

TECHNICAL OLYMPIC USA INC

Form 10-Q

August 08, 2006

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

Form 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2006
- OR**
- 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: 001-32322

TECHNICAL OLYMPIC USA, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

76-0460831

*(I.R.S. Employer
Identification No.)*

**4000 Hollywood Blvd., Suite 500 N
Hollywood, Florida**

(Address of principal executive offices)

33021

(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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):
Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

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: 59,590,519 shares of common stock as of August 2, 2006.

TECHNICAL OLYMPIC USA, INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	June 30, 2006	December 31, 2005
	(Unaudited)	
	(Dollars in millions, except par value)	
ASSETS		
HOMEBUILDING:		
Cash and cash equivalents:		
Unrestricted	\$ 39.6	\$ 26.2
Restricted	2.9	3.1
Inventory:		
Deposits	215.3	218.5
Homesites and land under development	807.4	650.3
Residences completed and under construction	855.4	747.4
Inventory not owned	218.5	124.6
	2,096.6	1,740.8
Property and equipment, net	30.6	27.1
Investments in unconsolidated joint ventures	249.9	254.5
Receivables from unconsolidated joint ventures	83.0	60.5
Other assets	104.2	133.2
Goodwill	108.8	108.8
	2,715.6	2,354.2
FINANCIAL SERVICES:		
Cash and cash equivalents:		
Unrestricted	7.7	8.7
Restricted	3.2	3.1
Mortgage loans held for sale	45.1	43.9
Other assets	11.8	12.8
	67.8	68.5
Total assets	\$ 2,783.4	\$ 2,422.7

LIABILITIES AND STOCKHOLDERS EQUITY

HOMEBUILDING:

Accounts payable and other liabilities	\$ 285.2	\$ 329.4
Customer deposits	76.0	79.3
Obligations for inventory not owned	218.5	124.6
Notes payable	1,060.5	811.6
Bank borrowings		65.0

	1,640.2	1,409.9
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FINANCIAL SERVICES:

Accounts payable and other liabilities	6.4	6.4
Bank borrowings	38.2	35.1

	44.6	41.5
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Total liabilities	1,684.8	1,451.4
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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 59,590,519 and 59,554,977 shares issued and outstanding at June 30, 2006, and December 31, 2005, respectively

Additional paid-in capital	479.4	480.5
Unearned compensation		(7.7)
Retained earnings	618.6	497.9

Total stockholders' equity	1,098.6	971.3
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Total liabilities and stockholders' equity	\$ 2,783.4	\$ 2,422.7
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See accompanying notes to consolidated financial statements.

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited)			
	(Dollars in millions, except per share amounts)			
HOMEBUILDING:				
Revenues:				
Home sales	\$ 641.6	\$ 582.1	\$ 1,227.9	\$ 1,094.5
Land sales	18.0	33.7	46.0	54.9
	659.6	615.8	1,273.9	1,149.4
Cost of sales:				
Home sales	482.2	448.2	921.2	849.2
Land sales	12.8	29.9	37.7	46.7
	495.0	478.1	958.9	895.9
Gross profit	164.6	137.7	315.0	253.5
Selling, general and administrative expenses	104.4	77.1	201.8	156.5
(Income) from joint ventures, net	(37.9)	(8.1)	(65.7)	(10.7)
Other (income), net	(2.4)	(2.3)	(4.4)	(4.2)
Homebuilding pretax income	100.5	71.0	183.3	111.9
FINANCIAL SERVICES:				
Revenues	17.4	11.4	32.6	21.4
Expenses	11.0	9.0	21.7	17.7
Financial Services pretax income	6.4	2.4	10.9	3.7
Income before provision for income taxes	106.9	73.4	194.2	115.6
Provision for income taxes	39.3	27.7	71.6	43.5
Net income	\$ 67.6	\$ 45.7	\$ 122.6	\$ 72.1
EARNINGS PER COMMON SHARE:				
Basic	\$ 1.13	\$ 0.82	\$ 2.06	\$ 1.29
Diluted	\$ 1.10	\$ 0.79	\$ 1.99	\$ 1.24
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	59,572,856	56,083,450	59,580,962	56,078,578
Diluted	61,405,216	58,189,548	61,539,678	58,157,052

CASH DIVIDENDS PER SHARE	\$	0.015	\$	0.015	\$	0.030	\$	0.027
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See accompanying notes to consolidated financial statements.

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months Ended June 30, 2006 2005 (Unaudited) (Dollars in millions)	
Cash flows from operating activities:		
Net income	\$ 122.6	\$ 72.1
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	6.9	6.3
Non-cash compensation	6.9	4.8
Loss on impairment of inventory	5.4	0.6
Deferred income taxes	(2.1)	
Undistributed equity in earnings from unconsolidated joint ventures	(22.6)	(3.8)
Distributions of earnings from unconsolidated joint ventures	19.2	
Changes in operating assets and liabilities:		
Restricted cash	0.1	4.9
Inventory	(274.3)	(270.2)
Receivables from unconsolidated joint ventures	(15.0)	
Other assets	35.5	(33.3)
Mortgage loans held for sale	(1.2)	14.9
Accounts payable and other liabilities	(47.1)	10.2
Customer deposits	(3.3)	21.6
Net cash used in operating activities	(169.0)	(171.9)
Cash flows from investing activities:		
Net additions to property and equipment	(10.3)	(6.0)
Loans to unconsolidated joint ventures	(7.5)	
Investments in unconsolidated joint ventures	(8.2)	(21.5)
Capital distributions from unconsolidated joint ventures	25.2	9.6
Net cash (used in) provided by investing activities	(0.8)	(17.9)
Cash flows from financing activities:		
Net repayments on revolving credit facility	(65.0)	
Net proceeds from notes offering	248.8	
Net proceeds from Financial Services bank borrowings	3.1	0.4
Payments for deferred financing costs	(3.2)	(0.3)
Excess income tax benefit from exercise of stock options	0.1	
Proceeds from stock option exercises	0.2	0.2
Dividends paid	(1.8)	(1.5)
Net cash provided by (used in) financing activities	182.2	(1.2)
Increase (decrease) in cash and cash equivalents	12.4	(191.0)

Cash and cash equivalents at beginning of period	34.9	268.5
Cash and cash equivalents at end of period	\$ 47.3	\$ 77.5
Supplemental disclosure of non-cash financing activity:		
Increase (decrease) in obligations for inventory not owned and corresponding increase (decrease) in inventory not owned	\$ 93.9	\$ (32.6)

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

1. Business and Organization

Business

Technical Olympic USA, Inc. is a homebuilder with a geographically diversified national presence. We operate in various metropolitan markets in ten states, located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West. We design, build, and market detached single-family residences, town homes and condominiums. We also provide title insurance 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.

Organization

Technical Olympic S.A. owns approximately 67% 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 reportable 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 June 30, 2006 are not necessarily indicative of those that may be achieved for the year ending December 31, 2006. 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 Annual Report on Form 10-K for the year ended December 31, 2005.

For the three months ended June 30, 2006 and 2005, we have eliminated inter-segment Financial Services revenues of \$1.2 million and \$2.1 million, respectively. For the six months ended June 30, 2006 and 2005, we have eliminated inter-segment Financial Services revenues of \$2.2 million and \$3.8 million, respectively.

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Earnings Per Share***

Basic earnings per share is computed by dividing income available 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 gives effect to all potential shares that were dilutive and outstanding during the period. Potential common shares are securities, such as stock options or other common stock equivalents, that may entitle the holder to obtain common stock during the reporting period or after the end of the reporting period. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Basic weighted average shares outstanding	59,572,856	56,083,450	59,580,962	56,078,578
Net effect of common stock equivalents assumed to be exercised	1,832,360	2,106,098	1,958,716	2,078,474
Diluted weighted average shares outstanding	61,405,216	58,189,548	61,539,678	58,157,052

Revenue Recognition

In accordance with Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for the Sales of Real Estate* (SFAS No. 66), we deferred approximately \$1.5 million in gross profit related to certain homes that were delivered for which our mortgage subsidiary originated interest-only loans or loans with high loan to value ratios which did not meet the initial and continuing investment requirements under SFAS No. 66, and the loans were still held for sale at June 30, 2006. This profit will be recognized upon the sale of the loans to a third party, with non-recourse provisions, which generally occurs within 45 days from the date the loan is originated.

Stock-Based Compensation

Prior to January 1, 2006, we accounted for stock option awards granted under our share-based payment plan in accordance with the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, (SFAS 123). Share-based employee compensation expense was not recognized in our consolidated statement of income prior to January 1, 2006, except for certain options with performance-based accelerated vesting criteria and certain outstanding common stock purchase rights, as all other stock option awards granted under the plan had an exercise price equal to or greater than the market value of the common stock on the date of the grant. Effective January 1, 2006, we adopted the provisions of SFAS 123 (revised

2004), *Share-Based Payment*, (SFAS 123R) using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the six months ended June 30, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified-prospective-transition method, results for prior periods have not been restated. Additionally, in connection with the adoption of SFAS 123R, we recognized a cumulative

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change in accounting principle of \$2.0 million, net of tax, related to certain common stock purchase rights that were accounted for under the variable accounting method. The cumulative effect of the change in accounting principle of \$3.2 million, gross of tax, was not material and therefore was included in selling, general and administrative expenses with the related tax effect of \$1.2 million included in the provision for income taxes rather than displayed separately as a cumulative change in accounting principle in the consolidated statements of income. The adoption of SFAS 123R resulted in a charge of \$7.4 million and \$4.7 million to income before provision for income taxes and net income, respectively, for the six months ended June 30, 2006. The impact of adopting SFAS 123R on both basic and diluted earnings was \$0.08 per share. See Note 7 for more information on the impact of SFAS 123R on our consolidated financial statements.

3. Inventory

A summary of homebuilding interest capitalized in inventory is as follows (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Interest capitalized, beginning of period	\$ 52.5	\$ 40.2	\$ 47.7	\$ 36.8
Interest incurred	25.5	19.6	48.3	38.7
Less interest included in:				
Cost of sales	(18.9)	(17.7)	(36.6)	(32.4)
Other	0.2	1.0	(0.1)	
Interest capitalized, end of period	\$ 59.3	\$ 43.1	\$ 59.3	\$ 43.1

In the ordinary course of business, we enter into contracts to purchase homesites and land held for development. At June 30, 2006 and December 31, 2005, we had refundable and non-refundable deposits aggregating \$215.3 million and \$218.5 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.

Homebuilders may enter into option contracts for the purchase of land or homesites with land sellers and third-party financial entities, some of which qualify as Variable Interest Entities (VIEs) under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* (FIN 46(R)). FIN 46(R) addresses consolidation by business enterprises of 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. Obligations for inventory not owned in our consolidated statements of financial condition represent liabilities associated with our land banking and similar activities, including obligations in VIEs which have been consolidated by us and in which we have a less than 50% ownership interest, and the creditors have no recourse against us. As a result, the obligations have been specifically excluded from the calculation of leverage ratios pursuant to the terms of our revolving credit facility.

In applying FIN 46(R) 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, FIN 46(R) 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 generally 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 FIN 46(R) at June 30, 2006 was to increase inventory by \$85.7 million, excluding deposits of \$13.0 million, which had been previously recorded, with a corresponding

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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 in which 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.

From time to time, we transfer title to certain parcels of land to unrelated third parties and enter 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, we have accounted for these transactions as financing arrangements. At June 30, 2006, \$132.8 million of inventory not owned and obligations for inventory not owned related to sales where we have retained a continuing involvement.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we carry long-lived assets at the lower of the carrying amount or fair value. Impairment is evaluated by estimating future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the assets, an impairment loss is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During the six months ended June 30, 2006, we recorded an impairment loss of \$5.4 million, which is included in cost of sales - home sales in the accompanying consolidated statement of income. Additionally, during the six months ended June 30, 2006, we wrote-off \$2.2 million in deposits and pre-acquisition costs, which are included in cost of sales - land sales in the accompanying consolidated statement of income, related to land that we no longer intend to purchase.

4. Investments in Unconsolidated Joint Ventures

Summarized condensed combined financial information of unconsolidated entities in which we have investments that are accounted for under the equity method is (dollars in millions):

	June 30, 2006		
	Land Development	Home Construction	Total
Assets:			
Cash and cash equivalents	\$ 9.3	\$ 115.8	\$ 125.1
Inventories	369.8	1,091.7	1,461.5
Other assets	6.2	222.0	228.2
Total assets	\$ 385.3	\$ 1,429.5	\$ 1,814.8
Liabilities and partners' equity:			
Accounts payable and other liabilities	\$ 70.8	\$ 268.9	\$ 339.7
Notes payable	145.4	821.4	966.8
Equity of:			

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Technical Olympic USA, Inc.	70.6	180.2	250.8
Others	98.5	159.0	257.5
Total equity	169.1	339.2	508.3
Total liabilities and partners equity	\$ 385.3	\$ 1,429.5	\$ 1,814.8

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	December 31, 2005		
	Land Development	Home Construction	Total
Assets:			
Cash and cash equivalents	\$ 13.4	\$ 60.5	\$ 73.9
Inventories	306.1	1,023.6	1,329.7
Other assets	3.3	227.5	230.8
Total assets	\$ 322.8	\$ 1,311.6	\$ 1,634.4
Liabilities and partners equity:			
Accounts payable and other liabilities	\$ 6.6	\$ 211.2	\$ 217.8
Notes payable	142.0	781.5	923.5
Equity of:			
Technical Olympic USA, Inc.	86.1	167.1	253.2
Others	88.1	151.8	239.9
Total equity	174.2	318.9	493.1
Total liabilities and partners equity	\$ 322.8	\$ 1,311.6	\$ 1,634.4

	Three Months Ended June 30, 2006			Three Months Ended June 30, 2005		
	Land Development	Home Construction	Total	Land Development	Home Construction	Total
Revenues	\$ 7.8	\$ 387.6	\$ 395.4	\$ 3.5	\$ 65.1	\$ 68.6
Cost and expenses	9.2	347.7	356.9	4.2	57.9	62.1
Net earnings (losses) of unconsolidated entities	\$ (1.4)	\$ 39.9	\$ 38.5	\$ (0.7)	\$ 7.2	\$ 6.5
Our share of net earnings (losses)	\$ (1.0)	\$ 28.1	\$ 27.1	\$ (0.5)	\$ 3.0	\$ 2.5
Management fees earned	0.8	10.0	10.8	0.8	4.8	5.6
Income (loss) from joint ventures	\$ (0.2)	\$ 38.1	\$ 37.9	\$ 0.3	\$ 7.8	\$ 8.1

Six Months Ended**Six Months Ended**

	June 30, 2006			June 30, 2005		
	Land Development	Home Construction	Total	Land Development	Home Construction	Total
Revenues	\$ 13.8	\$ 701.1	\$ 714.9	\$ 10.2	\$ 103.4	\$ 113.6
Cost and expenses	15.8	625.0	640.8	11.8	92.9	104.7
Net earnings (losses) of unconsolidated entities	\$ (2.0)	\$ 76.1	\$ 74.1	\$ (1.6)	\$ 10.5	\$ 8.9
Our share of net earnings (losses)	\$ (1.3)	\$ 45.2	\$ 43.9	\$ (0.8)	\$ 4.6	\$ 3.8
Management fees earned	1.5	20.3	21.8	1.6	5.3	6.9
Income from joint ventures	\$ 0.2	\$ 65.5	\$ 65.7	\$ 0.8	\$ 9.9	\$ 10.7

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We enter into strategic joint ventures to acquire, develop and sell land and/or homesites, as well as to construct and sell homes, in which we have a voting ownership interest of 50% or less and do not have a controlling interest. Our partners generally are unrelated homebuilders, land sellers, financial partners or other real estate entities. At June 30, 2006, we had receivables of \$83.0 million from these joint ventures, of which \$43.9 million represented notes receivable.

In many instances, we are appointed as the day-to-day manager of the unconsolidated entities and receive management fees for performing this function. We received management fees from these unconsolidated entities of \$10.8 million and \$21.8 million for the three and six months ended June 30, 2006, respectively. We received management fees from these unconsolidated entities of \$5.6 million and \$6.9 million for the three and six months ended June 30, 2005, respectively. These fees are included in income from joint ventures in the accompanying consolidated statements of income. In the aggregate, these joint ventures delivered 2,085 and 344 homes for the six months ended June 30, 2006 and 2005, respectively.

In March 2006, we assigned to our Sunbelt joint venture our rights under a contract to purchase approximately 539 acres of raw land. We received \$18.7 million for the assignment of the purchase contract. In connection with this assignment, we realized a gain of \$15.8 million, of which \$2.3 million is included in cost of sales-land sales in the accompanying consolidated statements of income. Due to our continuing involvement with this contract through our investment in the joint venture, we deferred \$13.5 million of this gain which is included in accounts payable and other liabilities in the accompanying consolidated statements of financial condition. This deferral will be recognized in income as homes are delivered by the joint venture.

During the six months ended June 30, 2006, we purchased several parcels of land for an aggregate purchase price of \$39.4 million from our Transeastern joint venture (the Transeastern JV). In connection with these transactions, the Transeastern JV realized a gain of \$14.1 million. We deferred our share of that gain, \$7.1 million, and have recorded it as a reduction in the basis of the underlying property.

Under the limited liability company agreement that governs the operations of the Transeastern JV, the Transeastern JV is required to make a preferred payment to our joint venture partner. The preferred payment is to be made quarterly and to the extent allowable under the covenants and restrictions imposed by the joint venture's bank borrowings. To the extent the joint venture is not allowed to make these payments, we are required, under the joint venture agreement, to advance funds to the Transeastern JV in the form of a member loan sufficient to make the payment. Such member loans bear interest at 18% per annum and are payable once certain conditions and covenants under the JV agreement and the joint venture's bank borrowings are met. Based on our joint venture partner's current equity investment, the quarterly preferred payment is \$3.8 million. As of June 30, 2006, we have advanced funds totaling \$11.3 million to the joint venture in connection with this provision, which is included in receivables from unconsolidated joint ventures in the accompanying consolidated statement of financial condition.

5. Borrowings

Our revolving credit facility permits us to borrow up to the lesser of (i) \$800.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The facility has a letter of credit subfacility of \$400.0 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, provided we satisfy certain conditions. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. Our obligations under the revolving credit facility are guaranteed by our material domestic subsidiaries, other than our mortgage and title subsidiaries. The revolving credit facility expires on March 9, 2010. As of June 30, 2006, we had no borrowings under the revolving credit facility and had issued letters of credit totaling \$281.0 million. As of June 30, 2006, we had \$420.0 million in availability, all of which we could have borrowed without violating any of our debt covenants.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our mortgage subsidiary has the ability to borrow up to \$200.0 million under two warehouse lines of credit to fund the origination of residential mortgage loans. The primary revolving warehouse line of credit (the Primary Warehouse Line of Credit) provides for revolving loans of up to \$150.0 million. Our mortgage subsidiary's other warehouse line of credit (the Secondary Warehouse Line of Credit), which was amended on February 11, 2006, is comprised of (1) a credit facility providing for revolving loans of up to \$30.0 million, subject to meeting borrowing base requirements based on the value of collateral provided, and (2) a mortgage loan purchase and sale agreement which provides for the purchase by the lender of up to \$20.0 million in mortgage loans generated by our mortgage subsidiary. The Primary Warehouse Line of Credit bears interest at the 30 day LIBOR rate plus a margin of 1.125% to 3.0%, except for certain specialty mortgage loans, determined based upon the type of mortgage loans being financed. The Secondary Warehouse Line of Credit bears interest at the 30 day LIBOR rate plus a margin of 1.125%. The Primary Warehouse Line of Credit expires on December 8, 2006 and the Secondary Warehouse Line of Credit expires on February 11, 2007. Both warehouse lines of credit are secured by funded mortgages, which are pledged as collateral, and require our mortgage subsidiary to maintain certain financial ratios and minimums. At June 30, 2006, we had \$38.2 million in borrowings under our mortgage subsidiary's warehouse lines of credit.

On April 12, 2006, we issued \$250.0 million of 8 1/4% Senior Notes due 2011. The net proceeds of \$248.8 million were used to repay amounts outstanding under our revolving credit facility. These notes are guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of our material domestic subsidiaries, other than our mortgage and title subsidiaries (the Non-guarantor Subsidiaries). The senior notes rank *pari passu* in right of payment with all of our existing and future unsecured senior debt and senior in right of payment to our senior subordinated notes and any future subordinated debt. The indenture governing the senior notes requires us to maintain a minimum consolidated net worth and places certain restrictions on our ability, among other things, to incur additional debt, pay or declare dividends or other restricted payments, sell assets, enter into transactions with affiliates, and merge or consolidate with other entities. Interest on these notes is payable semi-annually.

6. 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 is not expected to have a material adverse effect on our consolidated financial position or results of operations.

We provide homebuyers with a limited warranty of workmanship and materials from the date of sale for up to two years. We generally have recourse against our subcontractors for claims relating to workmanship and materials. We also provide up to a ten-year homeowner's warranty which covers major structural defects. We also have a homebuilder protective policy which covers warranty claims for structure and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. Estimated warranty costs are recorded at the time of sale based on historical experience and current factors.

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

During the six months ended June 30, 2006 and 2005, changes in our warranty accrual consisted of (dollars in millions):

	Six Months Ended June 30,	
	2006	2005
Accrued warranty costs at January 1	\$ 7.0	\$ 6.5
Liability recorded for warranties issued during the period	6.5	6.0
Warranty work performed	(4.6)	(4.1)
Liability recorded for pre-existing warranties	(0.1)	(0.7)
Accrued warranty costs at June 30	\$ 8.8	\$ 7.7

During the three and six months ended June 30, 2006, we recorded \$6.4 million and \$7.5 million, respectively, of one-time termination benefits and contract termination costs which are included in selling, general and administrative expenses in the accompanying consolidated statements of income. The termination benefits related to employees that were involuntarily terminated and are no longer providing services. The contract termination costs related to costs that will continue to be incurred under consulting contracts for their remaining terms for which we are not receiving economic benefit.

On June 1, 2006, we entered into employment agreements with two members of our board of directors, who also serve as officers and directors of Technical Olympic, S.A. Each of these members will serve as an Executive Vice President of Technical Olympic USA, Inc. and receive an annual salary of \$300,000. The agreements are for one year employment terms and renew automatically for successive one year periods unless either party provides at least 30 days notice of an intent not to renew. The agreements were amended on August 4, 2006 to provide for certain change of control provisions.

7. Stockholders Equity and Stock-Based Compensation

Under the Technical Olympic USA, Inc. Annual and Long-Term Incentive Plan (the Plan) employees, consultants and directors of ours, our subsidiaries and affiliated entities, (as defined in the Plan), are eligible to receive options to purchase shares of common stock. Each stock option expires on a date determined when the options are granted, but not more than ten years after the date of grant. Stock options granted have a vesting period ranging from immediate vesting to a graded vesting over five years. Under the Plan, subject to adjustment as defined, the maximum number of shares with respect to which awards may be granted is 8,250,000. At June 30, 2006, there were 250,686 shares available for grant.

Prior to January 1, 2006, we accounted for stock option awards granted under our share-based payment plan in accordance with the recognition and measurement provisions of APB 25 and related Interpretations, as permitted by SFAS 123. Share-based employee compensation expense was not recognized in our consolidated statement of income

prior to January 1, 2006, except for certain options with performance-based accelerated vesting criteria and certain outstanding common stock purchase rights, as all other stock option awards granted under the plan had an exercise price equal to or greater than the market value of the common stock on the date of the grant. Effective January 1, 2006, we adopted the provisions of SFAS 123R using the modified-prospective-transition method. Under this transition method, compensation expense recognized during the six months ended June 30, 2006 included:

(a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. In accordance with the modified-prospective-transition method, results for prior periods have not been restated. Additionally, in connection with the adoption of SFAS 123R we recognized a cumulative change in accounting principle of \$2.0 million, net of tax, related to certain common stock purchase rights that were

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accounted for under the variable accounting method. The cumulative effect of the change in accounting principle of \$3.2 million, gross of tax, was not material and therefore was included in selling, general and administrative expenses with the related tax effect of \$1.2 million included in the provision for income taxes rather than displayed separately as a cumulative change in accounting principle in the consolidated statement of income. The adoption of SFAS 123R resulted in a charge of \$7.4 million and \$4.7 million to income before provision for income taxes and net income, respectively, for the six months ended June 30, 2006. The impact of adopting SFAS 123R on both basic and diluted earnings was \$0.08 per share.

Under the provisions of SFAS 123R, the unearned compensation caption in our consolidated statement of financial condition, a contra-equity caption representing the amount of unrecognized share-based compensation costs, is no longer presented. The amount that had been previously shown as unearned compensation was reversed through the additional paid-in capital caption in our consolidated statement of financial condition.

In accordance with SFAS 123R, we present the tax benefits resulting from the exercise of share-based awards as financing cash flows. Prior to the adoption of SFAS 123R, we reported the tax benefits resulting from the exercise of share-based awards as operating cash flows. The effect of this change was not material to our consolidated statement of cash flows.

We estimate that we will record an additional \$1.9 million of pre-tax expense in accordance with SFAS 123R for the remainder of the year ending December 31, 2006.

If the methodologies of SFAS 123R 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 six months ended June 30, 2005 would have been adjusted to the pro forma amounts indicated below (dollars in millions, except per share amounts):

	Six Months Ended June 30, 2005
Net income as reported	\$ 72.1
Add: Stock-based employee compensation included in reported net income, net of tax	2.8
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(1.9)
Pro forma net income	\$ 73.0
Reported basic earnings per share	\$ 1.29
Pro forma basic earnings per share	\$ 1.30
Reported diluted earnings per share	\$ 1.24
Pro forma diluted earnings per share	\$ 1.26

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 for all of the years presented:

Expected volatility	0.33%-0.42%
Expected dividend yield	0%
Risk-free interest rate	1.47%-4.85%
Expected life	3-10 years

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Activity under the Plan for the six months ended June 30, 2006 was as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Options outstanding at beginning of year	6,606,611	\$ 11.06		
Granted	1,339,708	\$ 23.58		
Exercised	(23,750)	\$ 10.84		
Forfeited	(133,125)	\$ 19.37		
Options outstanding at end of period	7,789,444	\$ 13.07	6.06	\$ 24.4
Vested and expected to vest in the future at end of period	7,789,444	\$ 13.07	6.06	\$ 24.4
Options exercisable at end of period	5,025,632	\$ 10.89	6.55	\$ 18.2
Weighted average fair market value per share of options granted during the period	\$ 7.90			

As of June 30, 2006, there was \$5.5 million of total unrecognized compensation expense related to unvested stock option awards. This expense is expected to be recognized over a weighted average period of 2.0 years.

The aggregate fair market value of options vested during the six months ended June 30, 2006 was \$1.1 million.

Our chief executive officer had the right to purchase 1% of our outstanding common stock on January 1, 2007 for \$16.23 per share and an additional 1% on January 1, 2008 for \$17.85 per share. On January 13, 2006, our chief executive officer's employment agreement was amended primarily to grant him 1,323,940 options at an exercise price of \$23.62 per share and provide for a special bonus award of \$8.7 million in lieu of the common stock purchase rights.

8. 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 our material domestic subsidiaries, other than our mortgage and title subsidiaries (the Non-guarantor Subsidiaries). Each of the Guarantor Subsidiaries is directly or indirectly 100% owned by us. 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.

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Financial Condition
June 30, 2006**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	\$ 20.5	\$ 22.0	\$	\$	\$ 42.5
Inventory		2,096.6			2,096.6
Property and equipment, net	7.3	23.3			30.6
Investments in unconsolidated joint ventures		249.9			249.9
Receivables from unconsolidated joint ventures		83.0			83.0
Investments in/advances to consolidated subsidiaries	2,161.2	(319.0)	4.9	(1,847.1)	
Other assets	48.9	55.3			104.2
Goodwill		108.8			108.8
	2,237.9	2,319.9	4.9	(1,847.1)	2,715.6
FINANCIAL SERVICES:					
Cash and cash equivalents			10.9		10.9
Mortgage loans held for sale			45.1		45.1
Other assets			11.8		11.8
			67.8		67.8
Total assets	\$ 2,237.9	\$ 2,319.9	\$ 72.7	\$ (1,847.1)	\$ 2,783.4
LIABILITIES AND STOCKHOLDERS					
EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	\$ 78.8	\$ 206.4	\$	\$	\$ 285.2
Customer deposits		76.0			76.0
Obligations for inventory not owned		218.5			218.5
Notes payable	1,060.5				1,060.5
	1,139.3	500.9			1,640.2

FINANCIAL SERVICES:

Accounts payable and other liabilities			6.4		6.4
Bank borrowings			38.2		38.2
			44.6		44.6
Total liabilities	1,139.3	500.9	44.6		1,684.8
Total stockholders equity	1,098.6	1,819.0	28.1	(1,847.1)	1,098.6
Total liabilities and stockholders equity	\$ 2,237.9	\$ 2,319.9	\$ 72.7	\$ (1,847.1)	\$ 2,783.4

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Financial Condition
December 31, 2005**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	\$ 21.9	\$ 7.4	\$	\$	\$ 29.3
Inventory		1,740.8			1,740.8
Property and equipment, net	7.3	19.8			27.1
Investments in unconsolidated joint ventures		254.5			254.5
Receivables from unconsolidated joint ventures		60.5			60.5
Investments in/advances to consolidated subsidiaries	1,946.8	(427.7)	(3.7)	(1,515.4)	
Other assets	26.3	106.9			133.2
Goodwill		108.8			108.8
	2,002.3	1,871.0	(3.7)	(1,515.4)	2,354.2
FINANCIAL SERVICES:					
Cash and cash equivalents			11.8		11.8
Mortgage loans held for sale			43.9		43.9
Other assets			12.8		12.8
			68.5		68.5
Total assets	\$ 2,002.3	\$ 1,871.0	\$ 64.8	\$ (1,515.4)	\$ 2,422.7
LIABILITIES AND STOCKHOLDERS EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	\$ 154.4	\$ 175.0	\$	\$	\$ 329.4
Customer deposits		79.3			79.3
Obligations for inventory not owned		124.6			124.6

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Notes payable	811.6				811.6
Bank borrowings	65.0				65.0
	1,031.0	378.9			1,409.9
FINANCIAL SERVICES:					
Accounts payable and other liabilities			6.4		6.4
Bank borrowings			35.1		35.1
			41.5		41.5
Total liabilities	1,031.0	378.9	41.5		1,451.4
Total stockholders equity	971.3	1,492.1	23.3	(1,515.4)	971.3
Total liabilities and stockholders equity	\$ 2,002.3	\$ 1,871.0	\$ 64.8	\$ (1,515.4)	\$ 2,422.7

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Income
Three Months Ended June 30, 2006**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
HOMEBUILDING:					
Revenues	\$	\$ 659.6	\$	\$	\$ 659.6
Cost of sales		495.0			495.0
Gross profit		164.6			164.6
Selling, general and administrative expenses	27.0	78.6		(1.2)	104.4
(Income) from joint ventures, net		(37.9)			(37.9)
Other (income) expense, net	(91.1)	14.0		74.7	(2.4)
Homebuilding pretax income	64.1	109.9		(73.5)	100.5
FINANCIAL SERVICES:					
Revenues			18.6	(1.2)	17.4
Expenses			13.6	(2.6)	11.0
Financial Services pretax income			5.0	1.4	6.4
Income before provision (benefit) for income taxes	64.1	109.9	5.0	(72.1)	106.9
Provision (benefit) for income taxes	(3.5)	40.4	2.4		39.3
Net income	\$ 67.6	\$ 69.5	\$ 2.6	\$ (72.1)	\$ 67.6

**Consolidating Statement of Income
Three Months Ended June 30, 2005**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				

HOMEBUILDING:

Revenues	\$	\$	615.8	\$	\$	\$	615.8			
Cost of sales			478.1				478.1			
Gross profit			137.7				137.7			
Selling, general and administrative expenses	15.0		64.2		(2.1)		77.1			
(Income) from joint ventures, net			(8.1)				(8.1)			
Other (income) expense, net	(60.1)		1.5		56.3		(2.3)			
Homebuilding pretax income	45.1		80.1		(54.2)		71.0			
FINANCIAL SERVICES:										
Revenues				13.5	(2.1)		11.4			
Expenses				10.5	(1.5)		9.0			
Financial Services pretax income				3.0	(0.6)		2.4			
Income before provision (benefit) for income taxes	45.1		80.1	3.0	(54.8)		73.4			
Provision (benefit) for income taxes	(0.6)		27.2	1.1			27.7			
Net income	\$	45.7	\$	52.9	\$	1.9	\$	(54.8)	\$	45.7

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Income
Six Months Ended June 30, 2006**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
HOMEBUILDING:					
Revenues	\$	\$ 1,273.9	\$	\$	\$ 1,273.9
Cost of sales		958.9			958.9
Gross profit		315.0			315.0
Selling, general and administrative expenses	46.3	157.7		(2.2)	201.8
(Income) from joint ventures, net		(65.7)			(65.7)
Other (income) expense, net	(162.7)	22.1		136.2	(4.4)
Homebuilding pretax income	116.4	200.9		(134.0)	183.3
FINANCIAL SERVICES:					
Revenues			34.8	(2.2)	32.6
Expenses			26.2	(4.5)	21.7
Financial Services pretax income			8.6	2.3	10.9
Income before provision (benefit) for income taxes	116.4	200.9	8.6	(131.7)	194.2
Provision (benefit) for income taxes	(6.2)	74.1	3.7		71.6
Net income	\$ 122.6	\$ 126.8	\$ 4.9	\$ (131.7)	\$ 122.6

**Consolidating Statement of Income
Six Months Ended June 30, 2005**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				

HOMEBUILDING:

Revenues	\$	\$ 1,149.4	\$	\$	\$ 1,149.4
Cost of sales		895.9			895.9
Gross profit		253.5			253.5
Selling, general and administrative expenses	36.5	123.8		(3.8)	156.5
(Income) from joint ventures, net		(10.7)			(10.7)
Other (income) expense, net	(107.4)	17.2		86.0	(4.2)
Homebuilding pretax income	70.9	123.2		(82.2)	111.9
FINANCIAL SERVICES:					
Revenues			25.2	(3.8)	21.4
Expenses			20.1	(2.4)	17.7
Financial Services pretax income			5.1	(1.4)	3.7
Income before provision (benefit) for income taxes	70.9	123.2	5.1	(83.6)	115.6
Provision (benefit) for income taxes	(1.2)	43.4	1.3		43.5
Net income	\$ 72.1	\$ 79.8	\$ 3.8	\$ (83.6)	\$ 72.1

Table of Contents**TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Consolidating Statement of Cash Flows
Six Months Ended June 30, 2006**

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
Cash flows from operating activities:					
Net income	\$ 122.6	\$ 126.8	\$ 4.9	\$ (131.7)	\$ 122.6
Adjustments to reconcile net income to net cash (used in) provided by operating activities:					
Depreciation and amortization	1.7	4.5	0.7		6.9
Non-cash compensation	6.9				6.9
Loss on impairment of inventory		5.4			5.4
Deferred income taxes	(2.1)				(2.1)
Undistributed equity in earnings from unconsolidated joint ventures		(22.6)			(22.6)
Distributions of earnings from unconsolidated joint ventures		19.2			19.2
Changes in operating assets and liabilities:					
Restricted cash	(0.9)	1.1	(0.1)		0.1
Inventory	0.1	(274.4)			(274.3)
Receivables from unconsolidated joint ventures		(15.0)			(15.0)
Other assets	(17.5)	51.6	1.4		35.5
Mortgage loans held for sale			(1.2)		(1.2)
Accounts payable and other liabilities	(76.2)	29.0	0.1		(47.1)
Customer deposits		(3.3)			(3.3)
Net cash (used in) provided by operating activities	34.6	(77.7)	5.8	(131.7)	(169.0)
Cash flows from investing activities:					
Net additions to property and equipment	(1.6)	(7.6)	(1.1)		(10.3)
Loans to unconsolidated joint ventures		(7.5)			(7.5)
Investments in unconsolidated joint ventures		(8.2)			(8.2)
Capital distributions from unconsolidated joint ventures		25.2			25.2
Net cash (used in) provided by investing activities	(1.6)	1.9	(1.1)		(0.8)
Cash flows from financing activities:					

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Net repayments on revolving credit facility	(65.0)				(65.0)
Net proceeds from notes offering	248.8				248.8
Net proceeds from Financial Services bank borrowings			3.1		3.1
Payments for deferred financing costs	(3.2)				(3.2)
Excess income tax benefit from exercise of stock options	0.1				0.1
Proceeds from stock option exercises	0.2				0.2
Dividends paid	(1.8)				(1.8)
Increase (decrease) in intercompany transactions	(214.4)	91.5	(8.8)	131.7	
Net cash provided by (used in) financing activities	(35.3)	91.5	(5.7)	131.7	182.2
Increase (decrease) in cash and cash equivalents	(2.3)	15.7	(1.0)		12.4
Cash and cash equivalents at beginning of period	20.2	6.0	8.7		34.9
Cash and cash equivalents at end of period	\$ 17.9	\$ 21.7	\$ 7.7	\$	\$ 47.3

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Consolidating Statement of Cash Flows
Six Months Ended June 30, 2005**

Technical Olympic	Guarantor	Non- Guarantor	Intercompany
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