

CENTEX DEVELOPMENT CO LP

Form 10-Q

November 12, 2002

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**JOINT QUARTERLY REPORT**

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Quarterly Period Ended

**September 30, 2002**

Commission File No. 1-6776

**Centex Corporation**

A Nevada Corporation

IRS Employer Identification No. 75-0778259  
2728 N. Harwood  
Dallas, Texas 75201  
(214) 981-5000

Commission File Nos. 1-9624 and 1-9625, respectively

**3333 Holding Corporation**

A Nevada Corporation

**Centex Development Company, L.P.**

A Delaware Limited Partnership

IRS Employer Identification Nos. 75-2178860 and 75-2168471, respectively  
2728 N. Harwood  
Dallas, Texas 75201  
(214) 981-6770

The registrants have 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 and have been subject to such filing requirements for the past 90 days.

Indicate the number of shares of each of the registrants' classes of common stock (or other similar equity securities) outstanding as of the close of business on October 31, 2002:

Centex Corporation	Common Stock	61,617,803 shares
3333 Holding Corporation	Common Stock	1,000 shares
Centex Development Company, L.P.	Class A Units of Limited Partnership Interest	32,260 units
Centex Development Company, L.P.	Class C Units of Limited Partnership Interest	208,330 units

---

**TABLE OF CONTENTS**

Part I. Financial Information

Item 1. Financial Statements

Statements of Consolidated Earnings

Consolidated Balance Sheets with Consolidating Details

Statements of Consolidated Cash Flows with Consolidating Details

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

Signatures

Certifications

Part I. Financial Information

Item 1. Financial Statements

Condensed Combining Statements of Operations

Condensed Combining Balance Sheets

Condensed Combining Statements of Cash Flows

Notes to Condensed Combining Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

Part II. Other Information

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

Signatures

Certifications

EX-10.1 Supplemental Agreement

---

**Table of Contents**

**Centex Corporation and Subsidiaries  
3333 Holding Corporation and Subsidiary  
Centex Development Company, L.P. and Subsidiaries**

Form 10-Q Table of Contents

**September 30, 2002**

**Centex Corporation and Subsidiaries**

<b>Part I.</b>	<b>Financial Information</b>		<b>Page</b>
	<b>Item 1.</b>	<b>Financial Statements</b>	
		Statements of Consolidated Earnings	1
		Consolidated Balance Sheets with Consolidating Details	3
		Statements of Consolidated Cash Flows with Consolidating Details	5
		Notes to Consolidated Financial Statements	7
	<b>Item 2.</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
	<b>Item 3.</b>	Quantitative and Qualitative Disclosures about Market Risk	39
	<b>Item 4.</b>	Controls and Procedures	40
<b>Part II.</b>	<b>Other Information</b>		
	<b>Item 4.</b>	Submission of Matters to a Vote of Security Holders	40
	<b>Item 6.</b>	Exhibits and Reports on Form 8-K	40
<b>Signatures</b>			42
<b>Certifications</b>			43

**Table of Contents**

**3333 Holding Corporation and Subsidiary  
Centex Development Company, L.P. and Subsidiaries**

<b>Part I.</b>	<b>Financial Information</b>		<b>Page</b>
	<b>Item 1.</b>	<b>Financial Statements</b>	
		Condensed Combining Statements of Operations	45
		Condensed Combining Balance Sheets	47
		Condensed Combining Statements of Cash Flows	48
		Notes to Condensed Combining Financial Statements	49
	<b>Item 2.</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations	56
	<b>Item 3.</b>	Quantitative and Qualitative Disclosures about Market Risk	64
	<b>Item 4.</b>	Controls and Procedures	64
<b>Part II.</b>	<b>Other Information</b>		
	<b>Item 4.</b>	Submission of Matters to a Vote of Security Holders	65
	<b>Item 6.</b>	Exhibits and Reports on Form 8-K	65
<b>Signatures</b>			66
<b>Certifications</b>			68

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements**

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

	<i>For the Three Months Ended September 30,</i>	
	<b>2002</b>	2001
<b>Revenues</b>		
Home Building	\$ 1,281,515	\$ 1,170,721
Financial Services	204,819	165,973
Construction Products	135,993	129,545
Construction Services	391,740	336,796
Investment Real Estate	7,356	23,225
Other	62,346	57,373
	<b>2,083,769</b>	1,883,633
<b>Costs and Expenses</b>		
Home Building	1,144,469	1,047,743
Financial Services	168,244	136,712
Construction Products	109,250	107,014
Construction Services	382,539	329,475
Investment Real Estate	1,420	7,091
Other	62,593	54,725
Corporate General and Administrative	14,447	12,980
Interest Expense	27,009	29,342
Minority Interest	8,501	6,237
	<b>1,918,472</b>	1,731,319
<b>Earnings Before Income Taxes</b>	<b>165,297</b>	152,314
Income Taxes	49,688	58,925
<b>Net Earnings</b>	<b>\$ 115,609</b>	\$ 93,389
<b>Earnings Per Share</b>		
Basic	<b>\$ 1.90</b>	\$ 1.54
Diluted	<b>\$ 1.83</b>	\$ 1.50
<b>Average Shares Outstanding</b>		
Basic	<b>60,875,672</b>	60,568,258
Dilutive Securities:		
Options	<b>1,619,150</b>	1,314,175
Convertible Debenture and Restricted Stock	<b>541,468</b>	407,469

Edgar Filing: CENTEX DEVELOPMENT CO LP - Form 10-Q

Diluted	<b>63,036,290</b>	62,289,902
<b>Cash Dividends Per Share</b>	<b>\$ 0.04</b>	<b>\$ 0.04</b>

*See Notes to Consolidated Financial Statements.*

**Table of Contents**

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

	<i>For the Six Months Ended September 30,</i>	
	<b>2002</b>	2001
<b>Revenues</b>		
Home Building	\$ 2,387,233	\$ 2,209,882
Financial Services	385,359	328,566
Construction Products	264,768	246,968
Construction Services	752,461	650,429
Investment Real Estate	13,301	47,323
Other	124,502	109,610
	<b>3,927,624</b>	3,592,778
<b>Costs and Expenses</b>		
Home Building	2,141,563	1,988,784
Financial Services	324,478	274,135
Construction Products	210,293	211,495
Construction Services	735,180	635,650
Investment Real Estate	3,968	15,934
Other	126,174	106,600
Corporate General and Administrative	27,081	24,226
Interest Expense	50,735	56,584
Minority Interest	17,383	9,070
	<b>3,636,855</b>	3,322,478
<b>Earnings Before Income Taxes</b>	<b>290,769</b>	270,300
Income Taxes	87,405	101,695
<b>Net Earnings</b>	<b>\$ 203,364</b>	\$ 168,605
<b>Earnings Per Share</b>		
Basic	<b>\$ 3.33</b>	\$ 2.79
Diluted	<b>\$ 3.21</b>	\$ 2.72
<b>Average Shares Outstanding</b>		
Basic	61,021,424	60,372,690
Dilutive Securities:		
Options	1,808,690	1,323,223
Convertible Debenture and Restricted Stock	539,670	404,786
Diluted	<b>63,369,784</b>	62,100,699
<b>Cash Dividends Per Share</b>	<b>\$ 0.08</b>	\$ 0.08



*See Notes to Consolidated Financial Statements.*

**Table of Contents**

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

	Centex Corporation and Subsidiaries	
	September 30, 2002*	March 31, 2002
<b>Assets</b>		
Cash and Cash Equivalents	\$ 63,230	\$ 219,716
Restricted Cash	127,270	106,270
Receivables -		
Residential Mortgage Loans Held for Investment	3,797,376	3,254,017
Residential Mortgage Loans Held for Sale	201,595	241,793
Construction Contracts	258,840	221,705
Trade, including Notes of \$41,592 and \$30,908	406,173	345,311
Inventories -		
Housing Projects	3,080,196	2,513,168
Land Held for Development and Sale	101,296	85,997
Construction Products	53,363	54,220
Other	68,963	51,059
Investments -		
Centex Development Company, L.P.	292,011	269,178
Joint Ventures and Other	124,635	94,609
Unconsolidated Subsidiaries		
Property and Equipment, net	723,794	720,285
Other Assets -		
Deferred Income Taxes	49,150	76,167
Goodwill	334,365	349,712
Mortgage Securitization Residual Interest	116,361	125,272
Deferred Charges and Other, net	253,877	256,976
	<b>\$ 10,052,495</b>	<b>\$ 8,985,455</b>
<b>Liabilities and Stockholders Equity</b>		
Accounts Payable and Accrued Liabilities	\$ 1,462,188	\$ 1,438,613
Debt -		
Non-Financial Services	2,077,800	1,791,752
Financial Services	4,045,708	3,485,027
Payables to Affiliates		
Minority Stockholders Interest	162,299	153,290
Stockholders Equity -		
Preferred Stock, Authorized 5,000,000 Shares, None Issued		
Common Stock, \$.25 Par Value; Authorized 100,000,000 Shares; Outstanding 60,752,888 and 61,171,149 Shares	15,404	15,348
Capital in Excess of Par Value	86,854	72,446
Unamortized Value of Restricted Stock	(2,914)	(2,408)
Retained Earnings	2,249,379	2,050,902
Treasury Stock, at cost; 861,615 and 221,854 Shares	(35,495)	(6,559)
Accumulated Other Comprehensive Loss	(8,728)	(12,956)
Total Stockholders Equity	<b>2,304,500</b>	<b>2,116,773</b>

\$	<b>10,052,495</b>	\$	8,985,455
----	-------------------	----	-----------

*See Notes to Consolidated Financial Statements.*  
*\*Unaudited*

**Table of Contents**

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

Centex Corporation **		Financial Services	
September 30, 2002*	March 31, 2002	September 30, 2002*	March 31, 2002
\$ 40,401	\$ 192,591	\$ 22,829	\$ 27,125
5,640	4,760	121,630	101,510
		3,797,376	3,254,017
		201,595	241,793
258,840	221,705		
220,295	197,613	185,878	147,698
3,080,196	2,513,168		
101,296	85,997		
53,363	54,220		
22,354	22,186	46,609	28,873
292,011	269,178		
124,635	94,609		
454,923	498,117		
682,011	672,165	41,783	48,120
(45,878)	(3,456)	95,028	79,623
317,550	332,897	16,815	16,815
		116,361	125,272
171,646	179,810	82,231	77,166
\$ 5,779,283	\$ 5,335,560	\$ 4,728,135	\$ 4,148,012
\$ 1,236,471	\$ 1,275,720	\$ 225,717	\$ 162,893
2,077,800	1,791,752	4,045,708	3,485,027
160,512	151,315	112,582	187,764
		1,787	1,975
15,404	15,348	1	1
86,854	72,446	202,671	202,671
(2,914)	(2,408)		
2,249,379	2,050,902	158,876	116,748
(35,495)	(6,559)		
(8,728)	(12,956)	(19,207)	(9,067)
2,304,500	2,116,773	342,341	310,353

Edgar Filing: CENTEX DEVELOPMENT CO LP - Form 10-Q

\$ 5,779,283

---

\$ 5,335,560

---

\$ 4,728,135

---

\$ 4,148,012

---

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

-4-

---

**Table of Contents**

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

Centex Corporation and Subsidiaries		
<i>For the Six Months Ended September 30,</i>		
	2002	2001
<b>Cash Flows Operating Activities</b>		
Net Earnings	\$ 203,364	\$ 168,605
Adjustments		
Depreciation, Depletion and Amortization	48,023	43,884
Provision for Losses on Residential Mortgage Loans Held for Investment	13,556	5,791
Deferred Income Tax Provision (Benefit)	29,118	7,016
Equity in Earnings of Centex Development Company, L.P. and Joint Ventures	(3,202)	(5,596)
Minority Interest, Net of Taxes	11,562	6,033
(Increase) Decrease in Restricted Cash	(21,000)	(7,977)
Increase in Receivables	(91,749)	(29,317)
Decrease (Increase) in Residential Mortgage Loans Held for Sale	40,198	(56,544)
Increase in Housing Projects and Land Held for Development and Sale Inventories	(582,599)	(358,678)
(Increase) Decrease in Construction Products and Other Inventories	(11,422)	3,806
Increase (Decrease) in Accounts Payable and Accrued Liabilities	6,029	66,566
Decrease (Increase) in Other Assets, net	15,361	(65,525)
Increase (Decrease) in Payables to Affiliates		
Other, net	(1,057)	1,064
	(343,818)	(220,872)
<b>Cash Flows Investing Activities</b>		
Increase in Residential Mortgage Loans Held for Investment	(558,411)	(806,066)
Increase in Investment and Advances to Centex Development Company, L.P. and Joint Ventures	(32,588)	(68,126)
Purchases of Property and Equipment, net	(48,039)	(46,000)
	(639,038)	(920,192)
<b>Cash Flows Financing Activities</b>		
Increase in Short-Term Debt, net	532,896	976,713
Non-Financial Services		

*See Notes to Consolidated Financial Statements.*



**Table of Contents**

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

Centex Corporation **		Financial Services	
<i>For the Six Months Ended September 30,</i>		<i>For the Six Months Ended September 30,</i>	
2002	2001	2002	2001
\$ 136,236	\$ 134,753	\$ 67,128	\$ 33,852
39,653	36,728	8,370	7,156
39,081	10,752	13,556	5,791
(3,202)	(5,596)	(9,963)	(3,736)
11,562	6,033		
(880)	888	(20,120)	(8,865)
(53,569)	(3,943)	(38,180)	(25,374)
		40,198	(56,544)
(582,599)	(358,678)		
6,314	8,255	(17,736)	(4,449)
(46,655)	32,651	52,684	33,915
18,061	(59,578)	(2,700)	(5,947)
69,067	48,307	(69,067)	(48,307)
(2,365)	456	1,308	608
(369,296)	(148,972)	25,478	(71,900)
		(558,411)	(806,066)
(32,588)	(68,126)		
(40,995)	(42,835)	(7,044)	(3,165)
(73,583)	(110,961)	(565,455)	(809,231)
137,992	369,536	394,904	607,177
255,638	438,374		
(107,582)	(560,661)		
		620,723	480,000
		(454,946)	(199,047)
13,464	20,076		1,353



Edgar Filing: CENTEX DEVELOPMENT CO LP - Form 10-Q

(28,936)	(6,611)		
(4,887)	(4,847)		
25,000	8,000	(25,000)	(8,000)
<hr/>	<hr/>	<hr/>	<hr/>
290,689	263,867	535,681	881,483
<hr/>	<hr/>	<hr/>	<hr/>
(152,190)	3,934	(4,296)	352
192,591	45,987	27,125	11,765
<hr/>	<hr/>	<hr/>	<hr/>
\$ 40,401	\$ 49,921	\$ 22,829	\$ 12,117
<hr/>	<hr/>	<hr/>	<hr/>

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

**Table of Contents**

**Centex Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2002**  
(Dollars and shares in thousands, except per share data)  
(unaudited)

**(A) BASIS OF PRESENTATION**

The consolidated interim financial statements include the accounts of Centex Corporation and subsidiaries ( Centex or the Company ) after elimination of all significant intercompany balances and transactions. The statements have been prepared, without audit, in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

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

**(B) STATEMENTS OF CONSOLIDATED CASH FLOWS SUPPLEMENTAL DISCLOSURES**

Interest expense relating to the Financial Services segment is included in its costs and expenses. Interest expense related to segments other than Financial Services is included as a separate line item on the Statements of Consolidated Earnings.

	<i>For the Three Months Ended September 30,</i>	
	<b>2002</b>	2001
Total Interest Incurred	\$ <b>80,696</b>	\$ 73,657
Interest Capitalized	<b>(18,447)</b>	(13,351)
Capitalized Interest Relieved to Expense	<b>10,447</b>	8,896
Less Financial Services	<b>(45,687)</b>	(39,860)
Interest Expense, net	<b>\$ 27,009</b>	\$ 29,342

	<i>For the Six Months Ended September 30,</i>	
	<b>2002</b>	2001
Total Interest Incurred	\$ <b>159,262</b>	\$ 140,824
Interest Capitalized	<b>(36,998)</b>	(23,798)
Capitalized Interest Relieved to Expense	<b>18,805</b>	15,351
Less Financial Services	<b>(90,334)</b>	(75,793)
Interest Expense, net	<b>\$ 50,735</b>	\$ 56,584

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Table of Contents**

Cash payments made for interest, excluding Financial Services, were \$43.0 million and \$34.3 million for the three months ended September 30, 2002 and 2001, respectively. Cash payments made for interest, excluding Financial Services, were \$66.0 million and \$62.5 million for the six months ended September 30, 2002 and 2001, respectively. Net payments made for federal, state and foreign income taxes during the three months ended September 30, 2002 and 2001 were \$45.2 million and \$45.9 million, respectively. Net payments made for federal, state and foreign income taxes during the six months ended September 30, 2002 and 2001 were \$82.3 million and \$55.9 million, respectively.

**(C) STOCKHOLDERS EQUITY**

A summary of changes in stockholders equity is presented below:

	Common Stock		Capital in Excess of Par Value	Unamortized		Treasury Stock at Cost	Accumulated	
	Shares	Amount		Value of Restricted Stock	Retained Earnings		Other Comprehensive (Loss) Income	Total
Balance, March 31, 2002	61,171	\$ 15,348	\$ 72,446	\$ (2,408)	\$ 2,050,902	\$ (6,559)	\$ (12,956)	\$ 2,116,773
Issuance of Restricted Stock	20	5	995	(1,000)				
Amortization of Restricted Stock				494				494
Exercise of Stock Options	202	51	7,889					7,940
Cash Dividends					(4,887)			(4,887)
Purchase of Common Stock for Treasury	(640)					(28,936)		(28,936)
Net Earnings					203,364			203,364
Unrealized Loss on Hedging Instruments							(11,942)	(11,942)
Foreign Currency Translation Adjustments							17,608	17,608
Other			5,524				(1,438)	4,086
<b>Balance, September 30, 2002</b>	<b>60,753</b>	<b>\$ 15,404</b>	<b>\$ 86,854</b>	<b>\$ (2,914)</b>	<b>\$ 2,249,379</b>	<b>\$ (35,495)</b>	<b>\$ (8,728)</b>	<b>\$ 2,304,500</b>

**(D) RESIDENTIAL MORTGAGE LOANS HELD FOR INVESTMENT**

Residential mortgage loans held for investment consisted of the following:

	September 30, 2002	March 31, 2002
Residential Mortgage Loans Held for Investment	\$ 3,818,519	\$ 3,268,123
Allowance for Losses on Residential Mortgage Loans Held for Investment	(21,143)	(14,106)

Edgar Filing: CENTEX DEVELOPMENT CO LP - Form 10-Q

Residential Mortgage Loans Held for Investment, net of Allowance for Losses	<u>\$ 3,797,376</u>	<u>\$ 3,254,017</u>
---	---------------------	---------------------

-8-

---

**Table of Contents**

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

	<i>For the Three Months Ended September 30,</i>	
	<b>2002</b>	2001
Balance at Beginning of Period	\$ 17,320	\$ 4,036
Provision for Losses	7,670	3,143
Recoveries on Loans Charged Off	33	6
Losses Sustained	(3,880)	(871)
Balance at End of Period	<b>\$ 21,143</b>	\$ 6,314

	<i>For the Six Months Ended September 30,</i>	
	<b>2002</b>	2001
Balance at Beginning of Period	\$ 14,106	\$ 2,814
Provision for Losses	13,556	5,791
Recoveries on Loans Charged Off	51	6
Losses Sustained	(6,570)	(2,297)
Balance at End of Period	<b>\$ 21,143</b>	\$ 6,314

**(E) GOODWILL**

A summary of changes in goodwill by segment for the six months ended September 30, 2002 is presented below:

	Home Building	Financial Services	Construction Products	Construction Services	Other	Total
Balance as of March 31, 2002	\$ 84,151	\$ 16,815	\$ 41,088	\$ 1,007	\$ 206,651	\$ 349,712
Goodwill Acquired					3,584	3,584
Sale of Chemical Lawn Care Operations					(17,393)	(17,393)
Other			(891)		(647)	(1,538)
<b>Balance as of September 30, 2002</b>	<b>\$ 84,151</b>	<b>\$ 16,815</b>	<b>\$ 40,197</b>	<b>\$ 1,007</b>	<b>\$ 192,195</b>	<b>\$ 334,365</b>

Goodwill for the Other segment at September 30, 2002 includes \$69.0 million related to the Company's manufactured housing operations, \$71.6 million related to the Company's home services operations and \$51.6 million related to the Company's investment in Construction Products.



**Table of Contents****(F) INDEBTEDNESS****Short-term Debt**

Balances of short-term debt were:

	September 30, 2002		March 31, 2002	
	Centex Corporation	Financial Services	Centex Corporation	Financial Services
Banks	\$ 29,982*	\$ 106,271	\$ 18,630*	\$ 92,109
Commercial Paper	120,000			
Secured Liquidity Notes		550,241**		102,583**
Other Financial Institutions	6,640	53,017		119,933
	<u>\$ 156,622</u>	<u>\$ 709,529</u>	<u>\$ 18,630</u>	<u>\$ 314,625</u>
Consolidated Short-term Debt	<u>\$ 866,151</u>		<u>\$ 333,255</u>	

\* Debt relates entirely to Construction Products.

\*\* Debt relates entirely to Harwood Street Funding II, L.L.C.

The Company borrows on a short-term basis from banks under uncommitted lines that bear interest at prevailing market rates. The weighted-average interest rates of balances at September 30, 2002 and March 31, 2002 were 2.1% and 2.4%, respectively.

**Long-term Debt**

Balances of long-term debt were:

	September 30, 2002	March 31, 2002
Non-Financial Services:		
Medium-Term Note Programs, 2.44% to 7.95%, due through 2007	\$ 383,000	\$ 418,000
Long-Term Notes, 5.80% to 9.75%, due through 2012	1,188,007	962,892
Other Indebtedness, 1.80% to 10.00%, due through 2027	150,639	192,753
Subordinated Debt:		
Subordinated Debentures, 7.38%, due in 2006	99,870	99,845
Subordinated Debentures, 8.75%, due in 2007	99,662	99,632
	<u>1,921,178</u>	<u>1,773,122</u>
Financial Services:		
Home Equity Loans Asset-Backed Certificates, 2.91% to 8.48%, due through 2032	3,286,179	3,120,402
Harwood Street Funding II, L.L.C. Variable Rate Subordinated Notes, due through 2007	50,000	50,000



Edgar Filing: CENTEX DEVELOPMENT CO LP - Form 10-Q

	<u>3,336,179</u>	<u>3,170,402</u>
Total	<u>\$ 5,257,357</u>	<u>\$ 4,943,524</u>

**Table of Contents**

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

	Non-Financial Services	Financial Services	Total
2003	\$ 138,452	\$ 455,780	\$ 594,232
2004	129,783	768,152	897,935
2005	33,629	575,615	609,244
2006	325,392	410,725	736,117
2007	290,575	529,903	820,478
Thereafter	1,003,347	596,004	1,599,351
	<u>\$ 1,921,178</u>	<u>\$ 3,336,179</u>	<u>\$ 5,257,357</u>

Financial Services debt related to securitized residential mortgage loans structured as collateralized borrowings (Home Equity Loans Asset-Backed Certificates) was \$3.3 billion at September 30, 2002. The principal and interest on these notes are paid using the cash flow from the underlying residential mortgage loans, which serve as collateral for the debt. Accordingly, the timing of the principal payments on these notes is dependent upon the payment received on the underlying residential mortgage loans. The expected maturities of this component of long-term debt are based on contractual maturities adjusted for projected repayments and prepayments of principal.

Included in other indebtedness is a \$2.1 million convertible subordinated debenture sold at par in 1985 to a corporate officer. The indebtedness, which matures in 2010, bears interest at LIBOR plus 1.5% and is convertible into 400,000 shares of the Company's common stock. In connection with this transaction, the Company has guaranteed the payment of a \$2.1 million note payable to a bank by the officer.

Under our debt covenants, we are required to maintain certain leverage and interest coverage ratios and a minimum tangible net worth. At September 30, 2002, we were in compliance with all of these covenants.

**Table of Contents****Credit Facilities**

The Company's existing credit facilities and available capacity as of September 30, 2002 are summarized below:

	Existing Credit Facilities	Available Capacity	
Non-Financial Services			
<u>Centex Corporation</u>			
Multi-Bank Revolving Credit Facility	\$ 700,000	\$ 700,000	(1)
Uncommitted Bank Lines	60,000	60,000	
<u>Construction Products</u>			
Senior Revolving Credit Facility	175,000	66,400	(2)
Annually Renewable Commercial Paper Conduit	50,000	20,000	(2)
	<u>985,000</u>	<u>846,400</u>	
Financial Services			
Unsecured Credit Facilities	125,000	110,000	(3)
Secured Credit Facilities	395,000	250,712	(4)
Harwood Street Funding II, L.L.C. Facility	1,000,000	399,759	
	<u>1,520,000</u>	<u>760,471</u>	
	<u>\$ 2,505,000</u>	<u>\$ 1,606,871</u>	(5)

- (1) This is a committed, multi-bank revolving credit facility, maturing in August 2005, which serves as backup for commercial paper borrowings. As of September 30, 2002, there were no borrowings under this backup facility, and the Company's \$600 million commercial paper program had \$120 million outstanding. There have been no borrowings under this facility since inception.
- (2) These committed facilities were entered into by Construction Products and have no recourse to Centex Corporation. The Senior Revolving Credit Facility matures in November 2003 and the Annually Renewable Commercial Paper Conduit matures in June 2003.
- (3) Centex Corporation, CTX Mortgage Company, L.L.C. ( CTX Mortgage ) and Centex Home Equity Company L.L.C. ( Home Equity ), on a joint and several basis, share in a \$125 million uncommitted, unsecured credit facility.
- (4) CTX Mortgage and Home Equity share in \$250 million of uncommitted secured credit facilities to finance mortgage inventory. As of October 25, 2002, these facilities became committed. CTX Mortgage also maintains \$145 million of committed secured mortgage warehouse facilities to finance mortgages not sold to HSF-I.
- (5) The amount of available capacity includes \$335 million of uncommitted borrowings as of September 30, 2002. Although the Company believes that this capacity is currently available, there can be no assurance that the lenders under the applicable facilities would elect to make advances to the Company or its subsidiaries if and when requested to do so.

Home Equity finances its inventory of mortgage loans held for investment through Harwood Street Funding II, L.L.C. ( HSF-II ), a wholly-owned, consolidated entity, under a revolving sales agreement that expires upon final payment of the senior and subordinated debt issued by HSF-II. This arrangement, where HSF-II has committed to finance all eligible loans, gives Home Equity daily access to HSF-II's capacity of \$1.0 billion. HSF-II obtains funds through the sale of five year subordinated notes that are rated BBB by Standard & Poor's ( S&P ), Baa2 by Moody's Investors Service ( Moody's ), and BBB by Fitch Ratings ( Fitch ) and short-term secured liquidity notes that are rated A1+ by S&P, P1 by Moody's and F1+ by Fitch. Because HSF-II is a consolidated entity, the debt, interest income and interest expense of HSF-II are reflected in the financial statements of Financial Services.



**Table of Contents**

**Harwood Street Funding I, L.L.C.**

CTX Mortgage finances its inventory of mortgage loans held for sale principally through sales of Jumbo A and conforming loans to Harwood Street Funding I, L.L.C. ( HSF-I ), an unaffiliated entity established in 1999 that is not consolidated with Financial Services or Centex. These mortgage loans are sold pursuant to a mortgage loan purchase agreement that expires in November 2004, subject to certain renewal options (the HSF-I Purchase Agreement ). Since 1999, CTX Mortgage has sold substantially all of the Jumbo A and conforming 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 averaging between 45 and 60 days and then resells them into the secondary market. HSF-I obtains the funds needed to purchase eligible mortgage loans from CTX Mortgage by issuing (1) securitized medium-term debt that is currently rated AAA by S&P and Aaa by Moody s, (2) short-term secured liquidity notes that are currently rated A1+ by S&P and P1 by Moody s and (3) subordinated certificates maturing in November 2004, extendable for up to five years, that are rated BBB by S&P and Baa2 by Moody s. The purpose of this arrangement is to allow CTX Mortgage to reduce the cost of financing eligible mortgage loans originated by it and to improve its liquidity.

Under the terms of the HSF-I Purchase Agreement, CTX Mortgage may elect to sell to HSF-I, and HSF-I is obligated to purchase from CTX Mortgage, mortgage loans that satisfy certain eligibility criteria and portfolio requirements. The maximum amount of mortgage loans that HSF-I is allowed to carry in its inventory under the HSF-I Purchase Agreement is limited to \$2.0 billion.

HSF-I s commitment to purchase eligible mortgage loans is subject to termination upon the occurrence of certain events of default and other termination events described in the HSF-I Purchase Agreement, including a downgrade in Centex s credit ratings below BB+ by S&P or Ba1 by Moody s. In the event CTX Mortgage was unable to sell loans to HSF-I, it might need to make other customary financing arrangements to fund its mortgage loan origination activities. Although we believe that CTX Mortgage could arrange for alternative financing that is common for non-investment grade mortgage companies, there can be no assurance that such financing would be available on satisfactory terms, and any delay in obtaining such financing could adversely affect the results of operations of CTX Mortgage.

In accordance with the HSF-I Purchase Agreement, CTX Mortgage acts as servicer of the loans owned by HSF-I and arranges for the sale of the eligible mortgage loans into the secondary market. In its capacity as servicer, CTX Mortgage must act in the best interest of HSF-I so as to maximize the proceeds of sales of eligible mortgage loans. The performance and payment of obligations of CTX Mortgage, in its capacity as servicer, are guaranteed by Centex. These servicer obligations include the obligation of the servicer to repurchase a mortgage loan from HSF-I in the event of a breach of the servicer s representations and warranties, which materially and adversely affects the value of the mortgage loan and is not cured within 60 days.

HSF-I has entered into a swap arrangement with a bank (the Harwood Swap ) under which the bank has agreed to make certain payments to HSF-I, and HSF-I has agreed to make certain payments to the bank, the net effect of which is that the bank has agreed to bear certain interest rate risks and non-credit related market risks related to the mortgage loans held by HSF-I. The purpose of this arrangement is to provide credit enhancement to HSF-I by permitting it to hedge these risks with a counterparty having a short-term credit rating of A1+ from S&P and P1 from Moody s. Additionally, Centex has entered into a separate swap arrangement with the bank pursuant to which Centex has agreed to pay to the bank all amounts that the bank is required to pay to HSF-I pursuant to the Harwood Swap plus a monthly fee equal to a percentage of the notional amount of the Harwood Swap, and the bank is required to pay to Centex all amounts that the bank

**Table of Contents**

receives from HSF-I pursuant to the Harwood Swap. Accordingly, Centex effectively bears all interest rate risks and non-credit related market risks that are the subject of the Harwood Swap. Centex is also required to reimburse the bank for certain expenses, costs and damages that it may incur.

As of September 30, 2002, HSF-I owned \$1.8 billion in securitized residential mortgage loans sold to it by CTX Mortgage and had \$1.7 billion of outstanding securitized term debt and \$93 million of outstanding subordinated certificates. Centex does not guarantee the payment of any debt or subordinated certificates of HSF-I and is not liable for credit losses relating to securitized residential mortgage loans sold to HSF-I. However, Centex retains certain risks related to the portfolio of mortgage loans held by HSF-I. In particular, CTX Mortgage makes representations and warranties to HSF-I to the effect that each mortgage loan sold to HSF-I satisfies the eligibility criteria and portfolio requirements discussed above. CTX Mortgage may be required to repurchase mortgage loans sold to HSF-I if such mortgage loans are determined to be ineligible loans or there occur certain other breaches of representations and warranties of CTX Mortgage, as seller or servicer. CTX Mortgage's obligation to repurchase such loans is guaranteed by Centex. During the six months ended September 30, 2002, CTX Mortgage sold \$4.4 billion of mortgage loans to HSF-I.

**(G) CENTEX DEVELOPMENT COMPANY, L.P.**

Centex Development Company, L.P. (the Partnership) is a master limited partnership formed by Centex in March 1987 to broaden the range of business activities that may be conducted for the benefit of Centex's stockholders to include general real estate development. Centex believed that this expansion would improve stockholder value through longer-term real estate investments, real estate developments and the benefits of the partnership form of business. Because the real estate development business generally requires a longer time horizon to maximize value than Centex's core homebuilding operations and typically involves substantial acquisition and development indebtedness, Centex concluded that this new line of business could best be conducted through the Partnership, an independent, publicly-traded entity that is not consolidated with Centex for financial reporting purposes.

The Partnership is authorized to issue three classes of limited partnership interest. Centex indirectly holds 100% of the Partnership's Class A and Class C limited partnership units (Class A Units and Class C Units, respectively), which are collectively convertible into 20% of the Partnership's Class B limited partnership units (Class B Units). The Partnership may issue additional Class C Units in connection with the acquisition of real property and other assets. No Class B Units have been issued. However, the stockholders of Centex hold warrants to purchase approximately 80% of the Class B Units. The warrants are held through a nominee arrangement and trade in tandem with the common stock of Centex.

As holder of the Class A and Class C Units, Centex is entitled to a cumulative preferred return of 9% per annum on the average outstanding balance of its capital contributions to the Partnership, adjusted for cash and other distributions representing return of capital. As of September 30, 2002, these adjusted capital contributions, or Unrecovered Capital, were \$241.1 million and preference payments in arrears totaled \$52.2 million. The Partnership has made no preference payments since fiscal 1998.

The Partnership is managed by its general partner, 3333 Development Corporation, a wholly-owned subsidiary of 3333 Holding Corporation (Holding). The common stock of Holding is held by the stockholders of Centex through a nominee arrangement and trades in tandem with the common stock of Centex. The stockholders of Centex elect the four-person board of directors of Holding, three of whom are independent outside directors who are not directors, affiliates or employees of Centex. Thus, through Holding, the stockholders of Centex control the general partner of the Partnership. The general partner,

**Table of Contents**

through its independent board and the independent board of Holding, including its non-executive Chairman, oversees the Partnership's activities, including the acquisition, development, maintenance, operation and sale of properties. Consent of the limited partners for the activities of the Partnership is not required, and the limited partners cannot remove the general partner. As a result, Centex accounts for its limited partnership interest in the Partnership using the equity method of accounting for investments.

Supplementary condensed combined financial statements for Centex and subsidiaries, Holding and subsidiary and the Partnership and subsidiaries are set forth below. For additional information on Holding and subsidiary and the Partnership and subsidiaries, see their separate financial statements and related footnotes included elsewhere in this Report.

**Supplementary Condensed Combined Balance Sheets of Centex and Subsidiaries, Holding and Subsidiary and Partnership and Subsidiaries**

	<u>September 30, 2002</u>	<u>March 31, 2002</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ 95,426	\$ 242,254
Restricted Cash	127,270	106,270
Receivables	4,669,267	4,066,401
Inventories	3,918,996	3,283,719
Investments in Joint Ventures and Other	129,013	99,962
Property and Equipment, net	727,217	723,497
Other Assets	808,096	862,580
	<u>\$ 10,475,285</u>	<u>\$ 9,384,683</u>