TECHNICAL OLYMPIC USA INC
Form 10-Q
November 03, 2004

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2004

or

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

For the transition period from to

Commission file number: 000-23677

TECHNICAL OLYMPIC USA, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**76-0460831**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4000 Hollywood Blvd., Suite 500 N Hollywood, Florida	**33021**
(Address of principal executive offices)	*(ZIP code)*

(954) 364-4000

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 44,856,437 shares of common stock as of October 29, 2004.

TECHNICAL OLYMPIC USA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Dollars in millions, except shares and par value)

	September 30, 2004	December 31, 2003
	(Unaudited)	
ASSETS		
HOMEBUILDING:		
Cash and cash equivalents:		
Unrestricted	$ 44.6	$ 73.7
Restricted	2.2	21.2
Inventory		
Deposits	108.7	78.7
Homesites and land under development	389.2	443.4
Residences completed and under construction	704.6	404.6
Inventory not owned	193.0	246.2
	1,395.5	1,172.9
Property and equipment, net	28.8	23.7
Investments in unconsolidated joint ventures	30.6	10.5
Other assets	56.5	43.7
Goodwill	106.7	100.1
	1,664.9	1,445.8
FINANCIAL SERVICES:		
Cash and cash equivalents:		
Unrestricted		3.1
Restricted	87.3	73.4
Mortgage loans held for sale	70.2	75.2
Other assets	10.0	7.5
	167.5	159.2
Total assets	$ 1,832.4	$ 1,605.0
LIABILITIES AND STOCKHOLDERS EQUITY		
HOMEBUILDING:		
Accounts payable and other liabilities	$ 140.5	$ 149.3
Customer deposits	69.2	35.5
Obligations for inventory not owned	193.0	246.2
Notes payable	605.6	480.0
Bank borrowings	67.6	17.9
	1,075.9	928.9
FINANCIAL SERVICES:		
Accounts payable and other liabilities	87.6	75.3
Bank borrowings	58.1	63.2

	145.7	138.5
Total liabilities	1,221.6	1,067.4
Stockholders equity:		
Preferred stock $0.01 par value; 3,000,000 shares authorized; none issued or outstanding		
Common stock $0.01 par value; 97,000,000 shares authorized and 44,856,437 and 44,833,554 shares issued and outstanding at September 30, 2004, and December 31, 2003, respectively	0.4	0.4
Additional paid-in capital	392.2	379.3
Unearned compensation	(15.8)	(7.3)
Retained earnings	234.0	165.2
Total stockholders equity	610.8	537.6
Total liabilities and stockholders equity	$1,832.4	$1,605.0

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
HOMEBUILDING:				
Revenues:				
Home sales	$ 500.1	$ 410.5	$ 1,369.3	$ 1,134.0
Land sales	7.1	19.9	61.0	25.3
	507.2	430.4	1,430.3	1,159.3
Cost of sales:				
Home sales	398.8	331.6	1,104.4	907.4
Land sales	6.6	12.3	47.8	16.3
	405.4	343.9	1,152.2	923.7
Gross profit	101.8	86.5	278.1	235.6
Selling, general and administrative expenses	61.2	58.1	176.9	153.9
Other (income) expense, net	(2.9)	(0.7)	(3.4)	(2.7)
Homebuilding pretax income	43.5	29.1	104.6	84.4
FINANCIAL SERVICES:				
Revenues	10.1	12.9	31.7	35.6
Expenses	9.5	8.1	25.3	21.7
Financial Services pretax income	0.6	4.8	6.4	13.9
Income before income taxes	44.1	33.9	111.0	98.3
Provision for income taxes	16.0	12.4	40.8	35.9
Net income	$ 28.1	$ 21.5	$ 70.2	$ 62.4
EARNINGS PER COMMON SHARE:				
Basic	$ 0.63	$ 0.52	$ 1.57	$ 1.49
Diluted	$ 0.61	$ 0.51	$ 1.53	$ 1.48
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	44,851,652	41,833,554	44,845,554	41,830,119
Diluted	45,942,000	42,346,680	45,742,799	42,082,985

CASH DIVIDENDS PER SHARE	$ 0.015		$ 0.030	

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

	Nine Months Ended September 30,	
	2004	**2003**
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 70.2	$ 62.4
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9.5	6.1
Non-cash compensation expense	4.0	1.1
Changes in operating assets and liabilities:		
Restricted cash	5.1	(5.2)
Inventory	(266.6)	(133.7)
Other assets	(13.2)	(6.6)
Accounts payable and other liabilities	3.5	46.7
Customer deposits	33.7	7.8
Mortgage loans held for sale	5.0	7.9
Net cash used in operating activities	(148.8)	(13.5)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Amounts paid for acquisitions, net of cash acquired		(59.3)
Earn out consideration paid for acquisitions	(6.6)	(18.2)
Investments in unconsolidated joint ventures	(20.1)	
Net additions to property and equipment	(14.7)	(13.2)
Net cash used in investing activities	(41.4)	(90.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes offering	125.0	129.3
Payments for deferred financing costs	(2.1)	(5.5)
Net borrowings from (repayments on) revolving credit facilities	48.0	(10.0)
Borrowings from (repayments on) Homebuilding bank borrowings	1.7	(1.2)
Net repayments on Financial Services bank borrowings	(5.1)	(5.9)
Net payments on obligations for inventory not owned	(8.6)	(4.3)
Cash dividend payment	(1.3)	
Other	0.4	(5.6)
Net cash provided by financing activities	158.0	96.8
Decrease in cash and cash equivalents	(32.2)	(7.4)
Unrestricted cash and cash equivalents at beginning of period	76.8	49.2
Unrestricted cash and cash equivalents at end of period	$ 44.6	$ 41.8
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY		
(Decrease) increase in land bank obligations for inventory not owned and corresponding (decrease) increase in inventory	$ (44.6)	$ 97.1

See accompanying notes to consolidated financial statements.

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004

1. Business and Organization

Business

Technical Olympic USA, Inc. is a homebuilder with a geographically diversified national presence. We operate in 15 metropolitan markets located in four major geographic regions. We design, build, and market detached single-family residences, town homes and condominiums. We also provide title and mortgage brokerage services to our homebuyers and others. Generally, we do not retain or service the mortgages that we originate but, rather, sell the mortgages and related servicing rights to investors.

Organization

Technical Olympic S.A. owns approximately 73% of our outstanding common stock. Technical Olympic S.A. is a publicly-traded Greek company whose shares are traded on the Athens Stock Exchange.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include our accounts and those of our subsidiaries. Our accounting and reporting policies conform to United States generally accepted accounting principles and general practices within the homebuilding industry. These accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Due to our normal operating cycle being in excess of one year, we present unclassified consolidated statements of financial condition.

We have two operating segments which are segregated in the accompanying consolidated financial statements under Homebuilding and Financial Services.

Certain prior period amounts have been reclassified to conform to the current period s presentation.

Interim Presentation

The accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring items that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results from operations, and cash flows for the periods presented. Results of operations achieved through September 30, 2004 are not necessarily indicative of those that may be achieved for the year ending December 31, 2004. Certain information and footnote disclosures normally included in financial statements presented in accordance with United States generally accepted accounting principles have been omitted from the accompanying financial statements. The financial statements included as part of this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in our December 31, 2003 Annual Report on Form 10-K.

For the three and nine months ended September 30, 2004 and 2003, we have eliminated inter-segment Financial Services revenues of $1.8 million and $1.5 million, respectively, and $5.4 million and $4.0 million, respectively.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Earnings Per Share

Basic earnings per share is computed by dividing earnings attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share.

The following table represents a reconciliation of weighted average shares outstanding:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Basic average shares outstanding	44,851,652	41,833,554	44,845,554	41,830,119
Net effect of stock options assumed to be exercised	1,090,348	513,126	897,245	252,866
Diluted average shares outstanding	45,942,000	42,346,680	45,742,799	42,082,985

The shares issued and outstanding and the earnings per share amounts in the consolidated financial statements have been adjusted to reflect a three-for-two stock split effected in the form of a 50% stock dividend paid on June 1, 2004.

Stock-Based Compensation

We account for our stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized for our stock option plan. If the methodologies of SFAS No. 123 were applied to determine compensation expense for our stock options based on the fair value of our common stock at the grant dates for awards under our option plan, our net income and earnings per share for the three and

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

nine months ended September 30, 2004 and 2003, would have been reduced to the pro forma amounts indicated below (dollars in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income as reported	$28.1	$21.5	$70.2	$62.4
Add: Stock-based employee compensation included in reported net income, net of tax	1.5	0.3	2.6	0.6
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(0.7)	(0.8)	(1.8)	(3.5)
Pro forma net income	$28.9	$21.0	$71.0	$59.5
Reported earnings per common share:				
Basic	$0.63	$0.52	$1.57	$1.49
Diluted	$0.61	$0.51	$1.53	$1.48
Pro forma earnings per common share:				
Basic	$0.64	$0.50	$1.58	$1.42
Diluted	$0.63	$0.50	$1.55	$1.41

The fair values of options granted were estimated on the date of their grant using the Black-Scholes option pricing model based on the following assumptions:

Expected life in years	4	10 years
Risk-free interest rate	1.47%	3.20%
Volatility	0.42%	0.48%
Dividend yield	0.002%	

3. Capitalized Interest

A summary of Homebuilding interest capitalized in inventory is (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Interest capitalized, beginning of period	$ 35.7	$21.3	$ 29.7	$ 11.6
Interest incurred	16.7	14.5	48.4	40.1
Less interest included in:				
Cost of sales	(12.6)	(9.5)	(36.1)	(25.0)
Other	(1.4)	(0.5)	(3.6)	(0.9)
Interest capitalized, end of period	$ 38.4	$25.8	$ 38.4	$ 25.8

4. Consolidation of Variable Interest Entities

In the ordinary course of business we enter into contracts to purchase homesites and land held for development. At September 30, 2004 and December 31, 2003, we had refundable and nonrefundable deposits aggregating $108.7 million and $78.7 million, respectively, included in inventory in the accompanying consolidated statements of financial condition. Our liability for nonperformance under such contracts is generally limited to forfeiture of the related deposits.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (Interpretation No. 46). Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities (VIEs) in which an entity absorbs a majority of the expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

Generally, homebuilders will enter into option contracts for the purchase of land or homesites with land sellers and third-party financial entities, some of which may qualify as VIEs. In applying Interpretation No. 46 to our homesite option contracts and other transactions with VIEs, we make estimates regarding cash flows and other assumptions. We believe that our critical assumptions underlying these estimates are reasonable based on historical evidence and industry practice. Based on our analysis of transactions entered into with VIEs, we determined that we are the primary beneficiary of certain of these homesite option contracts. Consequently, Interpretation No. 46 requires us to consolidate the assets (homesites) at their fair value, although (1) we have no legal title to the assets, (2) our maximum exposure to loss is limited to the deposits or letters of credits placed with these entities, and (3) creditors, if any, of these entities have no recourse against us. The effect of this consolidation at September 30, 2004 was to increase inventory by $79.8 million, excluding deposits of $6.0 million, which had been previously recorded, with a corresponding increase to obligations for inventory not owned in the accompanying consolidated statement of financial condition. Additionally, we have entered into arrangements with VIEs to acquire homesites whereby our variable interest is insignificant and, therefore, we have determined that we are not the primary beneficiary and are not required to consolidate the assets of such VIEs.

During the nine months ended September 30, 2004, we transferred title to certain parcels of land to unrelated third parties for net proceeds of $33.7 million. In connection with these transactions, we entered into options with the purchasers to acquire fully developed homesites. As we have retained a continuing involvement in these properties, in accordance with SFAS No. 66, Accounting for the Sales of Real Estate, we have accounted for these transactions as financing arrangements. As a result, we have included the corresponding liability of $33.7 million in obligations for inventory not owned in the accompanying consolidated statement of financial condition as of September 30, 2004. As of September 30, 2004, $113.2 million of inventory not owned relates to sales with continuing involvement.

5. Goodwill

The change in goodwill for the nine months ended September 30, 2004 is as follows (dollars in millions):

Balance at December 31, 2003	$100.1
Earn out consideration paid on acquisitions	6.6
Balance at September 30, 2004	$106.7

6. Borrowings

On October 26, 2004, we entered into an unsecured revolving credit facility replacing our existing revolving credit facility. Our new credit facility increases the amount we are permitted to borrow to the lesser of (i) $600.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The new facility increases the amount of the letter of credit subfacility to $300.0 million. In addition, we have the right to increase the size of the facility to provide up to an additional $150.0 million of revolving loans, subject to meeting certain requirements. The revolving credit facility expires on October 26, 2008. Provided that we are not in default under the credit facility, we have the right to extend this term by additional one-year terms on each anniversary date of the credit facility. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. The revolving credit facility requires us to maintain specified financial ratios regarding leverage, interest coverage, adjusted tangible

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

net worth and certain operational measurements. The revolving credit facility also places certain restrictions on, among other things, our ability to pay or make dividends or other distributions, create or permit certain liens, make equity investments in joint ventures, enter into transactions with affiliates and merge or consolidate with other entities. Our obligations under the revolving credit facility are guaranteed by our significant domestic subsidiaries, other than our mortgage and title subsidiaries (unrestricted subsidiaries).

On October 22, 2004, our mortgage subsidiary entered into a new $100.0 million revolving warehouse line of credit. This new warehouse line of credit is in addition to our previously existing $90.0 million warehouse line of credit, which expires on December 19, 2004. Our mortgage subsidiary has the right to increase the size of the warehouse line of credit to provide up to an additional $50.0 million, subject to meeting certain requirements. The new warehouse line of credit expires on October 22, 2005 and bears interest at the 30 day LIBOR rate plus a margin of 1.25% to 3.0% determined based upon the type of mortgage loans being financed. The new warehouse line of credit is secured by funded mortgages, which are pledged as collateral and requires our mortgage subsidiary to maintain certain financial ratios and minimums. The new warehouse line of credit also places certain restrictions on, among other things, our mortgage subsidiary s ability to incur additional debt, create liens, pay or make dividends or other distributions, make equity investments, enter into transactions with affiliates, and merge or consolidate with other entities.

On March 17, 2004, we issued $125.0 million of 7 1/2% Senior Subordinated Notes due 2011. The net proceeds of $123.3 million primarily were used to repay amounts outstanding under our revolving credit facility and warehouse line of credit.

Our outstanding senior notes and senior subordinated notes have call features that allow redemption, at a premium, prior to maturity.

7. Commitments and Contingencies

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations.

We provide homebuyers with a one-year or two-year limited warranty of workmanship and materials, and an eight-year or ten-year limited warranty covering major structural defects. We generally have recourse against our subcontractors for claims relating to workmanship and materials.

During the nine months ended September 30, 2004 and 2003, changes in our warranty accrual consisted of (dollars in millions):

	2004	2003
Accrued warranty costs at January 1	$ 5.2	$ 4.8
Estimated liability recorded for warranties issued during the period	10.4	8.5
Estimated liability recorded for pre-existing warranties	(3.6)	(1.9)
Warranty work performed	(5.7)	(6.9)
Accrued warranty costs at September 30	$ 6.3	$ 4.5

8. Stockholders Equity and Stock-Based Compensation

During 2001, we adopted the Technical Olympic USA, Inc. Annual and Long-Term Incentive Plan (the Plan) pursuant to which our employees, consultants and directors, and those of our subsidiaries and affiliated entities, are eligible to receive shares of restricted common stock and/or options to purchase shares of common stock. Under the Plan, subject to adjustment as defined, the maximum number of shares with respect to which awards may be granted is 6,000,000. At September 30, 2004, 5,489,204 options and 26,290

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shares of restricted stock had been granted. Of the stock options granted, 1,253,662 contain accelerated vesting criteria that are being accounted for under the variable accounting method as provided by APB Opinion No. 25. During the three and nine months ended September 30, 2004, we recorded compensation expense of $2.4 million and $4.0 million, respectively, related to these accelerated vesting options, as compared to $0.5 million and $0.9 million, respectively, during the three and nine months ended September 30, 2003.

9. Summarized Financial Information

Our outstanding senior notes and senior subordinated notes are fully and unconditionally guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of the Company s direct and indirect subsidiaries, other than our mortgage and title operations subsidiaries and certain other immaterial subsidiaries (the Non-guarantor Subsidiaries). Each of the Guarantor Subsidiaries is wholly-owned. In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, consolidated condensed financial statements are presented below. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that they are not material to investors.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

September 30, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	$ (3.4)	$ 50.2	$	$	$ 46.8
Inventory		1,386.2	9.3		1,395.5
Property and equipment, net	7.1	21.7			28.8
Investments in unconsolidated joint ventures		30.6			30.6
Advances to / investments in subsidiaries	1,286.4	(561.2)	0.3	(725.5)	
Other assets	23.5	33.0			56.5
Goodwill		106.7			106.7
	1,313.6	1,067.2	9.6	(725.5)	1,664.9
FINANCIAL SERVICES:					
Cash and cash equivalents			87.3		87.3
Mortgage loans held for sale			70.2		70.2
Other assets			10.0		10.0
			167.5		167.5
Total assets	$1,313.6	$1,067.2	$177.1	$(725.5)	$1,832.4
LIABILITIES AND STOCKHOLDERS EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	$ 39.2	$ 99.7	$ 1.6	$	$ 140.5
Customer deposits		69.2			69.2
Obligations for inventory not owned		193.0			193.0
Notes payable	605.6				605.6
Bank borrowings	58.0	5.3	4.3		67.6
	702.8	367.2	5.9		1,075.9
FINANCIAL SERVICES:					
Accounts payable and other liabilities			87.6		87.6
Bank borrowings			58.1		58.1
			145.7		145.7
Total liabilities	702.8	367.2	151.6		1,221.6
Stockholders equity	610.8	700.0	25.5	(725.5)	610.8
Total liabilities and stockholders equity	$1,313.6	$1,067.2	$177.1	$(725.5)	$1,832.4

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

December 31, 2003

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	$ 47.5	$ 47.4	$	$	$ 94.9
Inventory		1,168.9	4.0		1,172.9
Property and equipment, net	7.8	15.9			23.7
Investments in unconsolidated joint ventures		10.5			10.5
Advances to / investments in subsidiaries	946.2	(302.1)	22.1	(666.2)	
Other assets	68.6	28.1		(53.0)	43.7
Goodwill		100.1			100.1
	1,070.1	1,068.8	26.1	(719.2)	1,445.8
FINANCIAL SERVICES:					
Cash and cash equivalents			76.5		76.5
Mortgage loans held for sale			75.2		75.2
Other assets			7.5		7.5
			159.2		159.2
Total assets	$ 1,070.1	$ 1,068.8	$ 185.3	$ (719.2)	$ 1,605.0
LIABILITIES AND STOCKHOLDERS EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	$ 42.5	$ 159.4	$ 0.4	$ (53.0)	$ 149.3
Customer deposits		35.5			35.5
Obligations for inventory not owned		246.2			246.2
Notes payable	480.0				480.0
Bank borrowings	10.0	7.1	0.8		17.9
	532.5	448.2	1.2	(53.0)	928.9
FINANCIAL SERVICES:					
Accounts payable and other liabilities			75.3		75.3
Bank borrowings			63.2		63.2
			138.5		138.5
Total liabilities	532.5	448.2	139.7	(53.0)	1,067.4
Stockholders equity	537.6	620.6	45.6	(666.2)	537.6
Total liabilities and stockholders equity	$ 1,070.1	$ 1,068.8	$ 185.3	$ (719.2)	$ 1,605.0

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF INCOME

Three Months Ended September 30, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
HOMEBUILDING:					
Revenues	$	$506.5	$ 0.7	$	$507.2
Cost of Sales		404.8	0.6		405.4
Gross Profit		101.7	0.1		101.8
Selling, general and administrative expenses	(8.1)	71.1		(1.8)	61.2
Other (income) expense, net	(13.3)	(4.0)		14.4	(2.9)
Homebuilding pretax income	21.4	34.6	0.1	(12.6)	43.5
FINANCIAL SERVICES:					
Revenues			11.9	(1.8)	10.1
Expenses			10.5	(1.0)	9.5
Financial Services pretax income			1.4	(0.8)	0.6
Income before income taxes	21.4	34.6	1.5	(13.4)	44.1
Income taxes	3.4	12.0	0.6		16.0
Net income	$ 18.0	$ 22.6	$ 0.9	$(13.4)	$ 28.1

CONSOLIDATING STATEMENT OF INCOME

Three Months Ended September 30, 2003

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
HOMEBUILDING:					
Revenues	$	$430.4	$	$	$430.4
Cost of Sales		343.9			343.9
Gross Profit		86.5			86.5
Selling, general and administrative expenses	12.3	47.3		(1.5)	58.1
Other (income) expense, net	(29.6)	(3.6)		32.5	(0.7)
Homebuilding pretax income	17.3	42.8		(31.0)	29.1
FINANCIAL SERVICES:					
Revenues			14.4	(1.5)	12.9
Expenses			11.3	(3.2)	8.1

Financial Services pretax income			3.1	1.7	4.8
Income before income taxes	17.3	42.8	3.1	(29.3)	33.9
Income taxes	(4.2)	15.1	1.5		12.4
Net income	$ 21.5	$ 27.7	$ 1.6	$ (29.3)	$ 21.5

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATING STATEMENT OF INCOME

Nine Months Ended September 30, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
HOMEBUILDING:					
Revenues	$	$ 1,429.5	$ 0.8	$	$ 1,430.3
Cost of Sales	(0.1)	1,151.6	0.7		1,152.2
Gross Profit	0.1	277.9	0.1		278.1
Selling, general and administrative expenses	(20.6)	202.9		(5.4)	176.9
Other (income) expense, net	(59.7)	(6.7)		63.0	(3.4)
Homebuilding pretax income	80.4	81.7	0.1	(57.6)	104.6
FINANCIAL SERVICES:					
Revenues			37.1	(5.4)	31.7
Expenses			29.0	(3.7)	25.3
Financial Services pretax income			8.1	(1.7)	6.4
Income before income taxes	80.4	81.7	8.2	(59.3)	111.0
Income taxes	10.5	27.1	3.2		40.8
Net income	$ 69.9	$ 54.6	$ 5.0	$ (59.3)	$ 70.2

CONSOLIDATING STATEMENT OF INCOME

Nine Months Ended September 30, 2003

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
HOMEBUILDING:					
Revenues	$	$ 1,159.3	$	$	$ 1,159.3
Cost of Sales		923.7			923.7
Gross Profit		235.6			235.6
Selling, general and administrative expenses	26.7	131.2		(4.0)	153.9
Other (income) expense, net	(79.3)	(7.4)	0.2	83.8	(2.7)
Homebuilding pretax income	52.6	111.8	(0.2)	(79.8)	84.4
FINANCIAL SERVICES:					
Revenues			39.6	(4.0)	35.6
Expenses			27.9	(6.2)	21.7

Financial Services pretax income			11.7	2.2	13.9
Income before income taxes	52.6	111.8	11.5	(77.6)	98.3
Income taxes	(9.7)	40.8	4.8		35.9
Net income	$ 62.3	$			