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	**1520**	**76-0460831**
(State or other jurisdiction of incorporation)	(Primary Standard Industrial Classification Code Number)	(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. o

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. o

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. o

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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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 prospectu 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.

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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Summary Financial and Operating Data

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	$

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
- conditions in the housing resale market.

Adverse changes in one or more of these conditions, all of which are outside of our control, could reduce demand and/or prices for new homes in some or all of the markets in which we operate. A decline in demand or the prices we can obtain for our homes could decrease our revenues.

We are subject to substantial risks with respect to the land and home inventories we maintain, and fluctuations in market conditions may affect our ability to sell our land and home inventories at expected prices, if at all, which would reduce our profit margins.

As a homebuilder, we must constantly locate and acquire new tracts of land for development and developed homesites to support our homebuilding operations. There is a lag between the time we acquire land for development or developed homesites and the time that we can bring the communities to market and sell homes. Lag time varies on a project-by-project basis; however, historically, we have experienced a lag time of approximately 9 to 12 months. As a result, we face the risk that demand for housing may decline during this period and that we will not be able to dispose of developed properties or undeveloped

land or homesites acquired for development at expected prices or within anticipated time frames or at all. The market value of home inventories, undeveloped land and developed homesites can fluctuate significantly because of changing market conditions. In addition, inventory carrying costs (including interest on funds used to acquire land or build homes) can be significant and can adversely affect our performance. Because of these factors, we may be forced to sell homes or other property at a loss or for prices that generate lower profit margins than we anticipate. We may also be required to make material write-downs of the book value of our real estate assets in accordance with generally accepted accounting principles if values decline.

Supply risks and shortages relating to labor and materials can harm our business by delaying construction and increasing costs.

The homebuilding industry from time to time has experienced significant difficulties with respect to:

- shortages of qualified trades people and other labor;
- inadequately capitalized local subcontractors;
- shortages of materials; and
- volatile increases in the cost of certain materials, including lumber, framing and cement, which are significant components of home construction costs.

These difficulties can, and often do, cause unexpected short-term increases in construction costs and cause construction delays. In addition, to the extent our subcontractors incur increased costs associated with recent increases in insurance premiums and compliance with state and local regulations, these costs are passed on to us as homebuilders. We are generally unable to pass on any unexpected increases in construction costs to those customers who have already entered into sales contracts, as those contracts generally fix the price of the house at the time the contract is signed, which may be up to one year in advance of the delivery of the home. Furthermore, sustained increases in construction costs may, over time, erode our profit margins. We have historically been able to offset sustained increases in the costs of materials with increases in the prices of our homes and through operating efficiencies. However, in the future, pricing competition may restrict our ability to pass on any additional costs, and we may not be able to achieve sufficient operating efficiencies to maintain our current profit margins.

Future increases in interest rates or a decrease in the availability of government-sponsored mortgage financing could prevent potential customers from purchasing our homes, which would adversely affect our revenues and profitability.

Almost all of our customers finance their purchases through mortgage financing obtained from us or other sources. Increases in interest rates or decreases in the availability of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Housing Administration or Veteran s Association mortgage financing could cause a decline in the market for new homes as potential homebuyers may not be able to obtain affordable financing. Increased interest rates can also limit our ability to realize our backlog because our sales contracts typically provide our customers with a financing contingency. Financing contingencies allow customers to cancel their home purchase contracts in the event they cannot arrange for financing at interest rates that were prevailing when they signed their contracts. In particular, because the availability of mortgage financing is an important factor in marketing many of our homes, any limitations or restrictions on the availability of those types of financing could reduce our home sales and the lending volume at our mortgage subsidiary. Even if our potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their existing homes to potential buyers who need financing. Interest rates currently are at

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one of their lowest levels in decades, and any future increases in interest rates could adversely affect our revenues and profitability.

The competitive conditions in the homebuilding industry could increase our costs, reduce our revenues, and otherwise adversely affect our results of operations.

The homebuilding industry is highly competitive and fragmented. We compete in each of our markets with numerous national, regional and local builders. Some of these builders have greater financial resources, more experience, more established market positions and better opportunities for land and homesite acquisitions than we do and have lower costs of capital, labor and material than us. Builders of new homes compete for homebuyers, as well as for desirable properties, raw materials and skilled subcontractors. The competitive conditions in the homebuilding industry could, among other things:

- increase our costs and reduce our revenues;
- make it difficult for us to acquire suitable land or homesites at acceptable prices;
- require us to increase selling commissions and other incentives;
- result in delays in construction if we experience a delay in procuring materials or hiring laborers; and
- result in lower sales volumes.

We also compete with resales of existing homes, available rental housing and, to a lesser extent, condominium resales. An oversupply of attractively priced resale or rental homes in the markets in which we operate could adversely affect our ability to sell homes profitably.

Our financial services operations are also subject to competition from third-party providers, many of which are substantially larger, may have a lower cost of funds or overhead than we do, and may focus exclusively on providing such services.

We are subject to product liability and warranty claims arising in the ordinary course of business that could adversely affect our results of operations.

As a homebuilder, we are subject in the ordinary course of our business to product liability and home warranty claims. We provide our homebuyers with a one-year or two-year limited warranty covering workmanship and materials and an eight-year or ten-year limited warranty covering major structural defects. Claims arising under these warranties and general product liability claims are common in the homebuilding industry and can be costly. Although we maintain product liability insurance, the coverage offered by, and availability of, product liability insurance for construction defects is currently limited and, where coverage is available, it may be costly. We recently obtained 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 retention amount. However, our product liability insurance and homebuilder protective policies contain limitations with respect to coverage, and there can be no assurance that these insurance rights will be adequate to cover all product liability and warranty claims for which we may be liable or that coverage will not be further restricted and become more costly. In addition, although we generally seek to require our subcontractors and design professionals to indemnify us for liabilities arising from their work, we may be unable to enforce any such contractual indemnities. Uninsured and unindemnified product liability and warranty claims, as well as the cost of product liability insurance and our homebuilder protective policy, could adversely affect our results of operations.

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We are subject to mold litigation and claims arising in the ordinary course of business that could adversely affect our results of operations.

Recently, lawsuits have been filed against homebuilders and insurers asserting claims of property damages and personal injury caused by the presence of mold in residential dwellings. Some of these lawsuits have resulted in substantial monetary judgments or settlements. It is possible that insurance carriers may exclude coverage for claims arising from the presence of mold. Uninsured mold liability and claims could adversely affect our results of operations.

States, cities and counties in which we operate have, or may adopt, slow or no growth initiatives which would reduce our ability to build in these areas and could adversely affect our future revenues.

Several states, cities and counties in which we operate have approved, and others in which we operate may approve, various slow growth or no growth initiatives and other ballot measures that could negatively impact the availability of land and building opportunities within those localities. Approval of slow or no growth measures would reduce our ability to build and sell homes in the affected markets and create additional costs and administration requirements, which in turn could have an adverse effect on our future revenues.

Our business is subject to governmental regulations that may delay, increase the cost of, prohibit or severely restrict our development and homebuilding projects.

We are subject to extensive and complex laws and regulations that affect the land development and homebuilding process, including laws and regulations related to zoning, permitted land uses, levels of density, building design, elevation of properties, water and waste disposal and use of open spaces. In addition, we and our subcontractors are subject to laws and regulations relating to workers health and safety. We also are subject to a variety of local, state and federal laws and regulations concerning the protection of health and the environment. In some of the markets in which we operate, we are required to pay environmental impact fees, use energy saving construction materials and give commitments to provide certain infrastructure such as roads and sewage systems. We must also obtain permits and approvals from local authorities to complete residential development or home construction. The laws and regulations under which we and our subcontractors operate, and our and their obligations to comply with them, may result in delays in construction and development, cause us to incur substantial compliance and other increased costs, and prohibit or severely restrict development and homebuilding activity in certain areas in which we operate.

Our financial services operations are subject to numerous federal, state and local laws and regulations. Failure to comply with these requirements can lead to administrative enforcement actions, the loss of required licenses and claims for monetary damages.

Our business revenues and profitability may be adversely affected by natural disasters or weather conditions.

Homebuilders are particularly subject to natural disasters and severe weather conditions as it can delay our ability to timely complete homes, damage the partially complete or other unsold homes that are in our inventory and/or negatively impact the demand for homes. Our operations are located in many areas that are especially subject to natural disasters. To the extent that hurricanes, severe storms, floods, tornadoes or other natural disasters or similar weather events occur, our business may be adversely affected. To the extent our insurance is not adequate to cover business interruption or losses resulting from these events, our revenues and profitability may be adversely affected.

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Risks Related to Our Common Stock

Technical Olympic, our majority stockholder, can cause us to take certain actions or preclude us from taking actions without the approval of the other stockholders and may have interests that could conflict with your interests.

Technical Olympic currently owns 90.73% of the voting power of our common stock and will own approximately 83.56% after this offering or 82.48% if the over-allotment is exercised in full. As a result, Technical Olympic has the ability to control the outcome of virtually all corporate actions requiring stockholder approval, including the election of a majority of our directors, the approval of any merger and other significant corporate actions. Technical Olympic may authorize actions or have interests that could conflict with your interests.

Control of our company by Technical Olympic could make it difficult for a third party to acquire us, which could affect the trading price of our common stock.

Through its ownership of voting control of our common stock, Technical Olympic can prevent a change in control of us and may be able to prevent or discourage certain other transactions, such as tender offers or stock repurchases, that could give holders of our common stock the opportunity to realize a premium over the then-prevailing market price for their shares of common stock. Technical Olympic s ability to prevent these transactions could make our stock a less attractive investment.

Our issuance of preferred stock could make it difficult for another company to acquire us, which could depress the price of our common stock.

Our board of directors has the authority to issue preferred stock and to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. The preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discourage bids for the common stock at a premium over the market price, and adversely affect the market price and the voting and other rights of the holders of our common stock.

Our common stock price has been and could continue to be volatile, which could result in substantial losses for investors purchasing shares in this offering.

Our common stock price has been, and could continue to be, volatile. These price fluctuations may be rapid and severe and may leave investors little time to react. Factors that affect the market price of our common stock include:

- quarterly variations in our operating results;
- general conditions in the homebuilding industry;
- changes in the market s expectations about our earnings;
- changes in financial estimates and recommendations by securities analysts concerning our company or the homebuilding industry in general;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends in our markets;
- changes in laws and regulations affecting our business;
- sales of substantial amounts of common stock by our directors, executive officers or majority stockholder, Technical Olympic, or the perception that such sales could occur; and
- general economic and political conditions such as recessions and acts of war or terrorism.

Fluctuations in the price of our common stock could contribute to your losing all or part of your investment.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Discussions containing forward-looking statements may be found in the material set forth in the sections entitled Summary, Business and Management s Discussion and Analysis of Financial Condition and Results of Operations.

These statements concern expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. Specifically, this prospectus contains forward-looking statements regarding:

- our expectations regarding growth opportunities in the homebuilding industry and our ability to successfully take advantage of such opportunities to expand our operations and maximize our financial returns;
- our expectations regarding population growth and median income growth trends and their impact on future housing demand in our markets;
- our expectation regarding the impact of geographic and customer diversification;
- our expectations that strong demand for new housing in our current markets will contribute to our growth;
- our belief that by leveraging our current operations, we will, over time, maximize our financial returns, strengthen our margins and increase our revenues and profitability;
- our ability to successfully integrate our current operations and any future acquisitions, and to recognize anticipated operating efficiencies, cost savings and revenue increases;
- our expectations regarding our land and homesite acquisition strategy and its impact on our business;
- our belief that homes in premier locations will continue to attract homebuyers in both strong and weak economic conditions;
- our intention to grow the financial services business;
- our belief regarding growth opportunities within our financial services business;
- our expectations regarding the impact of our business initiatives on our ability to capture repeat business, to minimize our exposure to adverse economic conditions and to increase our revenue;
- our expectations regarding the implementation of the Performance Improvement Plan and best practices initiatives across our operating divisions;
- our belief that we have adequate financial resources to meet our current and anticipated working capital and land and homesite acquisition and development needs;
- our expectation that we will continue to incur significant professional and other fees only through the third quarter of 2003;
- the impact of inflation on our future results of operations; and
- our ability to pass through to our customers any increases in our costs in the form of increased sales prices.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. We caution readers that certain important factors may have affected and could in the future affect our actual results and could cause actual results to differ significantly from those expressed in any forward-looking statement. The most important factors that could prevent us from achieving our goals, and cause the assumptions underlying forward-looking statements and the actual

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results to differ materially from those expressed in or implied by those forward-looking statements include, but are not limited to, the following:

- our significant level of debt and the impact of the restrictions imposed on us by the terms of this debt;
- our ability to borrow or otherwise finance our business in the future;
- our ability to identify and acquire, at anticipated prices, additional homebuilding opportunities;
- our relationship with Technical Olympic and its control over our business activities;
- our ability to successfully integrate and to realize the expected benefits of recent acquisitions;
- economic or other business conditions that affect the desire or ability of our customers to purchase new homes in markets in which we conduct our business;
- a decline in the demand for, or the prices of, housing;
- a decline in the value of the land and home inventories we maintain;
- an increase in the cost of, or shortages in the availability of, skilled labor or construction materials;
- an increase in interest rates;
- our ability to successfully dispose of developed properties or undeveloped land or homesites at expected prices and within anticipated time frames;
- our ability to compete in our existing and future markets; and
- an increase or change in governmental regulations.

We urge you to review carefully the section entitled Risk Factors in this prospectus for a more complete discussion of the risks related to our business and industry.

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USE OF PROCEEDS

We will not receive any proceeds from the shares sold by the selling stockholder in this offering.

DIVIDEND POLICY

We declared a dividend on March 6, 2001 of $0.54 per share of common stock during the twelve months ended December 31, 2001, which would have been equal to $0.22 per share as restated to reflect the total shares outstanding as a result of the merger with Engle Homes. We did not declare or pay any cash dividends on our common stock during the twelve months ended December 31, 2000 or December 31, 2002, nor do we intend to declare or pay any dividends during the twelve months ended December 31, 2003. The credit agreement relating to our revolving credit facility and the indentures governing our senior notes and senior subordinated notes generally contain covenants that limit the amount of dividends or distributions we can pay on our common stock and the amount of common stock we can repurchase. Currently, under the terms of our revolving credit facility, we may not pay cash dividends in excess of 3% of our consolidated net income.

We currently intend to adopt a formal dividend policy permitting our board of directors to declare, upon unanimous consent, a modest annual cash dividend, subject to the restrictions described above and applicable law. Dividends, if any, would be paid to our shareholders of record in equal quarterly installments.

PRICE RANGE OF COMMON STOCK

Our common stock began trading on the Nasdaq National Market on March 12, 1998 under the symbol NHCH. Following the merger on June 25, 2002, our common stock began trading under the symbol TOUS. The table below sets forth the high and low sales price for our common stock as reported by the Nasdaq National Market for the periods indicated:

	High	Low
Fiscal Year Ending December 31, 2003		
First Quarter	$17.67	$13.56
Second Quarter (through June 25, 2003)	27.27	16.70
Fiscal Year Ended December 31, 2002		
First Quarter	$17.85	$13.09
Second Quarter	18.50	13.00
Third Quarter	16.99	13.00
Fourth Quarter	17.09	13.10
Fiscal Year Ended December 31, 2001		
First Quarter	$13.00	$ 9.41
Second Quarter	17.85	10.25
Third Quarter	14.00	7.49
Fourth Quarter	14.50	7.83

On June 25, 2003, the closing price for our common stock on the Nasdaq National Market was $25.10. As of June 25, 2003, there were approximately 35 holders of record of our common stock.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2003. You should read this table in conjunction with Selected Financial Data included elsewhere in this prospectus and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	As of March 31, 2003
	(Dollars in thousands)
Cash and cash equivalents:	
Unrestricted	$ 49,079
Restricted[1]	$ 37,851
Total cash and cash equivalents	$ 86,930
Debt:	
Revolving credit facility[2]	$ 50,000
9% Senior Notes	300,000
10 3/8% Senior Subordinated Notes	150,000
Other[3]	5,642
Total homebuilding borrowings	505,642
Financial services borrowings[4]	34,604
Total borrowings	540,246
Equity:	
Common stock $.01 par value (67,000,000 shares authorized and 27,882,090 shares issued and outstanding)	279
Additional paid-in capital	322,560
Retained earnings	100,122
Total stockholders equity	422,961
Total capitalization	$ 963,207

(1) Represents deposits held in escrow by our title subsidiaries pursuant to purchase contracts or as required by law and compensating balances under letters of credit.

(2) As of June 17, 2003, we had approximately $40.0 million outstanding under the revolving credit facility.

(3) Represents primarily construction and homesite loans from financial institutions.

(4) Represents a warehouse line of credit used to provide financing for the origination of mortgage loans.

SELECTED FINANCIAL DATA

The following table sets forth our selected financial data and other operating information. The selected financial data in the table for the five years ended December 31, 2002 have been derived from our audited consolidated financial statements. The selected 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,	
	1998	1999(1)	2000(2)(3)	2001(2)(3)	2002(2)(3)	2002(2)(3)	2003
	(Dollars in thousands except per share data)						
Statement of Income Data:							
Homebuilding:							
Revenues	$ 406,353	$ 420,748	$ 546,666	$ 1,392,912	$ 1,377,092	$ 302,538	$ 315,880
Cost of Sales	339,094	345,592	440,939	1,108,286	1,100,305	240,075	248,121
Gross profit	67,259	75,156	105,727	284,626	276,787	62,463	67,759
Selling, general and administrative expenses	43,614	47,503	63,832	152,063	163,726	37,704	43,790
Depreciation and amortization	3,287	2,239	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, net	(74)	867	2,264	(3,941)	(5,838)	(222)	(1,019)
Homebuilding pretax income	20,432	24,547	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	20,432	24,547	37,446	139,983	106,941	13,696	27,827
Income tax expense	7,637	8,721	13,672	52,218	39,900	4,767	10,171
Income from continuing operations	$ 12,795	$ 15,826	$ 23,774	$ 87,765	$ 67,041	$ 8,929	$ 17,656
Per Share Data:							
Income from continuing operations (basic and diluted)	$ 1.16	$ 1.38	$ 1.79	$ 3.15	$ 2.40	$ 0.32	$ 0.63

Income from discontinued operations (basic and diluted)	$	$ 0.13	$ 0.48	$ 0.22	$ 0.18	$ 0.02	$
Book value based on shares outstanding at end of period	$ 7.84	$ 9.53	$ 12.74	$ 14.83	$ 14.53	$	$ 15.17
Cash dividends(4)	$	$	$	$ 0.22	$	$	$
Weighted average number of common shares outstanding (basic and diluted)	11,035,342	11,500,00	13,250,082	27,878,787	27,878,787	27,878,787	27,882,090
Operating Data:							
Homes delivered	1,874	1,620	1,994	5,304	5,085	1,146	1,234
Average sales price, per home delivered	$ 216	$ 255	$ 271	$ 259	$ 265	$ 264	$ 254
New sales contracts, net of cancellations	2,036	1,569	1,819	4,967	5,009	1,408	1,632
Backlog at end of period, number of homes	753	540	2,486	2,149	2,280	2,411	2,826
Backlog at end of period, sales value	$ 170,402	$ 137,582	$ 629,348	$ 573,405	$ 636,922	$ 651,273	$ 763,965

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	As of March 31, 2003
	(Dollars in thousands)
Balance Sheet Data:	
Inventory	$ 853,841
Total assets	$1,148,923
Homebuilding borrowings	$ 505,642
Total borrowings(5)	$ 540,246
Stockholders equity	$ 422,961

(1) Technical Olympic acquired 80% of our common stock on December 15, 1999. Consequently, our audited financial statements for 1999 present the results of operations in two columns on a predecessor and successor basis. The predecessor column includes the results of operations from January 1, 1999 to December 15, 1999. The successor column includes the results of operations from December 16, 1999 to December 31, 1999. In the above table, the financial data reflects our operations on a full-year basis, which represents the total of the predecessor and successor columns.

(2) On June 25, 2002, we completed the merger with Engle Holdings. 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.

(3) On April 15, 2002, we completed the sale of Westbrooke, formerly one of our Florida homebuilding subsidiaries. In accordance with SFAS No. 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.

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

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

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We generate our revenues from our homebuilding operations (Homebuilding) and financial services operations (Financial Services). In accordance with Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, we have determined that Homebuilding and Financial Services comprise our operating segments. Through our Homebuilding operations, we design, build and market high-quality detached single-family residences, town homes and condominiums in 14 metropolitan markets located in four major geographic regions: Florida, the Mid-Atlantic, Texas and the West.

Florida	Mid-Atlantic	Texas	West
Jacksonville	Baltimore/Southern Pennsylvania	Austin	Colorado
Orlando	Nashville	Dallas/Ft. Worth	Las Vegas
Southeast Florida	Northern Virginia	Houston	Phoenix
Southwest Florida		San Antonio	

Our Homebuilding operations generate the majority of their revenue from the sale of homes to homebuyers and to a lesser degree from the sale of land and homesites to other homebuilders. Our homes are designed to appeal to a diverse group of homebuyers, such as 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 generally offered for sale in advance of their construction. Once a sales contract has been signed, we classify the transaction as a new sales contract and include the home in backlog. Such sales contracts are usually subject to certain contingencies such as the buyer s ability to qualify for financing. Revenue from the sale of homes and the sale of land is recognized at closing when title passes to the buyer. At this point a home is considered to be delivered. The principal expenses of our Homebuilding operations are (i) cost of sales and (ii) selling, general and administrative (SG&A) expenses. Homebuilding cost of sales consists primarily of the cost of home construction, the acquisition cost of land and the cost of land development. SG&A expenses for our Homebuilding operations include administrative costs, advertising expenses, on-site marketing expenses, commission costs and closing costs.

At March 31, 2003 we were marketing homes in 176 communities; by comparison, at March 31, 2002 we were marketing homes in 141 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 buyers of our homes, although it also offers its 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. Mortgage financing operations revenues consist primarily of origination and premium fee income, credit application fee income and the gain on the sale of the mortgages. Title operations revenues consist primarily of title insurance and closing services. All of our underwriting risk associated with title and homeowners insurance policies is transferred to third-party insurers. The principal expenses of our Financial Services operations are SG&A expenses, which consist primarily of compensation and interest expense on our warehouse line of credit.

Recent Transactions

On April 22, 2003, we issued an additional $35.0 million of our $10^3/_8$% Senior Subordinated Notes due 2012 at a price of 98.5% of the principal amount plus interest accrued since January 1, 2003, referred to as our April 2003 Senior Subordinated Notes. The net proceeds of approximately $34.5 million were used to repay amounts outstanding under our credit facility. The April 2003 Senior Subordinated Notes were issued under the same indenture as the $150.0 million of $10^3/_8$% Senior Subordinated Notes due 2012 that we issued in June 2002, which we refer to as the June 2002 Senior Subordinated Notes.

On April 4, 2003, we amended our revolving credit facility to increase the amount we are permitted to borrow to the lesser of (i) $305.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt, and to increase the amount of the letter of credit subfacility to $80.0 million. Subsequently, we increased the size of the facility to provide up to an additional $10.0 million of revolving loans. In addition, we have the right to increase the size of the facility to provide for up to an additional $10.0 million of revolving loans, subject to meeting certain requirements.

On February 28, 2003, we acquired the net assets of The James Construction Company, a homebuilder operating in the greater Denver, Colorado area, for approximately $22.0 million in cash. In addition, we are obligated to pay an additional $1.4 million to the sellers over a two-year period.

On February 6, 2003, we acquired the net assets of Trophy Homes, Inc., a homebuilder operating in Las Vegas, Nevada, and certain homesites for approximately $36.2 million. In addition, if certain targets are met regarding home deliveries during 2003 and 2004, we will be obligated to pay up to $2.5 million over a two-year period.

On February 3, 2003, we issued $100.0 million of 9% Senior Notes due 2010, which we refer to as the February 2003 Senior Notes, at a price of 94.836% of the principal amount plus interest accrued since January 1, 2003. The net proceeds of approximately $93.6 million were primarily used to repay amounts outstanding under our credit facility. The February 2003 Senior Notes were issued pursuant to an indenture with the same terms and conditions as the $200.0 million of 9% Senior Notes due 2010 that we issued in June 2002.

Critical Accounting Policies

In the preparation of our consolidated financial statements, we apply accounting principles generally accepted in the United States. The application of generally accepted accounting principles may require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying results. Listed below are those policies that we believe are critical and require the use of complex judgment in their application.

Homebuilding Revenues and Cost of Sales

Revenue from the sale of homes and the sale of land and homesites is recognized at closing when title passes to the buyer and all of the following conditions are met: a sale is consummated; a significant down payment is received; the earnings process is complete; and the collection of any remaining receivables is reasonably assured. As a result, our revenue recognition process does not involve significant judgments or estimates. However, we do rely on certain estimates to determine the related construction and land costs and resulting gross profit associated with revenues recognized. Our construction and land costs are comprised of direct and allocated costs, including indirect construction costs and estimated costs for future warranties and indemnities. Our estimates are based on historical results, adjusted for current

factors. Land, land improvements and other common costs are generally allocated on a relative fair value basis to units within a parcel or community. Land and land development costs generally include related interest and property taxes incurred until construction is substantially completed.

Financial Services Revenues and Expenses

Our Financial Services operations generates revenues from mortgage and title operations. Our mortgage operations revenues consist primarily of origination and premium fee income, credit application fee income and the gain on the sale of the mortgages. Revenue from our mortgage operations is generally recognized when the mortgage loans and related servicing rights are sold to third-party investors. Substantially all of our mortgages are sold to private investors within 30 days of closing. Title operations revenues consist primarily of title insurance agency and closing services, which are recognized as home sales are closed. As a result, our revenue recognition process does not involve significant judgments or estimates.

Impairment of Long-Lived Assets

Housing projects and land/homesites under development are stated at the lower of costs or net realizable value. Property and equipment is carried at cost less accumulated depreciation. We assess these assets for impairment in accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. These evaluations for impairment are significantly impacted by estimates of revenues, costs and expenses and other factors. If these assets are considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill

Effective January 1, 2002, we adopted the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Upon the adoption of SFAS No. 142, goodwill is no longer subject to amortization. Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. If the carrying amount exceeds the fair value, goodwill is considered to be impaired. We continually evaluate whether events and circumstances have occurred that indicate the remaining balance of goodwill may not be recoverable. In evaluating impairment, we estimate the sum of the expected future cash flows derived from such goodwill. Such evaluations for impairment are significantly impacted by estimates of future revenues, costs and expenses and other factors. If the goodwill is considered to be impaired, the impairment loss to be recognized is measured by the amount by which the carrying amount of the goodwill exceeds the fair value of the expected future cash flows.

Homesite Option Contracts

We enter into option contracts with land sellers and third-party financial entities as a method of acquiring developed homesites. From time to time to leverage our ability to acquire and finance the development of these homesites, we transfer our option right to third parties. Option contracts generally require the payment of a non-refundable cash deposit or the issuance of a letter of credit for the right to acquire homesites over a specified period of time at predetermined prices. Typically, our deposits or letters of credit are less than 20% of the underlying purchase price. We generally have the right at our discretion to terminate our obligations under these option agreements by forfeiting our cash deposit or repaying amounts drawn under the letter of credit with no further financial responsibility. We do not have legal title to these assets. Additionally, we do not have an investment in the third-party acquirer and do

not guarantee their liabilities. However, if certain conditions are met, including the deposit and/or letters of credit exceeding certain significance levels as compared to the remaining homesites under the option contract, we will include the homesites in inventory with a corresponding liability in consolidated land bank obligations. At March 31, 2003, we owned 11,301 homesites, or 36.0% of our homesite supply, and had option contracts on 20,350 homesites, or 64.0% of our homesite supply.

Warranty Reserves

In the normal course of business we will incur warranty related costs associated with homes which have been delivered to the homebuyers. Warranty reserves are established by charging cost of sales and recognizing a liability for the estimated warranty costs for each home that is delivered. We monitor this reserve on a monthly basis by evaluating the historical warranty experience in each market in which we operate, and the reserve is adjusted as appropriate for current quantitative and qualitative factors. Actual future warranty costs could differ from our currently estimated amounts.

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Results of Operations

Selected Financial and Other Information

The following table includes selected statement of income and other data (dollars in thousands):

	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
Homebuilding:					
Revenues:					
Home sales	$540,323	$1,374,551	$1,349,713	$302,155	$313,820
Land sales	6,343	18,361	27,379	383	2,060
	546,666	1,392,912	1,377,092	302,538	315,880
Cost of sales:					
Home sales	434,736	1,091,626	1,075,875	239,645	246,280
Land sales	6,203	16,660	24,430	430	1,841
	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 & 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 retirement of debt			5,411		
Other (income) expense, net	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
Other Data:					
Cash flow from operating activities	$ 2,314	$ 24,657	$ 5,701	$ 38,153	$ 1,625
Cash flow from investing activities	$ 32,130	$ (6,382)	$ (60,064)	$ (1,550)	$ (74,630)
Cash flow from financing activities	$ (18,525)	$ 30,756	$ (21,885)	$ (31,248)	$ 72,873
EBITDA(1)	$ 53,551	$ 184,160	$ 142,757	$ 22,264	$ 36,855
Homes delivered	1,994	5,304	5,085	1,146	1,234
Average sales price per home delivered	$ 271	$ 259	$ 265	$ 264	$ 254
Gross margin on home sales	19.5%	20.6%	20.3%	20.7%	21.5%
Ratio of SG&A expenses to Homebuilding revenues	11.7%	10.9%	11.9%	12.5%	13.9%
Ratio of Homebuilding pre-tax income to Homebuilding revenues	6.7%	9.0%	6.4%	3.1%	7.4%
	2,486	2,149	2,280	2,411	2,826

Backlog at end of period in number of homes					
Backlog at end of period in sales value	$629,348	$ 573,405	$ 636,922	$651,273	$763,965
Total active communities at period end	161	146	159	141	176

(1) EBITDA represents earnings from continuing operations before interest, taxes, depreciation and amortization and consists of the sum of income from continuing operations before: (a) income taxes, (b) amortization of capitalized interest in cost of sales, (c) homebuilding interest expense and (d) depreciation and amortization. We have included information concerning EBITDA because we believe that it is an indication of the profitability of our core operations and reflects the changes in our operating results. We do not use EBITDA as a measure of our liquidity because we do not believe it is a meaningful indication of our cash flow. EBITDA is not required by generally accepted accounting principles, or GAAP, and other companies may calculate EBITDA differently. EBITDA should not be considered as an alternative to operating income or to cash flows from operating activities (as determined in accordance with GAAP) and should not be construed as an indication of our operating performance or a measure of our liquidity. A reconciliation of EBITDA to income from continuing operations, the most directly comparable GAAP performance measure, is provided below (dollars in thousands):

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	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
Income from continuing operations	$23,774	$ 87,765	$ 67,041	$ 8,929	$17,656
Add: income taxes	13,672	52,218	39,900	4,767	10,171
Add: interest in cost of sales	9,711	34,241	28,133	6,937	7,382
Add: interest expense	3,282	1,087	257		
Add: depreciation and amortization expense	3,112	8,849	7,426	1,631	1,646
EBITDA	$53,551	$184,160	$142,757	$22,264	$36,855

Selected Homebuilding Operating Data

The following table sets forth home sales and backlog data by region (dollars in thousands):

	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
Homes delivered:					
Florida	178	1,931	2,024	489	521
Mid-Atlantic	280	693	564	133	137
Texas	1,441	1,623	1,539	304	300
West	95	1,057	958	220	276
Total	1,994	5,304	5,085	1,146	1,234
Average sales price per home delivered:					
Florida	$ 215	$ 227	$ 245	$ 240	$ 233
Mid-Atlantic	$ 259	$ 308	$ 351	$ 333	$ 289
Texas	$ 273	$ 267	$ 258	$ 269	$ 260
West	$ 259	$ 274	$ 269	$ 266	$ 270
Company average	$ 271	$ 259	$ 265	$ 264	$ 254
Revenues from home sales:					
Florida	$ 38,216	$ 437,784	$ 496,731	$117,581	$121,574
Mid-Atlantic	83,671	213,571	197,773	44,351	39,653
Texas	393,873	433,389	397,129	81,720	77,941
West	24,563	289,807	258,080	58,503	74,652
Total	$540,323	$1,374,551	$1,349,713	$302,155	$313,820
New sales contracts, net of cancellations:					
Florida	154	1,987	1,809	473	642
Mid-Atlantic	205	524	569	192	195
Texas	1,362	1,511	1,515	440	418
West	98	945	1,116	303	377
Total	1,819	4,967	5,009	1,408	1,632

Backlog at end of period, in number of homes:					
Florida	1,217	1,273	1,195	1,257	1,316
Mid-Atlantic	338	169	244	228	302
Texas	514	402	378	538	496
West	417	305	463	388	712
Total	2,486	2,149	2,280	2,411	2,826
Backlog at end of period in sales value:					
Florida	$286,100	$ 326,026	$ 314,253	$328,097	$339,139
Mid-Atlantic	95,831	59,991	89,684	84,326	107,778
Texas	135,517	105,283	103,017	135,704	128,524
West	111,900	82,105	129,968	103,146	188,524
Total	$629,348	$ 573,405	$ 636,922	$651,273	$763,965

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Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Income from continuing operations increased to $17.7 million (or $0.63 per share) during the three months ended March 31, 2003 from $8.9 million (or $0.32 per share) during the three months ended March 31, 2002. The increase in income from continuing operations is attributable to an increase in Homebuilding pretax income to $23.3 million during the three months ended March 31, 2003 from $9.5 million during the three months ended March 31, 2002. Additionally, we experienced an increase in Financial Services pretax income to $4.5 million during the three months ended March 31, 2003 from $4.2 million during the three months ended March 31, 2002.

Total revenues increased to $326.5 million during the three months ended March 31, 2003 from $310.5 million during the three months ended March 31, 2002. The increase of 5% is attributable to an increase in Homebuilding revenues and an increase in Financial Services revenues of 4% and 33%, respectively.

Our effective tax rate increased to 36.6% during the three months ended March 31, 2003 from 34.8% during the three months ended March 31, 2002. The effective tax rate for the three months ended March 31, 2002 reflected a non-recurring state income tax benefit resulting from certain severance charges recorded during this period. For the year ended December 31, 2002, our effective tax rate was 37.3%.

Homebuilding

Homebuilding revenues increased to $315.9 million during the three months ended March 31, 2003 from $302.5 million during the three months ended March 31, 2002. The increase of 4% was due to an increase in home deliveries to 1,234 during the three months ended March 31, 2003 from 1,146 during the three months ended March 31, 2002. The 8% increase in home deliveries was partially offset by a decline in the average selling price on delivered homes to $254,000 from $264,000.

Our Florida region realized an increase in revenue from home sales of $4.0 million to $121.6 million during the three months ended March 31, 2003. This increase of 3% is due to an increase of 32 home deliveries during the three months ended March 31, 2003 from the three months ended March 31, 2002. The increase in home deliveries was primarily due to the deliveries generated by our Jacksonville division, which we acquired during the fourth quarter of 2002. This increase in home deliveries was partially offset by a decline in the average selling price for the Florida region to $233,000 for the three months ended March 31, 2003 from $240,000 during the three months ended March 31, 2002. The decrease in average selling price is primarily due to a change in product mix, including the additional deliveries generated by our Jacksonville division, which offers homes with a lower average selling price.

Our Mid-Atlantic region realized a decline in revenue from home sales of $4.7 million to $39.7 million. This decrease of 11% was due to a reduction in the average selling price to $289,000 during the three months ended March 31, 2003 from $333,000 during the three months ended March 31, 2002 primarily due to a change in product mix for the region, as we experienced significantly less closings in our Virginia division, and an increase in our recently acquired Baltimore division, which has historically had a lower average selling price. Home deliveries remained relatively flat in our Mid-Atlantic region, increasing slightly to 137 during the three months ended March 31, 2003 from 133 during the three months ended March 31, 2002.

Our Texas region realized a decline in revenue from home sales of $3.8 million to $77.9 million during the three months ended March 31, 2003. This decrease of 5% was primarily attributable to a reduction in the average selling price to $260,000 during the three months ended March 31, 2003 from $269,000 during the three months ended March 31, 2002 due to our focus on diversifying our product

mix. Home deliveries remained relatively flat in our Texas region, decreasing slightly to 300 during the three months ended March 31, 2003 from 304 during the three months ended March 31, 2002.

Our West region realized an increase in revenue from home sales of $16.2 million to $74.7 million for the three months ended March 31, 2003. This increase of 28% was primarily due to an increase of 56 home deliveries during the three months ended March 31, 2003 from the three months ended March 31, 2002. The increase in home deliveries was primarily due to the deliveries generated by our acquisitions of Trophy Homes and The James Construction Company during the three months ended March 31, 2003. Additionally, our West region experienced a slight increase in its average selling price to $270,000 during the three months ended March 31, 2003 from $266,000 during the three months ended March 31, 2002.

Our Homebuilding gross profit increased to $67.8 million for the three months ended March 31, 2003 from $62.5 million for the three months ended March 31, 2002. This increase of 8% is primarily due to an increase in revenue from home sales and an increase in our gross margin on homes sales. Our gross margin on home sales increased slightly to 21.5% during the three months ended March 31, 2003 from 20.7% during the three months ended March 31, 2002. This increase is primarily due to a change in product mix in our existing divisions and the higher gross margins generated by our recently acquired divisions, which have all generated gross margins in excess of 21%.

SG&A expenses increased to $43.8 million during the three months ended March 31, 2003 from $37.7 million during the three months ended March 31, 2002. As a percentage of Homebuilding revenues, SG&A increased to 13.9% for the three months ended March 31, 2003 from 12.5% for the three months ended March 31, 2002. Of this $6.1 million increase in SG&A expenses, approximately $4.5 million is attributable to SG&A expenses associated with recently acquired companies. The remainder of the increase is primarily attributable to increases in compensation, professional fees and insurance. During the three months ended March 31, 2003, we incurred significant professional and other fees as a result of modifying our corporate structure to be more efficient from an organizational, operational and income tax standpoint. We expect that certain of these expenditures will continue through the third quarter of 2003. The benefits from these expenditures will be realized through lower income taxes and other operating costs over time.

Severance expenses of $13.8 million during the three months ended March 31, 2002 represent accrued severance charges relating to former executives of Engle who resigned during February 2002.

Financial Services

Financial Services revenues increased to $10.6 million during the three months ended March 31, 2003 from $8.0 million during the three months ended March 31, 2002. The increase of 33% is primarily attributable to an increase in the number of closings by our mortgage and title operations. The number of closings at our mortgage operations increased to 880 for the three months ended March 31, 2003 from 817 for the three months ended March 31, 2002. The number of closings at our title operations increased to 4,670 for the three months ended March 31, 2003 from 3,871 for the three months ended March 31, 2002. The capture ratios of our Financial Services segment have remained relatively consistent with the corresponding quarter in the prior year. Our mortgage operations capture ratio was 51% for the three months ended March 31, 2003 as compared to 55% for the three months ended March 31, 2002. However, excluding our four recently-acquired companies where our mortgage operations have not yet penetrated into the marketplace, our capture ratio increased by 7% over the prior year.

EBITDA

During the three months ended March 31, 2003 we generated EBITDA of $36.9 million as compared to $22.3 million during the three months ended March 31, 2002. The increase in EBITDA is primarily a

result of $13.8 million in severance expenses incurred during the three months ended March 31, 2002. Excluding these unusual charges, EBITDA during the three months ended March 31, 2002 would have been $36.1 million. The increase of 2% primarily relates to the increase in our Financial Services pretax income during the three months ended March 31, 2003 as compared to the three months ended March 31, 2002.

Fiscal Year 2002 Compared to Fiscal Year 2001

Net income decreased to $72.0 million (or $2.58 per share) during Fiscal Year 2002 from $94.0 million (or $3.37 per share) during Fiscal Year 2001. Income from continuing operations decreased to $67.0 million (or $2.40 per share) during Fiscal Year 2002 from $87.8 million (or $3.15 per share) during Fiscal Year 2001. The decrease in income from continuing operations is attributable to a decrease in Homebuilding pretax income to $87.6 million during Fiscal Year 2002 from $125.0 million during Fiscal Year 2001. The decrease in Homebuilding pretax income was partially offset by an increase in Financial Services pretax income to $19.4 million during Fiscal Year 2002 from $15.0 million during Fiscal Year 2001.

Total revenues decreased to $1.42 billion during Fiscal Year 2002 from $1.43 billion during Fiscal Year 2001. The decrease of 1% is attributable to a decline in Homebuilding revenues which was offset by an increase in Financial Services revenues.

Our provision for income taxes remained consistent at 37.3% during Fiscal Year 2002 from Fiscal Year 2001.

Homebuilding

Homebuilding revenues decreased to $1.38 billion during Fiscal Year 2002 from $1.39 billion during Fiscal Year 2001. The decrease of 1% was due to a decline in revenues from home sales, to $1.35 billion in Fiscal Year 2002 from $1.37 billion during Fiscal Year 2001, which was offset by an increase in revenues from land sales, to $27.4 million from $18.4 million during the same periods. Home deliveries decreased to 5,085 during Fiscal Year 2002 from 5,304 during Fiscal Year 2001.

The decrease in home deliveries and revenue from home sales was primarily attributable to a decline in the number of communities in which we were actively marketing during Fiscal Year 2002 as compared to Fiscal Year 2001 and a weakening in housing demand in the Texas and West regions. These factors were partially offset by a strong housing demand in Florida.

At the beginning of Fiscal Year 2002, we were actively marketing in 146 communities. As a result of our prior strategic decision to consolidate our home sales activities and reduce our homesite acquisitions during Fiscal Year 2001 and throughout the first half of Fiscal Year 2002, our active communities declined to a low of 132 in June 2002. In the second half of Fiscal Year 2002, we began to increase the number of communities in which we were marketing, both through organic growth and through acquisition. Consequently, at December 31, 2002 we were actively marketing in 159 communities. However, due to a lag time between the date we begin marketing homes in a community and the date that we begin to deliver homes, home deliveries from these new communities will not begin to contribute to our home sales revenue until the end of 2003.

During Fiscal Year 2002, our Texas region generated revenues from home sales of $397.1 million on 1,539 home deliveries as compared to revenues of $433.4 million on home deliveries of 1,623 during Fiscal Year 2001. The weakening in demand in this market also caused an increase in the level of incentives offered which is reflected in the decline in the average sales price per home delivered to $258,000 during Fiscal Year 2002 from $267,000 during Fiscal Year 2001. Additionally, our West region

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experienced a decline in revenues from home sales to $258.1 million on 958 home deliveries during Fiscal Year 2002 from $289.8 million on 1,057 home deliveries during Fiscal Year 2001. The decline in revenues in the West region is primarily due to a decline in the average number of active selling communities during the first part of Fiscal Year 2002, as compared to the prior year, and a continued weakness in demand in our Colorado markets. This softness in the market caused us to increase incentives offered to homebuyers resulting in a slight decrease in the average sales price per home delivered to $269,000 in Fiscal Year 2002 from $274,000 in Fiscal Year 2001.

These declines in revenue from the Texas and West regions were partially offset by an increase in revenues generated in our Florida region to $496.7 million on 2,024 home deliveries during Fiscal Year 2002 from $437.8 million on 1,931 home deliveries during Fiscal Year 2001. The revenue increase in this region is primarily due to the increase in our average sales price per home delivered to $245,000 during Fiscal Year 2002 from $227,000 during Fiscal Year 2001. Additionally, we generated revenue from home sales of $13.7 million as a result of our acquisition of D.S.Ware Homes during October 2002.

Our average sales price per home delivered increased 2% to $265,000 during Fiscal Year 2002 as compared to $259,000 during Fiscal Year 2001. The increase is primarily attributable to increases in our Florida and Mid-Atlantic regions, where we have continued to realize higher average sales prices from steady demand for product. The increase in average sales price in these regions were partially offset by declines in our Texas and West regions, where during Fiscal Year 2002 we experienced significant increases in incentives provided to homebuyers as compared to Fiscal Year 2001.

Homebuilding cost of sales decreased to $1.10 billion during Fiscal Year 2002 from $1.11 billion during Fiscal Year 2001. The decline of 1% is attributable to the decline in the number of home deliveries offset by an increase in cost of land/homesite sales. Our gross margin on home sales decreased to 20.3% during Fiscal Year 2002 as compared to 20.6% during Fiscal Year 2001. The decline in gross margin is primarily attributable to increased incentives and an increase in the average homesite cost per closing, partially offset by an increase in our gross margin on options and upgrades.

SG&A expenses increased by 8% to $163.7 million during Fiscal Year 2002 from $152.1 million for Fiscal Year 2001. As a percentage of Homebuilding revenues, SG&A expenses increased to 11.9% for Fiscal Year 2002 from 10.9% for Fiscal Year 2001. The increase in SG&A expenses is primarily attributable to increases in compensation, information technology, insurance and professional fees.

Depreciation and amortization expenses decreased to $6.0 million during Fiscal Year 2002 from $8.8 million during Fiscal Year 2001. The decrease of $2.8 million is primarily due to the elimination of goodwill amortization as a result of the adoption of SFAS 142 effective January 1, 2002. If we had not recorded goodwill amortization expense during Fiscal Year 2001, it would have resulted in an increase in net income per common share for Fiscal Year 2001 of $0.05.

During Fiscal Year 2002, we incurred $20.0 million in severance and merger related charges as compared to $2.6 million in Fiscal Year 2001. These charges include severance accrued related to the termination of executives who were employed by either us or Engle Homes prior to the merger. Also, in connection with our merger with Engle Homes, we incurred approximately $6.0 million in legal, consulting and advisory fees.

During Fiscal Year 2002, in connection with our offering of the June 2002 Senior Notes and the June 2002 Senior Subordinated Notes, we recognized a loss on the early retirement of debt of $5.4 million. This charge relates to the exit fees incurred and the write off of unamortized deferred finance costs associated with the then existing borrowings.

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Financial Services

Financial Services revenues increased to $40.2 million during Fiscal Year 2002 from $32.7 million during Fiscal Year 2001. The increase of 23% is primarily attributable to an increase in the mortgage and title operations capture of our home sale deliveries. The increase in the capture ratio of our mortgage operations is due primarily to the expansion into the Texas region.

Financial Services expenses increased to $20.8 million during Fiscal Year 2002 from $17.7 million during Fiscal Year 2001. The increase of 18% is primarily attributable to increased expenses incurred in connection with our expansion of the Financial Services operations.

Discontinued Operations

During March 2002, we committed to a plan to dispose of Westbrooke to eliminate operating redundancies in our South Florida markets and to strengthen our financial position. Pursuant to this plan of disposition, we would sell 100% of the common stock of Westbrooke. On April 8, 2002, we signed a definitive agreement for the sale of Westbrooke to Standard Pacific Corp. (Standard Pacific) for $41.0 million in cash. This sale was completed on April 15, 2002. In addition, Standard Pacific satisfied $54.4 million of Westbrooke s debt that included $14.2 million of intercompany liabilities owed to us. Upon completion of this sale, we realized a gain of $4.3 million. We have determined that in accordance with SFAS 144, as of March 31, 2002, the criteria to classify the Westbrooke assets as held for sale were met.

Results of Westbrooke s operations have been classified as discontinued operations, and prior periods have been restated. Selected financial data of our discontinued operations are as follows (dollars in thousands):

	Year Ended December 31,		
	2000	**2001**	**2002**
Revenues	$178,213	$205,661	$44,197
Income from discontinued operations, net of taxes	$ 6,321	$ 6,272	$ 4,963
Net income per common share from discontinued operations	$ 0.48	$ 0.22	$ 0.18

EBITDA

During Fiscal Year 2002 we generated EBITDA of $142.8 million as compared to $184.2 million during Fiscal Year 2001. The decline in EBITDA is primarily a result of $20.0 million in severance and merger related charges incurred during Fiscal Year 2002 as compared to $2.6 million incurred during Fiscal Year 2001 and a $5.4 million loss on the early retirement of debt associated with our refinancing. Excluding these unusual charges, EBITDA during Fiscal Year 2002 would have been $168.2 million as compared to $186.8 million during Fiscal Year 2001. The decline of 10% primarily relates to the decline in our Homebuilding pretax income, after excluding these unusual charges, during Fiscal Year 2002 as compared to Fiscal Year 2001. The decline in our Homebuilding pretax income during Fiscal Year 2002 was partially offset by an increase in our Financial Services pretax income.

Fiscal Year 2001 Compared to Fiscal Year 2000

Net income increased to $94.0 million (or $3.37 per share) during Fiscal Year 2001 from $30.1 million (or $2.27 per share) during Fiscal Year 2000. Income from continuing operations increased to $87.8 million (or $3.15 per share) during Fiscal Year 2001 from $23.8 million (or $1.79 per share) during Fiscal Year 2000. The increase in income from continuing operations is attributable to significant increases in our Homebuilding pretax income to $125.0 million during Fiscal Year 2001 from $36.5

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million during Fiscal Year 2000 and an increase in Financial Services pretax income to $15.0 million during Fiscal Year 2001 from $0.9 million during Fiscal Year 2000.

Total revenues increased to $1.4 billion during Fiscal Year 2001 from $0.6 billion during Fiscal Year 2000. The increases in income and revenues were primarily a result of the inclusion of a full year of Engle Homes results of operations during Fiscal Year 2001 as compared to approximately 40 days during Fiscal Year 2000. As a result of our merger with Engle Homes, which is being accounted for as a reorganization of entities under common control, Engle Homes results of operations are included from November 22, 2000, the earliest date that both we and Engle Homes were under common control.

Our provision for income taxes increased to 37.3% during Fiscal Year 2001 from 36.5% during Fiscal Year 2000. This increase in our effective rate was primarily a result of an increase in state taxes, due to a higher proportion of our pretax income being generated from states which are subject to state income tax.

Homebuilding

Homebuilding revenues increased to $1.39 billion during Fiscal Year 2001 from $0.55 billion during Fiscal Year 2000 primarily as a result of the inclusion of a full year of Engle Homes operations. This increase of 153% was due to an increase in revenues from home sales, to $1.37 billion in Fiscal Year 2001 from $0.54 billion in Fiscal Year 2000, and an increase in revenues from homesite/land sales, to $18.3 million during Fiscal Year 2001 from $6.3 million in Fiscal Year 2000. Home deliveries increased to 5,304 during Fiscal Year 2001 from 1,994 during Fiscal Year 2000.

This increase in revenues from home sales is primarily attributable to the increase in the number of home deliveries which was slightly offset by a decrease in our average sale price per home delivered. The average sales price per home delivered for Fiscal Year 2001 decreased to $259,000 from $271,000 during Fiscal Year 2000. The decrease was primarily attributable to the change in the mix of deliveries between our regions. During Fiscal Year 2000, 72.2% of our deliveries occurred in Texas, which realized an average sales price per home delivered of $273,000, while only 8.9% of the deliveries occurred in Florida, which realized an average sales price per home delivered of $215,000. During Fiscal Year 2001, deliveries in Texas, which had an average sales price per home delivered of $267,000, decreased to 30.6%, while deliveries in Florida, which had an average sales price per home delivered of $227,000, increased to 36.4%. This was partially offset by the increase in our deliveries occurring in the West region. During Fiscal Year 2000, we generated 4.8% of our deliveries in the West, which realized an average sales price per home delivered of $259,000. During Fiscal Year 2001, deliveries in the West increased to 19.9%, with an average selling price per home delivered of $274,000.

As a result of the inclusion of a full year of Engle Homes operations, Homebuilding cost of sales increased to $1.11 billion during Fiscal Year 2001 from $0.44 billion during Fiscal Year 2000. During Fiscal Year 2001 the cost of home sales was $1.09 billion as compared to $0.43 billion during Fiscal Year 2000. Our gross margin on home sales increased to 20.6% during Fiscal Year 2001 from 19.5% during Fiscal Year 2000. This increase in gross margin is primarily due to the shift in the product mix of homes closed to higher margin homes.

SG&A expenses increased to $152.1 million during Fiscal Year 2001 from $63.8 million for Fiscal Year 2000. This increase of 138% is primarily due to the inclusion of a full year of Engle Homes operations. As a percentage of Homebuilding revenues, SG&A expenses remained relatively consistent, decreasing to 10.9% for Fiscal Year 2001 from 11.7% for Fiscal Year 2000.

During Fiscal Year 2001 depreciation and amortization expense was $8.8 million as compared to $3.1 million during Fiscal Year 2000. Of these amounts, amortization of goodwill was $2.4 million in Fiscal Year 2001 and $1.6 million in Fiscal Year 2000. As a result of the adoption of SFAS 142 effective

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January 1, 2002, we ceased amortization of goodwill. The elimination of this amortization expense would have resulted in an increase in net income per common share of $0.05 during Fiscal Year 2001 and $0.08 during Fiscal Year 2000.

During Fiscal Year 2001, we incurred $2.6 million in severance and merger related expenses. These expenses relate primarily to legal, consulting and related costs incurred in connection with the merger with Engle Homes.

Financial Services

As a result of the inclusion of a full year of Engle Homes operations, Financial Services revenues increased to $32.7 million during Fiscal Year 2001 from $2.6 million during Fiscal Year 2000. Financial Services expenses increased to $17.7 million from $1.6 million.

Financial Condition, Liquidity and Capital Resources

Statement of Financial Condition and Related Data

The following table includes selected statement of financial condition and related data (dollars in thousands):

	As of December 31,			As of March 31, 2003
	2000	2001	2002	
Cash-unrestricted	$ 24,251	$ 75,136	$ 49,211	$ 49,079
Inventory	$613,095	$645,986	$ 753,872	$ 853,841
Total assets	$868,553	$999,170	$1,034,888	$1,148,923
Homebuilding borrowings	$337,649	$308,697	$ 413,110	$ 505,642
Total borrowings(1)	$346,720	$347,386	$ 461,419	$ 540,246
Stockholders equity	$355,059	$413,370	$ 405,145	$ 422,961
Ratio of Homebuilding borrowings to total assets	38.9%	30.9%	39.9%	44.0%
Ratio of Homebuilding borrowings to Capital(2)	48.7%	42.8%	50.5%	54.5%

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

(2) Capital includes Homebuilding borrowings and stockholders equity. Capital excludes Financial Services borrowings.

Discussion of Financial Condition, Liquidity and Capital Resources

Our Homebuilding operations primary uses of cash have been for land acquisitions, construction and development expenditures and SG&A expenditures. Our sources of cash to finance these requirements have been primarily cash generated from operations and cash borrowed under our credit facilities. Our Financial Services segment relies primarily on internally generated funds, which include the proceeds generated from the sale of mortgages, and on the mortgage operation s warehouse line of credit to fund our operations.

At March 31, 2003, we had unrestricted cash and cash equivalents of $49.1 million as compared to $49.2 million at December 31, 2002.

During the three months ended March 31, 2003, we generated cash of $1.6 million from our operating activities, as compared to $38.2 million for the three months ended March 31, 2002. This decrease is

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primarily a result of an increase in inventory of $44.6 million, excluding the impact of our acquisitions, as compared to a $0.9 million increase in inventory for the three months ended March 31, 2002. This increase in inventory is part of our strategy to increase the number of active communities and our land positions. During the three months ended March 31, 2003, including the impact of our acquisitions, our controlled homesites increased to 31,651 from 26,320.

Cash used in investing activities was $74.6 million during the three months ended March 31, 2003 as compared to $1.6 million during the three months ended March 31, 2002. The increase in the use of cash in investing activities is primarily due to the acquisitions during the three months ended March 31, 2003.

On February 28, 2003, we acquired the net assets of The James Construction Company, a homebuilder operating in the greater Denver, Colorado area, for approximately $22.0 million in cash. In addition, we are obligated to pay an additional $1.4 million over a two year period.

On February 6, 2003, we acquired the net assets of Trophy Homes, Inc., a homebuilder operating in Las Vegas, Nevada, and certain homesites for approximately $36.2 million in cash. In addition, if certain targets are met regarding home deliveries during 2003 and 2004, we will be obligated to pay up to $2.5 million over a two year period.

As a result of the increases in our land positions and the recent acquisitions, our ratio of Homebuilding borrowings to total assets was 44.0% at March 31, 2003 as compared to 39.9% at December 31, 2002. Our ratio of Homebuilding borrowings to capital was 54.5% at March 31, 2003 as compared to 50.5% at December 31, 2002.

On February 3, 2003, we issued $100.0 million of 9% Senior Notes at a price of 94.836% of the principal amount plus interest accrued since January 1, 2003. The net proceeds of approximately $93.6 million were primarily used to repay amounts outstanding under our revolving credit facility. The February 2003 Senior Notes were issued pursuant to an indenture with the same terms and conditions as the June 2002 Senior Notes.

On April 22, 2003, we issued an additional $35.0 million of our 10?% Senior Subordinated Notes due 2012 at a price of 98.5%. The net proceeds of approximately $34.5 million were used to repay the amounts outstanding under our credit facility. These additional debt securities were issued under the same indenture pursuant to which our June 2002 Senior Subordinated Notes were issued.

Interest on our outstanding senior notes and senior subordinated notes is payable on January 1 and July 1 of each year. The senior notes are guaranteed by all of our material domestic 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 the senior subordinated notes and any future subordinated debt. The senior subordinated notes rank *pari passu* in right of payment with all of our existing and future unsecured subordinated debt and are guaranteed on a senior subordinated basis by all of our material domestic subsidiaries. The indentures governing the senior and senior subordinated notes require us to maintain a minimum net worth and place certain restrictions on our ability, among other things, to incur additional debt, pay or make dividends or other distributions, sell assets, enter into transactions with affiliates and merge or consolidate with other entities. The interest rates on our outstanding senior and senior subordinated notes are higher than the collective interest rates on the obligations that were repaid. As a result of the higher interest rates and the assumption of approximately $75 million of Technical Olympic s debt in connection with the merger with Engle Holdings, we anticipate that interest incurred will exceed the amounts which would have been incurred under the prior borrowings. Therefore, the increased interest incurred will have an effect on gross margins in future periods.

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As of March 31, 2003, our revolving credit facility, as amended, permitted us to borrow up to the lesser of (i) $220.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The revolving credit facility expires on June 26, 2005. As of March 31, 2003, we had drawn down $50.0 million and had issued letters of credit of $36.5 million and as a result, had $133.5 million in availability under the revolving credit facility. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. Base rate loans accrue interest at a rate per annum equal to (i) an applicable margin plus (ii) the higher of (A) Citibank, N.A. s base rate, (B) 0.5% plus the three week average of reserve-adjusted three-month certificate of deposit rate and (C) 0.5% plus the Federal Funds Rate. Eurodollar loans accrue interest at a rate per annum equal to (i) an applicable margin plus (ii) the reserve-adjusted Eurodollar rate for the interest period. Applicable margins will be adjusted based on the ratio of our liabilities to our tangible worth. At March 31, 2003, our loans outstanding under the revolving credit facility accrued interest at a rate of 3.55% per annum. The revolving credit facility requires us to (1) maintain specified financial ratios regarding leverage, interest coverage, consolidated tangible net worth and certain operational measurements and (2) satisfy certain financial condition tests. The revolving credit facility also places certain restrictions on, among other things, our ability to incur additional debt or liens, pay or make dividends or other distributions, sell assets, enter into transactions with affiliates and merge or consolidate with other entities. The revolving credit facility is secured by a first-priority perfected lien on all capital stock of subsidiaries owned by us. Our obligations under the revolving credit facility are guaranteed by all our domestic subsidiaries (subject to certain limited restrictions).

On April 4, 2003, we amended our revolving credit facility to increase the amount we are permitted to borrow to the lesser of (i) $305.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt, and to increase the amount of the letter of credit subfacility to $80.0 million. Subsequently, we increased the size of the facility to provide up to an additional $10.0 million of revolving loans. In addition, we have the right to increase the size of the facility to provide for up to an additional $10.0 million of revolving loans, subject to meeting certain requirements.

To fund the origination of residential mortgage loans, our subsidiary, Preferred Home Mortgage Company, entered into a $65.0 million revolving warehouse line of credit, which we refer to as our warehouse line of credit. The warehouse line of credit is comprised of (1) a credit facility providing for revolving loans of up to $40.0 million, subject to meeting borrowing base requirements based on the value of collateral provided and (2) mortgage loan purchase and sale agreements which provide for the purchase by the lender of up to $25.0 million in mortgage loans generated by Preferred Home. At no time may the amount outstanding under the facility plus the amount of purchased loans pursuant to the purchase and sale agreements exceed $65.0 million. The warehouse line of credit expires on September 22, 2003. As of March 31, 2003, we had $34.6 million outstanding under the warehouse line of credit. The warehouse line of credit bears interest, at Preferred Home s option, at either, (1) the Federal Funds rate plus 1.375% or (2) a Eurodollar rate plus 1.25%. At March 31, 2003, our loans outstanding under the warehouse line of credit accrued interest at a rate of 2.625% per annum. The warehouse line of credit requires Preferred Home to maintain certain financial ratios and minimums. The warehouse line of credit is guaranteed by us and secured by funded mortgages which are pledged as collateral.

We believe that as a result of our offering of senior notes in February 2003 and senior subordinated notes in April 2003 and the increase in our revolving credit facility, we will have adequate financial resources, including cash from operations and availability under the revolving credit facility and the warehouse line of credit, to meet our current and anticipated working capital and land acquisition and development needs based on current market conditions. However, there can be no assurance that the amounts available from such sources will be sufficient. If we identify new acquisition opportunities, or if our operations do not generate sufficient cash from operations at levels currently anticipated, we may need to seek additional debt or equity financing to operate and expand our business.

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At March 31, 2003, the amount of our annual debt service payments was $45.8 million. This amount included debt service payments on the senior and senior subordinated notes of $42.6 million and interest payments on the revolving credit facility, the warehouse line of credit and other notes of $3.2 million based on the balances outstanding as of March 31, 2003. The amount of our annual debt service payments on the revolving credit facility fluctuates based on the principal outstanding under the facility and the interest rate. An increase or decrease of 1% in interest rates will change our annual debt service payments by $1.0 million per year. The revolving credit facility terminates in June 2005 at which time we will be required to repay all outstanding principal. Under certain circumstances, we may extend the facility in one-year increments, for up to two additional years.

Backlog

As of March 31, 2003, we had 2,826 units in backlog representing $764.0 million in revenue, as compared to 2,411 units in backlog representing $651.3 million in revenue as of March 31, 2002. This increase in revenue in backlog of 17% is primarily attributable to the units in backlog of our recent acquisitions. Our average selling price of units in backlog has remained consistent at $270,000.

Dividends

We did not declare or pay any dividends during Fiscal Year 2002. We paid a dividend of $0.54 per share of common stock (on a pre-restatement basis and $0.22 per share on a restated basis) in Fiscal Year 2001 ($6.2 million in the aggregate). We did not pay any cash dividends on our common stock in Fiscal Year 2000. Prior to its merger with us, Engle Homes made net distributions of $4.8 million during Fiscal Year 2002, $29.5 million during Fiscal Year 2001 and $0.4 million during Fiscal Year 2000.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Reporting Gains and Losses from Extinguishment of Debt , which rescinded SFAS No. 4, No. 44, and No. 64 and amended SFAS No. 13. The new standard addresses the income statement classification of gains or losses from the extinguishment of debt and criteria for classification as extraordinary items. We adopted SFAS No. 145 during 2002.

In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations do not apply to product warranties. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of the initial recognition and initial measurement provisions of FIN 45 did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure , which amends SFAS No. 123. The new standard provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. It also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the affect of the method used on reported results. We have not elected to change to the fair value based method of

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accounting for stock-based employee compensation. We adopted the disclosure provisions of SFAS No. 148 in our first fiscal quarter ending March 31, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 Consolidation of Variable Interest Entities an interpretation of ARB No. 51 (FIN 46). A Variable Interest Entity (VIE) is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (ii) equity holders either (a) lack direct or indirect ability to make decisions about the entity, (b) are not obligated to absorb expected losses of the entity or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, pursuant to FIN 46, an enterprise that absorbs a majority of the expected losses of the VIE is considered the primary beneficiary and must consolidate the VIE. FIN 46 is effective immediately for VIE s created after January 31, 2003. For VIE s created before January 31, 2003, FIN 46 must be applied at the beginning of the first interim or annual reporting period beginning after June 15, 2003.

In certain situation, we have and will enter into option contracts to acquire homesites at a fixed purchase price. As a result, depending on the structure of the counterparty, these contracts may qualify as variable interests pursuant to FIN 46. If we are deemed to be the primary beneficiary of the VIE we will consolidate it on our statement of financial condition. The maximum exposure to loss is limited to the deposits or letters of credits placed with these entities. Creditors, if any, of these VIE s have no recourse against our Company. As of March 31, 2003, the adoption of FIN 46 has not had a significant impact on our financial statements. Management is currently evaluating the impact of FIN 46 on transactions entered into prior to January 31, 2003. Management does not believe that the adoption of FIN 46 will have an adverse effect on our results of operations or financial position.

Seasonality of Operations

The homebuilding industry tends to be seasonal, as generally there are more homes sold in the spring and summer months when the weather is milder, although the rate of sales contracts for new homes is highly dependent on the number of active communities and the timing of new community openings. We operate primarily in the southwest and southeast, where weather conditions are more suitable to a year-round construction process than in other parts of the country. Because new home deliveries trail new home contracts by several months, we typically have a greater percentage of home deliveries in the fall.

Inflation

We may be adversely affected during periods of high inflation, primarily because of higher land and construction costs. In addition, inflation may result in higher mortgage interest rates, which may significantly affect the affordability of permanent mortgage financing for prospective purchasers. Inflation also increases our interest costs. We attempt to pass through to our customers any increases in our costs through increased selling prices and, to date, inflation has not had a material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

Quantitative And Qualitative Disclosures About Market Risk

As a result of our notes offerings, at March 31, 2003, $450.0 million of our outstanding borrowings are based on fixed interest rates. We are exposed to market risk primarily related to potential adverse changes in interest rates on our existing construction loans, warehouse line of credit and revolving credit facility. The interest rates relative to these borrowings fluctuate with the prime and LIBOR lending rates, both upwards and downwards. We have not entered into derivative financial instruments. As of March 31, 2003, we had an aggregate of approximately $95.1 million drawn under our bank loan

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arrangements that are subject to changes in interest rates. An increase or decrease of 1% in interest rates will change our annual debt service payments by $1.0 million per year as a result of such bank loan arrangements.

We have not entered into, or intend to enter into, derivative financial instruments for trading or speculative purposes.

The following table presents the future principal payment obligations and weighted average interest rates associated with our long-term debt instruments assuming our actual level of long-term debt indebtedness as of March 31, 2003:

Expected Maturity Date
(Dollars in thousands)

	2003	2004	2005	2006	2007	Thereafter	Fair Value
Liabilities							
Long-term debt							
Fixed rate (9.0%)						$300,000	$295,875
Fixed rate ($10^3/_8$%)						$150,000	$146,438
Revolving loan, variable rate (3.55% at March 31, 2003)			$50,000				$ 50,000
Warehouse line of credit, variable rate (2.625% at March 31, 2003)	$34,604						$ 34,604
Other		$3,975	$ 4,847				$ 8,822

Our operations are interest rate sensitive. Overall housing demand is adversely affected by increases in interest rates. If mortgage interest rates increase significantly, this may negatively affect the ability of homebuyers to secure adequate financing. Higher interest rates will adversely affect our revenues, gross margins and net income. Higher interest rates also increase our borrowing costs because, as indicated above, our bank loans will fluctuate with the prime and LIBOR lending rates, both upwards and downwards.

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BUSINESS

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.

Company History

Our predecessor company was founded in Houston, Texas in 1983. Our company was formed in 1994 as a Nevada corporation under the name Newmark Homes Corp. We completed our initial public offering of common stock in March 1998. In December 1999, Technical Olympic, Inc. acquired 80% of our common stock. Technical Olympic is a wholly-owned subsidiary of Technical Olympic (UK) PLC, a corporation formed under the laws of Great Britain, which is a wholly-owned subsidiary of Technical Olympic S.A., a publicly-traded Greek corporation. In March 2001, we changed the state of our incorporation from Nevada to Delaware.

On April 15, 2002, we sold the stock of our wholly-owned subsidiary, Westbrooke Acquisition Corp., to Standard Pacific Corp. for consideration consisting of $41.0 million in cash and the repayment by Standard Pacific of $54.4 million of Westbrooke s debt. Westbrooke Acquisition and its subsidiaries build homes in South Florida under the name of Westbrooke Homes.

On June 25, 2002, Engle Homes Holdings Corp., a wholly-owned subsidiary of our majority stockholder, Technical Olympic, merged with and into us and we changed our name to Technical Olympic USA, Inc. Technical Olympic currently owns 90.73% of our outstanding common stock.

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On October 4, 2002, we acquired the net assets of D.S. Ware Homes LLC, a homebuilder operating in Jacksonville, Florida, for $35.6 million in cash. In addition, because certain earnings targets were met for the five-month period after the closing, we paid an additional $5.2 million in cash to the sellers in April 2003.

On November 18, 2002, we acquired the net assets of Masonry Homes, Inc., a homebuilder operating in the northwestern suburbs of Baltimore, Maryland and southern Pennsylvania, for $17.1 million in cash. In addition, if certain targets are met regarding home deliveries, the development and/or subdivision of certain homesites and earnings for the 2003 and 2004 fiscal years, we will be obligated to pay up to an additional $21.3 million in cash to the sellers over a two-year period, of which $11.3 million was paid on February 4, 2003.

On February 6, 2003, we acquired the net assets of Trophy Homes, Inc., a homebuilder operating in Las Vegas, Nevada and certain homesites for approximately $36.2 million in cash. In addition, if certain targets are met regarding home deliveries during 2003 and 2004, we will be obligated to pay up to an additional $2.5 million over a two year period.

On February 28, 2003, we acquired the net assets of The James Construction Company, a homebuilder operating in the greater Denver, Colorado area, for approximately $22.0 million in cash. In addition, we are obligated to pay an additional $1.4 million over a two year period.

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.

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.

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 used the services or 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.

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Homebuilding Operations

Markets

We operate 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, none of our metropolitan markets represented more than 18% of our total revenues. We select our target geographic markets based on, among other things, historical and projected population growth, projected job growth, regional economic conditions, availability of strong management with local expertise, land availability, single-family home permit activity and price, the local land development process, consumer tastes, competition, housing inventory and secondary home sales activity.

Florida. Our Florida region is comprised of four metropolitan markets: Jacksonville; Orlando; Southeast Florida, which is comprised of Broward, Palm Beach, Martin, Port St. Lucie and Indian River Counties; and Southwest Florida, which is comprised of Fort Myers and Naples. We conduct business in our Orlando, Southeast Florida and Southwest Florida markets under the Engle Homes brand name. We entered the Jacksonville market in October 2002 through the acquisition of D.S. Ware Homes and continue to conduct business in Jacksonville under the D.S. Ware Homes brand name. For the twelve months ended December 31, 2002, we closed 2,024 homes in Florida, generating $496.7 million, or 36.8% of our revenues from home contracts.

Mid-Atlantic. Our Mid-Atlantic region is comprised of three metropolitan markets: Baltimore, Maryland/Southern Pennsylvania; Nashville, Tennessee; and Northern Virginia. We entered the Baltimore market in November 2002 through the acquisition of Masonry Homes and continue to conduct business in this market under the Masonry Homes brand name. We conduct business in Nashville under the Newmark Homes and Fedrick, Harris Estate Homes brand names. We conduct business in Northern Virginia under the Engle Homes brand name. For the twelve months ended December 31, 2002, we closed 564 homes in our Mid-Atlantic region generating $197.8 million, or 14.7% of our revenues from home contracts.

Texas. Our Texas region is comprised of four metropolitan markets: Austin; Dallas/Ft. Worth; Houston; and San Antonio. We conduct business in all of our markets in Texas under the Newmark Homes brand name. We also conduct business under the Engle Homes brand name in the Dallas/Fort Worth market and under the Fedrick, Harris Estate Homes brand name in Austin, Dallas and Houston. We build in both mini-master and master plan communities in Texas. In addition, to meet varying local demand in each of our Texas markets, a considerable number of our homes in the Texas market are built as speculative homes, which means we build the homes prior to having sold them. The number of speculative homes we build in any given community or market is influenced by local market factors, such as new employment opportunities, significant job relocations, housing demand, local market customs and the length of time we have operated in the market. For the twelve months ended December 31, 2002, we closed 1,539 homes in Texas, generating $397.1 million, or 29.4% of our revenues from home contracts.

West. Our West region is comprised of three metropolitan markets: the Colorado Front Range, which is comprised of Denver, Boulder and Colorado Springs; Las Vegas, Nevada; and Phoenix, Arizona. In our Colorado market we conduct business under the Engle Homes brand name and recently expanded our market by the acquisition of The James Construction Company. We continue to conduct business in the greater Denver area under the James Company brand name. Recently, we entered into the Las Vegas market through the acquisition of Trophy Homes. We continue to conduct business in Las Vegas under the Trophy Homes brand name. In the Phoenix market we conduct business under the Engle Homes brand name. For the twelve months ended December 31, 2002, we closed 958 homes in our West region generating $258.1 million, or 19.1% of our revenues from home contracts.

Product Mix

We select our product mix in a particular geographic market based on the demographics of the market, demand for a particular product, margins and the economic strength of the market. We regularly review our product mix in each of our markets so that we can quickly respond to market changes and opportunities.

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.

Land and Homesites

Types of Land and Homesites

Generally, we only acquire entitled land or homesites in our homebuilding operations. Land is entitled when all requisite residential zoning has been obtained for it. We attempt to acquire entitled homesites that have water and sewage systems, streets and other infrastructure in place (we refer to these homesites as developed homesites) because these homesites are ready to have houses built on them. Before we can build a house on an entitled homesite that is not developed, the necessary infrastructure must be put in place. We generally acquire homesites that are located adjacent to or near our other homesites in a community, which enables us to build and market our homes more cost efficiently than if the homesites were scattered throughout the community. Cost efficiencies arise from economies of scale, such as shared marketing expenses and project management.

Land Acquisition Policies.

We have adopted strict land acquisition policies and procedures that cover all homesite acquisitions, including homesites acquired through option contracts. These policies and procedures impose strict standards for assessing all proposed land purchases with the goal of minimizing risk and maximizing our financial returns.

Initially, our experienced management teams in each of our divisions conduct extensive analysis on the local market to determine if we want to enter, or expand, our operations in that market. As part of this analysis, we review a variety of factors, including:

- historical and projected population and employment rates for the surrounding area;
- demographic information such as age, education and economic status of the homebuyers in the area;
- suitability for development within two to four years of acquisition;
- desirability of location, including proximity to metropolitan area, local traffic corridors and amenities; and
- prices of comparable new and resale houses in the area.

We then evaluate and identify specific homesites in desirable locations that are consistent with our strategy for the particular market, including the type of home and anticipated sales price that we wish to offer in the community. In addition, we review:

estimated costs of completed homesite development;

current and anticipated competition in the area, including the type and anticipated sales price of homes offered by our competitors;

opportunity to acquire additional homesites in the future, if desired; and

results of financial analysis, such as projected profit margins and return on invested capital.

In addition, we conduct extensive environmental due diligence, including on-site inspection and soil testing, and confirm that the land has the necessary zoning and other governmental entitlements required to develop and use the property for residential home construction.

Each land acquisition proposal, which contains specific information relating to the market, property and community, is then subject to review and approval by our Management Executive Committee. The Management Executive Committee is comprised of our senior corporate officers and representatives from our Homebuilding operations.

Land Supply.

We acquire the entitled land and homesites we require for our homebuilding operations through a combination of purchases and option contracts. Under the option contracts, we purchase the right, but not the obligation, to buy homesites at predetermined prices on a predetermined takedown schedule anticipated to be commensurate with home starts. Homesite option contracts are non-recourse, thereby limiting our financial exposure to non-refundable deposits, which are typically less than 20% of the underlying purchase price. This enables us to control significant homesite positions with a minimal capital investment and reduces the risks associated with land ownership and development. We believe that our local reputation with land sellers or developers provides us a competitive advantage in acquiring homesites through option contracts. At March 31, 2003, we had 20,350 homesites under option or similar contracts, representing approximately 64.0% of our total homesite supply, and we had approximately $57.3 million in deposits under those option contracts.

As of March 31, 2003, we had 31,651 homesites which were either owned or controlled under option contracts in our inventory. This represents supply for approximately three years of operations, based on our current projections for home sales. The table below shows our homesite inventory by region and in total for the periods indicated:

	At December 31,			At March 31,
	2000[(1)]	2001	2002	2003
Florida	6,580	4,750	11,312	10,878
Mid-Atlantic	1,879	2,158	4,935	5,467
Texas	3,720	3,940	5,048	10,277
West	4,042	4,136	5,025	5,029
Total[(2)]	16,221	14,984	26,320	31,651

(1) The homesite inventory as stated for 2000 reflects Newmark Homes homesite position as of December 31 combined with Engle Homes homesite position as of October 31.

(2) Includes 7,062, 7,644 and 16,474 homesites under option contracts as of December 31, 2000, 2001 and 2002, respectively and 20,350 homesites under option contracts as of March 31, 2003.

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As part of our land inventory management strategy, we occasionally exchange or sell a portion of the homesites and entitled land that we have purchased to third-party builders. Our division managers are constantly reviewing the competitive landscape and characteristics of each of our local markets. As we determine that certain types of homes, homes with certain anticipated prices or homes in certain communities are either selling quicker or at better margins, we will exchange or sell our homesites or land for other homesite or land options to capitalize on the market opportunities.

Purchasing

We use our purchasing power to achieve volume discounts and the best possible service from our vendors, thereby reducing costs, ensuring timely deliveries and reducing the risk of supply shortages due to allocations of materials. We have negotiated price arrangements, which we believe are favorable, to purchase lumber, sheetrock, appliances, heating and air conditioning, counter tops, bathroom fixtures, roofing and insulation products, concrete, bricks, floor coverings and other housing equipment and materials. Our purchase contracts are with high quality national and regional suppliers. There are no minimum purchase requirements for these arrangements, with flexibility reserved for each division to make independent purchasing decisions.

Design

To appeal to the tastes and preferences of local communities, we expend considerable effort in developing an appropriate design and marketing concept for each community, including determining the size, style and price range of the homes and, in certain projects, the layout of streets, individual homesites and overall community design. In addition, in certain markets, outside architects who are familiar with the local communities in which we build, assist us in preparing home designs and floor plans. The product line that we offer in a particular community depends upon many factors, including the housing generally available in the area, the needs of the particular market and our costs of homesites in the community. To improve the efficiency of our design process and make full use of our resources and expertise, we maintain a company-wide database of detailed information relating to the design and construction of our homes, including architectural plans previously or currently used in our other communities.

Design Centers

We maintain design centers in most of our markets as part of our marketing process and to assist our homebuyers in selecting options and upgrades which can result in additional revenues. The design centers heighten interest in our homes by allowing homebuyers to participate in the design process and introducing homebuyers to the various flooring, lighting, fixtures and hardware options available to them. In keeping with our regional approach, each region decides what type of design center is suitable for the local area. While the size and content of our design centers vary between markets, the focus of all of our design centers is on making the homebuyer s selection process less complicated and an enjoyable experience, while increasing our profitability.

Construction

Subcontractors perform substantially all of our construction work. Our construction superintendents monitor the construction of each home, coordinate the activities of subcontractors and suppliers, subject the work of subcontractors to quality and cost controls and monitor compliance with zoning and building codes. We typically retain subcontractors pursuant to a contract that obligates the subcontractor to complete construction at a fixed price in a workmanlike manner. In addition, under these contracts the subcontractor provides us with standard indemnifications and warranties. Typically, we work with the same subcontractors within each market, which provides us with a stable and reliable work force and

better control over the costs and quality of the work performed. Although we compete with other homebuilders for qualified subcontractors, we have established long-standing relationships with many of our subcontractors and have not experienced any material difficulties in obtaining the services of desired subcontractors.

We typically complete the construction of a home within four to five months. Construction time, however, depends on weather, availability of labor, materials, supplies and other factors. We do not maintain significant inventories of construction materials, except for materials related to work in progress for homes under construction. Generally, the construction materials used in our operations are readily available from numerous sources. We have established price arrangements or contracts, which we believe are favorable, with suppliers of certain of our building materials, but we are not under specific purchasing requirements. In recent years, we have not experienced significant delays in construction due to shortages of materials.

We have, and will continue to establish, and maintain information systems and other practices and procedures that allow us to more effectively manage our subcontractors and the construction process. For example, we have implemented information systems that monitor homebuilding production, scheduling and budgeting. We believe that this program has and will continue to improve our efficiency and decrease our construction time.

Marketing and Sales

We build and market different types of homes to meet the needs of different homebuyers and the needs of different markets. We employ a variety of marketing techniques to attract potential homebuyers through numerous avenues, including Internet web sites for our various homebuilding brands and subsidiaries, advertising and other marketing programs. We advertise on television, in newspapers and other publications, through our own brochures and newsletters, on billboards and in brochures and newsletters produced and distributed by real estate and mortgage brokers. Some of our suppliers participate in our advertising and promotional materials, either through co-branding, cost-sharing or through rebates.

We typically conduct home sales activities from sales offices located in furnished model homes in each community. We use commissioned sales personnel who assist prospective buyers by providing them with floor plans, price information, tours of model homes and information on the available options and other custom features. We provide our sales personnel with extensive training, and we keep them updated as to the availability of financing, construction schedules and marketing and advertising plans to facilitate their marketing and sales activities. We supplement our in-house training program with training by outside sales and marketing consultants.

We market and sell homes through our own commissioned sales personnel and in cooperation with independent real estate brokers. Because 60% of our sales (based on homes delivered) originate from independent real estate brokers, we sponsor a variety of programs and events, including breakfasts, contests and other events to provide the brokers with a level of familiarity with our communities, homes and financing options necessary to successfully market our homes. We also offer other incentives to brokers to actively market our homes.

Sales of our homes generally are made pursuant to a standard sales contract that is tailored to the requirements of each jurisdiction. Generally, our sales contracts require a deposit of a fixed amount (typically up to $5,000) on our less expensive homes or as a percentage of the sales price (typically 5% to 10%) on our more expensive customized homes. The contract includes a financing contingency which permits the customer to cancel in the event mortgage financing at prevailing interest rates cannot be obtained within a specified period, typically 30 days from the signing. The contract may include other

contingencies, such as the prior sale of a buyer s existing home. We estimate that the average period between the execution of a sales contract for a home and closing is approximately four to six months for presold homes.

Customer Service and Quality Control

Our operating divisions are responsible for both pre-delivery quality control inspections and responding to customers post-delivery needs. We believe that the prompt, courteous response to homebuyers needs reduces post-delivery repair costs, enhances our reputation for quality and service and ultimately leads to significant repeat and referral business. We conduct home orientations and pre-delivery inspections and interviews with homebuyers immediately before closing. In conjunction with these inspections, we create a list of unfinished construction items and address outstanding issues promptly.

An integral part of our customer service program includes post-delivery interviews. In most of our markets we 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. Typically, approximately one year after we sell a home we arrange for follow-up interviews with the homeowner to determine the level of the homeowner s continued satisfaction. These interviews provide us with a direct link to the customer s perception of the entire buying experience as well as valuable feedback on the quality of the homes we deliver and the services we provide.

Warranty Program

For all homes we build, we provide our 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. The extent of these warranties may differ in some or all of the states in which we operate. We recently obtained 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 retention amount. We have, and are continuing to implement, a warranty program in conjunction with our homebuilder protective policy insurance carrier that we believe will allow us to more effectively manage and resolve our warranty claims. We subcontract homebuilding work to subcontractors who provide us with an indemnity and a certificate of insurance before receiving payments for their work and, therefore, claims relating to workmanship and materials are the primary responsibility of our subcontractors. However, there is no assurance that we will be able to enforce these contractual indemnities. After we deliver a home, we process all warranty requests through our customer service departments located in each of our markets. In most instances, a customer service manager inspects the warranty request within 48 hours of receipt. If a warranty repair is necessary, we manage and supervise the repair to ensure that the appropriate subcontractor takes prompt and appropriate corrective action. Additionally, we have developed a pro-active response and remediation protocol to address any warranty claim that may result in mold damage. We generally have not had any material litigation or claims regarding warranties or latent defects with respect to construction of homes. Current claims and litigation are expected to be substantially covered by our reserves or insurance.

Financial Services

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 buyers of our homes, although it also offers its 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.

Our mortgage business consists of providing our homebuyers and third party homebuyers with loan origination services, purchase financing and, to a lesser extent, mortgage refinancing. We are an approved seller/servicer of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Housing Administration, Veteran s Association and U.S. Department of Housing and Urban Development loans. We sell all of our loans and the servicing rights. We conduct this business through our subsidiary, Preferred Home Mortgage Company. Preferred Home has its headquarters in Boca Raton, Florida and has offices in each of our markets.

For the three months ended March 31, 2003, approximately 51% of our homebuyers (62% if we exclude our four recently-acquired companies), utilized the services of our mortgage business. We believe we have an opportunity to expand this business, particularly in our recently-acquired markets. We originated approximately $782.8 million aggregate principal amount of mortgage loans for the twelve months ended December 31, 2002. Our mortgage business generated pre-tax income of $13.5 million for the twelve months ended December 31, 2002.

Through our title services business, we, as agent, obtain competitively-priced title insurance for, and provide closing services to, our homebuyers as well as outside third party homebuyers. We conduct this business through our subsidiary, Universal Land Title, Inc. and its subsidiaries. Universal operates as a traditional title agency with its headquarters in West Palm Beach, Florida and has 22 additional offices.

Universal Land Title works with national underwriters and lenders to facilitate client service and coordinate closing at its offices. It is equipped to handle e-commerce applications, e-mail closing packages, digital document delivery and web-based closings. The principal sources of revenues generated by our title insurance business are fees paid to Universal Land Title for title insurance obtained for our homebuyers and other third party residential purchasers.

Currently, approximately 80% of our homebuyers use Universal Land Title or its affiliates for their title insurance agency and closing services. We continue to expand our title services business to markets not currently served by Universal Land Title. Our title services business generated pre-tax income of $5.9 million for the year ended December 31, 2002. Third party homebuyers (or non-company customers) accounted for 87% of our title services business revenue for the year ended December 31, 2002.

Alliance Insurance and Information Services, LLC, owned by Universal Land Title, is a full service insurance agency serving all of our markets. Alliance markets homeowners , flood and auto insurance directly to homebuyers and others in all of our markets and also markets life insurance in Florida. Interested homebuyers obtain free quotes and have the necessary paperwork delivered directly to the closing table for added convenience. Currently, 26% of our homebuyers use Alliance for their insurance needs.

Governmental Regulation

We must comply with state and local laws and regulations relating to, among other things, zoning, treatment of waste, land development, required construction materials, density requirements, building design and elevation of homes, in connection with the construction of our homes. These include laws requiring use of construction materials that reduce the need for energy-consuming heating and cooling systems. In addition, we and our subcontractors are subject to laws and regulations relating to employee health and safety. These laws and regulations are subject to frequent change and often increase construction costs. In some cases, there are laws that require that commitments to provide roads and other infrastructure be in place prior to the commencement of new construction. These laws and

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regulations are usually administered by individual counties and municipalities and may result in fees and assessments or building moratoriums. In addition, certain new development projects are subject to assessments for schools, parks, streets and highways and other public improvements, the costs of which can be substantial.

The residential homebuilding industry also is subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning the protection of health and the environment. Environmental laws and conditions may result in delays, may cause us to incur substantial compliance and other costs and can prohibit or severely restrict homebuilding activity in environmentally sensitive regions or areas. In recent years, several cities and counties in which we have developments have submitted to voters slow growth or no growth initiatives and other ballot measures which could impact the affordability and availability of homes and land within those localities.

In order to make it possible for purchasers of some of our homes to obtain FHA-insured or VA-guaranteed mortgages, we must construct those homes in compliance with regulations promulgated by those agencies.

Our title insurance agency subsidiaries must comply with applicable insurance laws and regulations. Our mortgage financing subsidiaries must comply with applicable real estate lending laws and regulations. The mortgage financing and title insurance subsidiaries are licensed in the states in which they do business and must comply with laws and regulations in those states regarding mortgage financing and title insurance companies. These laws and regulations include provisions regarding capitalization, operating procedures, investments, forms of policies and premiums.

Competition and Market Forces

The development and sale of residential properties is a highly competitive business. We compete in each of our markets with numerous national, regional and local builders on the basis of a number of interrelated factors including location, price, reputation, amenities, design, quality and financing. Builders of new homes compete for homebuyers, as well as for desirable properties, raw materials and reliable, skilled subcontractors. We also compete with resales of existing homes, available rental housing and, to a lesser extent, resales of condominiums. We believe we generally compare favorably to other builders in the markets in which we operate, due primarily to:

- our experience within our geographic markets;
- the ability of our local managers to identify and quickly respond to local market conditions; and
- our reputation for service and quality.

The housing industry is cyclical and is affected by consumer confidence levels and prevailing economic conditions, including interest rate levels. A variety of other factors affect the housing industry and demand for new homes, including the availability of labor and materials and increases in the costs thereof, changes in costs associated with home ownership such as increases in property taxes, energy costs, changes in consumer preferences, demographic trends and the availability of and changes in mortgage financing programs.

We compete with other mortgage lenders, including national, regional and local mortgage bankers, savings and loan associations and other financial institutions, in the origination, sale and servicing of mortgage loans. Principal competitive factors include interest rates and other features of mortgage loan products available to the consumer. We compete with other insurance agencies, including national, regional and local insurance agencies, in the sale of title insurance, homeowner insurance and related

insurance services. Principal competitive factors include cost and other features of insurance products available to the consumer.

Employees

At March 31, 2003, we employed 1,477 people. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

Properties

We lease our executive offices located at 4000 Hollywood Blvd., Suite 500 N, Hollywood, Florida 33021. We own a 19,000 square foot facility in Sugar Land, Texas, which houses our Houston homebuilding operations and a design center, which allows a prospective homebuyer to view samples of some of the products and features we offer in our homes in Houston. We lease an aggregate of approximately 150,616 square feet of additional office space in our markets for our homebuilding and financial services operations and our corporate offices. We believe our existing facilities are adequate for our current and planned levels of operations.

Legal Proceedings

We are involved in various claims and legal actions arising in the ordinary course of business. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our financial condition or results of operations.

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BOARD OF DIRECTORS

The following table sets forth the names, ages and positions of each of our directors. Each of the directors term of office will expire at the next annual meeting of our stockholders.

Name	Age	Position
Constantine Stengos	66	Chairman of the Board
Antonio B. Mon	58	Executive Vice Chairman, Chief Executive Officer, President and Director
Yannis Delikanakis	35	Executive Vice President and Director
Andreas Stengos	40	Director
George Stengos	36	Director
Larry D. Horner	69	Director
William A. Hasler	61	Director
Michael J. Poulos	72	Director
Lonnie M. Fedrick	59	Director

Below is a short biography of the business experience of each of our directors.

Constantine Stengos has been the Chairman of the Board of our company since December 15, 1999. Mr. Stengos has also served as director and President of Technical Olympic and as director of Technical Olympic (UK) PLC, since November 1999. Technical Olympic is a wholly-owned subsidiary of Technical Olympic (UK) PLC, which in turn is a wholly-owned subsidiary of Technical Olympic S.A. Mr. Stengos formed Technical Olympic S.A. in 1965 and has continued to serve as its President and Managing Director. Mr. Stengos owns more than 5% of the outstanding equity of Technical Olympic S.A., which is publicly traded on the Athens Stock Exchange. Technical Olympic, Technical Olympic (UK) PLC and Technical Olympic S.A. are all our affiliates.

Antonio B. Mon became a director of our company, and our Executive Vice Chairman, Chief Executive Officer, and President, on June 25, 2002. From October 2001 to June 2002, Mr. Mon served as the Chief Executive Officer of Technical Olympic. From May 2001 to October 2001, Mr. Mon was a consultant to Technical Olympic. From 1997 to 2001, Mr. Mon was the Chairman of Maywood Investment Company, LLC, a private firm engaged in private equity investments and general consulting. In 1991, Mr. Mon co-founded Pacific Greystone Corporation, a west coast homebuilder that merged with Lennar Corporation in 1997, and served as its Vice Chairman from 1991 to 1997. Prior to 1991, Mr. Mon worked in various positions for The Ryland Group, Inc. (a national homebuilder), M.J. Brock Corporation (a California homebuilder) and Cigna Corporation (a financial services corporation).

Yannis Delikanakis has been a director of our company since 1999 and became our Executive Vice President on January 1, 2003. He has also served as a director and Vice President of Technical Olympic since 1999. Mr. Delikanakis has been the General Manager Real Estate of Technical Olympic S.A. since 1999. Mr. Delikanakis was a director and the manager of the Real Estate Development and Project Management Departments of Lambert Smith Hampton S.A. from 1994 to 1999.

Andreas Stengos has been a director of our company since 1999, has served as a director and Treasurer of Technical Olympic since 1999 and has been a director of Technical Olympic (UK) PLC since 1997. Mr. Stengos has also been a director of Technical Olympic S.A. since 1989, and has served as its General Manager since 1995.

George Stengos has been a director of our company since 1999, has served as a director of Technical Olympic since November 1999, and has been a director of Technical Olympic (UK) PLC since 1997. From 2001 to December 2002, Mr. Stengos served as President and Chairman of the Board of Mochlos S.A., a subsidiary of Technical Olympic S.A. which is publicly traded on the Athens Stock Exchange. From 1993 to 2000, Mr. Stengos was the Executive Vice President of Mochlos S.A.

Larry D. Horner has been a director of our company since 1997. Mr. Horner served as Chairman of Pacific USA Holdings Corp. from 1994 to 2001 and was Chairman of the Board of Asia Pacific Wire & Cable Corporation Limited, a manufacturer of copper wire and cable and fiber optic wire products, with operations in Southeast Asia, which was publicly traded on the New York Stock Exchange until 2001. He is also a director of ConocoPhillips, Atlantis Plastics Corp., UT Starcom, Inc., Novitron International, Inc. and New River Pharmaceuticals, Inc. Mr. Horner was formerly associated with KPMG LLP, a professional services firm, for 35 years, retiring as Chairman and Chief Executive Officer of both the U.S. and International firms in 1991. He is a certified public accountant.

William A. Hasler has been a director of our company since 1998. Mr. Hasler has served as Vice Chair and Co-Chief Executive Officer of Aphton Corporation, a biotechnology products company, since July 1998. From August 1991 to July 1998, Mr. Hasler served as Dean of the Haas School of Business at the University of California at Berkeley. Prior to that, he was both Vice Chairman and a director of KPMG LLP, a professional services firm. Mr. Hasler also serves on the boards of Mission West, Elevon, DiTech Communications, Schwab Funds and DMC Stratex, and is Chairman of the Board of Solectron Corp. Mr. Hasler is a trustee of Pomona College. He is a certified public accountant.

Michael J. Poulos has been a director of our company since 2000. Mr. Poulos also serves as an advisory director of Greystone Capital Partners I, LP and a trustee of Century Shares Trust. Mr. Poulos had been Chairman, President and Chief Executive Officer of Western National Corporation from 1993 until 1998 when he retired. Mr. Poulos worked for American General Corporation, from 1970 to 1993, and served as its Vice Chairman from 1991 to 1993.

Lonnie M. Fedrick has been a director of our company since 1997 and served as our President and Chief Executive Officer from 1997 until June 25, 2002. Mr. Fedrick was President and Chief Executive Officer of Newmark Home Corporation since 1994 and was its Executive Vice President from 1984 to 1994.

Board Committees

We have a strong commitment to establishing and maintaining corporate governance standards of excellence. As part of this commitment, our board of directors has four standing committees: audit committee, compensation and benefits committee, independent directors committee and board executive committee. Three of these committees, the audit, compensation and benefits and independent directors committees are composed entirely of outside directors. We define outside directors as directors that are neither members of management, nor affiliated with, or employed by, our principal stockholder. On a regular basis, we consult with Greenberg Traurig, P.A. for legal counsel on corporate governance matters and issues relating to the fiduciary duties of our board and committee members.

Audit Committee. Our audit committee generally has responsibility for appointing, overseeing and determining the compensation of our independent auditors, reviewing the plan and scope of the accountants audit, reviewing our audit and control functions, approving all non-audit services provided by our independent auditors and reporting to our full board of directors regarding all of the foregoing. Our audit committee meets with the auditors and our management in connection with its review and approval of (i) the unaudited financials for inclusion in our quarterly reports and (ii) the annual

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audited financial statements for inclusion in our Annual Report on Form 10-K. Additionally, our audit committee provides our board of directors with such additional information and materials as it may deem necessary to make our board of directors aware of significant financial matters that require its attention. Our audit committee s goals and responsibilities are set forth in an audit committee charter. Our audit committee consists of Messrs. Horner, Hasler and Poulos.

Compensation and Benefits Committee. Our compensation and benefits committee reviews and approves all forms of compensation and benefits, including salary, bonus and stock compensation, provided to our chief executive officer and other executive officers of our company. In addition, the compensation and benefits committee reviews and approves all forms of compensation provided to our directors and is responsible for administering our Annual and Long-Term Incentive Plan. Our compensation and benefits committee consists of Messrs. Horner, Hasler and Poulos.

Independent Directors Committee. Our independent directors committee generally has responsibility for considering and acting on any proposed transaction that would be considered a related party transaction, as well as any other matters that require the review and/or approval of our outside directors. In addition, our independent directors committee solicits, considers and nominates candidates to serve on our board of directors. Our independent directors committee consists of Messrs. Horner, Hasler and Poulos.

Board Executive Committee. Our board executive committee has authority to consider and approve transactions, acquisitions, investments, operational matters, corporate management, financing and other actions by us or our subsidiaries for transactions not exceeding $20.0 million, and makes reports to the full board of directors. Our board executive committee consists of Messrs. Horner, Delikanakis, Mon and George Stengos. Tommy McAden, our chief financial officer, serves as the management representative to the board executive committee.

Family Relationships

Constantine Stengos is the father of both Andreas Stengos and George Stengos. Yannis Delikanakis is the son-in-law of Constantine Stengos and the brother-in-law of Andreas Stengos and George Stengos. We have no other familial relationships among the executive officers and other directors.

Compensation Committee Interlocks and Insider Participation

Messrs. Horner, Hasler and Poulos comprised the Special Benefits Committee in 2002. None of these persons served as an officer or employee of ours or any of our subsidiaries during fiscal year 2002. There were no material transactions between us and any of the members of the Special Benefits Committee during fiscal year 2002.

Messrs. Horner, Hasler, Delikanakis, Andreas Stengos and George Stengos comprised the Compensation Committee in 2002. Other than Messrs. Delikanakis and Andreas Stengos, who each served as non-employee officers of certain of our subsidiaries during fiscal year 2002, none of the other members of the Compensation Committee served as an officer or employee of ours or any of our subsidiaries. During 2002, we and our subsidiary TOUSA Homes, Inc. made payments of $191.6 million to Technical Olympic S.A. pursuant to the Purchasing Agreements described under Certain Relationships and Related Transactions. Mr. Andreas Stengos serves as a director and executive officer

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of Technical Olympic S.A., and Mr. Delikanakis served as an executive officer of Technical Olympic S.A. during fiscal year 2002.

On February 3, 2003, the Special Benefits Committee and the Compensation Committee were merged to form the Compensation and Benefits Committee on which only independent directors may serve.

Compensation of Directors

For the fiscal year 2002, our outside directors received an annual fee of $15,000 and $2,000 per Board meeting attended and each was reimbursed for reasonable out-of-pocket expenses incurred for attendance at meetings. For 2003, each outside director, other than the senior outside director, will receive an annual cash fee of $40,000, reimbursement of meeting expenses and an annual equity award of either non-qualified stock options or restricted stock valued at $40,000. Under our policy, the designated senior outside director shall receive an annual cash retainer of $80,000, reimbursement of meeting expenses and an annual equity award valued at $80,000. For 2003, Mr. Horner was designated our senior outside director. Directors who also served as officers of ours did not receive any additional compensation for their services as directors during 2002.

Effective January 1, 2003, we entered into a consulting agreement with Mr. Fedrick with an initial term of three years. Under the terms of the consulting agreement, Mr. Fedrick will receive an annual fee of $400,000. Upon recommendation of our chief executive officer and approval of our board of directors or a designated committee, Mr. Fedrick may receive a bonus or other compensation in his capacity as a consultant. During the term of the agreement, in addition to his service as a member of the board of directors, Mr. Fedrick will: (a) provide land review, acquisition, and development services for our Houston operations, (b) identify and acquire land in the greater Houston area, (c) perform other assignments requested by the Chairman of the board of directors or our chief executive officer from time to time, (d) transition his network of contacts and local knowledge to our management, and (e) provide other general business advisory services. Mr. Fedrick will devote at least 20% on average of his working time and energy to our business during the initial term. The consulting agreement contains non-compete and non-interference provisions and expires on January 1, 2006.

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MANAGEMENT

Our executive officers, their ages and positions, as of June 1, 2003 are as follows:

Name	Age	Position
Antonio B. Mon	58	Executive Vice Chairman, Chief Executive Officer, President and Director
Tommy L. McAden	41	Vice President Finance and Administration, Chief Financial Officer and Treasurer
Yannis Delikanakis	35	Executive Vice President and Director
Patricia M. Petersen	43	Vice President and General Counsel
Randy L. Kotler	38	Vice President and Chief Accounting Officer
Harry Engelstein	68	Executive Vice President TOUSA Homes
J. Eric Rome	43	Executive Vice President TOUSA Homes
Mark R. Upton	45	Executive Vice President TOUSA Homes

Below is a summary of the business experience of each of our executive officers, other than Mr. Mon and Mr. Delikanakis whose biographies appear under the section Board of Directors.

Tommy L. McAden became our Vice President of Finance and Administration, Chief Financial Officer and Treasurer on June 25, 2002. Mr. McAden served as a director, Vice President and Chief Financial Officer of Technical Olympic from January 2000 to June 25, 2002. From 1994 to December 1999, Mr. McAden was Chief Financial Officer of Pacific Realty Group, Inc., which was our former 80% stockholder.

Patricia M. Petersen became our Vice President and General Counsel on September 1, 2002. Before joining our company, Ms. Petersen served as Assistant General Counsel of Corning Incorporated from December 2000 to August 2002. From September 1992 to November 2000, Ms. Petersen served as Managing Partner of the Nestor Nestor Kingston Petersen law firm in Bucharest, Romania, and from 1990 to August 1992 as Associate Counsel with the Hillis Clark Martin & Peterson law firm in Seattle, Washington.

Randy L. Kotler became our Vice President and Chief Accounting Officer on June 25, 2002. Prior to joining our company, Mr. Kotler spent 13 years in public accounting, including the last five with Ernst & Young LLP in its Real Estate Group. Mr. Kotler is a certified public accountant.

Harry Engelstein became an Executive Vice President of TOUSA Homes, Inc. on February 3, 2003. Mr. Engelstein began his career in homebuilding in Montreal, Canada, in 1960 as a contractor. In 1979, he moved to Florida to help form Engle Homes. In 1992, Engle Homes went public and Mr. Engelstein, as Executive Vice President, managed the South Florida Division.

J. Eric Rome became an Executive Vice President of TOUSA Homes, Inc. on February 3, 2003. Mr. Rome joined Newmark Homes in 1983 and has held various management positions, including serving as Chief Operating Officer of Newmark Homes and as President of Newmark Homes Texas and Tennessee Divisions.

Mark R. Upton became an Executive Vice President of TOUSA Homes, Inc. on February 3, 2003. Mr. Upton served as President of Engle Homes/Arizona, Inc. since 1997 and has spent 25 years in the homebuilding business. Prior to joining Engle Homes, Mr. Upton was Executive Vice President of UDC Homes, and had regional responsibility for various operating divisions. Before UDC, he held various management positions with Ryan Homes.

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EXECUTIVE COMPENSATION

The following table presents certain summary information concerning compensation earned for services rendered in all capacities by each of the two individuals who served as Chief Executive Officer as well as our other four most highly compensated executive officers (the Named Executive Officers) whose total annual salary and bonus exceeded $100,000 during the fiscal year ended December 31, 2002.

		Annual Compensation			Long Term Compensation Awards	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation($)	Securities Under-Lying Options (#)	All Other Compen-sation ($)
Antonio B. Mon	2002	828,333	2,394,700	61,644(2)	1,756,364	111,636(3)
Chief Executive Officer, President and Director(1)	2001			*		
	2000			*		
Tommy L. McAden	2002	395,833	550,000	*	439,091	
Vice President Finance and Administration, Chief	2001			*		
Financial Officer and Treasurer(1)	2000			*		
Harry Engelstein	2002	415,000	969,064	*		
Executive Vice President TOUSA Homes	2001	385,000	902,948	*		
	2000	315,000	501,500	*		
J. Eric Rome	2002	408,846	800,000	*		
Executive Vice President TOUSA Homes	2001	350,000	479,640	*		
	2000	300,000	467,390	*		
Mark R. Upton	2002	239,850	696,927	*		
Executive Vice President TOUSA Homes	2001	234,000	791,981	*		
	2000	225,000	696,927	*		
Lonnie M. Fedrick	2002	564,808	696,291	*		
Former Chief Executive Officer, President and	2001	550,000	1,450,685	*		
Director(4)	2000	525,000	1,497,702	*		

* Value of perquisites and other personal benefits does not exceed the lesser of $50,000 or 10% of the total of annual salary and bonus reported for the Named Executive Officer.

(1) The amounts represented for 2002 include the full year of compensation received by Messrs. Mon and McAden. Prior to June 25, 2002, compensation to Messrs. Mon and McAden was received from Technical Olympic, our controlling stockholder.

(2) This amount represents an automobile allowance and a lease of a home, including tax gross-up payments.

(3) The amount represents premiums paid for life insurance policies.

(4) Mr. Fedrick served as the Chief Executive Officer from January 1, 2002 to June 25, 2002. Mr. Mon has been serving as our Chief Executive Officer since June 25, 2002.

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Stock Option Grants and Exercise

The following table provides certain information concerning individual grants of stock options under our Annual and Long-Term Incentive Plan made during the year ended December 31, 2002 to the Named Executive Officers who are listed below. None of the other Named Executive Officers received any option grants during the year ended December 31, 2002.

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted(#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%($)	10%($)
Antonio B. Mon	702,541		17.17	12/31/2012	4,882,660	14,921,971
	351,274		18.89	12/31/2012	1,837,163	6,856,868
	351,274		20.78	12/31/2012	1,173,255	6,192,961
	351,275		22.86	12/31/2012	442,607	5,462,326
	1,756,364	80%				
Tommy L. McAden	175,637		17.17	12/31/2012	1,220,677	3,730,530
	87,818		18.89	12/31/2012	459,288	1,714,207
	87,818		20.78	12/31/2012	292,434	1,546,475
	87,818		22.86	12/31/2012	110,651	1,365,570
	439,091	20%				

The following table provides information regarding the options exercised by the Named Executive Officers listed below during fiscal 2002 and the value of options outstanding for such individuals at December 31, 2002. None of the other Named Executive Officers owned any options at December 31, 2002.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options at Fiscal Year-End (#)		Value of Unexercised In-The-Money Options at Fiscal Year-End ($)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Antonio B. Mon			228,320	1,528,044		
Tommy L. McAden			57,082	382,009		

(1) Based on the closing price of our common stock on December 31, 2002 of $14.81.

Employment Agreements

Antonio B. Mon. Upon the consummation of the merger on June 25, 2002, Antonio B. Mon became our Chief Executive Officer, President and Executive Vice-Chairman, as well as one of our directors. Pursuant to the terms of the employment agreement between Mr. Mon and us, which became effective on the date of the merger and expires on December 31, 2006, Mr. Mon will receive a minimum base salary of $800,000 for the first year with an increase of 10% per year thereafter until the agreement expires or is terminated. Mr. Mon will be eligible to receive an annual bonus and equity awards under our Annual and Long-Term Incentive Plan, and Mr. Mon was granted 1,756,364 options to purchase shares of our common stock. In the event of termination by us without cause and not as a result of his disability or death, or in the event Mr. Mon terminates for good reason or due to a change in control, we will pay Mr. Mon the greater of (a) three times the sum of his base salary, his highest annual cash bonus and the value of his fringe benefits or (b) the aggregate amount of his base salary, his annual cash bonuses and the value of the fringe benefits that would be payable for the remainder of the agreement term. He will also receive continued health plan coverage until age 65 or until he becomes covered under another plan. In addition, if payments are deemed to constitute excess parachute payments, and Mr. Mon becomes liable for any tax penalties imposed thereon, we will make a cash payment to him in an amount equal to the tax penalties. The agreement contains non-compete provisions in the event of termination of employment.

Tommy L. McAden. Upon the consummation of the merger on June 25, 2002, Tommy L. McAden became our Vice President of Finance and Administration, Chief Financial Officer and Treasurer. Pursuant to the terms of the employment agreement between Mr. McAden and us, which became effective on the date of the merger and expires on June 25, 2005, Mr. McAden will receive a minimum base salary of $380,000 and may receive annual salary increases. Mr. McAden will receive an annual bonus and equity awards under our Annual and Long-Term Incentive Plan with respect to each of the years 2002, 2003 and 2004, and Mr. McAden was granted 439,091 options to purchase shares of our common stock. In the event of termination by us without cause, or by Mr. McAden for good reason, we will pay Mr. McAden a termination payment in the amount of the sum of his base salary, annual bonus and the value of any benefits and perquisites that would have been payable or provided to Mr. McAden during the remainder of the agreement term, and accrued compensation. In the event of termination of Mr. McAden s employment due to disability, Mr. McAden will receive accrued base salary and bonus for the year, the economic value of any accrued but unused vacation time and unreimbursed expenses. In the event of a change in control and Mr. McAden s termination of the agreement on this basis, he will receive the greater of (a) the termination payment due above or (b) two times the sum of his salary and annual bonus, plus the value of any benefits and perquisites that would have been provided during the remainder of the agreement term and accrued compensation. In addition, if payments are deemed to constitute excess parachute payments, and Mr. McAden becomes liable for any tax penalties imposed thereon, we will make a cash payment to him in an amount equal to the tax penalties. The agreement contains non-compete provisions in the event of termination of employment.

Yannis Delikanakis. On January 1, 2003, Yannis Delikanakis became our Executive Vice President, pursuant to the terms of an employment agreement between Mr. Delikanakis and us, which became effective on January 1, 2003 and expires on December 31, 2008, Mr. Delikanakis will receive a minimum base salary of $75,000 per year and was granted 900,000 options to purchase shares of our common stock. Mr. Delikanakis will not receive any bonus or other compensation unless approved by our board of directors and our independent directors committee. In the event of any termination, Mr. Delikanakis will receive only unreimbursed business expenses incurred by Mr. Delikanakis. In addition, if payments are deemed to constitute excess parachute payments, and Mr. Delikanakis becomes liable for any tax penalties imposed thereon, we will make a cash payment to him in an amount equal to the tax penalties. The employment agreement contains non-compete provisions in the event of termination of employment.

Harry Engelstein. Effective November 12, 2000, Engle Homes, Inc. and Mr. Engelstein entered into an employment agreement with a term ending on December 31, 2003. Pursuant to that agreement, Mr. Engelstein would serve as Executive Vice President and Chief Construction Officer of Engle Homes, Inc. The continuing relationship between us and Mr. Engelstein in his role as an Executive Vice President of our homebuilding operations are on terms substantially similar to those set forth in the employment agreement. In 2002, Mr. Engelstein received a base salary of $415,000 and received an annual bonus based on a specific formula set forth in the agreement. If Mr. Engelstein s employment is terminated due to disability or death, Mr. Engelstein will be entitled to receive salary, together with any accrued, vested or earned obligations, through the termination date. If Mr. Engelstein is terminated for cause, he will be entitled to receive his highest base salary through the date of termination. If Mr. Engelstein s employment is terminated by the company other than for cause, disability or death, or by Mr. Engelstein for good reason, Mr. Engelstein will be entitled to receive salary, bonus, all accrued obligations, deferred compensation and insurance and related benefits as would have been payable for the remainder of the employment term. In the event of a change in control and a resulting termination of the agreement by Mr. Engelstein for good reason or by us for any reason other than for cause, death or disability, he will receive a lump sum cash payment of two times the aggregate of his salary and recent bonus, plus certain other accrued and deferred compensation.

J. Eric Rome. Effective January 1, 2003, Mr. Rome became an Executive Vice President of our homebuilding operations pursuant to an employment agreement with a term ending on December 31, 2005. Pursuant to the agreement, Mr. Rome s base salary is $420,000. If Mr. Rome s employment is terminated for cause, Mr. Rome will be entitled to receive accrued salary and any accrued obligations. If Mr. Rome s employment is terminated due to disability or death, Mr. Rome will be entitled to receive accrued salary and a pro-rated bonus. If Mr. Rome s employment is terminated by us for any other reason, or if Mr. Rome terminates for good reason, Mr. Rome will be entitled to receive salary, bonus, all accrued obligations, deferred compensation and insurance and related benefits as would have been payable for the remainder of the employment term. The employment agreement contains non-compete provisions in the event of Mr. Rome s termination of employment.

Mark R. Upton. Effective November 12, 2000, Engle Homes, Inc. and Mr. Upton entered into an employment agreement with a term ending on December 31, 2003. Pursuant to that agreement, Mr. Upton would serve as President of the Engle Homes Arizona homebuilding operations. On April 1, 2003, the agreement was amended to (i) reflect his new responsibilities as an Executive Vice President of our homebuilding operations, (ii) extend the term of the agreement to December 31, 2004 and (iii) increase his base salary to $420,000. In 2002, Mr. Upton received a base salary of $239,850 and received quarterly bonuses based on a specific formula set forth in his agreement. If Mr. Upton s employment is terminated for cause, incapacity or death, Mr. Upton will be entitled to receive accrued salary and any accrued obligations. If Mr. Upton s employment is terminated for any other reason, or if Mr. Upton terminates for good reason, Mr. Upton will be entitled to receive salary, accrued obligations, a portion of the quarterly bonus and deferred compensation as would have been payable for the remainder of the employment term. In the event of a change in control and a resulting termination of the agreement by Mr. Upton for good reason or by us for any reason other than for cause, incapacity or death, he will receive a lump sum cash payment of two times the aggregate of his salary and recent bonus, plus certain other accrued and deferred compensation. The employment agreement contains non-compete provisions in the event of Mr. Upton s termination of employment.

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SECURITY OWNERSHIP

The following table sets forth certain information as of June 16, 2003 regarding beneficial ownership of our common stock by the selling stockholder and by each of the following:

each person (or group of affiliated persons) whom we know to beneficially own more than 5% of the outstanding shares of our common stock;

each of our directors and our Named Executive Officers; and

all of our executive officers and directors as a group.

The percentage of beneficial ownership is based on 27,889,036 shares of our common stock outstanding on June 16, 2003.

Name and Address of Beneficial Owner	Number of Shares Owned Before Offering[(1)]	Number of Shares to be Sold	Number of Shares Owned After Offering[(1)]	Percentage of Shares Owned After Offering
Technical Olympic, Inc[(2)] 1200 Soldiers Field Drive Sugar Land, Texas 77479	25,303,787[(3)]	2,000,000	23,303,787	83.56%
Constantine Stengos	25,000		25,000	*
Antonio B. Mon	579,594(4)		579,594(4)	2.04%
Yannis Delikanakis	297,000(4)		297,000(4)	1.05%
Andreas Stengos				*
George Stengos				*
Larry D. Horner	5,125		5,125	*
William A. Hasler	2,924(4)		2,924(4)	*
Michael J. Poulos	2,562		2,562	*
Lonnie M. Fedrick	45,462		45,462	*
Tommy L. McAden	144,900(4)		144,900(4)	*
Harry Engelstein				*
J. Eric Rome	9,000		9,000	*
Mark R. Upton				*
All directors and executive officers as a group (15 persons)	1,111,567(5)		1,111,567(5)	3.84%

* Less than one percent.

Except as otherwise indicated, the address of each person named in this table is c/o Technical Olympic USA, Inc., 4000 Hollywood Boulevard, Suite 500 North, Hollywood, Florida 33021.

(1) The amounts and percentage of common stock beneficially owned are reported on the basis of regulations of the Commission. Under the rules of the Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to dispose of or direct the disposition of the security. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. In addition, in determining the number and percentage of shares beneficially owned by each person, shares issuable pursuant to options exercisable within 60 days after June 16, 2003 are deemed outstanding for purposes of determining the total number of shares outstanding for such person but are not deemed outstanding for such purpose for all other shareholders. Under these rules, more than one person

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may be deemed a beneficial owner of the same securities, and a person may be deemed a beneficial owner of securities as to which he has no economic interest.

(2) Technical Olympic, Inc. is a subsidiary of Technical Olympic (UK) PLC, which is a subsidiary of Technical Olympic S.A. Constantine Stengos owns more than 5% of the outstanding stock of Technical Olympic S.A. Technical Olympic owns 90.73% of the voting power of our common stock and will own 83.56% of the voting power of our common stock after the offering (82.48% if the over-allotment is exercised in full). Any material relationships between us and Technical Olympic are described in Certain Relationships and Related Transactions.

(3) This amount reflects the sale of an aggregate of 275,000 shares of our common stock which were sold pursuant to Rule 144 of the Securities Act from May 27, 2003 to June 11, 2003.

(4) Consists solely of shares issuable upon exercise of stock options that have already vested or will vest within 60 days.

(5) Includes 1,024,418 shares issuable upon exercise of stock options that have already vested or will vest within 60 days.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Management Services Agreement

Pursuant to a Management Services Agreement between us and Technical Olympic (successor to Techolym L.P.), dated June 1, 2000, Technical Olympic provided us with certain advisory, administrative and other services. We made payments totaling $1.5 million, $1.9 million and $1.4 million for the years ended December 31, 2000, 2001 and 2002, respectively, related to this agreement. On June 13, 2003, we entered into an Amended and Restated Management Services Agreement with Technical Olympic. The agreement was effective as of January 1, 2003 and expires on December 31, 2007. Pursuant to the amended agreement, Technical Olympic provides consultation with, and assistance to, our board of directors and management in connection with issues involving our business, as well as other services requested from time to time by our board of directors. In consideration for providing such services, we have agreed to pay Technical Olympic an annual management fee of $500,000 and, to the extent our net income for any fiscal year meets established targets, additional annual incentive fees, which may not exceed $3.0 million. Pursuant to the agreement, we have agreed to indemnify Technical Olympic for any liability incurred by it as a result of the performance of its duties other than any liability resulting from Technical Olympic s gross negligence or willful misconduct. We may terminate the agreement upon six months prior written notice. Pursuant to the terms of our revolving credit facility, the aggregate amount of annual fees payable under the Management Services Agreement may not exceed $3.5 million.

Purchasing Agreements

In order to consolidate the purchasing function, we and our subsidiary TOUSA Homes, Inc. entered into non-exclusive purchasing agreements with Technical Olympic S.A., an affiliate of Technical Olympic, in November 2000. Under the purchasing agreements, Technical Olympic S.A. would purchase certain materials and supplies necessary for operations on our respective behalves and provide them to us at cost. No additional fees or other consideration are paid to Technical Olympic S.A. These agreements may be terminated upon 60 days prior notice. Technical Olympic S.A. purchased an aggregate of $70.5 million, $342.6 million and $191.6 million of materials and supplies on our behalf for the years ended December 31, 2000, 2001 and 2002, respectively. Constantine Stengos, our Chairman of the Board of Directors, is President and Managing Director of Technical Olympic S. A. Yannis Delikanakis, one of our directors, is General Manager Real Estate of Technical Olympic S.A.

During the year ended December 31, 2002, one of our subsidiaries purchased approximately $962,500 of homesites from Willow Park Green, Ltd. Michael Stevens, a former director, has an indirect limited partnership interest in such entity.

Certain Land Bank Transactions

During 2001, Engle Homes, our predecessor-in-interest, sold certain undeveloped real estate tracts to, and entered into a number of agreements (including option contracts and construction contracts), with an investment limited liability company owned directly and indirectly by several of Engle Homes then current and former executive officers. We made payments of $11.9 million, $36.0 million and $0 to this entity pursuant to these agreements during the twelve months ended December 31, 2001 and 2002 and the three months ended March 31, 2003, respectively. As of June 15, 2003, the remaining homesites have been acquired and the agreements terminated.

Merger Agreement

On June 25, 2002, we completed the merger with Engle Holdings. At the time of the merger, each issued and outstanding share of Engle Holdings common stock was exchanged for 1,724.08294 shares of

Newmark Homes common stock and we changed our name to Technical Olympic USA, Inc. At the date of the merger, there were 9,500 shares of Engle Holdings common stock issued and outstanding, all of which were held by Technical Olympic. As a result of the merger, 16,378,787 shares of our common stock were issued to Technical Olympic. Technical Olympic currently owns 90.73% of our outstanding capital stock.

Tax Allocation Agreements

Pursuant to certain tax allocation agreements applicable to us and Engle Holdings, for tax periods ending on or after December 15, 1999 with respect to our company and on or after November 22, 2000 with respect to Engle Holdings, our and Engle Holdings earnings may be included in the consolidated federal income tax returns filed by Technical Olympic. The amount of our and Engle Holdings liability to (or entitlement to payment from) Technical Olympic equals the amount of taxes that each would respectively owe (or refund that each would receive) had we or Engle Holdings, as the case may be, prepared its federal tax returns on a stand-alone basis, and we and Engle Holdings have certain indemnification rights with respect to payments which we have made to Technical Olympic and any tax liabilities of Technical Olympic or its affiliated entities other than to us or Engle Holdings. With respect to the tax allocation agreements, we made payments totaling $15.3 million, $47.2 million and $37.7 million for the years ended December 31, 2000, 2001 and 2002, respectively. The tax allocation agreement between Technical Olympic and Engle Homes was terminated after the merger.

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DESCRIPTION OF CAPITAL STOCK

We are authorized to issue up to 67,000,000 shares of common stock, $0.01 par value per share and 3,000,000 million shares of preferred stock, $0.01 par value per share. The following description summarizes information about our capital stock. You can obtain more information about our capital stock by reviewing our certificate of incorporation and bylaws, as well as the Delaware General Corporation Law.

Common Stock

Shares Outstanding; Listing. As of June 16, 2003, 27,889,036 shares of our common stock were issued and outstanding. Our common stock is listed on the Nasdaq National Market under the symbol TOUS.

Voting Rights. Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Thus, holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Our certificate of incorporation provides that our directors cannot be removed other than with the consent of holders of not less than two-thirds of the voting power of our common stock. Currently, Technical Olympic owns 90.73% of the voting power of our common stock and will own 83.56% following this offering (82.48% if the over-allotment is exercised in full).

Dividends. Each share of common stock is entitled to receive dividends if, as and when declared by the board of directors out of funds legally available for that purpose, subject to preferences that may apply to any preferred stock that we may issue in the future.

Liquidation Rights. In the event of our dissolution or liquidation, after satisfaction of all our debts and liabilities and distributions to the holders of any preferred stock that we may issue in the future, of amounts to which they are preferentially entitled, holders of our common stock are entitled to receive ratably all of our assets available in the distribution of assets to the stockholders.

Other Provisions. There are no conversion rights or preemptive or subscription rights to subscribe for any additional securities which we may issue. There are no redemption provisions or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassesable.

The rights and preferences of holders of our common stock are subject to the rights of any series of preferred stock which we may issue in the future.

Preferred Stock

As of June 16, 2003, there were no shares of our preferred stock outstanding.

Our board of directors is authorized by our certificate of incorporation to provide for the issuance of shares of preferred stock, in one or more series, to establish or modify the number of shares to be included in each series, to fix or modify the designation, rights, preferences, privileges and restrictions of the shares of each series and to increase or decrease the number of shares of any series of preferred stock, all without any further vote or action by our stockholders. It is not possible to state the actual effect of the issuance of any shares of preferred stock on the rights of holders of common stock until our board of directors determines the specific rights attached to that preferred stock.

Registration Rights

We have agreed with Technical Olympic that we will register under the Securities Act the resale of all of the shares of common stock or securities issued in respect of, or in exchange for, such common stock currently held, or from time to time hereafter held, by Technical Olympic. Technical Olympic has the right to request that we file, and use our best efforts to have declared effective as soon as practicable, a registration statement with the SEC at any time (subject to the aggregate value of the registrable securities being at least $2,000,000 and certain cut-back provisions). We will not be required to file such a registration statement more frequently than once every six months. Furthermore, if we are eligible to use a Form S-3, we have agreed to file, and use our best efforts to have declared effective, a shelf registration statement with the SEC upon the request of Technical Olympic (subject to the registrable securities having a minimum aggregate disposition price of at least $2,000,000). We must use our best efforts to keep the shelf registration statement continuously effective. We will not be required to file a shelf registration statement more than twice in any twelve-month period. In addition, if we register the sale of any of our securities by us or any other holder of our securities in connection with an underwritten offering, Technical Olympic has the right to request that its shares be included in such registration statement, subject to certain cut-back provisions.

Pursuant to our agreement with Technical Olympic, Technical Olympic has requested that we prepare and file a registration statement on Form S-1 with respect to this offering. This prospectus will form part of the Form S-1.

Anti-Takeover Effects of Delaware Law and our Certificate of Incorporation and Bylaws

Certain provisions of Delaware law and our certificate of incorporation and bylaws, summarized below, may discourage, delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in its best interest, including those attempts that might result in a premium over the market price for shares held by our stockholders.

Pursuant to Section 203(b)(1) of the Delaware corporate law, our certificate of incorporation provides that the provisions of Section 203 shall not apply to us. However, as our controlling stockholder, Technical Olympic has the power to amend our certificate of incorporation at any time. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the time such stockholder became an interested stockholder unless, subject to exceptions, the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. A business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior, did own, 15% or more of the corporation s voting stock. If applicable, these provisions may have the effect of delaying, deferring or preventing a change in control without further action by the stockholders.

Our certificate of incorporation provides that our board of directors may issue shares of our authorized but unissued common stock and preferred stock without stockholder approval. These additional shares may be utilized for a variety of corporate purposes, including future public or private offerings to raise additional capital, corporate acquisitions or employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock may enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage an attempt to obtain control of our company by means of a proxy contest, tender offer, merger or otherwise, and thereby protect the continuity of our management.

Our bylaws provide that special meetings of stockholders can be called only by the board of directors, the Chairman of the Board, if any, or the President. Moreover, the business permitted to be

conducted at any special meeting of stockholders is limited to the business brought before the meeting by the board of directors, the Chairman of the Board, if any, or the President. Our bylaws provide that stockholders must follow an advance notification procedure for certain stockholder nominations of candidates for the board of directors and for certain other stockholder business to be conducted at an annual meeting or special meeting.

Indemnification of Officers and Directors

As permitted by the Delaware General Corporation Law, we have included a provision in our certificate of incorporation to eliminate the personal liability of our officers and directors incurred by them solely by reason of their service to our company.

Transfer Agent

The Transfer Agent and Registrar for our common stock is Equiserve Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have 27,889,036 shares of our common stock outstanding. All shares of our common stock after this offering, other than 23,390,936 shares held by the selling stockholder and our other affiliates (23,090,936 shares if the over-allotment is exercised in full), will be freely tradable without restriction under the Securities Act unless those shares are acquired and held by an affiliate of our company. Sales of shares of our common stock by affiliates will be subject to the volume limitations and other restrictions set forth in Rule 144 under the Securities Act. We, the selling stockholder and our officers and directors have agreed not to sell or otherwise dispose of any shares of our common stock or securities convertible into or exchangeable for shares of our common stock for a period of 90 days after the completion of this offering, subject to certain exceptions.

In addition to outstanding shares eligible for sale, we have reserved 4,000,000 shares of common stock issuable upon exercise of outstanding stock options under our Annual and Long-Term Incentive Plan, of which 3,436,491 are issuable under currently outstanding options. We have registered the issuance of all of these shares under the Securities Act, and therefore, these shares will be freely tradable when issued, subject to the volume limitations of Rule 144 in the case of shares held by our affiliates.

Following the offering, Technical Olympic will continue to have the right to cause us to register for sale under the Securities Act all or part of the shares of our common stock held by it. See Description of Capital Stock Registration Rights.

MATERIAL UNITED STATES FEDERAL TAX CONSIDERATIONS TO NON-U.S. HOLDERS

The following is a general summary of the material United States federal income and estate tax considerations to a Non-U.S. Holder (as defined below) relevant to the ownership and disposition of shares of common stock purchased in this offering. This summary is based on the Internal Revenue Code of 1986, as amended (the Code), final, temporary and proposed United States Treasury regulations promulgated thereunder, Internal Revenue Service (IRS) rulings, official pronouncements and judicial decisions, all as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect, or different interpretations. This summary does not discuss all the tax consequences that may be relevant to a particular Non-U.S. Holder in light of the holder s particular circumstances and it is not intended to be applicable in all respects to all categories of Non-U.S. Holders, some of whom may be subject to special rules not discussed below. The discussion below deals only with shares of common stock held as capital assets within the meaning of the Code, and does not address purchasers of the common stock that may be subject to special rules. Purchasers that may be subject to special rules include:

- some U.S. expatriates;
- financial institutions;
- insurance companies;
- partnerships or other pass-through entities;
- tax-exempt entities;
- dealers in securities or currencies;
- traders in securities;
- holders whose functional currency is not the U.S. dollar; and
- persons that hold the common stock as part of a straddle, hedge, conversion or other integrated transaction.

The following discussion does not address the U.S. federal income tax consequences of persons who hold the common stock through a partnership or other pass-through entity. In addition, the following discussion does not address any state, local or foreign tax considerations that may be relevant to a Non-U.S. Holder s decision to purchase shares of common stock. You should consult your own tax advisor regarding the particular U.S. federal, state and local and foreign income and other tax consequences of acquiring, owning and disposing of the common stock that may be applicable to you.

Special rules may apply to certain Non-U.S. Holders, such as controlled foreign corporations, passive foreign investment companies, and foreign personal holding companies, that are subject to special treatment under the Code. Such entities should consult their own tax advisors to determine the U.S. federal, state, local and other tax consequences that may be relevant to them.

For purposes of the federal income tax portion of this discussion, a Non-U.S. Holder means a beneficial owner of common stock that is a nonresident alien or a corporation, trust or estate that is not (1) a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (2) an estate the income of which is subject to United States federal income taxation regardless of its source or (3) a trust (a) that is subject to the supervision of a court within the United States and the control of one or more United States persons as described in section 7701(a)(30) of the Code or (b) that has a valid election in effect under applicable United States Treasury regulations to be treated as a U.S. person. For purposes of the federal estate tax portion of this discussion, a Non-U.S. Holder means a beneficial owner of common stock who is an individual who is not domiciled in the United States. A person acquires a domicile in the United States by living in the United States, even for a brief period, with no definite present intention of later removing

from the United States. If domicile exists in the United States, an intention to change domicile does not actually effect such a change unless accompanied by an actual removal from the United States.

ALL NON-U.S. HOLDERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF SHARES OF COMMON STOCK IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES.

Dividends on Common Stock

Generally, any dividends paid to a Non-U.S. Holder of common stock will be subject to United States federal withholding tax at a rate of 30% of the amount of the dividend, or at a lower applicable income tax treaty rate. However, if the dividend is effectively connected with the conduct of a United States trade or business of a Non-U.S. Holder (and is attributable to a U.S. permanent establishment of such Non-U.S. Holder, if an income tax treaty applies) it generally will be subject to United States federal income tax on a net income basis at ordinary federal income tax rates (in which case the branch profits tax at 30% (or such lower rate as may be specified in an applicable income tax treaty) may also apply if such Non-U.S. Holder is a foreign corporation), and assuming certain certification requirements are met, will not be subject to the 30% withholding tax.

United States Treasury regulations require a Non-U.S. Holder to provide certain certifications under penalties of perjury that such holder is not a United States person in order to obtain treaty benefits (and avoid backup withholding as discussed below).

A Non-U.S. Holder of common stock eligible for a reduced rate of United States withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS.

Disposition of Common Stock

Subject to the discussion of backup withholding below, any capital gain realized upon a sale or other disposition of common stock by a Non-U.S. Holder ordinarily will not be subject to United States federal income tax unless (1) the gain is effectively connected with a trade or business conducted by such Non-U.S. Holder within the United States (and is attributable to a U.S. permanent establishment of such holder, if an income tax treaty applies) in which case, the Non-U.S. Holder will be subject to United States federal income tax on the net gain derived from the sale under regular graduated United States federal income tax rates, and if the Non-U.S. Holder is a foreign corporation, the branch profits tax at 30% of the Non-U.S. Holder s effectively connected earnings and profits within the meaning of the Code for the taxable year, as adjusted for certain items, (or such lower rate as may be specified in an applicable income tax treaty) may also apply, or (2) in the case of a Non-U.S. Holder that is an individual who holds the common stock as a capital asset, such Non-U.S. Holder is present in the United States for a period or periods aggregating 183 days or more in the taxable year of the sale or other disposition and certain other requirements are met (in which case the holder will be subject to a flat 30% tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the individual is not considered a resident of the United States), or (3) we are or have been a United States real property holding corporation (a USRPHC) for United States federal income tax purposes at any time within the lesser of (a) the five-year period ending on the date of the sale or other disposition and (b) the Non-U.S. Holder s holding period, and, in each case, no income tax treaty exception is applicable. We believe that we are currently a USRPHC and will remain a USRPHC in the future. However, any gain recognized by a Non-U.S. Holder on the disposition of the common stock still would not be subject to U.S. federal income tax if the common stock were to be regularly traded (within the meaning of applicable United States Treasury regulations) on an established securities market (such as, for example, the Nasdaq National

Market) and the Non-U.S. Holder did not own, directly or constructively, more than 5% of the outstanding common stock at any time during the shorter of (a) the five-year period ending on the date of the sale or other disposition and (b) the Non-U.S. Holder s holding period. We believe that upon the consummation of the offering the common stock will be regularly traded (within the meaning of applicable United States Treasury regulations) on an established securities market, although no assurance can be given that this will not change in the future. Non-U.S. Holders should consult their tax advisors to determine whether an income tax treaty is applicable.

Federal Estate Taxes

Common stock that is beneficially owned by an individual Non-U.S. Holder at the time of death will be included in the individual s gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise. The individual s gross estate might also include the value of common stock which is held indirectly by the individual through one or more domestic or foreign entities. Non-U.S. holders are encouraged to consult their tax advisors regarding the inclusion of the value of the common stock in their gross estate in cases where it is owned indirectly through one or more entities.

Backup Withholding and Information Reporting

Dividends on common stock paid to a Non-U.S. Holder will generally be exempt from backup withholding tax, provided that Non-U.S. holders meet applicable certification requirements or otherwise establishes an exemption. Non-U.S. holders that fail to meet these requirements will be subject to backup withholding at the rate of 28%.

Payments of the proceeds from the sale by a Non-U.S. Holder of shares of common stock made by or through a foreign office of a broker will not be subject to information reporting or backup withholding except that if the broker is, for United States tax purposes, (i) a U.S. person, (ii) a controlled foreign corporation (as defined in the Code), (iii) a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or (iv) a foreign partnership, if at any time during its tax year, one or more of its partners are U.S. persons, as defined in Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership or if, at any time during its tax year, the foreign partnership is engaged in a U.S. trade or business, then information reporting and/or backup withholding may apply to these payments if the Non-U.S. Holder does not meet applicable certification requirements or otherwise established an exemption. Payments of the proceeds from the sale of shares of common stock by or through the United States office of a broker will be subject to information reporting and backup withholding unless the Non-U.S. Holder certifies under penalties of perjury that it is a Non-U.S. Holder or otherwise establishes an exemption from information reporting and backup withholding.

Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against such Non-U.S. Holder s United States federal income tax liability provided the required information is furnished to the IRS.

UNDERWRITING

We, the selling stockholder and the underwriters named below have entered into an underwriting agreement concerning the shares offered hereby. Subject to conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Subject to the terms and conditions set forth in the underwriting agreement, the underwriters will be obligated to purchase all of the shares offered hereby if any of the shares are purchased.

Underwriters	Number of Shares
UBS Securities LLC	
Citigroup Global Markets Inc.	
Total	

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have a 30-day option to buy from the selling stockholder up to an additional 300,000 shares at the public offering price set forth on the cover of this prospectus less the underwriting discounts and commissions. If any shares are purchased under this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions the selling stockholder will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase up to an additional 300,000 shares.

	No exercise	Full exercise
Per share		
Total		

Pursuant to the terms of the Registration Rights Agreement between us and Technical Olympic, we are responsible for all expenses, other than underwriting discounts and commissions, related to this offering. We estimate that the total expenses of the offering payable by us will be approximately $. Expenses include the Securities and Exchange Commission and NASD filing fees, printing, legal, accounting and transfer agent and registrar fees and other miscellaneous fees and expenses.

Shares sold by the underwriters to the public will initially be offered at the public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the public offering price. Any of these securities dealers may resell any shares purchased from the underwriters to other brokers or dealers at a discount of up to $ per share from the public offering price. If all the shares are not sold at the public offering price, the underwriters may change the offering price and the other selling terms. Sales of shares made outside of the United States may be made by affiliates of the underwriters. Upon execution of the underwriting agreement, the underwriters will be obligated to purchase the shares at the prices and upon the terms stated therein, and, as a result, will thereafter bear any risk associated with changing the offering price to the public or other selling terms.

We, our directors and executive officers, and the selling stockholder have agreed with the underwriters not to offer, sell, contract to sell, hedge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable for shares of common stock until after the date that is 90 days after the date of this prospectus, without the prior written consent of

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UBS Securities LLC and Citigroup Global Markets Inc. This agreement does not generally apply to the exercise of options under our employee benefits plans.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include stabilizing transactions. Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of our common stock while the offering is in progress. These transactions may also include short sales and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Short sales may be either covered short sales or naked short sales. Covered short sales are sales made in an amount not greater then the underwriters over-allotment option to purchase additional shares in the offering. The underwriters may close out any covered short position by either exercising their over-allotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Naked short sales are in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase common stock in the offering.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market or otherwise.

In addition, in connection with this offering, some of the underwriters (and selling group members) may engage in passive market making transactions in the common stock on the Nasdaq National Market, prior to the pricing and completion of this offering. Passive market making consists of displaying bids on the Nasdaq National Market no higher than the bid prices of independent market makers and making purchases at prices no higher than those independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker s average daily trading volume in the common stock during a specified period and must be discontinued when that limit is reached. Passive market making may cause the price of the common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. If the underwriters commence passive market making transactions, they may discontinue them at any time.

We and the selling stockholder have agreed to indemnify the several underwriters against some liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect thereof.

In connection with this offering, certain of the underwriters or securities dealers may distribute prospectuses electronically.

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The underwriters and their affiliates have in the past performed investment banking, commercial lending and financial advisory services for us and our affiliates for which they have received customary compensation, and they may from time to time do the same in the future. An affiliate of Citigroup Global Markets Inc. is an agent and lender under our revolving credit facility.

LEGAL MATTERS

Akerman Senterfitt will pass upon the validity of the common stock offered by this prospectus. Cahill Gordon & Reindel LLP will pass upon certain legal matters for the underwriters.

EXPERTS

The consolidated financial statements of Technical Olympic USA, Inc. at December 31, 2002 and for the two years then ended, appearing in this prospectus and registration statement, have been audited by Ernst & Young LLP, independent certified public accountants, and for the year ended December 31, 2000, have been audited by BDO Seidman, LLP, independent certified public accountants, to the extent and for the periods set forth in their reports appearing elsewhere herein and in the registration statement, and are included in reliance upon such reports given on the authority of such firms as experts in auditing and accounting.

The consolidated financial statements of Engle Holdings Corp. at December 31, 2001, and for the year then ended, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent certified public accountants, and at December 31, 2000, and for the period from November 22, 2000 to December 31, 2000 and November 1, 2000 to November 21, 2000, and each of the two years in the period ended October 31, 2000, by BDO Seidman LLP, independent certified public accountants, as set forth in their respective reports thereon appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firms as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC under the Exchange Act. You may read and copy this information at, or obtain copies by mail at prescribed rates from, the Public Reference Room of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC also maintains an internet world wide web site that contains reports, proxy statements and other information about issuers, like us, who file reports electronically. The address of that site is http://www.sec.gov.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors

Technical Olympic USA, Inc.

We have audited the accompanying consolidated statements of financial condition of Technical Olympic USA, Inc. (formerly known as Newmark Homes Corp.) and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of income, stockholders equity, and cash flows for each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Technical Olympic USA, Inc. (formerly known as Newmark Homes Corp.) and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

ERNST & YOUNG LLP

Miami, Florida
January 31, 2003, except for
Note 5, as to which
the date is February 3, 2003

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors

Technical Olympic USA, Inc.

We have audited the accompanying consolidated statement of income, stockholders equity, and cash flows of Technical Olympic USA, Inc. (formerly known as Newmark Homes Corp.) and subsidiaries (the Company), a subsidiary of Technical Olympic, Inc. for the year ended December 31, 2000. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

BDO SEIDMAN, LLP

Los Angeles, California
January 31, 2001, except for Note 1
and Note 5, contained within the 2000 financial statements
as to which the date
is June 25, 2002

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2001	2002
	(Dollars in thousands, except share data)	
ASSETS		
Homebuilding:		
Cash and cash equivalents:		
Unrestricted	$ 67,206	$ 44,825
Restricted	7,738	23,645
Inventory	645,986	753,872
Property and equipment, net	10,694	13,862
Other assets	10,897	30,681
Goodwill, net	57,726	78,252
Westbrooke assets held for sale	117,160	
	917,407	945,137
Financial Services:		
Cash and cash equivalents:		
Unrestricted	7,930	4,386
Restricted	19,605	22,866
Mortgage loans held for sale	50,933	58,840
Other assets	3,295	3,659
	81,763	89,751
Total assets	$999,170	$1,034,888
LIABILITIES AND STOCKHOLDERS EQUITY		
Homebuilding:		
Accounts payable and other liabilities	$ 56,295	$ 96,820
Customer deposits	25,674	24,564
Consolidated land bank obligations	30,022	16,288
Homebuilding borrowings	308,697	413,110
Westbrooke liabilities associated with assets held for sale	71,800	
	492,488	550,782
Financial Services:		
Accounts payable and other liabilities	18,828	21,560
Financial services borrowings	38,689	48,309
	57,517	69,869
Total liabilities	550,005	620,651
Minority interest	35,795	9,092
Commitments and contingencies		
Stockholders equity:		
Common stock $.01 par value; 67,000,000 shares authorized and 27,878,787 shares issued and outstanding	279	279
Additional paid-in capital	322,400	322,400
Retained earnings	90,691	82,466

Total stockholders equity	413,370	405,145
Total liabilities and stockholders equity	$999,170	$1,034,888

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2000	**2001**	**2002**
	(Dollars in thousands, except share data)		
Homebuilding:			
Revenues:			
Homes sales	$ 540,323	$ 1,374,551	$ 1,349,713
Land sales	6,343	18,361	27,379
	546,666	1,392,912	1,377,092
Cost of sales:			
Home sales	434,736	1,091,626	1,075,875
Land sales	6,203	16,660	24,430
	440,939	1,108,286	1,100,305
Gross profit	105,727	284,626	276,787
Selling, general and administrative expenses	63,832	152,063	163,726
Depreciation and amortization	3,112	8,849	5,952
Severance and merger related expenses		2,643	19,963
Loss on early retirement of debt			5,411
Other (income) expense	2,264	(3,941)	(5,838)
Homebuilding pretax income	36,519	125,012	87,573
Financial Services:			
Revenues	2,562	32,659	40,214
Expenses	1,635	17,688	20,846
Financial Services pretax income	927	14,971	19,368
Income from continuing operations before income taxes	37,446	139,983	106,941
Income tax expense	13,672	52,218	39,900
Income from continuing operations	23,774	87,765	67,041
Discontinued operations:			
Income from discontinued operations	10,265	10,118	7,922
Income tax expense	3,944	3,846	2,959
Income from discontinued operations, net of taxes	6,321	6,272	4,963
Net income	$ 30,095	$ 94,037	$ 72,004
Earnings per common share (basic and diluted):			
From continuing operations	$ 1.79	$ 3.15	$ 2.40
From discontinued operations	0.48	0.22	0.18
Net income	$ 2.27	$ 3.37	$ 2.58

Weighted average number of common shares outstanding:			
Basic and diluted	13,250,062	27,878,787	27,878,787

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
			(Dollars in thousands)		
Balance at January 1, 2000	11,500,000	$115	$106,855	$ 2,648	$109,618
Combination of stockholder s equity of Engle Holdings upon consummation of merger (see Note 1)			215,709		215,709
Conversion of Engle Holdings shares exchanged in connection with merger (see Note 1)	16,378,787	164	(164)		
Distributions by Engle Holdings				(363)	(363)
Net income				30,095	30,095
Balance at December 31, 2000	27,878,787	279	322,400	32,380	355,059
Distributions by Engle Holdings				(29,516)	(29,516)
Dividends paid				(6,210)	(6,210)
Net income				94,037	94,037
Balance at December 31, 2001	27,878,787	279	322,400	90,691	413,370
Assumption of Technical Olympic debt (see Note 1)				(75,416)	(75,416)
Distributions by Engle Holdings				(4,813)	(4,813)
Net income				72,004	72,004
Balance at December 31, 2002	27,878,787	$279	$322,400	$ 82,466	$405,145

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	**2001**	**2002**
Cash flows from operating activities:			
Net income	$ 30,095	$ 94,037	$ 72,004
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations	(6,321)	(6,272)	(4,963)
Depreciation and amortization	3,112	8,849	5,952
Amortization of deferred finance costs			1,474
Deferred income taxes	2,404	5,121	(2,061)
Other adjustments	(592)	(819)	1,095
Changes in operating assets and liabilities:			
Restricted cash	(494)	(17,138)	(19,126)
Inventories	14,054	(25,691)	(75,910)
Other assets	(6,490)	(8,678)	(2,359)
Accounts payable and other liabilities	(19,838)	12,728	39,077
Customer deposits	(7,554)	(953)	(1,575)
Mortgage loans held for sale	(6,062)	(36,527)	(7,907)
Net cash provided by operating activities	2,314	24,657	5,701
Cash flows from investing activities:			
Net additions to property and equipment	(1,300)	(6,713)	(8,749)
Amounts paid for acquisitions, net of cash acquired			(51,315)
Increase in cash as a result of the merger with Engle Holdings Corp.	35,456		
Additional purchase price paid in connection with Westbrooke acquisition	(1,230)		
Other	(796)	331	
Net cash provided by (used in) investing activities	32,130	(6,382)	(60,064)
Cash flows from financing activities:			
Net (repayments on) proceeds from revolving credit facilities	(22,872)	12,026	58,574
Proceeds from notes offering			350,000
Proceeds from unsecured borrowings from banks	215,000	27,001	
Principal payments on unsecured borrowings and senior notes	(214,925)	(66,764)	(379,577)
Principal payments on acquisition notes payable	(950)	(1,216)	
Net proceeds from (payments on) consolidated land bank obligations		30,022	(13,734)
Net proceeds from financial services borrowings	5,585	29,618	9,620
Payments for deferred financing costs			(15,252)
Minority interest in consolidated subsidiaries		35,795	(26,703)
Dividends paid		(6,210)	
Distributions by Engle Holdings	(363)	(29,516)	(4,813)
Net cash (used in) provided by financing activities	(18,525)	30,756	(21,885)
Net cash provided by (used in) operations	15,919	49,031	(76,248)
Net cash provided by discontinued operations	748	1,854	50,323

Increase (decrease) in cash and cash equivalents	16,667	50,885	(25,925)
Cash and cash equivalents at beginning of period	7,584	24,251	75,136
Cash and cash equivalents at end of period	$ 24,251	$ 75,136	$ 49,211

See accompanying notes to consolidated financial statements.

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

1. Business and Organization

Business

Technical Olympic USA, Inc., formerly known as Newmark Homes Corp., is a Delaware corporation. We are a homebuilder with a geographically diversified national presence. We operate in 14 metropolitan markets located in four major geographic regions: Florida, Texas, the West and the Mid-Atlantic. 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. We do not retain or service the mortgages that we originate but, rather, sell the mortgages and related servicing rights to investors.

Organization

The Merger and Notes Offering

On June 25, 2002, Engle Holdings Corp. (Engle) merged with and into Newmark Homes Corp. (Newmark). The combined company was renamed Technical Olympic USA, Inc. Each issued and outstanding share of Engle common stock was exchanged for 1,724.08294 shares of Newmark common stock (the Merger). At the date of the Merger, there were 9,500 shares of Engle common stock issued and outstanding, all of which were held by Technical Olympic, Inc. (Technical Olympic). As a result of the Merger, 16,378,787 of additional shares were issued to Technical Olympic. In addition, we assumed $75.4 million of debt incurred by Technical Olympic (the Technical Olympic Debt). The Technical Olympic Debt accrued interest at rates ranging from 13.5% to 14.875% and was to mature on September 30, 2004. As both Engle and Newmark were under the control of Technical Olympic, in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, the Merger was accounted for in a manner similar to a pooling of interests, whereby we recognized the acquired assets and liabilities of Engle at their historical carrying amounts. As both entities came under common control of Technical Olympic on November 22, 2000, the financial statements and other operating data have been restated to include the operations of Engle from November 22, 2000. Our assumption of the $75.4 million of Technical Olympic Debt has been accounted for as a distribution.

As a result of the exchange of equity interests, Technical Olympic owns 91.75% of us. Technical Olympic is a wholly-owned subsidiary of Technical Olympic (UK) PLC, an English company, which is a wholly-owned subsidiary of Technical Olympic S.A., a Greek company that is publicly traded on the Athens Stock Exchange.

Concurrently with the Merger, we completed a private placement of $200.0 million 9% senior notes and $150.0 million 10 3/8% senior subordinated notes (the Notes Offering). The net proceeds of approximately $335.0 million from the Notes Offering were used to repay certain indebtedness of both Newmark and Engle and the Technical Olympic Debt that was assumed in connection with the Merger. Additionally, we entered into a revolving credit facility to fund working capital, which provides for loans up to $220.0 million.

Subsequently, all outstanding privately placed senior and senior subordinated notes were exchanged for an equivalent amount of notes at their respective interest rates, which are registered under the Securities Act of 1933.

Engle Acquisition

On November 22, 2000, Engle became a wholly-owned subsidiary of Technical Olympic. Engle s stockholders received $19.10 for each share of Engle s common stock at the time of acquisition. Following the acquisition, the common stock of Engle ceased to be publicly traded. The acquisition of Engle was accounted for using the purchase method of accounting. Total consideration for the acquisition approximated $542.0 million, including $216.0 million in cash and the assumption of $326.0 million of liabilities. The push down

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

basis of accounting resulted in us allocating approximately $527.0 million to inventories and other identifiable assets and $15.0 million to goodwill.

As a result of the change in control of Engle, Engle was required by the indentures governing its senior notes to offer to repurchase all of its outstanding senior notes at a price of 101% of the principal plus accrued interest. Upon termination of the offer in January 2001, Engle repurchased approximately $237.0 million of $250.0 million of its senior notes. Approximately $13.0 million of the senior notes were not tendered and remained outstanding as of December 31, 2001. These notes were discharged with the proceeds from the Notes Offering.

2. Summary of Significant Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States and general practices within the homebuilding industry. The following summarizes the more significant of these policies.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. As a result of the Merger being accounted for as a reorganization of entities under common control, the consolidated financial statements have been restated to present our combined results as if the Merger had been in effect from November 22, 2000, the date at which both entities came under the control of Technical Olympic.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires 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.

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

Segment Reporting

In accordance SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* we have concluded that our operating segments consist of homebuilding and financial services. These two segments are segregated in the accompanying consolidated financial statements under Homebuilding and Financial Services, respectively.

Homebuilding

Inventory

Inventory is stated at the lower of cost or fair value. Inventory under development or held for development is stated at an accumulated cost unless such cost would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are recorded at fair value. Inventory to be disposed of is carried at the lower of cost or fair value less cost to sell. We utilize the specific identification method of charging construction costs to cost of sales as units are sold. Common construction project costs are allocated to each individual home in the various subdivisions based upon the total number of homes to be constructed in each subdivision community. Interest, real estate taxes and certain development costs are capitalized to land and construction costs during the development and construction period and are amortized to costs of sales as closings occur.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Homebuilding Borrowings

Homebuilding borrowings represent financing arrangements utilized to support our homebuilding activities. These arrangements have been executed by subsidiaries whereby we have an ownership interest.

Consolidated Land Bank Obligations

Consolidated land bank obligations represent liabilities associated with our land banking activities, including obligations in special-purpose entities which have been consolidated by us, for which we have no ownership interest.

Revenue Recognition

Our primary source of revenue is the sale of homes to homebuyers. To a lesser degree, we engage in the sale of land to other homebuilders. Revenue is recognized on home sales and land sales at closing when title passes to the buyer and all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured.

Warranty Costs

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 the subcontractors for claims relating to workmanship and materials. We also provide up to a ten-year homebuyer s warranty which covers major structural defects. Estimated warranty costs are recorded at the time of sale. Total warranty expense for the years ended December 31, 2000, 2001 and 2002 were $4.1 million, $7.4 million and $7.5 million, respectively. See Note 4.

Advertising Costs

Advertising costs, consisting primarily of newspaper and trade publications, signage and the cost of maintaining an internet web-site, are expensed as incurred. Advertising expense included in selling, general and administrative expenses and income from discontinued operations for the years ended December 31, 2000, 2001 and 2002 amounted to $9.0 million, $16.3 million and $15.3 million, respectively.

Financial Services

Mortgage Loans Held for Sale

Mortgage loans held for sale are stated at the lower of aggregate cost or fair value based upon such commitments for loans to be delivered or prevailing market rates for uncommitted loans. Substantially all of the loans originated by us are sold to private investors within 30 days of origination.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Revenue Recognition

Fees derived from our Financial Services segment, including title and mortgage origination services, are generally recognized as revenue in the month of closing of the sale of the mortgage. Financial Service revenue and expenses consist of the following (dollars in thousands):

	Year Ended December 31,		
	2000	2001	2002
Revenue:			
Mortgage services	$1,265	$16,400	$21,530
Title services	1,297	16,259	18,684
Total Financial Service revenue	2,562	32,659	40,214
Expenses:			
Mortgage services	545	6,800	8,076
Title services	1,090	10,888	12,770
Total Financial Service expense	1,635	17,688	20,846
Total Financial Service pretax income	$ 927	$14,971	$19,368

General

Cash and Supplemental Cash Flow Information

Cash includes amounts in transit from title companies for home closings and highly liquid investments with an initial maturity of three months or less.

Restricted cash consists of amounts held in escrow as required by purchase contracts or by law for escrow deposits held by our title company and compensating balances for various open letters of credit.

Supplemental disclosures of cash flow information (dollars in thousands):

	Year Ended December 31,		
	2000	2001	2002
Cash paid for:			
Interest (net of amounts capitalized)	$ 8,755	$ 2,372	$
Income taxes	$15,802	$52,830	$39,245

Accounting for the Impairment of Long-Lived Assets

In the first quarter of 2002, we adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). The Statement supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* however, it retains the fundamental provisions of that statement related to the recognition and measurement of the impairment of long-lived assets to be held and used. In addition, the Statement provides more guidance on estimating cash flows when performing a recoverability test, requires that a long-lived asset to be disposed of other than by sale (e.g., abandoned) be classified as held and used until it is disposed of, and establishes more restrictive criteria to classify an asset as held for sale.

In accordance with SFAS 144, 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

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

Concentration of Credit Risk

We conduct business primarily in four geographical regions: Florida, Texas, the Mid-Atlantic and the West. Accordingly, the market value of our inventory is susceptible to changes in market conditions that may occur in these locations. With regards to the mortgage loans held for sale, we will generally only originate loans which have met underwriting criteria required by purchasers of its loan portfolios. Additionally, we generally sell our mortgage loans held for sale within 30 days which minimizes our credit risk.

Property and Equipment

Property and equipment, consisting primarily of office premises, transportation equipment, office furniture and fixtures, and model home furniture, are stated at cost net of accumulated depreciation. Repairs and maintenance are expensed as incurred.

Depreciation generally is provided using the straight-line method over the estimated useful life of the asset, which ranges from 18 months to 30 years. At December 31, 2001 and 2002, accumulated depreciation approximated $7.2 million and $8.0 million, respectively.

Goodwill

Goodwill represents the excess of the purchase price of the Company s acquisitions over the fair value of the net assets acquired.

In June 2001, the Financial Accounting Standards Board finalized SFAS No. 141, *Business Combinations* (SFAS 141), and No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS 141 requires the use of the purchase method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that companies recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that companies reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that companies identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized.

We adopted SFAS 142 on January 1, 2002. The impairment test of goodwill performed by us during the second quarter of 2002, indicated no impairment. Our application of the provisions of SFAS 142 resulted in the elimination of goodwill amortization expense beginning in the first quarter of 2002.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth reported net income and earnings per share from continuing operations, as adjusted to exclude goodwill amortization expense (dollars in thousands):

	Year Ended December 31,	
	2000	2001
Income from continuing operations, as reported	$23,774	$87,765
Add back of amortization expense, net of taxes	1,037	1,504
	$24,811	$89,269
Earnings per common share (basic and diluted), as reported	$ 1.79	$ 3.15