

TECHNICAL OLYMPIC USA INC

Form S-1

June 26, 2003

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As filed with the Securities and Exchange Commission on June 26, 2003

Registration Statement No.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

TECHNICAL OLYMPIC USA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation)

1520
(Primary Standard Industrial
Classification Code Number)

76-0460831
(I.R.S. Employer
Identification Number)

4000 Hollywood Boulevard, Suite 500 North
Hollywood, Florida 33021
(954) 364-4000

(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the earlier offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit⁽¹⁾	Proposed Maximum Aggregate Offering Price⁽²⁾	Amount of Registration Fee
Common Stock	2,300,000	\$ 25.31	\$58,213,000	\$4,709.43

(1) Represents the average of the high and low sales price of the Registrant's common stock on June 24, 2003, as reported by the Nasdaq National Market.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 26, 2003

PRELIMINARY PROSPECTUS

[Company Logo]
2,000,000 Shares

Technical Olympic USA, Inc.

Common Stock
\$ per share

Technical Olympic, Inc., our majority stockholder and the selling stockholder, is offering 2,000,000 shares of our common stock. We will not receive any proceeds from the sale of any shares of common stock sold by the selling stockholder. Technical Olympic, Inc. currently owns 90.73% of our common stock and will own approximately 83.56% after this offering, or 82.48% if the underwriters exercise the over-allotment option in full.

Our common stock is quoted on the Nasdaq National Market under the symbol TOUS. On June 25, 2003, the last reported sale price of our common stock on the Nasdaq National Market was \$25.10 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to the selling stockholder	\$	\$

The underwriters may also purchase up to an additional 300,000 shares of common stock from the selling stockholder, at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus. The underwriters may exercise this option to cover over-allotments, if any. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$, and the total proceeds to the selling stockholder will be \$.

The underwriters are offering the common stock as set forth in Underwriting. Delivery of the shares will be made on or about , 2003.

Joint Book-Running Managers

UBS Investment Bank

Citigroup

, 2003

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SUPPLEMENTAL CONTRACTOR AGREEMENT
EMPLOYMENT AGREEMENT/ ERIC ROME
AMENDED & RESTATED MANAGEMENT SERVICE AGREEMENT
CONSENT OF ERNST & YOUNG LLP
CONSENT OF BDO SEIDMAN, LLP
CONSENT OF BDO SEIDMAN, LLP

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You should rely only on the information contained in this prospectus. We have not, and the underwriters and the selling stockholder have not, authorized anyone to provide you with information that is different. The selling stockholder is offering to sell shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus regardless of the time of delivery of this prospectus or any sale of our common stock.

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In this prospectus we rely on and refer to information and statistics regarding our industry. We obtained this market data from independent industry publications or other publicly available information. Some data is also based on our good faith estimates, which are derived from our review of internal surveys, as well as independent industry publications. Although we believe that these outside sources are reliable, we have not independently verified and do not guarantee the accuracy and completeness of this information.

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SUMMARY

You should read this entire prospectus before making an investment in our common stock. You should carefully consider the information set forth under Risk Factors. In addition, certain statements include forward-looking information which involves risks and uncertainties. See Forward-Looking Statements.

Unless this prospectus otherwise indicates or the context otherwise requires, the terms we, our, us, or the Company as used in this prospectus refer to Technical Olympic USA, Inc. and its subsidiaries. Technical Olympic or selling stockholder as used in this prospectus refer to Technical Olympic, Inc.

Overview

We design, build and market high quality detached single-family residences, town homes and condominiums. We operate in markets characterized by strong population and income growth. Currently, we conduct homebuilding operations in 14 metropolitan markets, located in four major geographic regions: Florida, the Mid-Atlantic, Texas and the West.

For the twelve months ended December 31, 2002, we delivered 5,085 homes, with an average sales price of \$265,000, and generated approximately \$1.3 billion in revenues from home sales and \$67.0 million in income from continuing operations. For the three months ended March 31, 2003, we delivered 1,234 homes, with an average sales price of \$254,000, and generated approximately \$313.8 million in revenues from home sales and \$17.7 million in income from continuing operations. Our backlog of homes at March 31, 2003 was 2,826 homes under contract, representing \$764.0 million in expected revenues.

We market our homes to a diverse group of homebuyers, including first-time homebuyers, move-up homebuyers, homebuyers who are relocating to a new city or state, buyers of second or vacation homes, active-adult homebuyers and homebuyers with grown children who want a smaller home (empty-nesters). Our homes are marketed under various brand names, including Engle Homes, Newmark Homes, Fedrick, Harris Estate Homes, Marksman Homes, D.S. Ware Homes, Masonry Homes, Trophy Homes and James Company. As of March 31, 2003, we either owned or had options to acquire 31,651 homesites, and we were actively marketing in 176 communities.

As part of our objective to provide homebuyers a seamless home purchasing experience, we have developed, and are expanding, our complementary financial services business. As part of this business, we provide mortgage financing and closing services and offer title, homeowners and other insurance products. Our mortgage financing operation derives most of its revenues from origination and brokerage fees, as we sell substantially all of our mortgages to third parties. Our mortgage financing services are used primarily by buyers of our homes, although we also offer these services to existing homeowners refinancing their mortgages. By comparison, our closing services and our insurance agency operations are used by our homebuyers as well as a broad range of other clients purchasing or refinancing residential or commercial real estate.

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Competitive Strengths

High Growth Markets

We believe that by focusing our homebuilding operations in high growth markets, we are well positioned to expand our business and maximize our financial returns. We operate in five of the eight fastest growing states in the United States, based on population growth from 1990 to 2000. The average median population growth in the eight states where we operate was 27.0% from 1990 to 2000, as compared to the U.S. average of 13.0%. In addition, each of the states in which we operate has demonstrated a history of solid economic growth. These eight states had an average median income growth of 13.3%, as compared to the U.S. average of 4.0%, from 1989 to 1999. We expect that these growth trends will increase future housing demand in our markets. Additionally, based on our relative position in each of these markets, we believe we have the opportunity to expand our operations.

Geographic and Customer Diversification

We operate in 14 geographically diverse markets. For the twelve months ended December 31, 2002, none of our metropolitan markets represented more than 18% of our total revenues. Within our markets, we target a diverse customer base including first-time, move-up, relocating, active-adult and empty-nester homebuyer segments. In 2002, we generated 42% of our revenues from home sales from homes in the \$200,000 to \$300,000 price range, 26% of our revenues from home sales from homes in the \$300,000 to \$400,000 price range, 16% of our revenues from home sales from homes in the under \$200,000 price range, and 16% of our revenues from home sales from homes in the over \$400,000 price range. We believe that this diversification protects us from downturns in any one market or price segment and provides us with additional growth opportunities.

Experienced Management Team

We balance our local expertise and focus with a seasoned and professional senior management team. Our regional and divisional managers have an average of more than 20 years of homebuilding experience in their local markets. As a result, they have developed in-depth market expertise and familiarity with their customers and subcontractors. In addition, as a result of their long-standing relationships with local land sellers and developers, our regional and divisional managers are well-positioned to acquire premium land and homesites. Our senior corporate managers have an average of more than 18 years of experience in the homebuilding business and have a successful track record of delivering strong results in varying homebuilding cycles. The experience and depth of our management team provides us the capability to quickly evaluate and successfully capitalize on market opportunities and adjust to changing national, regional and local business conditions.

Strong Land Positions and Disciplined Acquisition Strategy

Land is our key raw material and one of our most valuable assets. We believe that by acquiring land and homesites in premier locations, we enhance our competitive standing and reduce our exposure to economic downturns. We believe that homes in premier locations continue to attract homebuyers in both strong and weak economic conditions. We consider that our disciplined acquisition strategy of balancing homesites and land we own and those we can acquire under option contracts provides us access to a substantial supply of quality homesites and land while conserving our invested capital and optimizing our returns. Generally, we acquire only homesites and entitled land suitable for homesite development and residential construction.

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Strong Brand Recognition and Customer Service

We market our homes under various brand names, including Engle Homes, Newmark Homes, Fedrick, Harris Estate Homes, Marksman Homes, D.S. Ware Homes, Masonry Homes, Trophy Homes and James Company. We believe our brands are widely recognized in the markets in which we operate for providing quality homes in desirable locations and enjoy a solid reputation among potential homebuyers. We believe that customer satisfaction enhances our reputation for quality and service and leads to significant repeat and referral business. In our industry, customer satisfaction is based in large part on our ability to respond promptly and courteously to homebuyers before, during and after the sale of our homes. As part of our customer service program, we conduct pre-delivery inspections to promptly address any outstanding construction issues and contract independent third parties to conduct periodic post-delivery evaluations of the customer's satisfaction with their home, as well as the customer's experience with our sales personnel, construction department and title and mortgage services.

Business Strategies

Capitalize on Growth Potential in Our Current Markets

We believe that a significant portion of our future growth will stem from our ability to increase our homes sales and capture additional market share within our current markets. Currently, we conduct homebuilding operations in 14 metropolitan markets, each of which is highly fragmented with numerous smaller homebuilders. Our reputation as a high quality homebuilder combined with our financial resources gives us an advantage over many smaller homebuilders with whom we compete. Based on management estimates, we are positioned as a top-five homebuilder in three of our current markets. Consequently, we have an opportunity to significantly strengthen our market position by expanding our product offerings and increasing the number of our active selling communities. Our current markets have demonstrated solid income and population growth trends. As a result, we expect that strong demand for new housing in our current markets will also contribute to our growth. By leveraging our current operations, we believe that we will, over time, maximize our financial returns, strengthen our margins and increase our revenues and profitability.

Implement Performance Improvement and Best Practices Initiatives

As part of our goal of strengthening our financial returns, we continuously monitor and evaluate our systems, practices and procedures in order to improve our operations. We recently adopted a detailed Performance Improvement Plan that focuses on techniques to enhance operating efficiencies. We have, and will continue to, implement best practices across our operating divisions and believe that this operating strategy has allowed, and will continue to allow, us to:

implement innovative information systems to, among other things, monitor homebuilding production, scheduling and budgeting and facilitate communication among our divisions with respect to the design and construction of our homes;

reduce the time necessary to complete each stage in the homebuilding process;

effectively manage our inventory of homes;

use our purchasing power to achieve volume discounts and the best possible service from our vendors; and

achieve more favorable pricing of homesite premiums and options.

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Grow Our Financial Services Business

Our financial services operations require minimal capital investment and are highly profitable because of the high margins we obtain from our mortgage financing operation and the high volume of transactions generated from our title insurance and closing services operations. We believe that these financial services complement our homebuilding operations and provide homebuyers a seamless home purchasing experience. For the three months ended March 31, 2003, approximately 51% of our homebuyers utilized the services of our mortgage business, while 80% of our homebuyers used our title and closing services and 26% used our insurance agencies to obtain insurance. We believe that we have an opportunity to grow our financial services business by:

increasing the percentage of our homebuyers who use our financial services;

marketing our financial services more actively to buyers of homes built by other homebuilders, including smaller homebuilders that do not provide their own financial services; and

offering additional services that complement our existing financial services in all our markets.

Selectively Expand Into New Markets

We intend to supplement our primary growth strategy of expansion in our current markets with a disciplined, financial return oriented approach to entering new markets. We will focus on entering metropolitan areas that have favorable homebuilding characteristics, including availability of strong management with local market expertise as well as solid income and population growth trends, significant single-family home permit activity, a diversified economy and an adequate supply of obtainable homesites. We believe this long-term emphasis on geographic diversification across a range of growing markets with strong fundamentals will enable us to minimize our exposure to adverse economic conditions, seasonality and housing cycles in individual local markets. We will enter new markets through strategic acquisitions of other homebuilders and, to the extent we enter new markets that complement and/or are in close proximity to our current markets, we will utilize our existing management expertise and resources to establish operations.

Principal Executive Offices

Our executive offices are located at 4000 Hollywood Blvd., Suite 500 North, Hollywood, Florida 33021. Our telephone number is (954) 364-4000. Our Web address is www.tousa.com. We do not intend the information on our Website to constitute part of this prospectus.

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The Offering

Common stock offered by the selling stockholder	2,000,000 shares
Common stock outstanding	27,889,036 shares
Use of Proceeds	We will not receive any proceeds from the shares sold by the selling stockholder in this offering.
Risk Factors	You should carefully consider the information set forth in the section entitled "Risk Factors" and the other information included in this prospectus in deciding whether to purchase our common stock.
Nasdaq National Market symbol	TOUS

The number of shares of our common stock that will be outstanding after this offering is based on the number of shares outstanding as of June 16, 2003. However, it does not include 3,436,491 shares of common stock issuable upon exercise of options outstanding as of June 16, 2003.

The selling stockholder has agreed to sell up to an aggregate of 300,000 additional shares of common stock if the underwriters exercise in full their over-allotment option, which we describe in "Underwriting." Unless otherwise noted, the information in this prospectus assumes the underwriters have not exercised their over-allotment option.

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The following table sets forth our summary financial and operating data. The summary financial data in the table for the three years ended December 31, 2002 have been derived from our audited consolidated financial statements. The summary financial data in the table for the three month periods ended March 31, 2002 and 2003 have been derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which we consider necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2003. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	Year Ended December 31,			Three Months Ended March 31,	
	2000 ⁽¹⁾⁽²⁾	2001 ⁽¹⁾⁽²⁾	2002 ⁽¹⁾⁽²⁾	2002 ⁽¹⁾⁽²⁾	2003
(Dollars in thousands, except per share data)					
Statement of Income Data:					
Homebuilding:					
Revenues from home sales	\$ 540,323	\$ 1,374,551	\$ 1,349,713	\$ 302,155	\$ 313,820
Revenues from land sales	6,343	18,361	27,379	383	2,060
Total revenues	546,666	1,392,912	1,377,092	302,538	315,880
Cost of sales from home sales	434,736	1,091,626	1,075,875	239,645	246,280
Cost of sales from land sales	6,203	16,660	24,430	430	1,841
Total cost of sales	440,939	1,108,286	1,100,305	240,075	248,121
Gross profit	105,727	284,626	276,787	62,463	67,759
Selling, general, and administrative expenses	63,832	152,063	163,726	37,704	43,790
Depreciation and amortization	3,112	8,849	5,952	1,631	1,646
Severance and merger related expenses		2,643	19,963	13,828	
Loss on early extinguishment of debt			5,411		
Other (income) expense	2,264	(3,941)	(5,838)	(222)	(1,019)
Homebuilding pretax income	36,519	125,012	87,573	9,522	23,342
Financial Services:					
Revenues	2,562	32,659	40,214	7,954	10,645
Expenses	1,635	17,688	20,846	3,780	6,160
Financial Services pretax income	927	14,971	19,368	4,174	4,485
Income from continuing operations before income taxes					
	37,446	139,983	106,941	13,696	27,827
Income tax expense	13,672	52,218	39,900	4,767	10,171
Income from continuing operations	\$ 23,774	\$ 87,765	\$ 67,041	\$ 8,929	\$ 17,656
Per Share Data:					
Income from continuing operations (basic and diluted)	\$ 1.79	\$ 3.15	\$ 2.40	\$ 0.32	\$ 0.63
Income from discontinued operations (basic and diluted)	\$ 0.48	\$ 0.22	\$ 0.18	\$ 0.02	\$

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Book value based on shares outstanding at end of period	\$ 12.74	\$ 14.83	\$ 14.53	\$	\$ 15.17
Cash dividends ⁽³⁾	\$	\$ 0.22	\$	\$	\$
Weighted average number of common shares outstanding (basic and diluted)	13,250,062	27,878,787	27,878,787	27,878,787	27,882,090

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	Year Ended December 31,			Three Months Ended March 31,	
	2000 ⁽¹⁾⁽²⁾	2001 ⁽¹⁾⁽²⁾	2002 ⁽¹⁾⁽²⁾	2002 ⁽¹⁾⁽²⁾	2003
(Dollars in thousands)					
Other Financial Data:					
Gross margin on home sales	19.5%	20.6%	20.3%	20.7%	21.5%
Operating Data:					
Homes delivered	1,994	5,304	5,085	1,146	1,234
Average sales price, per home delivered	\$ 271	\$ 259	\$ 265	\$ 264	\$ 254
New sales contracts, net of cancellations	1,819	4,967	5,009	1,408	1,632
Backlog at end of period, number of homes	2,486	2,149	2,280	2,411	2,826
Backlog at end of period, sales value	\$ 629,348	\$ 573,405	\$ 636,922	\$ 651,273	\$ 763,965

At March 31, 2003

(Dollars in thousands)

Balance Sheet Data:

Cash and cash equivalents:

Unrestricted	\$ 49,079
Restricted	\$ 37,851
Inventory	\$ 853,841
Total assets	\$ 1,148,923
Homebuilding borrowings	\$ 505,642
Total borrowings ⁽⁴⁾	\$ 540,246
Stockholders' equity	\$ 422,961

⁽¹⁾ On June 25, 2002, we completed the merger with Engle Holdings, Inc. As both entities were under the common control of Technical Olympic, the merger was accounted for as a reorganization of entities under common control. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, we recognized the acquired assets and liabilities of Engle Holdings at their historical carrying amounts. As both entities came under common control of Technical Olympic on November 22, 2000, our financial statements and other operating data have been restated to include the operations of Engle Holdings from November 22, 2000. See note 1 to our consolidated financial statements included elsewhere in this prospectus.

⁽²⁾ On April 15, 2002, we completed the sale of Westbrooke Acquisition Corp., formerly one of our Florida homebuilding subsidiaries. In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of Westbrooke's operations have been classified as discontinued operations, and prior periods have been restated. See note 8 to our consolidated financial statements included elsewhere in this prospectus.

⁽³⁾ Cash dividends per share have been restated to reflect the total shares outstanding as a result of the merger with Engle Holdings.

⁽⁴⁾ Total borrowings includes Homebuilding borrowings and Financial Services borrowings.

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RISK FACTORS

Investing in our common stock involves risk. In addition to the other information set forth elsewhere in this prospectus, the following factors relating to us and our common stock should be considered carefully in deciding whether to invest in our common stock.

Risks Related to Our Business

Economic downturns in the geographic areas in which we operate could adversely affect demand and prices for new homes in those areas and could have an adverse effect on our revenues and earnings.

Although we operate in 14 major metropolitan markets, our operations are concentrated in the southwestern and southeastern United States. Adverse economic or other business conditions in these regions or in the particular markets in which we operate, all of which are outside of our control, could have an adverse effect on our revenues and earnings.

We may not be able to acquire suitable land at reasonable prices, which could increase our costs and reduce our earnings and profit margins.

We have experienced an increase in competition for available land and developed homesites in some of our markets as a result of the strength of the economy in many of these markets over the past few years and the availability of more capital to major homebuilders. Our ability to continue our development activities over the long-term depends upon our ability to locate and acquire suitable parcels of land or developed homesites to support our homebuilding operations. As competition for land increases, the cost of acquiring it may rise, and the availability of suitable parcels at acceptable prices may decline. If we are unable to acquire suitable land or developed homesites at reasonable prices, it could limit our ability to develop new projects or result in increased land costs that we may not be able to pass through to our customers. Consequently, it could reduce our earnings and profit margins.

Our significant level of debt could adversely affect our financial condition and prevent us from fulfilling our debt service obligations.

We currently have a significant amount of debt, and our ability to meet our debt service obligations will depend on our future performance. Numerous factors outside of our control, including changes in economic or other business conditions generally or in the markets or industry in which we do business, may adversely affect our operating results and cash flows, which in turn may affect our ability to meet our debt service obligations. As of March 31, 2003, on a consolidated basis, we had approximately \$540.2 million aggregate principal amount of debt outstanding (including our revolving credit facility, our senior notes, our senior subordinated notes, our warehouse line of credit and our other credit facilities, but excluding consolidated land bank obligations of \$12.9 million). At March 31, 2003, as adjusted for the amendment of our revolving credit facility, we would have had the ability to borrow an additional \$221.1 million under our revolving credit facility and \$30.4 million under our warehouse line of credit, subject to our satisfying the relevant borrowing conditions in those facilities. In addition, subject to restrictions in our financing documents, we may incur additional debt.

If we are unable to meet our debt service obligations, we may need to restructure or refinance our debt, seek additional equity financing or sell assets. We may be unable to restructure or refinance our debt, obtain additional equity financing or sell assets on satisfactory terms or at all.

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Our debt instruments impose significant operating and financial restrictions which may limit our ability to finance future operations or capital needs and pursue business opportunities, thereby limiting our growth.

The indentures governing our outstanding notes and our revolving credit facility impose significant operating and financial restrictions on us. These restrictions limit our ability to, among other things:

incur additional debt;

pay dividends or make other restricted payments;

create or permit certain liens, other than customary and ordinary liens;

sell assets other than in the ordinary course of our business;

create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us;

engage in transactions with affiliates; and

consolidate or merge with or into other companies or sell all or substantially all of our assets.

These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities. In addition, our revolving credit facility requires us to maintain specified financial ratios and satisfy certain financial covenants, the indentures governing our outstanding notes require us to maintain a specified minimum consolidated net worth, and our warehouse line of credit requires us to maintain the collateral value of our borrowing base. We may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our revolving credit facility and warehouse line of credit would prevent us from borrowing additional money under those facilities and could result in a default under those facilities and our other debt obligations. Our failure to maintain the specified minimum consolidated net worth under the indentures will require us to offer to purchase a portion of our outstanding notes. If we fail to purchase these notes, it would result in a default under the indentures and may result in a default under other debt facilities.

We may not be successful in our effort to identify, complete or integrate acquisitions, which could adversely affect our results of operations and future growth.

A principal component of our strategy is to continue to grow profitably in a controlled manner, including, where appropriate, by acquiring other property developers or homebuilders. We may not be successful in implementing our acquisition strategy, and growth may not continue at historical levels or at all. We completed the merger with Engle Homes on June 25, 2002, we acquired the assets of D.S. Ware Homes and Masonry Homes in the fourth quarter of 2002, and we acquired the assets of Trophy Homes and The James Construction Company in the first quarter of 2003. The failure to identify or complete business acquisitions, or successfully integrate the businesses we acquire, could adversely affect our results of operations and future growth. Specifically, any delays or difficulties in converting our various information systems or implementing our internal policies and procedures could increase costs and otherwise affect our results of operations. Even if we overcome these challenges and risks, we may not realize the expected benefits of our acquisitions.

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We may need additional financing to fund our operations or for the expansion of our business, and if we are unable to obtain sufficient financing or such financing is obtained on adverse terms, we may not be able to operate or expand our business as planned, which could adversely affect our results of operations and future growth.

Our operations require significant amounts of cash. If our business does not achieve the levels of profitability or generate the amount of cash that we anticipate or if we expand through acquisitions or organic growth faster than anticipated, we may need to seek additional debt or equity financing to operate and expand our business. If we are unable to obtain sufficient financing to fund our operations or expansion, it could adversely affect our results of operations and future growth. We may be unable to obtain additional financing on satisfactory terms or at all. If we raise additional funds through the incurrence of debt, we will incur increased debt service costs and may become subject to additional restrictive financial and other covenants.

Risks Related to Our Industry

Changes in economic or other business conditions could adversely affect demand and prices for new homes, which could decrease our revenues.

The homebuilding industry historically has been cyclical and is affected significantly by adverse changes in general and local economic conditions, such as:

employment levels;

population growth;

consumer confidence and stability of income levels;

availability of financing for land and homesite acquisitions, construction and permanent mortgages;

interest rates;

inventory levels of both new and existing homes;

supply of rental properties; and

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