$ (56,473)

Summary of the Company s Results of Operations by Segment

	For the Three Months Ended September 30,					
	2008			2007		
	Revenues	**Loss from Unconsolidated Entities and Other**	**Loss from Continuing Operations Before Income Tax**	Revenues	Earnings (Loss) from Unconsolidated Entities and Other	Loss from Continuing Operations Before Income Tax
Home Building						
East	**$ 311,037**	**$ (8,652)**	**$ (46,462)**	$ 731,716	$ (30,063)	$ (137,533)
Central	**295,809**	**(3,807)**	**(22,482)**	522,574	291	(33,258)
West	**343,484**	**(443)**	**(41,906)**	794,448	(7,068)	(673,590)
Other homebuilding	**2,266**		**(3,914)**	56,746		(108,312)
Total Home Building	**952,596**	**(12,902)**	**(114,764)**	2,105,484	(36,840)	(952,693)
Financial Services	**52,409**		**(44,158)**	80,700		(54,082)
Other			**(53,123)**			(16,418)
Total	**$ 1,005,005**	**$ (12,902)**	**$ (212,045)**	$ 2,186,184	$ (36,840)	$ (1,023,193)

	For the Six Months Ended September 30,	
	2008	2007
		Earnings

	Revenues	**Loss from Unconsolidated Entities and Other**	**Loss from Continuing Operations Before Income Tax**	Revenues	(Loss) from Unconsolidated Entities and Other	Loss from Continuing Operations Before Income Tax
Home Building						
East	**$ 619,076**	**$ (28,635)**	**$ (133,264)**	$ 1,294,533	$ (30,650)	$ (132,963)
Central	**593,988**	**(3,935)**	**(35,952)**	971,151	567	(27,749)
West	**772,671**	**(629)**	**(72,393)**	1,544,218	(32,110)	(818,546)
Other homebuilding	**16,560**		**(4,258)**	99,402		(145,214)
Total Home Building	**2,002,295**	**(33,199)**	**(245,867)**	3,909,304	(62,193)	(1,124,472)
Financial Services	**128,832**		**(38,091)**	178,666		(39,113)
Other			**(110,834)**			(56,473)
Total	**$ 2,131,127**	**$ (33,199)**	**$ (394,792)**	$ 4,087,970	$ (62,193)	$ (1,220,058)

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A summary of the Company s impairments and write-offs, by segment, is as follows:

	For the Three Months Ended September 30,					
	2008			2007		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
Home Building						
East	**$**	**$ 18,094**	**$ 12,080**	$ 22,452	$ 96,162	$ 19,015
Central		**19,007**	**401**	4,339	37,564	8,915
West		**32,626**	**1,465**	34,531	601,398	10,386
Other homebuilding		**7,163**			111,763	2
Total Home Building		**76,890**	**13,946**	61,322	846,887	38,318
Financial Services						
Other						
Total	**$**	**$ 76,890**	**$ 13,946**	$ 61,322	$ 846,887	$ 38,318

	For the Six Months Ended September 30,					
	2008			2007		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
Home Building						
East	**$**	**$ 52,968**	**$ 17,262**	$ 22,452	$ 103,577	$ 29,423
Central		**27,472**	**2,414**	4,339	41,847	10,489
West		**39,402**	**4,371**	34,531	701,097	21,098
Other homebuilding		**7,163**			142,958	178
Total Home Building		**127,005**	**24,047**	61,322	989,479	61,188
Financial Services						
Other						
Total	**$**	**$ 127,005**	**$ 24,047**	$ 61,322	$ 989,479	$ 61,188

A summary of inventory and total assets, by segment, is as follows:

	As of			
	September 30, 2008		March 31, 2008	
	Inventory	**Total Assets**	Inventory	Total Assets
Home Building				
East	**$ 2,163,117**	**$ 2,481,430**	$ 2,357,273	$ 2,631,144
Central	**862,285**	**901,089**	963,999	1,007,937
West	**1,309,626**	**1,411,816**	1,701,506	1,842,358
Other homebuilding	**333,206**	**1,124,055**	328,803	1,128,285

Total Home Building	**4,668,234**	**5,918,390**	5,351,581	6,609,724
Financial Services	**8,856**	**615,902**	10,850	673,597
Other [(1)]		**750,299**		757,022
Discontinued Operations				96,989
Total	**$ 4,677,090**	**$ 7,284,591**	$ 5,362,431	$ 8,137,332

(1) The Company s Other segment includes cash, income taxes receivable and substantially all of the Company s deferred income tax asset valuation allowance.

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(J) INCOME TAXES

The Company recognized an income tax benefit of $10.4 million and $378.4 million for the three months ended September 30, 2008 and 2007, respectively, and $24.1 million and $443.2 million for the six months ended September 30, 2008 and 2007, respectively. The Company s effective tax rate was 4.9% and 37.0% for the three months ended September 30, 2008 and 2007, respectively. For the six months ended September 30, 2008 and 2007, the Company s effective tax rate was 6.1% and 36.3%, respectively. The difference in the Company s tax rate primarily results from the change in the deferred tax asset valuation allowance.

As of September 30, 2008 and March 31, 2008, the Company had a federal income tax receivable of $140.0 million and $648.5 million, respectively, primarily relating to net operating loss carryback refund claims. During the six months ended September 30, 2008, the Company received federal tax refunds of $621.7 million. The Company s net deferred tax assets before the valuation allowance decreased slightly to $1.01 billion as of September 30, 2008 from $1.02 billion as of March 31, 2008. The Company had a $142.0 million deferred tax asset resulting from tax credits and state net operating loss carryforwards at September 30, 2008. If unused, the various tax credits and state tax net operating loss carryforwards will expire (beginning at various times depending on the tax jurisdiction) in the years 2013 through 2029.

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

Based on the Company s assessment, including the implementation of certain tax planning strategies, the realization of approximately $945 million of the Company s deferred tax assets is dependent upon future taxable income. Based on the Company s consideration of the current economic conditions, the homebuilding industry, and the related uncertainty in projections of future taxable income, the Company increased its valuation allowance by $115 million during the six months ended September 30, 2008. The valuation allowance was $945 million and $830 million as of September 30, 2008 and March 31, 2008, respectively.

The valuation allowance may be increased or decreased as conditions change or if the Company is unable to implement certain tax planning strategies. The Company s future realization of its deferred tax assets ultimately depends on the existence of sufficient taxable income in the carryforward periods (both federal and state). Changes in existing laws could affect the valuation of deferred tax assets for future periods.

The total amount of gross unrecognized tax benefits was $352.0 million and $353.1 million as of September 30, 2008 and March 31, 2008, respectively (which excludes interest, penalties, and the tax benefit relating to the deductibility of interest and state income tax).

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

The Company files numerous income tax returns in both U.S. federal and state jurisdictions. The federal statute of limitations has expired for the Company s federal tax returns filed for tax years through March 31, 2000. In July 2007, the Company received a Revenue Agent s Report from the IRS relating to the ongoing audit of the Company s federal income tax returns for fiscal years 2001 through 2004. The Company believes that its tax return positions are supported and will vigorously dispute the proposed adjustments. In fiscal year 2008, the IRS commenced an examination of the Company s federal tax returns for fiscal years 2005 and 2006. Certain of the Company s state income tax returns are under audit and are at various stages of the audit process.

The total amount of unrecognized tax benefits that, if recognized, would affect the Company s effective tax rate was $271.6 million and $272.3 million as of September 30, 2008 and March 31, 2008, respectively. For the three and six months ended September 30, 2008, the Company accrued $7.4 million and $14.7 million, respectively, of gross accrued interest and penalties. As of September 30, 2008, gross accrued interest and penalties were $168.4 million. The Company s liability for unrecognized tax benefits combined with accrued interest and penalties is reflected as a component of accrued liabilities.

(K) DERIVATIVES AND HEDGING

The Company is exposed to the risk of interest rate fluctuations on its debt and other obligations. Financial Services enters into mandatory forward trade commitments to manage the interest rate risk related to IRLCs and its portfolio of mortgage loans held for sale. These forward trade commitments are treated as derivative instruments and their initial fair value is recorded on the balance sheet in other assets or accrued liabilities. Subsequent changes in the fair value of these forward trade commitments are recorded as an adjustment to earnings. The net change in the estimated fair value of forward trade commitments treated as derivatives resulted in a loss of $5.7 million for the three months ended September 30, 2008 compared to a loss of $2.0 million for the three months ended September 30, 2007. The net change in the estimated fair value of forward trade commitments treated as derivatives resulted in a gain of $0.5 million for the six months ended September 30, 2008 compared to a loss of $2.9 million for the six months ended September 30, 2007.

Prior to April 1, 2008, the forward trade commitments used to hedge the interest rate risk related to Financial Services portfolio of mortgage loans held for sale were designated as fair value hedges. Changes in the fair value of these forward trade commitments and the mortgage loans, for which the hedge relationship was deemed effective, were recorded as an adjustment to earnings. To the extent the hedge was effective, gains or losses in the value of the hedged loans due to interest rate movement were offset by an equal and opposite gain or loss in the value of the forward trade commitment with no impact to earnings. To the extent the hedge contained some ineffectiveness, the ineffectiveness was recognized immediately in earnings. For the three and six months ended September 30, 2007, the amount of hedge ineffectiveness included in earnings was a loss of $10.6 million and $11.3 million, respectively. Due in part to the adoption of SFAS 159 as it relates to the fair value measurement of mortgage loans held for sale discussed in Note (H), Fair Values of Financial Instruments, beginning April 1, 2008, the Company no longer accounts for these forward trade commitments as fair value hedges.

Financial Services enters into IRLCs with its customers under which Financial Services agrees to make mortgage loans at agreed upon rates within a period of time, generally from one to 30 days, if certain conditions are met. Initially, the IRLCs are treated as derivative instruments and their fair value is recorded on the balance sheet in other assets or accrued liabilities. The fair value of these loan commitment derivatives includes future cash flows related to the associated servicing of the loan, but does not include the value of any internally-developed intangible assets. Subsequent changes in the fair value of the IRLCs are recorded as an adjustment to earnings. The net change in the estimated fair value of IRLCs resulted in a loss of $1.8 million and $5.3 million for the three and six months ended September 30, 2008, respectively, compared to a loss of $0.2 million for the three months ended September 30, 2007 and a gain of $1.2 million for the six months ended September 30, 2007.

From time to time, the Company may enter into other forms of derivatives, including interest rate swap agreements, to hedge changes in market values of certain assets and liabilities. At September 30, 2008, the loss of $5.7 million of these derivatives is included in accrued liabilities in the Consolidated Balance Sheets. The notional value of such derivatives was $76.3 million at September 30, 2008.

(L) DISCONTINUED OPERATIONS

On March 30, 2007, the Company completed the sale of Construction Services to unrelated third parties and received $344.8 million in cash, net of related expenses. The Company is entitled to receive an aggregate of $60.0 million in cash to be paid in annual installments of $4.0 million over a 15-year period after the closing date (the Additional Payments). The Additional Payments will be made in connection with an election with respect to the tax treatment of the transaction pursuant to Section 338(h)(10) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code). If the Internal Revenue Code is amended so that the purchaser is no longer entitled to the benefits of the Section 338(h)(10) election, the amount of the Additional Payments will be subject to change to ensure that any subsequent payments to be made by the purchaser do not exceed 50% of the tax benefits to be realized by it thereafter as a result of such election. The Additional Payments are an unsecured receivable from the purchaser that was not recorded in connection with the sale of Construction Services. As the Additional Payments are received in future periods, the amounts will be reflected in the Statements of Consolidated Operations.

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On April 3, 2008, the Company completed the sale of its home services operations to an unrelated third party and received $131.1 million in cash, which is subject to post-closing adjustments. A summary of the Company s calculation of the related gain on sale is below:

	For the Six Months Ended September 30, 2008
Sales and Related Proceeds, net of Related Expenses	$ 127,810
Assets Sold	(88,431)
Pre-tax Gain on Sale	39,379
Income Tax Expense	(20,282)
Net Gain on Sale	$ 19,097

Prior to their sale, Construction Services was a separate reporting segment and the Company s home services operations were included in the Other segment. Construction Services and the Company s home services operations were reclassified to discontinued operations in March 2007 and March 2008, respectively. All prior period information for these operations has been reclassified to discontinued operations.

On September 30, 2008, the Company completed the sale of Westwood Insurance Agency to an unrelated third party and received $55.3 million in cash, which is subject to post-closing adjustments. As a result of the sale, the Company recognized a pre-tax gain of $47.8 million, which has been included in discontinued operations. Historical operations of Westwood Insurance Agency are not material to the financial performance of the Company and, accordingly, have not been reclassified to discontinued operations.

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

	For the Three Months Ended September 30,		*For the Six Months Ended September 30,*	
	2008*(1)*	2007 *(2)*	**2008***(1)*	2007 *(2)*
Revenues	**$**	$ 34,744	**$**	$ 69,447
Costs and Expenses		(33,244)		(66,739)
Earnings Before Income Taxes		1,500		2,708
Provision for Income Taxes		572		1,034
Gain on Sale, net of Tax	**29,630**		**48,643**	3,376
	$ 29,630	$ 928	**$ 48,643**	$ 5,050

(1) Includes the Company s home services operations and

the gain from sale of Westwood Insurance Agency.

(2) *Includes the Company s home services operations and Construction Services.*

(M) SUBSEQUENT EVENTS

On October 1, 2008, the Company sold substantially all of the assets of CTX Builder Supply, a division of Centex Homes that manufactures wall panels, roof and floor trusses and distributes lumber. The sale of CTX Builder Supply did not have a material impact on the Company s financial statements.

On October 8, 2008, Moody s lowered the Company s debt rating from Ba2 to Ba3. This downgrade triggered a provision in CTX Mortgage Company, LLC s $325 million committed bank warehouse credit facility under which the bank had the right to convert the facility to an amortizing loan based on the ultimate sale of the underlying collateral and not to purchase any additional mortgage loans. On October 30, 2008, CTX Mortgage Company, LLC executed an amendment to the bank warehouse credit facility that lowered (at the Company s request) the commitment to $100 million, established a new debt ratings trigger that provides the bank the option to convert the facility to an amortizing loan if the Company s credit rating falls below BB- by S&P and Fitch or below B1 by Moody s (a decline of two or more levels), and extended the maturity date to October 2009.

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On October 9, 2008, the Board of Directors suspended the quarterly cash dividend on the Company s common stock due to current economic conditions.

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

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

Executive Summary

Our results of operations for the three and six months ended September 30, 2008 were materially affected by continuing adverse market conditions impacting our homebuilding and mortgage lending operations. These adverse market conditions began in fiscal year 2006, and in the most recent periods, have been exacerbated by significant disruptions in the broader financial markets and severe constraints in the credit markets resulting in decreases in demand for new housing and mortgage loans. We are unable to predict whether the market will deteriorate further or when it will improve. Any further deterioration in market conditions is likely to have a material adverse effect on our business, financial condition and results of operations.

A summary of our results of operations by line of business is as follows (dollars in thousands):

	For the Three Months Ended September 30,		
	2008	2007	Change
Revenues			
Home Building	**$ 952,596**	$ 2,105,484	(54.8%)
Financial Services	**52,409**	80,700	(35.1%)
Total	**$ 1,005,005**	$ 2,186,184	(54.0%)
Loss from Continuing Operations Before Income Taxes			
Home Building	**$ (114,764)**	$ (952,693)	(88.0%)
Financial Services	**(44,158)**	(54,082)	(18.3%)
Other	**(53,123)**	(16,418)	223.6%
Total	**$ (212,045)**	$ (1,023,193)	(79.3%)

	For the Six Months Ended September 30,		
	2008	2007	Change
Revenues			
Home Building	**$ 2,002,295**	$ 3,909,304	(48.8%)
Financial Services	**128,832**	178,666	(27.9%)
Total	**$ 2,131,127**	$ 4,087,970	(47.9%)
Loss from Continuing Operations Before Income Taxes			
Home Building	**$ (245,867)**	$ (1,124,472)	(78.1%)
Financial Services	**(38,091)**	(39,113)	(2.6%)
Other	**(110,834)**	(56,473)	96.3%

Total	**$ (394,792)**	$ (1,220,058)	(67.6%)

Revenues for the three months ended September 30, 2008 were $1.01 billion, which represents a 54.0% decrease compared to the three months ended September 30, 2007. Loss from continuing operations before income taxes for the three months ended September 30, 2008 decreased to $212.0 million. Revenues for the six months ended September 30, 2008 were $2.13 billion, which represents a 47.9% decrease compared to the six months ended September 30, 2007. Loss from continuing operations before income taxes for the six months ended September 30, 2008 decreased to $394.8 million.

Beginning in fiscal year 2006, many U.S. housing markets began to experience a significant downturn, which directly affected, and continues to adversely affect, our business, financial condition and results of operations. We believe the principal factors that have caused or are sustaining this downturn include each of the following:

- the current financial crisis affecting the banking system and financial markets and related volatility in the capital and credit markets,
- declining homebuyer demand due to lower consumer confidence and an inability of many homebuyers to sell their existing homes,
- elevated levels of new and existing homes for sale, including the impact of increases in residential foreclosures,
- reduced availability and increased cost of mortgage financing due to the significant mortgage market disruptions and tightened credit standards for homebuyers,
- pricing pressures resulting from a variety of factors, including the decision of homebuilders to offer significant discounts and sales incentives to liquidate unsold inventories in order to generate cash, and
- decreased affordability of housing in selected markets as a result of significant price appreciation in the years preceding the downturn.

The impact of the foregoing factors varies depending upon the geographic market affected and the time period during which the relevant events occurred and contributed to the current downturn in the housing market. The current downturn in the housing market began in fiscal year 2006 as a result of factors such as reduced affordability of housing in some markets, increased inventories of new and used homes for sale and a decline in homebuyer consumer confidence. The effect of the downturn became more severe due to the market disruptions resulting from the subprime mortgage crisis, which began in fiscal year 2008 and ultimately led to reduced investor demand for mortgage loans and mortgage-backed securities. In the second quarter of fiscal year 2009, the deterioration in the overall economy accelerated. The economic environment has been troubled by several international financial institutions filing for bankruptcy or merging with other institutions, increased stock market volatility around the world, and the intervention in the capital markets by the United States government. This government intervention has included government control of Federal National Mortgage Association, or FNMA, and Federal Home Loan Mortgage Company, or FHLMC, as well as the enactment of the $700 billion Emergency Economic Stabilization Act. These developments have led to concerns that current initiatives may not be effective in preventing a United States recession. These developments have severely impacted consumer confidence and demand for our homes.

These market conditions materially and adversely impacted Home Building s operating results for the three and six months ended September 30, 2008 as evidenced by a $1.15 billion and a $1.91 billion decrease in homebuilding revenues, net of discounts, as compared to the same periods in the prior year. The decreases in revenues were primarily attributable to decreases in units closed and, to a lesser extent, decreases in average revenue per unit. We also experienced a significant decrease in sales orders during the three and six months ended September 30, 2008. Sales orders decreased 54.2% to 2,728 for the three months ended September 30, 2008, and 44.1% to 6,943 for the six months ended September 30, 2008. Sales orders also decreased 35.3% when compared to the three months ended June 30, 2008. Despite our backlog at September 30, 2008, we expect that the decreases in sales orders will have a negative impact on our closings in the near term.

The operating losses for the three and six months ended September 30, 2008 are primarily attributable to the following impairments and write-offs for each period:

- $76.9 million and $127.0 million in land-related impairments,
- $12.0 million and $31.7 million in our share of joint ventures impairments, and
- $13.9 million and $24.0 million in write-offs of land deposits and pre-acquisition costs.

However, when compared to the three and six months ended September 30, 2007, Home Building s operating losses improved $837.9 million and $878.6 million, respectively. These improvements are primarily due to a substantial reduction in the amount of impairments and land-related write-offs. Impairments and land-related write-offs for the three and six months ended September 30, 2007 amounted to $983.1 million and $1,175.7 million, respectively, in the aggregate (including goodwill impairments).

During the quarter, we assessed our neighborhoods and land for possible land-related impairments. The further deterioration of market conditions during the quarter adversely impacted anticipated future selling prices, sales rates and other assumptions included in our impairment evaluations, and we recorded land-related impairments totaling $76.9 million. During the three months ended September 30, 2008, 28 land-related impairments were recorded. At September 30, 2008, the remaining carrying value of neighborhoods and land investments for which an

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impairment was recorded in the quarter ended September 30, 2008 was $106.7 million. If market conditions worsen, or if any of our assumptions are adjusted negatively in future periods, we may have additional land-related impairments, which could be significant.

Financial Services operating losses for the three and six months ended September 30, 2008 were $44.2 million and $38.1 million, respectively, as compared to operating losses of $54.1 million and $39.1 million for the three and six months ended September 30, 2007, respectively. For the three and six months ended September 30, 2008, mortgage loan origination volume decreased 54.7% and 46.7%, respectively. This change is primarily attributable to the adverse conditions in the mortgage markets and the decline in homebuyer demand described above. Continued adverse market conditions and further declines in homebuyer demand could have a negative impact on Financial Services future operating results. Also contributing to the losses during the three and six months ended September 30, 2008 were increases in loan-related reserves of $13.3 million and $16.3 million, respectively. The increase in the provision is primarily related to anticipated mortgage loan losses attributable to a significant increase in investor repurchase and indemnification requests. Although Financial Services is contesting many of these requests, we believe that an increased volume of requests under current market conditions in the mortgage industry warranted an increase in our reserves.

During July 2008, we made the decision to wind down the origination by Financial Services of mortgage loans for homes built by others as well as the refinancing of existing mortgages, which we refer to as Retail Loans. Financial Services, which originally operated approximately 80 Retail Loan branches, has ceased originating Retail Loans as of September 30, 2008, and the wind-down will be completed over the next several months. During the three months ended September 30, 2008, we recorded $26.2 million in costs related to the wind-down of our Retail Loan operations. The reduction in Retail Loans in future periods may have a negative impact on Financial Services operating results.

On October 9, 2008, we suspended the quarterly cash dividend on our common stock due to current economic conditions. The suspension of our dividend is intended to enable us to conserve stockholders equity and cash for use in our business during the current downturn in the housing market. We cannot predict when or under what circumstances dividend payments would be resumed.

We anticipate that our business and results of operations will continue to be affected by the difficult industry conditions for some time. In general, we believe that our existing sources of funding, including available cash on hand, cash flow from operations and our committed credit facilities are adequate to meet our currently anticipated operating needs, capital expenditures and debt service requirements for at least the next twelve months. Further deterioration in market conditions, including lower demand or prices for our homes, further disruptions of the mortgage markets, continued disruption in the broader financial services industry or the United States economy in general would likely result in declines in sales of our homes and fewer mortgage loans, accumulation of unsold inventory and margin deterioration, as well as potential additional land-related impairments and write-offs of deposits and pre-acquisition costs. These or other developments could reduce cash flow, cause us to incur additional losses, or cause us not to be in compliance with financial or other covenants, requiring that we seek amendments or waivers to our credit facilities to ensure continued availability of committed debt financing.

On July 30, 2008, the President of the United States signed into law broad legislation that includes a tax credit of up to $7,500 for qualifying first-time homebuyers who purchase a home on or after April 9, 2008 and before July 1, 2009. Unlike other conventional tax credits, the taxpayer will be required to pay back the credit over a 15-year period or earlier if the home is sold prior to the end of the 15-year period. In addition to the tax credit, the law contains provisions designed to spare an estimated 400,000 homeowners from foreclosure and bolster FNMA and FHLMC. However, under the legislation, one of the programs that will no longer be available to homebuyers after September 30, 2008 is the seller funded down payment assistance program for FHA-insured loans, which played a role in a large number of our homebuyers loans during the three and six months ended September 30, 2008. The new tax credit has not been effective for our customers and our sales suffered.

On October 3, 2008, the President of the United States signed into law the Emergency Economic Stabilization Act of 2008 that authorizes up to $700 billion in new spending authority for the United States Secretary of the Treasury to purchase, manage and ultimately dispose of troubled assets. The provisions of this law include an expansion of the

Hope for Homeowners Program. This program allows the Secretary to use loan guarantees and credit enhancements so that loans can be modified to prevent foreclosures. Also, the Secretary can consent to term extensions, rate-reductions and principal write-downs. Federal agencies that own mortgage loans are directed to seek modifications prior to foreclosures. While we expect the impact of this legislation will generally be favorable to the economy, the impact on our operations is not determinable.

The fundamentals that support homebuyer demand and the current market conditions remain unstable due to low consumer confidence, and we cannot predict the duration of the current market conditions. In response, we continue to adjust our operations by reducing our unsold inventory, reducing our land position, adjusting our workforce, and lowering our costs. Our unsold inventory decreased from 4,708 units as of September 30, 2007 to 1,396 units as of September 30, 2008. Since September 30, 2007, our land position decreased by 56,338 lots or 42.8%. Further, Home Building s selling, general and administrative expenses decreased from $296.6 million and $595.3 million for the three and six months ended September 30, 2007, respectively, to $148.9 million and $315.1 million for the same periods of the current year, respectively. We are also working to reduce the costs of constructing our homes, although in many cases cost savings have been partially offset by increases in housing components as a result of increased commodity and energy costs.

During the six months ended September 30, 2008, we generated $816.8 million in cash flows from operating activities, which was primarily provided by federal income tax refunds resulting from the carryback of the fiscal year 2008 net operating loss to prior years. In addition, our homebuilding operations generated positive cash flow from operating activities.

HOME BUILDING

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

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change
Revenues Housing	**$ 939,888**	**(54.5%)**	$ 2,063,999	(20.7%)
Revenues Land Sales and Other	**12,708**	**(69.4%)**	41,485	(26.2%)
Cost of Sales Housing	**(798,956)**	**(54.1%)**	(1,741,203)	(11.5%)
Cost of Sales Land Sales and Other	**(109,521)**	**(88.2%)**	(927,239)	461.7%
Selling, General and Administrative Expenses	**(148,856)**	**(49.8%)**	(296,631)	(21.0%)
Goodwill Impairment		**(100.0%)**	(61,322)	100.0%
Loss from Unconsolidated Entities [1]	**(12,902)**	**(65.0%)**	(36,840)	545.6%
Other Income	**2,875**	**(43.2%)**	5,058	7.0%
Operating Loss[2]	**$ (114,764)**	**(88.0%)**	$ (952,693)	(740.5%)
Operating Loss as a Percentage of Revenues:				
Housing Operations [3]	**(0.8%)**	**(2.1)**	1.3%	(8.6)
Total Homebuilding Operations	**(12.0%)**	**33.2**	(45.2%)	(50.8)

	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Revenues Housing	**$ 1,972,079**	**(48.6%)**	$ 3,838,737	(25.7%)
Revenues Land Sales and Other	**30,216**	**(57.2%)**	70,567	(51.0%)
Cost of Sales Housing	**(1,709,082)**	**(47.0%)**	(3,222,554)	(16.0%)
Cost of Sales Land Sales and Other	**(197,783)**	**(82.1%)**	(1,102,806)	308.7%
Selling, General and Administrative Expenses	**(315,071)**	**(47.1%)**	(595,259)	(20.9%)
Goodwill Impairment		**(100.0%)**	(61,322)	100.0%
Loss from Unconsolidated Entities [1]	**(33,199)**	**(46.6%)**	(62,193)	NM*
Other Income	**6,973**	**(32.7%)**	10,358	4.7%

Operating Loss(2)	**$ (245,867)**	**(78.1%)**	$ (1,124,472)	(344.1%)
Operating Loss as a Percentage of Revenues:				
Housing Operations (3)	**(2.6%)**	**(3.1)**	0.5%	(10.7)
Total Homebuilding Operations	**(12.3%)**	**16.5**	(28.8%)	(37.5)

* *NM = Not Meaningful*

(1) *Loss from Unconsolidated Entities includes our share of joint ventures impairments.*

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(2) Operating loss represents Home Building reporting segments earnings exclusive of certain homebuilding corporate general and administrative expenses.

(3) Operating loss from housing operations is a non-GAAP financial measure, which we believe is useful to investors as it allows them to separate housing operations from activities related to land holdings, options to acquire land and related land valuation adjustments. Management uses this non-GAAP financial measure to aid in evaluating the performance of its ongoing housing projects. Operating earnings from housing operations is

equal to Housing Revenues less Housing Cost of Sales and Selling, General and Administrative Expenses, all of which are set forth in the table above.

With the rapid changes in the environment, we continue to realign our operations. Home Building s business consists of the following reporting segments that have operations located in the following states:

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

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

The following tables summarize units closed and average revenue per unit:

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change
Units Closed				
East	**1,118**	**(53.9%)**	2,424	(16.4%)
Central	**1,595**	**(42.5%)**	2,774	(10.7%)
West	**1,084**	**(46.7%)**	2,035	(13.1%)
Other homebuilding		**(100.0%)**	117	(33.9%)
	3,797	**(48.3%)**	7,350	(13.8%)
Average Revenue Per Unit				
East	**$ 275,459**	**(6.1%)**	$ 293,354	(7.4%)
Central	**$ 181,251**	**(2.8%)**	$ 186,497	
West	**$ 316,263**	**(18.6%)**	$ 388,516	(13.3%)
Other homebuilding	**$**	**(100.0%)**	$ 384,043	26.7%
Total Home Building	**$ 247,534**	**(11.9%)**	$ 280,816	(8.0%)

	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Units Closed				
East	**2,206**	**(47.4%)**	4,192	(25.9%)
Central	**3,164**	**(38.9%)**	5,181	(15.9%)

West	**2,330**	**(39.4%)**	3,845	(17.3%)
Other homebuilding	**36**	**(84.1%)**	227	(38.5%)
	7,736	**(42.5%)**	13,445	(20.2%)
Average Revenue Per Unit				
East	**$ 275,184**	**(8.6%)**	$ 301,114	(6.4%)
Central	**$ 185,072**	**(0.3%)**	$ 185,588	(0.6%)
West	**$ 329,387**	**(17.4%)**	$ 399,002	(10.9%)
Other homebuilding	**$ 332,861**	**(6.5%)**	$ 355,837	18.1%
Total Home Building	**$ 254,922**	**(10.7%)**	$ 285,514	(6.9%)

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Revenues

Housing revenues significantly decreased for the three and six months ended September 30, 2008 as compared to the same periods of the prior year primarily due to decreases in units closed and, to a lesser extent, decreases in average revenue per unit. For the three and six months ended September 30, 2008, average revenue per unit (which is net of customer discounts) decreased primarily as a result of lower prices experienced in most of our markets, slightly offset by decreases in discounts. Customer discounts decreased to 7.9% of housing revenues for the three months ended September 30, 2008, down from 11.0% for the three months ended September 30, 2007. For the six months ended September 30, 2008, customer discounts decreased to 9.3%, down from 9.9% for the six months ended September 30, 2007. For the three and six months ended September 30, 2008, our closings declined when compared to the same periods in the prior year as a result of decreases in sales orders caused principally by the challenging market conditions described above.

Revenues from land sales and other decreased 69.4% to $12.7 million for the three months and 57.2% to $30.2 million for the six months ended September 30, 2008 as compared to the same periods in the prior year. Although the timing and amount of land sales vary from period to period, the decrease in revenues from land sales during these periods is primarily the result of fewer land sales by us and the imbalance between supply and demand. Most large homebuilders have walked away from a significant amount of lot option contracts and, given the uncertainty associated with the downturn in the homebuilding industry, there are fewer land buyers wanting to purchase land.

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

	For the Three Months Ended September 30,			
	2008		2007	
		Change		Change
Average Operating Neighborhoods [1]	**523**	**(20.5%)**	658	(4.9%)
Closings Per Average Neighborhood	**7.3**	**(34.8%)**	11.2	(8.9%)

	For the Six Months Ended September 30,			
	2008		2007	
		Change		Change
Average Operating Neighborhoods [1]	**546**	**(18.1%)**	667	(1.9%)
Closings Per Average Neighborhood	**14.2**	**(29.7%)**	20.2	(18.5%)

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

Our neighborhood count as of September 30, 2007 was 650 neighborhoods, and it has steadily decreased to a neighborhood count of 499 as of September 30, 2008. The drop in neighborhood count is primarily the result of our decision to build-out and not reinvest in certain markets, our decision to sell certain properties that did not meet our strategic initiatives and our decision to curtail development spending, which delays the opening of new neighborhoods.

Operating Margins

Homebuilding operating margins (consisting of operating loss as a percentage of revenues) improved to (12.0%) for the three months and (12.3%) for the six months ended September 30, 2008 as compared to (45.2%) for the three months and (28.8%) for the six months ended September 30, 2007. The improvements in homebuilding operating margins as compared to the same periods in the prior year were primarily attributable to a reduction in the amount of impairments.

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

	For the Three Months Ended September 30,					
	2008			2007		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
East	**$**	**$ 18,094**	**$ 12,080**	$ 22,452	$ 96,162	$ 19,015
Central		**19,007**	**401**	4,339	37,564	8,915
West		**32,626**	**1,465**	34,531	601,398	10,386
Other homebuilding		**7,163**			111,763	2
	$	**$ 76,890**	**$ 13,946**	$ 61,322	$ 846,887	$ 38,318

	For the Six Months Ended September 30,					
	2008			2007		
	Goodwill Impairments	**Land-related Impairments**	**Land-related Write-offs**	Goodwill Impairments	Land-related Impairments	Land-related Write-offs
East	**$**	**$ 52,968**	**$ 17,262**	$ 22,452	$ 103,577	$ 29,423
Central		**27,472**	**2,414**	4,339	41,847	10,489
West		**39,402**	**4,371**	34,531	701,097	21,098
Other homebuilding		**7,163**			142,958	178
	$	**$ 127,005**	**$ 24,047**	$ 61,322	$ 989,479	$ 61,188

We regularly assess our land holdings, including our lot options, taking into consideration changing market conditions and other factors. In connection with our quarterly neighborhood assessments, during the quarter ended September 30, 2008, we reviewed approximately 810 housing projects and land investments for potential land-related impairments. Approximately 748 of these housing projects are owned land positions that are either designated as active neighborhoods, are under development but are not considered active neighborhoods, are currently held for sale or will be developed in future periods. The remaining 62 housing projects represent controlled land positions approved for purchase. Land-related impairments during the quarter ended September 30, 2008 represented 28 neighborhoods and land investments.

Also, during the three months ended September 30, 2008, we determined it was probable we would not exercise certain lot option contracts, which resulted in writing off deposits and pre-acquisition costs for 13 option contracts, resulting in a remaining balance of 78 outstanding option contracts at September 30, 2008. Continued deterioration in demand and market conditions could result in significant additional impairments and a decision to not exercise additional lot option contracts, which would result in additional write-offs. In addition, we could incur additional losses and impairments related to our joint ventures. Please refer to Inventory Valuation in the Critical Accounting Estimates and to Note (D), Inventories, of the Notes to Consolidated Financial Statements for additional details on our land holdings.

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Home Building s selling, general and administrative expenses decreased $147.8 million and $280.2 million for the three and six months ended September 30, 2008, respectively, when compared to the same periods in the prior year. Despite these decreases in both periods, selling, general and administrative expenses increased slightly as a percentage of revenue. One of the factors contributing to the decrease in selling, general and administrative expenses for the three and six months ended September 30, 2008 was a reduction in personnel that resulted in a substantial reduction in compensation and benefit costs. The number of Home Building employees, excluding sales personnel, was approximately 2,600 and 3,700 as of September 30, 2008 and 2007, respectively. We are focused on ensuring we size our organization in response to current market conditions, and continue to combine divisional staff into central locations to more effectively leverage resources across the organization. The following tables summarize Home Building s selling, general and administrative expenses, or SG&A (dollars in thousands):

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change
Compensation and Benefits	**$ 63,685**	**(42.9%)**	$ 111,556	(31.3%)
Sales Commissions	**41,233**	**(57.0%)**	95,802	(10.0%)
Advertising and Marketing	**16,660**	**(60.8%)**	42,489	(12.9%)
Other	**27,278**	**(41.7%)**	46,784	(19.2%)
Selling, General and Administrative Expenses	**$ 148,856**	**(49.8%)**	$ 296,631	(21.0%)
SG&A as a Percentage of Revenues	**15.6%**	**1.5**	14.1%	

	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Compensation and Benefits	**$ 137,132**	**(41.4%)**	$ 234,158	(31.3%)
Sales Commissions	**90,694**	**(50.1%)**	181,858	(12.4%)
Advertising and Marketing	**32,617**	**(61.4%)**	84,428	(12.4%)
Other	**54,628**	**(42.4%)**	94,815	(12.2%)
Selling, General and Administrative Expenses	**$ 315,071**	**(47.1%)**	$ 595,259	(20.9%)
SG&A as a Percentage of Revenues	**15.7%**	**0.5**	15.2%	1.0

Sales Orders, Average Cancellation Rates, Backlog Units and Land Holdings

For each unit in backlog, we have received a signed customer contract and a customer deposit, which is refundable under certain circumstances. The backlog units included in the table below are net of cancellations. Cancellations occur for a variety of reasons, including a customer s inability to obtain financing, customer relocations or other customer financial hardships. The following tables summarize sales orders, average cancellation rates and backlog units:

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change

Sales Orders (in Units)				
East	**1,059**	**(38.6%)**	1,725	(11.7%)
Central	**1,075**	**(54.6%)**	2,370	(17.5%)
West	**594**	**(67.0%)**	1,801	(9.5%)
Other homebuilding		**(100.0%)**	57	418.2%
	2,728	**(54.2%)**	5,953	(12.8%)
Sales Per Average Neighborhood	**5.2**	**(42.2%)**	9.0	(9.1%)

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	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Sales Orders (in Units)				
East	**2,559**	**(30.3%)**	3,672	(16.1%)
Central	**2,825**	**(43.2%)**	4,974	(20.9%)
West	**1,526**	**(58.7%)**	3,694	(14.8%)
Other homebuilding	**33**	**(62.1%)**	87	11.5%
	6,943	**(44.1%)**	12,427	(17.6%)
Sales Per Average Neighborhood	**12.7**	**(31.7%)**	18.6	(16.2%)

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change
Average Cancellation Rates				
East	**31.9%**	**3.0**	28.9%	(7.3)
Central	**45.3%**	**10.0**	35.3%	1.2
West	**43.5%**	**2.5**	41.0%	(0.9)
Other homebuilding		**(20.8)**	20.8%	(60.6)
Total Home Building	**40.3%**	**4.9**	35.4%	(2.0)

	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Average Cancellation Rates				
East	**26.0%**	**(1.4)**	27.4%	(4.9)
Central	**38.4%**	**5.0**	33.4%	1.6
West	**39.2%**	**1.3**	37.9%	(2.9)
Other homebuilding	**5.7%**	**(36.7)**	42.4%	(6.3)
Total Home Building	**34.4%**	**1.1**	33.3%	(1.6)

	As of			
	September 30, 2008	**Change**	March 31, 2008	Change
Backlog Units				
East	**2,801**	**14.4%**	2,448	(25.3%)
Central	**2,616**	**(11.5%)**	2,955	(25.9%)
West	**1,536**	**(34.4%)**	2,340	(26.3%)
Other homebuilding		**(100.0%)**	3	(98.6%)
	6,953	**(10.2%)**	7,746	(27.3%)

For the three and six months ended September 30, 2008, sales orders declined in all of the regions in which we do business when compared to the three and six months ended September 30, 2007. We expect that the decreases in sales orders will have a negative impact on our closings in the near term.

As previously discussed, some of the factors we believe are contributing to the decrease in sales orders are a continued decline in homebuyer demand due to lower consumer confidence, as well as the inability of some prospective buyers to qualify for loans to purchase our homes or to sell their existing homes and increases in the number of homes available for sale as a result of foreclosures. The decline in homebuyer demand has also been caused by the tightened homebuyer credit requirements. These factors are evidenced by a 50.9% drop and a 45.6% drop during the three and six months ended September 30, 2008, respectively, in customer traffic, and cancellation rates that are much higher than our long-term average cancellation rates ranging from 18% to 26%. The increase in

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cancellation rates during the three months ended September 30, 2008 is primarily due to the elimination of down payment assistance programs and the economic factors previously discussed.

In light of the continuing adverse market conditions, our strategy is to focus on selling homes, reducing inventories, reducing costs, generating cash and simplifying our business through process improvement initiatives. We curtailed speculative housing starts so that we could reduce our speculative inventory and facilitate our transition to an operating model more focused on constructing homes from a sold backlog.

Total speculative inventory decreased 20.4% to 1,396 units, excluding models, at September 30, 2008 compared to 1,754 units at March 31, 2008. We have also continued to take actions to reduce our land position. The following table summarizes our land position:

	As of					
	September 30, 2008			March 31, 2008		
	Lots Owned	**Lots Controlled**	**Total Lots**	Lots Owned	Lots Controlled	Total Lots
East	**32,532**	**5,919**	**38,451**	35,235	8,551	43,786
Central	**17,223**	**4,456**	**21,679**	20,261	6,349	26,610
West	**12,232**	**1,491**	**13,723**	13,634	3,247	16,881
Other homebuilding	**1,324**		**1,324**	1,092		1,092
	63,311	**11,866**	**75,177**	70,222	18,147	88,369
Change	**(9.8%)**	**(34.6%)**	**(14.9%)**	(28.6%)	(70.6%)	(44.8%)

Capitalized costs related to lots owned are included in land under development and land held for development and sale. Lot counts related to completed homes or homes under construction are excluded from the totals above. The dollar amounts related to these lot counts are classified as direct construction, a component of housing projects, in our Consolidated Balance Sheets. The direct construction lot counts as of September 30, 2008 and March 31, 2008 were 6,967 and 7,324, respectively, including 992 and 1,323, respectively, of lots for model homes completed or under construction.

We decreased our total land position when compared to March 31, 2008. The decrease in our land position for the six months ended September 30, 2008 is a result of our decision to curtail land purchases and exit certain lot option arrangements. Based on current market conditions, we believe we are oversupplied in total lots in certain markets and will continue to seek opportunities to reduce our land position. These steps may include one or more sales of land. As compared to September 30, 2007, our total land position has decreased by 56,338 lots or 42.8%. Included in our total land position are 1,979 and 3,429 lots controlled through joint venture arrangements as of September 30, 2008 and March 31, 2008, respectively. The percentage decreases in our total land position reflected in the table above for March 31, 2008 are as compared to March 31, 2007. These decreases included, but were not limited to, significant land sales that occurred in the fourth quarter of fiscal year 2008.

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Regional Discussion

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

	For the Three Months Ended September 30,			
	2008	**Change**	2007	Change
Revenues				
East	**$ 311,037**	**(57.5%)**	$ 731,716	(20.7%)
Central	**295,809**	**(43.4%)**	522,574	(13.9%)
West	**343,484**	**(56.8%)**	794,448	(25.2%)
Other homebuilding	**2,266**	**(96.0%)**	56,746	(14.4%)
	$ 952,596	**(54.8%)**	$ 2,105,484	(20.8%)
Operating Loss				
East	**$ (46,462)**	**(66.2%)**	$ (137,533)	(246.5%)
Central	**(22,482)**	**(32.4%)**	(33,258)	(228.0%)
West	**(41,906)**	**(93.8%)**	(673,590)	NM
Other homebuilding	**(3,914)**	**(96.4%)**	(108,312)	NM
	$ (114,764)	**(88.0%)**	$ (952,693)	(740.5%)

	For the Six Months Ended September 30,			
	2008	**Change**	2007	Change
Revenues				
East	**$ 619,076**	**(52.2%)**	$ 1,294,533	(30.0%)
Central	**593,988**	**(38.8%)**	971,151	(18.6%)
West	**772,671**	**(50.0%)**	1,544,218	(27.2%)
Other homebuilding	**16,560**	**(83.3%)**	99,402	(30.3%)
	$ 2,002,295	**(48.8%)**	$ 3,909,304	(26.3%)
Operating Loss				
East	**$ (133,264)**	**0.2%**	$ (132,963)	(156.3%)
Central	**(35,952)**	**29.6%**	(27,749)	(150.1%)
West	**(72,393)**	**(91.2%)**	(818,546)	(655.4%)
Other homebuilding	**(4,258)**	**(97.1%)**	(145,214)	(772.9%)
	$ (245,867)	**(78.1%)**	$ (1,124,472	