CENTEX CORP
Form 10-K
May 28, 2004

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended March 31, 2004

Commission File No. 1-6776

CENTEX CORPORATION

(Exact name of registrant as specified in its charter)
Nevada
(State of incorporation)
75-0778259
(I.R.S. Employer Identification No.)
2728 N. Harwood, Dallas, Texas 75201
(Address of principal executive office, including zip code)
(214) 981-5000
(Registrant s telephone number)

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

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

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

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

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

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

On September 30, 2003 (the last business day of the registrant s most recently completed second fiscal quarter), the aggregate market value of the Centex Corporation common stock held by non-affiliates of the registrant was

$4.80 billion based upon the last sale price reported for such date on the New York Stock Exchange. Solely for purposes of determining this amount, Centex Corporation will treat as an affiliate (i) any director or executive officer of Centex Corporation or (ii) any person who beneficially owns more than 10% of the outstanding common stock of Centex Corporation as reflected in a Schedule 13D filed with the Securities and Exchange Commission, unless such person indicates in such filing that it holds such shares solely for investment and not with a view to exercising control over the business or affairs of Centex Corporation. As of May 15, 2004, 123,356,741 shares of the registrant s $.25 par value common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) Proxy statement for the annual meeting of stockholders of Centex Corporation to be held on July 15, 2004.

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PART IV

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PART I

ITEM 1. BUSINESS

General Development of Business

Centex Corporation is a Nevada corporation. Our common stock, par value $.25 per share, began trading publicly in 1969. Our common stock is traded on the New York Stock Exchange, or the NYSE. As of May 15, 2004, 123,356,741 shares of our common stock were outstanding. Any reference herein to we, us or our includes Centex Corporation and its subsidiary companies.

Since our founding in 1950 as a Dallas, Texas-based residential construction company, we have evolved into a multi-industry company. As of March 31, 2004, our subsidiary companies operated in four principal business segments: Home Building, Financial Services, Construction Services and Investment Real Estate. We provide a brief overview of each segment below, with a more detailed discussion of each segment later in this section.

Our domestic homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of single-family homes, townhomes and low-rise condominiums. We have participated in the conventional homebuilding business since 1950. Home Building internally tracks its performance compared to the last reported twelve months of revenues for its competitors. Based on Home Building s comparisons, we believe that it ranked as the nation s fourth largest homebuilder at March 31, 2004. Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments throughout the United Kingdom.

Our Financial Services operations are primarily engaged in the residential mortgage banking business, as well as other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations, other homebuilders and other real estate professionals, sub-prime home equity lending and the sale of title insurance and various other insurance coverages. We have been in the mortgage lending business since 1973.

Our Construction Services operations involve the construction of buildings and facilities for both private and government interests, including educational institutions, hospitals, military housing, correctional institutions, airport facilities, office buildings, hotels and resorts and sports facilities. We entered the Construction Services business in 1966 by acquiring a Dallas-based contractor that had been in business since 1936. We also acquired significant construction companies in 1978, 1982, 1987 and 1990.

Our Investment Real Estate operations involve the development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. We have determined that no significant capital will be allocated to Investment Real Estate for new business development. Beginning April 1, 2004, the Investment Real Estate financial results will be included in our Other business segment.

In June 2003, we spun off to our stockholders substantially all of our manufactured housing operations, which had previously been included in our Other business segment. We now report the historical financial results of manufactured housing operations as a discontinued operation.

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Prior to January 2004, we were also engaged in the construction products business through our majority equity interest in Centex Construction Products, Inc. (now known as Eagle Materials Inc.), which we refer to as Construction Products. On January 30, 2004, we spun off to our stockholders our entire equity interest in Construction Products. We now report the historical financial results of Construction Products as a discontinued operation.

Prior to February 2004, the common stock of 3333 Holding Corporation, which we refer to as Holding, and warrants to purchase limited partnership interests in Centex Development Company, L.P., which we refer to as the Partnership, were traded in tandem with our common stock. We held an ownership interest in the Partnership, which we reported on the equity method of accounting as a part of our Investment Real Estate business segment. Neither Holding nor the Partnership were consolidated in our financial statements. The operations of the Partnership included homebuilding operations in the United Kingdom. In February 2004, we acquired Holding and the Partnership through merger transactions, and the tandem trading arrangement was terminated. As a result of the merger, the international homebuilding operations of the Partnership are now included in our Home Building business segment, and the Partnership s domestic real estate operations are included in the Investment Real Estate segment for periods prior to April 1, 2004 and will be included in our Other business segment beginning April 1, 2004.

Financial Information about Industry Segments

Note (K), Business Segments, of the Notes to Consolidated Financial Statements on pages 82-85 of this Report contains additional information about our business segments and specific information on revenues received from external customers located in the United States and the United Kingdom for fiscal 2004, 2003 and 2002.

Narrative Description of Business

HOME BUILDING

Domestic

Our conventional homebuilding subsidiary, Centex Homes, purchases and develops land or lots and constructs and sells single-family homes, townhomes and low-rise condominiums domestically. Centex Homes is the only company to rank among the nation s top 10 homebuilders for each of the past 35 years according to *Professional Builder* magazine. Centex Homes sells to both first-time and move-up buyers, as well as active adult and second home buyers. In fiscal 2004, 81% of the homes we sold were single-family detached homes, and the remainder were townhomes and low-rise condominiums.

Markets

Centex Homes follows a strategy of reducing exposure to local market volatility by diversifying operations across geographically and economically diverse markets. As of March 31, 2004, Centex Homes was building in 92 market areas, including Washington, D.C., and in 26 states. Each market is listed below by geographic areas.

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Region	States	Markets	States and Markets (continued)	
Mid-Atlantic	Maryland	Baltimore	Pennsylvania	Pittsburgh
	New Jersey	Atlantic/Cape May	South Carolina	Charleston/North Charleston
		Middlesex/Hunterdon/Sommerset		Hilton Head
		Monmouth/Ocean		Myrtle Beach
		Trenton	Virginia	Norfolk/Virginia Beach/Newport
	North Carolina	Charlotte/Gastonia/Rock Hill		Richmond/Petersburg
		Greensboro/Winston Salem/High Point		Washington, D.C.
		Raleigh/Durham/Chapel Hill		
		Wilmington		
Southeast	Florida	Daytona Beach	Georgia	Atlanta
		Ft. Lauderdale	South Carolina	Columbia
		Ft. Myers/Cape Coral		Greenville/Spartanburg/Anderson
		Ft. Walton Beach	Tennessee	Nashville
		Jacksonville		
		Lakeland/Winter Haven		
		Naples		
		Orlando		
		Punta Gorda		
		Sarasota/Bradenton		
		Tampa/St. Petersburg/Clearwater		
		West Palm Beach/Boca Raton		
Midwest	Colorado	Boulder/Longmont	Missouri	St. Louis
		Denver	Ohio	Akron
		Eagle		Canton/Massillon
		Fort Collins/Loveland		Cincinnati
		Greeley		Cleveland/Lorain/Elyria
	Indiana	Indianapolis		Columbus
		Fort Wayne		Dayton/Springfield
	Illinois	Chicago		Mansfield
	Kentucky	Louisville		Steubenville/Weirton
	Michigan	Ann Arbor		Toledo
		Detroit		Youngstown/Warren
		Grand Rapids/Muskegon/Holland	Utah	Salt Lake City
		Kalamazoo/Battle Creek		
	Minnesota	Minneapolis/St. Paul		
		Rochester		
Southwest	Arizona	Phoenix/Mesa	Texas	Austin/San Marcos
	Nevada	Las Vegas		Brazoria
		Albuquerque		Dallas

	New Mexico			
		Santa Fe		Ft. Worth/Arlington
				Galveston/Texas City
				Houston
				Killeen/Temple
				San Antonio
West Coast	California	Bakersfield	Hawaii	Hawaii
		Fresno	Nevada	Las Vegas
		Kings County		Reno
		Los Angeles/Long Beach	Oregon	Eugene
		Oakland		Portland/Vancouver
		Orange County	Washington	Seattle/Bellevue/Everett
		Riverside/San Bernardino		Tacoma
		Sacramento		
		San Diego		
		San Francisco		
		San Jose		
		San Luis Obispo		
		Visalia/Tulare/Porterville		
		Yolo		

In fiscal 2004, Centex Homes closed 30,358 homes, including first-time, move-up and, in some markets, custom homes, ranging in price from approximately $59,000 to $1.5 million. The average sales price in fiscal 2004 was $242,465.

Our practice has been to acquire land, build homes on the land and sell the homes within 24 to 36 months from the date of land acquisition. Generally, this involves acquiring land that is properly zoned and is either ready for development or, to some degree, already developed. We control a substantial amount of our land, including lots and land to be developed into lots, through option agreements that we can exercise over specified time periods or, in certain cases, as the land or lots are needed. At March 31, 2004, Centex Homes owned approximately 77,000 lots and had options to purchase approximately 115,000 lots. In addition, Centex Homes enters into joint ventures with other builders and developers for land acquisition, development and other activities. For additional discussion of our participation in joint ventures and lot option agreements, see Notes (H), Commitments and Contingencies, and (I), Land Held Under Option Agreements Not Owned and Other Land Deposits of the Notes to Consolidated Financial Statements on pages 79-81 of this Report.

Our growth strategy for Centex Homes has been focused primarily on organic growth opportunities through land acquisition and development in existing business units and markets. To a lesser extent, we have also grown the business through the acquisition of other homebuilding companies. Since April 1998, we have acquired homebuilding operations of the following companies:

Company	Date Acquired	Description
Wayne Homes	April 1998	Single-family homes in the on-your-lot market segment.
Teal Homes	May 1998	Single-family homes for the first-time and move-up buyer in the Richmond, Virginia area.
Calton Homes	December 1998	Single-family homes for the first-time and move-up buyer in New Jersey.
Real Homes	September 1999	Single-family homes for the first-time and move-up buyer in the Las Vegas, Nevada area.
Selective Group	March 2001	Single-family homes for the first-time and move-up buyer in the Detroit, Michigan area.
CityHomes	March 2001	Urban townhomes and condominiums in the Dallas, Texas area.
Jones Company	January 2003	Single-family homes for the first-time and move-up buyer in the St. Louis, Missouri and Indianapolis, Indiana areas.

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

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

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

Closings (in units):

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**5,201**	4,501	3,877	3,395	3,058
Southeast	**5,568**	4,851	4,440	4,137	4,142
Midwest	**5,801**	4,695	3,688	3,296	3,089
Southwest	**8,708**	8,157	6,910	5,661	4,923
West Coast	**5,080**	4,223	4,045	4,170	3,692
	30,358	26,427	22,960	20,659	18,904
Average Sales Price (in 000 s)	**$ 242**	$ 220	$ 214	$ 206	$ 192

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

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**2,801**	2,148	1,503	1,365	1,210
Southeast	**3,707**	2,713	2,315	1,936	1,891
Midwest	**3,392**	2,920	2,093	2,037	1,628
Southwest	**2,869**	2,258	2,361	2,546	1,861
West Coast	**2,645**	2,011	1,099	1,381	989
	15,414	12,050	9,371	9,265	7,579

We define backlog units as units that have been sold, as evidenced by a signed contract, but not closed. Substantially all of the orders in sales backlog as of March 31, 2004 are expected to close during fiscal year 2005.

Sales (Orders) (in units):

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Mid-Atlantic	**5,854**	5,146	3,936	3,550	3,207
Southeast	**6,562**	5,249	4,819	4,182	4,202
Midwest	**6,273**	5,087	3,744	3,572	3,207
Southwest	**9,319**	8,054	6,725	6,325	5,031
West Coast	**5,714**	5,132	3,763	4,562	3,760
	33,722	28,668	22,987	22,191	19,407

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Competition and Other Factors

The conventional homebuilding industry is essentially a local business and is highly competitive. The top 10 builders in calendar year 2003 accounted for approximately 15.1% of the total for-sale attached and detached housing permits in the United States. We compete in each of Centex Homes market areas with numerous other homebuilders, including national, regional and local builders. Centex Homes top six competitors based on revenues for their most recent fiscal year-end are as follows: Beazer Homes USA, Inc., D. R. Horton, Inc., KB Homes, Lennar Corporation, Pulte Homes, Inc. and The Ryland Group, Inc. Centex Homes operations accounted for an estimated 2.1% of the total for-sale attached and detached housing permits in the United States for the twelve months ended March 31, 2004. The main competitive factors affecting Centex Homes operations are location, price, availability of mortgage financing for customers, construction costs, design and quality of homes, customer service, marketing expertise, availability of land, price of land and reputation. We believe that Centex Homes competes effectively by building a high quality home, maintaining geographic diversity, being responsive to the specific demands of each market and managing the operations at a local level.

The results of operations of our Home Building segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective home buyers to finance home purchases. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

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

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

We purchase materials, services and land from numerous sources (primarily local vendors), and believe that we can deal effectively with the challenges we may experience relating to the supply or availability of materials, services and land.

International

In February 2004, we acquired through merger transactions Holding and its subsidiary and the Partnership and its subsidiaries. Our international homebuilding operations currently involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments throughout the United Kingdom. International homebuilding currently has 47 developments located throughout England. For the period from February 29, 2004, the date of the merger

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transactions, through March 31, 2004, our international homebuilding operations delivered 236 units, with prices ranging from $95,000 to $795,000. The average sales price was approximately $327,326. As of March 31, 2004, our international homebuilding operations had 388 units in sales backlog. We define backlog units as units that have been sold, as evidenced by a signed contract, but not closed. Substantially all of the orders in sales backlog as of March 31, 2004 are expected to close during fiscal 2005. Home Building s international operations currently account for less than 1% of the new homes market in the United Kingdom.

FINANCIAL SERVICES

Our Financial Services operations are primarily engaged in the residential mortgage lending business, as well as other financial services that are in large part related to the residential mortgage market. These operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations, other homebuilders and other real estate professionals, sub-prime home equity lending and the sale of title insurance and various other insurance coverages.

Conforming Mortgage Lending

We established CTX Mortgage Company, LLC and its related companies to provide mortgage financing for homes built by Centex Homes. By opening CTX Mortgage Company, LLC offices in Centex Homes housing markets, we have been able to provide mortgage financing for an average of 69% of Centex Homes sales, other than cash sales, over the past five years and 74% in fiscal 2004. In 1985, we expanded CTX Mortgage Company, LLC s operations to include the origination of mortgage loans that are not associated with the sale of homes built by Centex Homes. We refer to mortgage financing for homes built by Centex Homes as Builder loans and to mortgage financing for homes built by others as Retail loans.

At March 31, 2004, CTX Mortgage Company, LLC originated loans through its loan officers in 240 offices located in 36 states. The offices vary in size depending on loan volume.

The following table shows the unit breakdown of Builder and Retail loans for CTX Mortgage Company, LLC and its related companies for the five years ended March 31, 2004:

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Loan Types:					
Builder	**20,865**	18,127	15,435	12,506	10,958
Retail	**67,481**	66,807	64,949	48,244	48,301
	88,346	84,934	80,384	60,750	59,259
Origination Volume (in billions)	**$ 15.12**	$ 13.99	$ 12.45	$ 8.88	$ 8.11

Percent of Centex Homes Non-Cash Closings Financed	**74%**	73%	72%	64%	61%

We provide mortgage origination and other mortgage-related services for the Federal Housing Administration, or FHA, the Department of Veterans Affairs, or VA, and conventional loans on homes that Centex Homes or others build and sell, as well as resale homes and refinancing of existing mortgages. Our loans are generally first-lien mortgages secured by one- to four-family residences. A majority of the loans qualify for inclusion in programs sponsored by the Government National Mortgage Association, or GNMA, the Federal National Mortgage Association, or FNMA, or the Federal Home Loan Mortgage Corporation, or FHLMC. These loans are known in the industry as conforming loans. The remainder of the loans are either pre-approved and individually underwritten by CTX Mortgage Company, LLC or private investors who subsequently purchase the loans, or are funded by private investors who pay a broker fee to CTX Mortgage Company, LLC for broker services rendered. CTX Mortgage Company, LLC s principal sources of income consist of gains on sales of mortgage loans, inclusive of all servicing rights, and, to a lesser extent, net interest income and other fees. Generally, we sell our right to service the mortgage loans and retain no other residual interests.

We also participate in joint-venture agreements with third-party homebuilders and other real estate professionals to provide mortgage originations for their customers. These joint venture companies are fully consolidated in CTX Mortgage Company, LLC s financial statements. At March 31, 2004, CTX Mortgage Company, LLC had 21 of these agreements, operating in 21 offices located in 9 states.

In 1999, CTX Mortgage Company, LLC entered into a mortgage loan purchase agreement with Harwood Street Funding I, LLC, or HSF-I, that we refer to as the HSF-I Purchase Agreement. HSF-I is a variable interest entity for which we are the primary beneficiary and, as of July 1, 2003, is consolidated with our Financial Services segment. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from the issuance of senior debt and subordinated certificates. Since 1999, CTX Mortgage Company, LLC has sold substantially all of the conforming and Jumbo A mortgage loans that it originates to HSF-I in accordance with the HSF-I Purchase Agreement. When HSF-I acquires these loans, it typically holds them for a period of 45 to 60 days and then resells them into the secondary market. In accordance with the HSF-I Purchase Agreement, CTX Mortgage Company, LLC acts as servicer of the loans owned by HSF-I and arranges for the sale of the mortgage loans into the secondary market.

Sub-Prime Home Equity Lending

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

At March 31, 2004, Home Equity had 166 offices and was doing business in 47 states. Home Equity originates home equity loans through five major origination sources:

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

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The following table summarizes Home Equity s origination statistics for the five-year period ended March 31, 2004:

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Loans	**36,659**	29,448	26,955	26,418	20,568
Origination Volume (in billions)	**$ 3.92**	$ 2.51	$ 2.09	$ 1.72	$ 1.32

We began servicing loans through Home Equity in fiscal 1997, and we generally service all loans included in the Home Equity portfolio. Servicing fees for sub-prime loans are significantly higher than for conforming loans, primarily due to the higher costs associated with more frequent contact with customers. Servicing encompasses, among other activities, the following processes: billing, collection of payments, investor reporting, customer help, recovery of delinquent payments and instituting foreclosure and liquidation of the underlying collateral. As of March 31, 2004, Home Equity was servicing a sub-prime loan portfolio of 87,073 loans with a total loan value of approximately $7.14 billion.

From October 1997 through March 2000, a majority of Home Equity s loans originated were included in securitizations that utilized a structure that resulted in the loans being accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result of the sales accounting treatment, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. As of March 31, 2004, Home Equity had a remaining MSRI of $87.8 million, which includes $86.5 million remaining on loans securitized from October 1997 to March 2000 accounted for as gain on sale and $1.3 million related to loans sold in fiscal year 2004 to a government sponsored enterprise that we continue to service.

We changed the structure of securitizations beginning April 1, 2000. Subsequent to March 31, 2000, securitizations have been accounted for as borrowings; interest has been recorded over the life of the loans using the interest, or actuarial, method; the mortgage loans receivable and the securitization debt have remained on Home Equity s balance sheet and the related interest margin has been reflected in our income statement. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of the securitizations does not affect the cash flow and profit recognized over the life of the mortgages. However, the change did affect the timing of profit recognition. Interest margin, rather than gain on sale of loans, is now Home Equity s primary source of operating income. From April 1, 2000 to March 31, 2004, Home Equity completed fifteen securitizations totaling approximately $8.84 billion in loans under this structure.

Other Financial Services Operations

We offer title agent, title underwriting, closing, appraisal and other settlement services in 26 states under the Commerce Title name, including Commerce Title Company, Commerce Title Agency and Commerce Title Insurance Company. Through Westwood Insurance, a multi-line property and casualty insurance agency, we market homeowners and auto insurance to homebuilding and mortgage customers and customers of approximately nine other homebuilders in 50 states. Westwood Insurance also provides coverage for some commercial customers.

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Our Technologies Group, headquartered in Edmond, Oklahoma, provides mortgage quality control services and provides the mortgage industry with regulations and guidelines in an electronic format.

Competition and Other Factors

The financial services industry in the United States is highly competitive. CTX Mortgage Company, LLC competes with commercial banks, other mortgage lending companies and other financial institutions to supply mortgage financing at attractive rates to purchasers of Centex homes, as well as to the general public. Home Equity competes with commercial banks, other sub-prime lenders and other financial institutions to supply sub-prime financing at attractive rates. Our title and insurance operations compete with other providers of title and insurance products to sell their products to purchasers of our homes, as well as to the general public. Many of these competitors have greater resources than we do.

The results of operations of our Financial Services segment may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective home buyers to finance home purchases and/or curtail mortgage refinance activity. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

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

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

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CONSTRUCTION SERVICES

Construction Services provides a range of commercial contracting services, including construction management, general contracting, design-build and preconstruction services. As a general contractor or construction manager, Construction Services provides management personnel for the construction of facilities. Occasionally, Construction Services may perform some of the actual construction work on a project but will generally hire subcontractors to perform the majority of the work. For the fiscal year ended March 31, 2004, over 90% of contracted projects range in size from $10 million to $350 million.

Historically, Construction Services has conducted its operations through its distinct, largely autonomous operating companies. Construction Services principal operating companies are Centex Construction Company, Inc., Centex Rodgers, Inc. and Centex-Rooney Construction Co., Inc. These operating companies serve various geographic locations and project niches. In fiscal 2004, Construction Services decided to exit the industrial construction market. Construction Services is currently transitioning to one common organizational structure with one brand, standardized operating policies and procedures and an emphasis on certain geographic markets and project niches in which it has expertise. As of March 31, 2004, Construction Services primary offices are located in the metropolitan areas of Dallas, Nashville, Ft. Lauderdale, Charlotte and Washington D.C.

Construction contracts are primarily procured under one of two methods: negotiated (qualifications-based selection) or competitive bid (price-based selection). At March 31, 2004, approximately 88% of backlog was procured under the negotiated method. The backlog at March 31, 2004 was $1.75 billion compared to $1.52 billion at March 31, 2003. Approximately $1.22 billion of the backlog at March 31, 2004 is projected to be constructed and the related revenues recognized during fiscal year 2005. We define backlog as the uncompleted portion of all signed contracts.

The following table summarizes the backlog as of March 31, 2004 by industry segment:

Industry Segment	% of Backlog
Education	19%
Healthcare	19%
Military Housing	19%
Corrections	13%
Government	8%
Transportation	8%
Corporate Office Buildings	5%
Hospitality	3%
Other	6%
Total	100%

Competition and Other Factors

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

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

Construction Services operations are affected by federal, state and local laws and regulations relating to worker health and safety, as well as environmental laws. With respect to health and safety matters, we believe that Construction Services has taken appropriate precautions to protect employees and others from workplace hazards. Current environmental laws may require Construction Services operating subsidiaries to work in concert with project owners to acquire the necessary permits or other authorizations for certain activities, including the construction of projects located in or near wetland areas. Construction Services operations are also affected by environmental laws regulating the use and disposal of hazardous materials encountered during demolition operations. We believe that Construction Services current procedures and practices are consistent with industry standards and that compliance with the health and safety laws and environmental laws does not constitute a material burden or expense.

Construction Services operations obtain materials and services from numerous sources. Our construction companies believe they can deal effectively with challenges they may experience relating to the supply or availability of materials and services.

INVESTMENT REAL ESTATE

Investment Real Estate s operations involve the development and sale of land, primarily for industrial, office, multi-family, retail, residential and mixed-use projects. Investment Real Estate historically conducted its operations directly and through our investment in the Partnership, which was accounted for under the equity method of accounting. The Partnership s operations include domestic real estate operations and an international homebuilding business located in the United Kingdom. In February 2004, we acquired through merger transactions Holding and its subsidiary and the Partnership and its subsidiaries. Subsequent to the merger, we have consolidated the financial results of the Partnership; as a result, we have realigned our reporting for the Partnership, whereby the Partnership s international homebuilding operations are included in our Home Building business segment. The Partnership s domestic operations are reported in the Investment Real Estate business segment for periods through March 31, 2004. We have determined that no significant capital will be allocated to Investment Real Estate for new business development. Beginning April 1, 2004, the Investment Real Estate financial results will be included in our Other business segment.

As of March 31, 2004, Investment Real Estate owned land located in Texas zoned for office, retail and residential uses. At March 31, 2004, Investment Real Estate also owned approximately 291,000 square feet of office buildings located in Texas, 222,000 square feet of office and industrial projects under development in California and Texas, and 381 apartment units under development in Florida.

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EMPLOYEES

The following table presents a breakdown of our employees as of March 31, 2004:

Business Segment	Employees
Home Building	7,636
Financial Services	5,938
Construction Services	1,474
Investment Real Estate	8
Other	1,476
Total	16,532

The 1,476 Other employees include 1,322 employees of our home services operations, which provides home pest control services and 154 corporate employees. The 154 corporate employees are employed by Centex Corporation; all others are employees of our various subsidiaries.

AVAILABLE INFORMATION

Anyone seeking information about our business operations and financial performance can receive copies of the 2004 Annual Report to Stockholders, Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports and other documents filed with the Securities and Exchange Commission in Washington, D.C., without charge, by contacting our Corporate Communications office at (214) 981-6503; by writing to Centex Corporation, Investor Relations, P.O. Box 199000, Dallas, Texas 75219 or via email at ir@centex.com. In addition, all filings with the Securities and Exchange Commission, news releases and quarterly earnings announcements, including live audio and replays of recent quarterly earnings webcasts, can be accessed free of charge on our web site (www.centex.com). We make our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act available on our web site as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission. To retrieve any of this information, go to www.centex.com, select Investor Relations and select SEC Filings. The reference to our web site is merely intended to suggest where additional information may be obtained by investors, and the materials and other information presented on our web site are not incorporated in and should not otherwise be considered part of this Report.

ITEM 2. PROPERTIES

The following properties are used in the operation of our business:

Centex Homes owns property in Dallas, Texas. This property consists of office and warehouse buildings situated on approximately 18 acres. Centex Homes also owns smaller parcels of land in rural areas of Ohio, Indiana, Pennsylvania, Florida, North Carolina, Minnesota and Washington. Situated on this land are sales offices for its Wayne Homes on-your-lot market segment. Home Building owns a building in Tamworth, Staffordshire, England used by its international operations.

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

Investment Real Estate owns property in Dallas, Texas. This property consists of two office buildings and approximately seven acres of land. Home Equity is using one office building, and approximately 74% of the other office building is leased to Centex and its various subsidiaries.

See Item 1. Business on pages 3-15 of this Report for additional information relating to the Company s properties including land owned or controlled by our Home Building segment and land and buildings owned by our Investment Real Estate segment.

ITEM 3. LEGAL PROCEEDINGS

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

In January 2003, Centex received a request for information from the United States Environmental Protection Agency (EPA) pursuant to Section 308 of the Clean Water Act seeking information about storm water discharge practices at projects that Centex subsidiaries had completed or were building. Subsequently, the EPA limited its request to Centex Homes and 30 communities. Centex Homes has provided the requested information and the EPA has asserted that some of these and certain other communities have violated regulatory requirements applicable to storm water discharges, and that injunctive relief and civil penalties may be warranted. Centex Homes has defenses to the allegations made by the EPA and is exploring methods of settling this matter.

While the amount of civil penalties, if any, and the cost of injunctive relief, if any, are undetermined, the Company is confident that such amounts will not be material to its consolidated financial condition or operations.

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

On February 25, 2004, we held a special meeting of stockholders. At the special meeting, the following matters were approved by stockholders:

(1) Stockholders approved the proposal to amend the Restated Articles of Incorporation to increase Centex s authorized common stock from 100 million shares to 300 million shares as set forth in Item 1 of the Centex Corporation Proxy Statement dated January 26, 2004. Voting results, which are stock split adjusted, are summarized as follows:

Number of Shares			
For	*Against*	*Abstained*	*Broker Non-Votes*
103,751,674	2,755,916	568,840	

(2) Stockholders approved the proposal to terminate the nominee agreement relating to the tandem trading of Holding s and the Partnership s equity interests with Centex common stock, as set forth in Item 2 of the Centex Corporation Proxy Statement dated January 26, 2004. Voting results, which are stock split adjusted, are summarized as follows:

Number of Shares

For	*Against*	*Abstained*	*Broker Non-Votes*
92,025,216	1,161,598	629,792	

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EXECUTIVE OFFICERS OF CENTEX (See Item 10 of Part III of this Report)

The following is an alphabetical listing of our executive officers as of May 28, 2004, as such term is defined under the rules and regulations of the Securities and Exchange Commission. Officers are generally elected by the Board of Directors at its meeting immediately following our annual stockholders meeting, with each officer serving until a successor has been elected and qualified. There is no family relationship between any of these officers.

Name	Age	Positions with Centex or Business Experience
Leldon E. Echols	48	Executive Vice President and Chief Financial Officer of Centex Corporation since June 2000; Partner and employee at Arthur Andersen LLP from December 1978 to May 2000
Timothy R. Eller	55	Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of Centex Corporation (Chairman of the Board and Chief Executive Officer since April 2004; President and Chief Operating Officer since April 2002); Executive Vice President of Centex Corporation from August 1998 to April 2002; Chairman of the Board of Centex Real Estate Corporation from April 1998 to April 2003; Chief Executive Officer of Centex Real Estate Corporation from July 1991 to April 2002; President and Chief Operating Officer of Centex Real Estate Corporation from January 1990 to April 1998
Mark D. Kemp	42	Vice President and Controller of Centex Corporation since December 2002; Partner and employee at Arthur Andersen LLP from December 1983 to August 2002
Raymond G. Smerge	60	Executive Vice President, Chief Legal Officer, General Counsel and Secretary of Centex Corporation (Executive Vice President since July 1997; Chief Legal Officer since September 1985; General Counsel and Secretary since April 1993; Vice President from September 1985 to July 1997)
Robert S. Stewart	50	Senior Vice President of Centex Corporation since May 2000; Employee at the Weyerhaeuser Company from March 1977 to May 2000, during which time he held a range of key management positions, including positions in strategic planning.
Jonathan R. Wheeler	52	Senior Vice President of Centex Corporation since May 2004; Senior Vice President of Centex Real Estate Corporation from October 1997 to May 2004

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Prices and Dividends

	Year Ended March 31, 2004			*Year Ended March 31, 2003*		
	Price			Price		
	High	**Low**	**Dividends**	High	Low	Dividends
Quarter						
First	**$ 43.75**	**$ 26.78**	**$ .02**	$ 29.45	$ 24.45	$ .02
Second	**$ 41.48**	**$ 35.55**	**$ .02**	$ 29.60	$ 21.27	$ .02
Third	**$ 56.54**	**$ 38.55**	**$ .02**	$ 26.34	$ 19.16	$ .02
Fourth	**$ 58.40**	**$ 46.27**	**$ .04**	$ 28.79	$ 24.15	$ .02

The principal market for our common stock is the New York Stock Exchange (ticker symbol CTX). The approximate number of record holders of our common stock at May 15, 2004 was 3,056.

On March 12, 2004, we completed a two-for-one stock split in the form of a 100 percent stock dividend to our stockholders of record as of February 29, 2004. All prior period stock prices and dividends per share have been restated to give retroactive application to the stock split.

Dividend amounts represent cash dividends per share paid by us quarterly on our common stock. Effectively, the stock split mentioned above doubled Centex s dividend. We currently expect that comparable cash dividends will continue to be paid throughout fiscal year 2005.

The remaining information called for by this item relating to securities authorized for issuance under equity compensation plans is reported in Note (M), Capital Stock and Employee Benefit Plans, of the Notes to Consolidated Financial Statements on pages 87-91 of this Report.

The following table details our common stock repurchases for the three months ended March 31, 2004:

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan

Period					
January 1-31	No shares repurchased			4,349,600	1,672,800
February 1-29	396,000	$	50.70	4,745,600	3,604,000
March 1-31	880,000	$	55.17	5,625,600	2,724,000

On February 17, 2004, the Board of Directors increased our share repurchase authorization of common stock to 4,000,000 shares adjusted for the stock split discussed above. The total number of shares purchased in the above table represents shares of common stock repurchased pursuant to Board of Directors authorizations including the February 17, 2004 authorization and all prior authorizations. Purchases are made from time-to-time in the open market. The share repurchase authorization has no stated expiration date, and the Board of Directors has authorized all shares repurchased.

On May 29, 2003, Laurence E. Hirsch, an executive officer of Centex Corporation, converted a convertible debenture in the principal amount of $2.1 million into 400,000 shares of Centex Corporation common stock. Centex Corporation sold the debenture to Mr. Hirsch in May 1985. The 400,000 shares of common stock issued by Centex Corporation to Mr. Hirsch were not registered under the Securities Act of 1933 in reliance on the exemption from registration provided by Section 3(a)(9) thereof, which exempts any security exchanged by the issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting the exchange.

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ITEM 6. SELECTED FINANCIAL DATA

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

	For the Years Ended March 31,				
	2004	2003	2002	2001	2000
Revenues	**$ 10,363,391**	$ 8,428,705	$ 7,123,794	$ 6,138,577	$ 5,353,312
Earnings from Continuing Operations [2]	**$ 777,131**	$ 526,812	$ 358,402	$ 265,194	$ 192,021
Net Earnings	**$ 827,686**	$ 555,919	$ 382,226	$ 281,977	$ 257,132
Stockholders Equity	**$ 3,050,225**	$ 2,657,846	$ 2,116,773	$ 1,714,064	$ 1,419,349
Net Earnings as a Percentage of Beginning Stockholders Equity	**31.1%**	26.3%	22.3%	19.9%	21.5%
Total Assets	**$ 16,068,568**	$ 11,610,536	$ 8,985,455	$ 6,649,043	$ 4,038,740
Deferred Income Tax Assets	**$ 157,678**	$ 172,240	$ 166,346	$ 126,570	$ 106,489
Total Long-term Debt, Consolidated	**$ 8,615,864**	$ 6,181,543	$ 4,776,199	$ 2,758,118	$ 746,535
Debt (with Financial Services reflected on the equity method) [3]	**$ 2,418,190**	$ 2,024,953	$ 1,605,797	$ 1,182,250	$ 874,180
Financial Services Debt	**8,302,190**	4,998,819	3,485,027	2,054,898	415,327
Total Debt, Consolidated	**$ 10,720,380**	$ 7,023,772	$ 5,090,824	$ 3,237,148	$ 1,289,507
Capitalization (with Financial Services reflected on the equity method) [3] [4]	**$ 5,802,931**	$ 4,683,755	$ 3,724,827	$ 2,901,394	$ 2,350,728
Financial Services Capitalization [4]	**8,820,005**	5,380,226	3,797,355	2,323,155	620,080
Consolidation Eliminations	**(516,280)**	(379,671)	(310,353)	(266,124)	(202,931)
Total Capitalization, Consolidated	**$ 14,106,656**	$ 9,684,310	$ 7,211,829	$ 4,958,425	$ 2,767,877

Debt as a Percentage of Capitalization (4)										
With Financial Services reflected on the equity method (3)		**41.7%**		43.2%		43.1%		40.7%		37.2%
Consolidated		**76.0%**		72.5%		70.6%		65.3%		46.6%
Per Common Share (5)										
Earnings from Continuing Operations (2) Per Share Basic	**$**	**6.30**	$	4.33	$	2.96	$	2.25	$	1.62
Earnings from Continuing Operations (2) Per Share Diluted	**$**	**6.01**	$	4.18	$	2.87	$	2.18	$	1.58
Net Earnings Per Share Basic	**$**	**6.71**	$	4.57	$	3.16	$	2.39	$	2.17
Net Earnings Per Share Diluted	**$**	**6.40**	$	4.41	$	3.06	$	2.32	$	2.11
Cash Dividends	**$**	**.10**	$	.08	$	.08	$	.08	$	.08
Book Value Based on Shares Outstanding at Year End	**$**	**24.87**	$	21.84	$	17.30	$	14.30	$	12.07
Average Shares Outstanding										
Basic		**123,382,068**		121,564,084		121,121,576		118,190,806		118,616,316
Diluted		**129,392,821**		126,116,312		125,058,294		121,321,770		121,857,960
Stock Prices										
High	**$**	**58.40**	$	29.60	$	31.55	$	23.10	$	21.44
Low	**$**	**26.78**	$	19.16	$	14.02	$	10.32	$	8.75

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

(2) Earnings from Continuing Operations are Before Cumulative Effect of a Change in Accounting Principle. For more detailed discussion of the change in accounting principle, see Note (F), Indebtedness of the Notes to Consolidated Financial Statements on pages 74-78 of this Report.

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

(4)

Capitalization is composed of Debt, Negative Goodwill, Minority Interest and Stockholders Equity. Minority interest in fiscal 2004 includes $332.7 million of minority interests recorded in connection with the consolidation of certain entities with which Home Building has lot option agreements. Negative Goodwill arose in conjunction with the combination of Centex Real Estate Corporation with Vista Properties, Inc. in the fiscal year ended March 31, 1997. Fiscal years 2001 and 2000 include the accretion of negative goodwill to earnings as a reduction of costs and expenses. During fiscal 2001, negative goodwill was fully accreted.

(5) *On March 12, 2004, we completed a two-for-one stock split in the form of a 100 percent stock dividend to our stockholders of record as of February 29, 2004. All prior period stock prices, dividends and earnings per share have been restated to give retroactive application to the stock split.*

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

Executive Summary

The following summarizes our results for the three-year period ended March 31, 2004:

Revenues

Earnings (Loss) from Continuing Operations Before Income Tax and Cumulative Effect of a Change in Accounting Principle

Other consists of the financial results of Investment Real Estate, home services operations, corporate general and administrative expense and interest expense.

Fiscal year 2004 represents our eighth consecutive year of growth in revenues and earnings from continuing operations. As outlined in the charts above, in 2004 revenues increased 23% to $10.36 billion and

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earnings from continuing operations increased 54% to $1.15 billion. The increase in revenues and operating earnings is primarily the result of the operating results of our Home Building segment, complemented by improved operating results of our Financial Services segment. The growth in operating earnings from these segments was offset, to a much lesser extent, by a decline in operating earnings of our Construction Services segment. In addition to the execution of our organic growth strategy in our primary business segments (Home Building, Financial Services and Construction Services), in fiscal year 2004, we also (i) distributed $0.46 per share, split adjusted, in value to our stockholders through the spin-off of substantially all of our manufactured housing operations, (ii) distributed $5.29 per share, split adjusted, in value to our stockholders through the spin-off of our Construction Products segment, (iii) repurchased 3,426,200 shares of common stock and (iv) completed a two-for-one stock split, without changing the per share dividend, effectively doubling our cash dividend to stockholders beginning in the fourth quarter.

Home Building s organic growth strategy is driven primarily by growth in neighborhoods open for sale, increases in closings per neighborhood, increases in average selling prices, and continued improvements in operating margins. Over the last two fiscal years, Home Building s domestic operations have increased average neighborhood count from 474 to 558 and closings per average neighborhood from 48.4 to 54.4. Over that same period of time, operating margins have also improved from 9.8% to 12.8%.

The overall demand for housing in the United States remains favorable, and is driven by population growth, demographics, immigration, household formations and increasing home ownership rates. Short-term growth drivers such as mortgage rates, consumer confidence and employment levels can also impact housing demand. The highly fragmented homebuilding industry in the United States is in the early stages of a consolidation phase. In 1995, based upon single-family permits issued in the United States, the 10 largest homebuilders represented approximately 7.2% of the housing market. As of 2003, the 10 largest homebuilders were producing approximately 15.1% of the nation s new housing stock. We believe industry consolidation will continue to be an important growth factor over the next decade or more as large homebuilders realize the benefits of size, such as capital strength, more efficient operations and technological advantages.

Currently, we have homebuilding operations in 45 of the 50 largest housing markets in the United States. We have largely completed our geographic diversification plan and are now focused primarily on further penetration in our existing markets.

Financial Services operating results over the last two years have been favorably impacted by increases in loan originations reflective of a favorable mortgage interest rate environment and improvements in interest spread. The favorable rate environment also created substantial refinance activity. Thirty-year conventional mortgage fixed interest rates were 5.45%, 5.75% and 7.01% as of March 31, 2004, 2003 and 2002 respectively. In addition to the increases in loan originations, the Financial Services operations have also improved their operating leverage, which has had a positive effect on their operating earnings. Our Financial Services segment will continue to focus on serving the customers of our Home Building segment and increasing the percentage of conforming mortgage loans provided to them. For the year ended March 31, 2004, our conforming mortgage business financed approximately 74% of our Home Building non-cash unit closings. In addition, the Financial Services growth model includes plans to increase the number of loan officers originating Retail loans and improve their productivity. Our conforming mortgage lending business is a fee-based business with low capital requirements. Our Financial Services segment also includes our sub-prime home equity lending operations, which is a portfolio-based model that produces more predictable earnings. Our sub-prime home equity loans are obtained through our organically grown origination channels using centrally controlled product, pricing and underwriting.

The results of operations of certain of our segments, including our Home Building and Financial Services operations, may be adversely affected by increases in interest rates. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of

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prospective home buyers to finance home purchases and/or curtail mortgage refinance activity. Although we expect that we would be able to make adjustments in our operations to mitigate the effects of any increase in interest rates, there can be no assurances that these efforts would be successful.

Our Construction Services segment operating earnings have decreased over the last two years as a result of challenges in the overall commercial construction industry. Industry conditions have created increased pricing pressure on construction companies, which in turn has reduced our Construction Services operating margins. However, revenues have increased over the last two years due to our focus on increasing market share. The commercial construction environment remains challenged but is showing signs of improvement as evidenced by the increase in backlog. At March 31, 2004, the backlog was $1.75 billion, an increase of 14.9% over the prior year. Strategically, we will continue to focus on our core geographic and selected industry segments to achieve growth in revenues and operating earnings.

In fiscal year 2004, we consummated several transactions the most significant of which were the spin-offs to our stockholders of substantially all of our manufactured housing operations on June 30, 2003 and our entire ownership interest in Construction Products, a former majority owned subsidiary, on January 30, 2004. Since the dates of the spin-offs, the assets and liabilities of manufactured housing and Construction Products are no longer included in our consolidated balance sheet, their revenues and earnings are no longer included in our consolidated results of continuing operations, and we no longer operate in the Construction Products business segment. Manufactured housing and Construction Products are reported as discontinued operations in our consolidated financial statements contained in this Report.

FISCAL YEAR 2004 COMPARED TO FISCAL YEAR 2003

HOME BUILDING

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

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

Operating Earnings as a Percentage of Revenues	**13.2%**	**NM**	11.0%	NM

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

Domestic

Home Building s domestic operations involve the purchase and development of land or lots and the construction and sale of detached and attached single-family homes. The following summarizes the results of our Home Building domestic operations for the two-year period ended March 31, 2004:

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Units Closed	**30,358**	**14.9%**	26,427	15.1%
Average Unit Sales Price	**$ 242,465**	**10.1%**	$ 220,183	3.0%
Operating Earnings Per Unit	**$ 31,816**	**33.2%**	$ 23,889	12.7%
Backlog Units	**15,414**	**27.9%**	12,050	28.6%
Average Operating Neighborhoods	**558**	**7.5%**	519	9.5%
Closings Per Average Neighborhood	**54.4**	**6.9%**	50.9	5.2%
Lots Owned	**77,475**	**29.5%**	59,844	37.5%
Lots Controlled	**115,366**	**62.7%**	70,926	39.6%
Total Lots Owned and Controlled	**192,841**	**47.5%**	130,770	38.6%

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

Growth in average neighborhoods

Growth in closings per average neighborhood

Increases in average unit sales price

Operating margin improvement

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

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

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

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

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

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

During the year, we continued to increase our land position to facilitate our short and longer term growth initiatives. Based on our current closing projections, our land position that is currently owned or controlled under option agreements at March 31, 2004 would produce approximately 100% of our projected closings for fiscal year 2005, 80% of our projected closings for fiscal year 2006, and 55% of our projected closings for fiscal year 2007.

International

In February 2004, we acquired through merger transactions the Partnership, an investment previously accounted for on the equity method of accounting. Subsequent to the merger, international homebuilding operations of the Partnership have been consolidated with the Home Building segment. Prior period earnings related to the international homebuilding operations of the Partnership, previously reflected in our Investment Real Estate segment, have been reclassified to the Home Building segment to conform to the presentation subsequent to the merger. Our international homebuilding operations involve the purchase and development of land or lots and the construction and sale of a range of products from small single-family units to executive houses and apartments throughout the United Kingdom. Included in Home Building s operating results were revenues and operating earnings of $80.5 million and $14.1 million, respectively, for the one-month period subsequent to the merger transactions. Earnings from unconsolidated entities related to the international homebuilding operations of the Partnership were $25.3 million for the period from April 1, 2003 through February 29, 2004, the date of the merger, and $20.4 million for the fiscal year ended March 31, 2003.

FINANCIAL SERVICES

The Financial Services segment is primarily engaged in the residential mortgage lending business, as well as other financial services that are in large part related to the residential mortgage market. Its operations include mortgage origination, servicing and other related services for purchasers of homes sold by our Home Building operations and other homebuilders, sub-prime home equity lending and the sale of title insurance and various other insurance coverages.

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

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

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

Conforming Mortgage Lending

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

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues	**$ 521.1**	**14.8%**	$ 453.9	14.3%
Cost of Sales	**(21.9)**	**212.9%**	(7.0)	(50.7%)
Selling, General and Administrative Expenses	**(333.4)**	**0.4%**	(332.2)	13.2%

Operating Earnings	**$ 165.8**	**44.6%**	$ 114.7	28.0%
Interest Margin	**$ 47.4**	**457.6%**	$ 8.5	32.8%
Average Interest Earning Assets	**$ 1,332.4**	**570.9%**	$ 198.6	(18.5%)
Average Yield	**5.99%**	**NM**	7.18%	NM
Average Interest Bearing Liabilities	**$ 1,246.2**	**841.2%**	$ 132.4	(37.3%)
Average Rate Paid	**1.59%**	**NM**	4.08%	NM

The revenues and operating earnings of CTX Mortgage Company, LLC and its related companies are derived primarily from the sale of mortgage loans, inclusive of all servicing rights and, to a lesser extent, interest income and other fees. Net origination fees, mortgage servicing rights, and other revenues derived from the origination of mortgage loans are deferred and recognized when the related loan is sold to a third-party purchaser. Interest revenues on residential mortgage loans receivable are recognized using the interest (actuarial) method. Other revenues, including fees for title insurance and other services performed in connection with mortgage lending activities, are recognized as earned.

Our business strategy of selling conforming loans reduces our capital investment and related risks, provides substantial liquidity and is an efficient process given the size and maturity of the conforming mortgage loan secondary capital markets. CTX Mortgage Company, LLC originates mortgage loans, holds them for a short period and sells them to HSF-I and investors. HSF-I is a variable interest entity for which we are the primary beneficiary and, as of July 1, 2003, is consolidated with our Financial Services segment. As a result of the consolidation of HSF-I, we recorded a cumulative effect of a change in accounting principle of $13.3 million, net of tax, in the quarter ended September 30, 2003. This cumulative effect of a change in accounting principle primarily represented the deferral of service release premium income, offset to a lesser extent by the deferral of certain loan origination costs, which was recognized as loans were sold into the secondary market. The consolidation of HSF-I resulted in an increase in our residential mortgage loans held for sale with a corresponding increase in our debt of approximately $1.32 billion at March 31, 2004. In addition, interest income and interest expense of HSF-I subsequent to June 30, 2003 are reflected in our financial statements. As a result of the consolidation, interest expense reflected as cost of sales in the table above increased approximately $15 million. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from the issuance of securitized medium term notes, secured liquidity notes and subordinated certificates that are extendable for up to five years. CTX Mortgage Company, LLC and its related companies sold $16.25 billion of mortgage loans to investors during the year ended March 31, 2004. CTX Mortgage Company, LLC sold $10.55 billion of mortgage loans to HSF-I and other investors during the year ended March 31, 2003. CTX Mortgage Company, LLC and its related companies recognized gains on the sale of mortgage loans of $240.4 million and $254.5 million for the years ended March 31, 2004 and 2003, respectively.

In the normal course of its activities, CTX Mortgage Company, LLC carries inventories of loans pending sale to third-party investors and earns an interest margin, that we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans. CTX Mortgage Company, LLC uses HSF-I and short-term mortgage warehouse facilities to finance these inventories of loans. The significant increase in interest margin is due to the consolidation of HSF-I interest income and expense in our financial statements subsequent to June 30, 2003.

The increase in revenues for the year ended March 31, 2004 is the result of an increase in the volume of loans originated and sold to the secondary market, and to a lesser extent, higher revenues from Title and Insurance operations. The following table provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2004:

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Origination Volume	**$ 15,116.0**	**8.0%**	$ 13,991.2	12.4%
Number of Loans Originated				
Builder	**20,865**	**15.1%**	18,127	17.4%
Retail	**67,481**	**1.0%**	66,807	2.9%
	88,346	**4.0%**	84,934	5.7%

Number of Loan Applications				
Builder	**24,031**	**19.5%**	20,103	23.0%
Retail	**65,514**	**(6.3%)**	69,883	16.1%
	89,545	**(0.5%)**	89,986	17.6%
Average Loan Size	**$ 171,100**	**3.9%**	$ 164,700	6.4%
Profit Per Loan	**$ 1,839**	**34.3%**	$ 1,369	20.4%

The increase in loan originations is primarily reflective of an increase related to loans originated for Centex Homes buyers. CTX Mortgage Company, LLC originated 74% of the non-cash closings of Centex

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Homes buyers, an increase of 1% from the prior year. Per-loan profit increased due to increased operational leverage as a result of the increase in the volume of originations, as well as an increase in Title and Insurance earnings.

CTX Mortgage Company, LLC s operations are influenced by borrowers perceptions of and reactions to interest rates. Refinancing activity accounted for 39% and 42% of originations in 2004 and 2003, respectively. Any significant increase in mortgage interest rates above currently prevailing low levels could affect the ability or willingness of prospective home buyers to finance home purchases and/or curtail mortgage refinance activity. Although there can be no assurance that these efforts will be successful, we will seek to mitigate the effects of any increase in mortgage interest rates by adding loan officers, improving their productivity and reducing costs.

Sub-Prime Home Equity Lending

The following summarizes the results of our Sub-Prime Home Equity Lending operations for the two-year period ended March 31, 2004 (dollars in millions):

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

The revenues of Centex Home Equity Company, LLC, or Home Equity, are derived primarily from interest income on mortgage loans held for investment. Home Equity s operating earnings are derived primarily from the net interest margin on mortgage loans held for investment. The majority of Home Equity s loan originations are securitized and accounted for as borrowings; interest is recorded over the life of the loans using the interest, or actuarial method; the mortgage loans receivable and the securitization debt remain on Home Equity s balance sheet and the related interest margin is reflected in our income statement. We commonly refer to these securitized mortgage loans as portfolio accounting method loans. This structure of securitizations has been utilized since April 1, 2000. Previous loans originated were included in securitizations that utilized a structure that caused them to be accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. Our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations, which were accounted for as sales. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of

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the securitizations has no effect on the ultimate cash flow and profit recognized over the life of the mortgages. However, the change in accounting for securitizations did affect the timing of profit recognition. Interest margin, which is recognized over the life of the loan, is now Home Equity s primary source of operating income as compared to gain on sale of loans, which previously was recognized upon securitization. Home equity loans are securitized to provide a low cost method for funding our mortgage operations and to reduce our interest rate exposure on fixed rate loans. In addition to Home Equity s mortgage loans held for investment, in fiscal year 2004, Home Equity sold 2% of its mortgage loans originated to a government sponsored enterprise, which were accounted for as sales.

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

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

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

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Servicing Portfolio:				
Number of Loans				
Portfolio Accounting Method	**76,215**	**24.8%**	61,073	35.1%
Other	**10,858**	**(18.5%)**	13,329	(24.4%)
Total	**87,073**	**17.0%**	74,402	18.4%
Dollars in billions				
Portfolio Accounting Method	**$ 6.50**	**40.1%**	$ 4.64	42.8%
Other	**0.64**	**(23.8%)**	0.84	(25.0%)
Total	**$ 7.14**	**30.3%**	$ 5.48	25.4%

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

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

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

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

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

The increase in the provision for losses in fiscal 2004 occurred primarily because the amount of the residential mortgage loans held for investment increased and the residential mortgage loan portfolio continued to mature. As the age and size of the residential mortgage loan portfolio continues to mature and grow, we expect the provision for losses, the loans charged off and the allowance ratios to continue to increase. For a more detailed discussion of our accounting policy and methodology for establishing the provision for losses, see Critical Accounting Estimates Valuation of Residential Mortgage Loans Held for Investment on page 46 of this Report. Changes in the allowance for losses is included in Note (C), Allowance for Losses on Residential Mortgage Loans Held for Investment, of the Notes to Consolidated Financial Statements on page 72 of this Report.

The primary risks in Home Equity s operations are consistent with those of the financial services industry and include credit risk associated with its loans, liquidity risk related to funding its loans and interest rate risk prior to securitization of the loans. In addition, it is also subject to prepayment risks (principal reductions in excess of contractually scheduled reductions) associated with loans securitized prior to April 2000. See Note (A), Significant Accounting Policies, of the Notes to Consolidated Financial Statements on pages 62-71 of this Report.

CONSTRUCTION SERVICES

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

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues	**$ 1,596.3**	**5.2%**	$ 1,517.9	17.1%
Operating Earnings	**$ 16.4**	**(46.6%)**	$ 30.7	(15.2%)

New Contracts Executed	**$ 1,823**	**112.7%**	$ 857	(41.1%)
Backlog of Uncompleted Contracts	**$ 1,746**	**14.9%**	$ 1,520	(30.3%)

Operating earnings for Construction Services decreased as a result of depressed market conditions and the resulting pricing pressure. In addition, in fiscal 2004, Construction Services recorded a project loss of $4.5 million related to the construction of a distribution facility and incurred approximately $2.7 million of costs associated with its decision to exit the pharmaceutical and industrial construction markets. The increases in new contracts executed and backlog of uncompleted contracts were the result of our strategy to increase market share by focusing on key geographic markets and certain industry markets. Construction Services defines backlog as the uncompleted portion of all signed contracts.

Construction Services has also been awarded work that is pending execution of a signed contract. At March 31, 2004 and 2003, such work, which is not included in backlog, was approximately $2.03 billion and $1.94 billion, respectively. There is no assurance that this awarded work will result in future revenues.

INVESTMENT REAL ESTATE

The following summarizes Investment Real Estate s results for the two-year period ended March 31, 2004 (dollars in millions):

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Revenues	**$ 37.9**	**13.8%**	$ 33.3	(37.6%)
Earnings from Unconsolidated Entities	**$ 14.5**	**9.8%**	$ 13.2	97.0%
Operating Earnings	**$ 44.8**	**31.8%**	$ 34.0	(5.0%)

The changes in revenues and operating earnings were primarily related to the timing of property sales. Property sales contributed operating earnings of $30.8 million for the year ended March 31, 2004 and $18.3 million for the same period last year. The timing of sales is uncertain and can vary significantly from period to period. It is not currently anticipated that any significant capital will be allocated to Investment Real Estate for new business development. Effective April 1, 2004, Investment Real Estate will be included in the Other segment.

OTHER

Our Other segment includes our home services operations, corporate general and administrative expense and interest expense. In June 2003, we spun off substantially all of our investment in manufactured housing operations, which had previously been included in the Other segment. As a result of the spin-off, manufactured housing operations are reflected as a discontinued operation and not included in the segment information below.

Other consisted of the following (dollars in millions):

	For the Years Ended March 31,			
	2004		2003	
		% Change		% Change
Operating Loss from home services	**$ (2.3)**	**(76.0%)**	$ (9.6)	(340.0%)
Corporate General and Administrative Expenses	**(105.5)**	**75.0%**	(60.3)	20.1%
Interest Expense	**(39.9)**	**(33.8%)**	(60.3)	2.9%
Other		**(100.0%)**	(0.6)	%
Operating Loss	**$ (147.7)**	**12.9%**	$ (130.8)	24.1%

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

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Corporate general and administrative expenses represent corporate employee compensation and other corporate costs such as investor communications, insurance, rent and professional services. The increase in corporate general and administrative expenses is primarily related to compensation increases reflective of additional personnel to support the growth in our operations and higher performance-related compensation levels due to the expensing of stock options and increases in our earnings and returns. In addition, in fiscal 2004, we recorded an incremental $16 million in employee compensation related to acceleration of certain executive compensation costs for the March 31, 2004 retirement of an executive officer.

Total interest costs, including interest expensed and relieved to Home Building s costs and expenses and excluding interest to Financial Services, for the years ended March 31, 2004 and 2003, were $129.0 million and $109.8 million, respectively. The increase in total interest costs is primarily related to an increase in average debt outstanding for the fiscal year 2004, as compared to the prior year. This increase is offset by slightly lower borrowing costs in the fiscal year 2004, as compared to the prior year. For additional discussion of interest costs, see Note (A), Significant Accounting Policies of the Notes to Consolidated Financial Statements on pages 62-71 of this Report.

Our effective tax rate related to continuing operations increased to 32% from 30% in the prior year primarily due to the decrease in the utilization of net operating loss carryforwards during fiscal 2004 compared to fiscal 2003. We expect that the effective tax rate will increase in fiscal 2005 to approximately 35%. The expected increase in the effective tax rate is primarily due to the reduction of net operating loss carryforwards available to offset future taxable income.

DISCONTINUED OPERATIONS

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

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

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FISCAL YEAR 2003 COMPARED TO FISCAL YEAR 2002

HOME BUILDING

The following summarizes the results of our Home Building operations for the two-year period ended March 31, 2003 (dollars in millions except per unit data and lot information):

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Revenues Housing	$ 5,818.8	18.9%	$ 4,894.8	15.1%
Revenues Land Sales and Other	103.9	34.2%	77.4	(24.3%)
Cost of Sales Housing	(4,362.7)	17.8%	(3,703.9)	12.5%
Cost of Sales Land Sales and Other	(91.3)	40.7%	(64.9)	12.3%
Selling, General and Administrative Expenses	(849.2)	16.4%	(729.4)	18.6%
Earnings from Unconsolidated Entities	32.2	29.3%	24.9	8,400.0%
Operating Earnings	$ 651.7	30.6%	$ 498.9	27.8%
Operating Earnings as a Percentage of Revenues	11.0%	NM	10.0%	NM

Domestic

The following summarizes the results of our Home Building domestic operations for the two-year period ended March 31, 2003:

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Units Closed	26,427	15.1%	22,960	11.1%
Average Unit Sales Price	$ 220,183	3.0%	$ 213,738	3.8%
Operating Earnings Per Unit	$ 23,889	12.7%	$ 21,193	12.2%
Backlog Units	12,050	28.6%	9,371	1.1%

Average Operating Neighborhoods	519	9.5%	474	3.7%
Closings Per Average Neighborhood	50.9	5.2%	48.4	7.1%
Lots Owned	59,844	37.5%	43,513	16.6%
Lots Controlled	70,926	39.6%	50,819	17.8%
Total Lots Owned and Controlled	130,770	38.6%	94,332	17.2%

Revenues increased for the year ended March 31, 2003 primarily due to an increase in units closed and higher unit sales prices. The increase in units closed was the result of a higher number of operating neighborhoods in fiscal 2003 versus fiscal 2002. The increase in the unit sales price was largely driven by higher selling prices in the Washington, D.C., New Jersey and California markets.

Cost of sales was 75.2% of revenues for the year ended March 31, 2003 compared to 75.8% of revenues for the same period in the prior year. The decrease in cost of sales as a percentage of revenue is a result of higher per unit sales price and ongoing cost reduction efforts. The increase in selling, general and

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administrative expenses was due to incremental costs associated with closing more homes and higher personnel costs to support Home Building s growth in neighborhoods.

As a result of the increase in revenues, decrease in cost of sales as a percentage of revenues, and the continued leverage of the selling, general and administrative expenses discussed above, operating earnings for the year ended March 31, 2003 were 10.7% of revenues compared to operating earnings of 9.8% of revenues for the same period last year.

Units in backlog increased due to an increase in neighborhoods and an increase in sales versus the prior year.

Included in Home Building s financial results is equity in earnings of the Partnership s international operations of $20.4 million and $12.3 million for the years ended March 31, 2003 and 2002, which was reclassified from the Investment Real Estate segment to conform to the fiscal year 2004 presentation.

FINANCIAL SERVICES

The following summarizes the results of our Financial Services operations for the two-year period ended March 31, 2003 (dollars in millions):

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Revenues	$ 855.0	22.2%	$ 699.8	50.9%
Cost of Sales	(184.5)	16.0%	(159.1)	71.8%
Selling, General and Administrative Expenses	(508.7)	19.4%	(426.0)	21.3%
Operating Earnings	$ 161.8	41.1%	$ 114.7	482.2%
Interest Margin	$ 172.4	60.1%	$ 107.7	245.2%
Origination Volume	$ 16,497.4	13.5%	$ 14,537.9	37.2%
Number of Loans Originated	114,382	6.6%	107,339	23.1%
Number of Loan Applications	338,136	35.8%	249,030	13.5%

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Conforming Mortgage Lending

The following summarizes the results of our Conforming Mortgage Lending operations for the two-year period ended March 31, 2003 (dollars in millions):

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Revenues	$ 453.9	14.3%	$ 397.2	30.8%
Cost of Sales	(7.0)	(50.7%)	(14.2)	(21.5%)
Selling, General and Administrative Expenses	(332.2)	13.2%	(293.4)	16.6%
Operating Earnings	$ 114.7	28.0%	$ 89.6	163.5%
Interest Margin	$ 8.5	32.8%	$ 6.4	700.0%
Average Interest Earning Assets	$ 198.6	(18.5%)	$ 243.7	11.1%
Average Yield	7.18%	NM	7.86%	NM
Average Interest Bearing Liabilities	$ 132.4	(37.3%)	$ 211.0	9.2%
Average Rate Paid	4.08%	NM	5.57%	NM

Our business strategy of selling conforming loans reduces our capital investment and related risks, provides substantial liquidity and is an efficient process given the size and maturity of the conforming mortgage loan secondary capital markets. CTX Mortgage Company, LLC originates mortgage loans, holds them for a short period and sells them to HSF-I and investors. HSF-I was an unaffiliated entity that was not consolidated with Financial Services or Centex Corporation and subsidiaries at March 31, 2003. HSF-I purchases mortgage loans, at closing, from CTX Mortgage Company, LLC with the proceeds from the issuance of securitized medium term notes, secured liquidity notes and subordinated certificates that are extendable for up to five years. The debt, interest income and interest expense of HSF-I were not reflected in the financial statements of Financial Services or Centex Corporation and subsidiaries at March 31, 2003. CTX Mortgage Company, LLC sold $10.55 billion and $10.20 billion of mortgage loans to HSF-I and repurchased $6.9 million and $1.1 million of delinquent or foreclosed mortgage loans from HSF-I during the years ended March 31, 2003 and 2002, respectively. CTX Mortgage Company, LLC recognized gains on the sale of mortgage loans of $254.5 million and $188.9 million for the years ended March 31, 2003 and 2002, respectively.

The increase in revenues for the year ended March 31, 2003 is primarily related to an increase in CTX Mortgage Company, LLC originations as well as higher revenue from Title and Insurance operations. The increase in originations and Title and Insurance revenues was due, in large part, to an increase in mortgage loans originated for

Centex Homes buyers and an increase in refinancing business.

In the normal course of its activities, CTX Mortgage Company, LLC carries inventories of loans pending sale to third-party investors and earns an interest margin, that we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans. CTX Mortgage Company, LLC uses short-term mortgage warehouse facilities to finance these inventories of loans. The fact that the average rate paid on interest bearing liabilities decreased significantly more than the yield earned on interest earning assets decreased and the increase in originations noted above led to an increase in net interest margin.

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The following table provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2003:

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Origination Volume ($ in millions)	$ 13,991.2	12.4%	$ 12,445.5	40.1%
Number of Loans Originated				
Builder	18,127	17.4%	15,435	23.4%
Retail	66,807	2.9%	64,949	34.6%
	84,934	5.7%	80,384	32.3%
Number of Loan Applications				
Builder	20,103	23.0%	16,344	4.8%
Retail	69,883	16.1%	60,188	9.3%
	89,986	17.6%	76,532	8.3%
Average Loan Size	$ 164,700	6.4%	$ 154,800	5.9%
Profit Per Loan	$ 1,369	20.4%	$ 1,137	103.0%

Per-loan profit increased due to increased operational leverage as a result of the increase in the volume of originations, as well as an increase in Title and Insurance revenues and an improvement in the spread between the weighted-average coupon rate of loans originated by CTX Mortgage Company, LLC and its cost of funds.

Sub-Prime Home Equity Lending

The following summarizes the results of our Sub-Prime Home Equity Lending operations for the two-year period ended March 31, 2003 (dollars in millions):

For the Years Ended March 31,	
2003	2002

		% Change		% Change
Revenues	$ 401.1	32.6%	$ 302.6	89.2%
Cost of Sales	(177.5)	22.5%	(144.9)	94.5%
Selling, General and Administrative Expenses:				
Operating Expenses	(141.6)	22.9%	(115.2)	21.0%
Loan Loss Provision	(34.9)	100.6%	(17.4)	286.7%
Operating Earnings	$ 47.1	87.6%	$ 25.1	275.5%
Interest Margin	$ 163.9	61.8%	$ 101.3	233.2%
Average Interest Earning Assets	$ 3,895.5	48.4%	$ 2,625.1	152.7%
Average Yield	8.76%	NM	9.38%	NM
Average Interest Bearing Liabilities	$ 4,049.2	52.6%	$ 2,653.9	164.8%
Average Rate Paid	4.38%	NM	5.46%	NM

The revenues and operating earnings of Centex Home Equity Company, LLC, or Home Equity, are derived primarily from interest margin on mortgage loans held for investment. The majority of Home Equity s loan originations are securitized and accounted for as borrowings; interest is recorded over the life of the loans using the interest, or actuarial method; the mortgage loans receivable and the securitization debt remain on Home Equity s balance sheet and the related interest margin is reflected in our income statement. We commonly refer to these securitized mortgage loans as portfolio accounting method loans. This structure of securitizations has been utilized since April 1, 2000. Previous loans originated were included in securitizations that utilized a structure that caused them to be accounted for as sales. Under this structure, Home Equity retained a residual interest in, as well as the servicing rights to, the securitized loans. We call this retained residual interest the mortgage securitization residual interest, or MSRI. As a result, our balance sheet does not reflect the mortgage loans receivable and offsetting debt resulting from these securitizations. The estimated gain on the sale of these loans was included in earnings during the period in which the securitization transaction closed. Under both structures, recourse on the securitized debt is limited to the payments received on the underlying mortgage collateral with no recourse to Home Equity or Centex Corporation. As is common in these structures, Home Equity remains liable for customary loan representations. The change in structure of the securitizations has no effect on the ultimate cash flow and profit recognized over the life of the mortgages. However, the change in accounting for securitizations did affect the timing of profit recognition. Interest margin, which is recognized over the life of the loan, is now Home Equity s primary source of operating income as compared to gain on sale of loans, which previously was recognized upon securitization. Home equity loans are securitized to provide a low cost method for funding our mortgage operations and to reduce our interest rate exposure on fixed rate loans.

The revenues of Home Equity, increased in fiscal 2003 as a result of continued growth in our portfolio of residential mortgage loans held for investment. Interest margin, which we define as the difference between interest revenue on mortgage loans held for sale or investment and interest expense on debt used to fund the mortgage loans, increased primarily as a result of an increase in the portfolio of mortgage loans held for investment and a decrease in interest rates on debt used to fund mortgage loans.

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

The following summarizes Home Equity s portfolio of mortgage loans, based on the securitization structure, as of March 31, 2003 and 2002:

	For the Years Ended March 31,			
	2003		2002	
		% Change		% Change
Servicing Portfolio:				
Number of Loans				
Portfolio Accounting Method	61,073	35.1%	45,211	70.5%
Other	13,329	(24.4%)	17,622	(24.0%)
Total	74,402	18.4%	62,833	26.4%

Dollars in billions				
Portfolio Accounting Method	$ 4.64	41.5%	$ 3.28	85.3%
Other	0.84	(22.9%)	1.09	(27.3%)
Total	$ 5.48	25.4%	$ 4.37	33.6%

The following table provides a comparative analysis of mortgage loan originations and applications for the two-year period ended March 31, 2003:

	For the Years Ended March 31,	
	2003	2002