

TECHNICAL OLYMPIC USA INC

Form 10-K

March 10, 2006

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

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32322

Technical Olympic USA, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*
4000 Hollywood Boulevard, Suite 500 North
Hollywood, Florida
(Address of Principal Executive Offices)

76-0460831
(I.R.S. Employer Identification No.)

33021
(Zip Code)

Registrant's telephone number, including area code:
(954) 364-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	New York Stock Exchange
9% Senior Notes due 2010 (CUSIP No. 878483 AC0)	New York Stock Exchange
9% Senior Notes due 2010 (CUSIP No. 878483 AG1)	New York Stock Exchange
103/8% Senior Subordinated Notes due 2012 (CUSIP No. 878483 AD8)	New York Stock Exchange
7 1/2% Senior Subordinated Notes due 2011 (CUSIP No. 878483 AJ5)	New York Stock Exchange
7 1/2% Senior Subordinated Notes due 2015 (CUSIP No. 878483 AL0)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$363.0 million as of June 30, 2005.

As of March 6, 2006, there were 59,554,997 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2006 annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended December 31, 2005, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

PART I

Item 1. *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 through our consolidated operations and unconsolidated joint ventures in various metropolitan markets in ten states, located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West. As used in this Form 10-K, consolidated information refers only to information relating to our operations which are consolidated in our financial statements; combined information includes consolidated information and information relating to our unconsolidated joint ventures.

For the year ended December 31, 2005, on a combined basis, we delivered 9,435 homes with an average sales price of \$298,000, had 10,623 net sales orders and ended the year with 10,021 homes in backlog. Our consolidated operations delivered 7,769 homes in 2005, having an average sales price of \$292,000, had 8,614 net sales orders and generated \$2.5 billion in homebuilding revenues and \$218.3 million in net income. At December 31, 2005, we had 5,272 consolidated homes in backlog with an aggregate sales value of \$1.8 billion, and our unconsolidated joint ventures had 4,749 homes in backlog with an aggregate sales value of \$1.5 billion. As of December 31, 2005, we controlled approximately 94,300 homesites on a combined basis.

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). We market our homes under various brand names including Engle Homes, Newmark Homes, Trophy Homes, and Transeastern Homes.

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, closing and settlement services, and offer title, homeowners and other insurance products. Our mortgage financing operation's revenues consist primarily of origination and premium fee income, interest income and the gain on the sale of the mortgages. We sell substantially all of our mortgages and the related servicing rights to third parties. Our mortgage financing operation derives most of its revenues from buyers of our homes, although existing homeowners may also use these services. By comparison, our title and closing services and our insurance agency operations are used by our homebuyers and a broad range of other clients purchasing or refinancing residential or commercial real estate.

For financial information about our homebuilding and financial services operating segments, please see our consolidated financial statements on pages F-1 through F-38 of this Form 10-K.

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 various metropolitan markets, each of which is highly fragmented with other 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. Consequently, we have an opportunity to significantly strengthen our market position by expanding our product offerings and increasing the size and number of our active selling communities. Generally, our current markets have demonstrated solid income and population growth trends.

Expand Our Use of Joint Ventures and Option Contracts to Maximize our Return on Equity and Manage Risk

We have entered into, and expect to expand our use of, joint ventures that acquire and develop land for our homebuilding operations, and/or joint ventures that develop land and also build and market homes. We believe that these joint ventures help us acquire attractive land positions, mitigate and share the risk associated with land ownership and development, increase our return on equity and extend our capital resources. In addition, we seek to use option contracts to acquire land whenever feasible. Option contracts allow us to control significant homesite positions with minimal capital investment and substantially reduce the risks associated with land ownership and development. At December 31, 2005, we controlled approximately 68,900 homesites on a consolidated basis of which 60% were controlled through various option contracts. Additionally, our joint ventures controlled approximately 25,400 homesites at December 31, 2005.

Grow Our Financial Services Business

Our financial services operations require minimal capital investment and are financially advantageous because of the cost savings resulting from using our affiliated mortgage financing operation and the earnings generated by the high volume of transactions completed by our title insurance and closing services operations. We believe that these financial services complement our homebuilding operations and provide homebuyers a more efficient and seamless home purchasing experience. For the year ended December 31, 2005, 65% of our non-cash homebuyers (excluding the Transeastern joint venture) used our mortgage services (approximately 11% of our homebuyers paid in cash), while 91% of our homebuyers used our title and closing services and 19% 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; and

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

Selectively Expand Into New Markets

We intend to supplement our primary growth strategy of expansion in our current markets with a disciplined approach to entering new markets. We select our target geographic markets based on, among other things, historical and projected population growth, projected job and income 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. 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 may enter new markets through strategic acquisitions of other homebuilders or through initiating operations using our existing management expertise and resources.

Homebuilding Operations

Markets

We operate in various metropolitan markets in ten states located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West. For the year ended December 31, 2005, Phoenix was our

largest metropolitan market, representing approximately 25% of our combined home deliveries. We currently do not expect the Phoenix market to represent as large a portion of our combined home deliveries in 2006.

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

Florida. Our Florida region is comprised of five metropolitan markets: Jacksonville; Orlando; Southeast Florida, which is comprised of Miami-Dade, Broward, Palm Beach, Martin, St. Lucie, and Indian River Counties; and Southwest Florida, which is comprised of the Fort Myers/ Naples area. Our Transeastern joint venture operates in these Florida markets as well as the Tampa/St. Petersburg area. For the year ended December 31, 2005, our consolidated operations delivered 2,785 homes in Florida, generating revenue of \$829.4 million, or 36.6% of our consolidated revenues from home sales.

Mid-Atlantic. Our Mid-Atlantic region is comprised of four metropolitan markets: Baltimore, Maryland/Southern Pennsylvania; Delaware; Nashville, Tennessee; and Northern Virginia. For the year ended December 31, 2005, our consolidated operations delivered 697 homes in our Mid-Atlantic region generating revenue of \$290.3 million, or 12.8% of our consolidated revenues from home sales.

Texas. Our Texas region is comprised of four metropolitan markets: Austin; Dallas/Ft. Worth; Houston; and San Antonio. For the year ended December 31, 2005, our consolidated operations delivered 2,059 homes in Texas, generating revenue of \$500.6 million, or 22.1% of our consolidated revenues from home sales.

West. Our West region is comprised of three metropolitan markets: Colorado, which is comprised of Denver, Boulder and Colorado Springs; Las Vegas, Nevada; and Phoenix, Arizona. For the year ended December 31, 2005, our consolidated operations delivered 2,228 homes in our West region generating revenue of \$646.3 million, or 28.5% of our consolidated revenues from home sales.

In addition to these consolidated deliveries, our unconsolidated joint ventures delivered an additional 1,666 homes during the year ended December 31, 2005.

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.

For the year ended December 31, 2005, 36% of our combined home deliveries were from homes in the \$200,000 to \$300,000 price range, 26% of our combined home deliveries were from homes in the \$300,000 to \$400,000 price range, 22% of our combined home deliveries were from homes in the under \$200,000 price range, and 16% of our combined home deliveries were from homes in the over \$400,000 price range. For 2005, 85% of our combined home deliveries were generated from single family homes and 15% of our combined home deliveries were generated from multi-family homes, as compared to 88% of our combined home deliveries from single family homes and 12% of our combined home deliveries from multi-family homes for the year ended December 31, 2004.

Land and Homesites

Land is a 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, optimizing our returns, and managing risk.

Types of Land and Homesites. In our homebuilding operations, we generally acquire land or homesites that are entitled. Land is entitled when all requisite residential zoning has been obtained for it. Competition for attractive land in certain of our more active markets, however, leads us to acquire land that is not yet entitled and undertake the entitlement process ourselves.

We also generally seek to acquire entitled land and homesites that have water and sewage systems, streets and other infrastructure in place (we refer to these properties as developed homesites) because they are ready to have homes built on them. When we acquire entitled homesites that are not developed, we must first put in place the necessary infrastructure before commencing construction. However, we believe that there are economic benefits to undertaking the development of some of the land that we may acquire, and in those cases, we will attempt to take advantage of those economic benefits by engaging in land development activities. In some of these cases, we seek to use special assessment districts to finance any necessary public infrastructure improvements and the costs of land development. These special assessment districts typically issue tax exempt bonds to finance these improvements and costs. These tax exempt bonds are typically secured by the property, are non-recourse to us and are repaid from assessments levied on the property.

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 consider 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 homes 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 prices of homes offered by our competitors;

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

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

In addition, we conduct environmental due diligence, including on-site inspection and soil testing, and confirm that the land has, or is reasonably likely to obtain, 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 Asset Committee. The Asset Committee is

comprised of representatives from our land, finance, sales and marketing, product development, supply management, and legal departments.

Land Supply. We acquire the land and homesites we require for our homebuilding operations through a combination of purchase agreements, option contracts and joint ventures. At December 31, 2005, we controlled approximately 94,300 combined homesites in our homesite inventory. Of this amount, we owned approximately 27,300 homesites, had option contracts on approximately 41,600 homesites and our unconsolidated joint ventures controlled approximately 25,400 homesites. This represents supply for approximately 10.0 years of operations, based on our 2005 deliveries. The table below shows our approximate homesite inventory by region and in total for the periods indicated:

	At December 31,		
	2005	2004	2003
Consolidated:			
Florida	20,100	17,000	19,900
Mid-Atlantic	7,300	5,900	4,900
Texas	12,400	6,200	8,100
West	29,100	15,900	15,300
Consolidated total	68,900	45,000	48,200
Unconsolidated joint ventures:			
Florida	19,800	200	
Mid-Atlantic	400	600	
Texas	500		
West	4,700	4,200	
Unconsolidated joint ventures total	25,400	5,000	
Combined total(1)	94,300	50,000	48,200

(1) Includes approximately 60,700, 36,000, and 35,800 homesites under option contracts by us and our unconsolidated joint ventures as of December 31, 2005, 2004, and 2003, respectively.

Option Contracts. Option contracts allow us to control significant homesite positions with minimal capital investment, allowing us to increase our return on equity, extend our capital resources and manage the risks associated with land ownership and development. Consequently, we seek to use option contracts to acquire land whenever feasible. Under the option contracts, we have the right, but not the obligation, to buy homesites at predetermined prices on a predetermined takedown schedule anticipated to be commensurate with home starts. Option contracts generally require the payment of a cash deposit or the posting of a letter of credit, which is typically less than 20% of the underlying purchase price. These option contracts are either with land sellers or financial investors who have acquired the land to enter into the option contract with us. Homesite option contracts are generally nonrecourse, thereby limiting our financial exposure for non-performance to our cash deposits and/or letters of credit. At December 31, 2005, we had option contracts on approximately 41,600 homesites and had approximately \$218.5 million in cash deposits and \$186.9 million in letters of credit under those option contracts. At December 31, 2005, our unconsolidated joint ventures had option contracts on approximately 19,100 homesites.

Joint Ventures. We believe that using joint ventures in our homebuilding operations to acquire and develop land and/or to acquire and develop land and build and market homes helps us acquire attractive land positions, mitigate and share the risks associated with land ownership and development, increase our return on equity and extend our capital resources. We significantly expanded our use of joint ventures during the year ended December 31, 2005, through our acquisition of the homebuilding assets and operations of Transeastern Properties, Inc. We expect to continue to use joint ventures in the future.

Our partners in these joint ventures generally are unrelated homebuilders, land sellers, financial investors, or other real estate entities. In joint ventures where the acquisition, development and/or construction of the property are being financed with debt, the borrowings are non-recourse to us, except that we have agreed to complete certain property development commitments in the event the joint ventures default and to indemnify the lenders for losses resulting from fraud, misappropriation and similar acts. In addition to joint ventures that acquire and develop land for our homebuilding operations, and/or joint ventures that develop land and also build and market homes, we have, on a selective basis, entered into joint ventures that acquire and develop land for sale to unrelated third party builders.

At December 31, 2005, our joint ventures controlled approximately 25,400 homesites. At December 31, 2005, we had investments in and receivables from unconsolidated joint ventures of \$315.0 million. During the year ended December 31, 2005, our unconsolidated joint ventures had a total of 2,009 net sales orders and 1,666 homes delivered, and at year end our unconsolidated joint ventures had 4,749 homes in backlog with a sales value of \$1.5 billion.

Land Sales. As part of our land inventory management strategy, we regularly review our land portfolio to determine whether to sell all or a portion of the homesites and land that we have purchased to capitalize on market opportunities. Our division managers are constantly reviewing the competitive landscape and characteristics of each of our local markets. As a result of these reviews, we will seek to sell land when we have changed our strategy for a certain property or market and/or we have determined that the potential profit realizable from a sale of property outweighs the economics of developing a community. Land sales are incidental to our homebuilding operations and may fluctuate significantly from period to period. Revenues from land sales for the year ended December 31, 2005 were \$194.9 million, as compared to \$115.8 million for the year ended December 31, 2004.

Supply Management

We use our purchasing power and a team-oriented sourcing methodology to achieve volume discounts and the best possible service from our suppliers, thereby reducing costs, ensuring timely deliveries and reducing the risk of supply shortages due to allocations of materials. Our team-oriented sourcing methodology involves the use of corporate, regional, and divisional teams of supply management personnel who are responsible for identifying which commodities should be purchased and used on a national, regional, or divisional level to optimize our purchasing power. 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 and do not have any minimum purchase requirements.

Our supply management team uses our quality control and safety database to monitor and assess the effectiveness of our suppliers and subcontractors within our overall building processes. In addition, our design process includes input from our supply management team to develop product designs that take into account standard material sizes and quantities with the goal of creating product designs that eliminate unnecessary material and labor costs.

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 communities. We also use an accelerated product development process that involves gathering our architects, strategic suppliers and subcontractors, and divisional management teams together in intensive working sessions intended to allow us to develop and deploy new product designs faster than the industry norm. As discussed above, this cross-functional approach to product development and design also focuses on reducing costs and inefficiencies in the building process by ensuring that the design process takes into account supply management, building technology and sales and marketing issues.

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, fixture 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 generally 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 ten months after the receipt of relevant permits. Construction time, however, depends on weather, availability of labor, materials and 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. While the availability and cost of construction materials may be negatively impacted from time to time due to various factors, including weather conditions, 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.

We have, and will continue to establish and maintain, information systems and other practices and procedures that allow us to effectively manage our subcontractors and the construction process. For example, we have implemented information systems that monitor homebuilding production, scheduling and budgeting. We also strongly encourage our subcontractors to participate in a peer review process using an independent quality control database designed to assist us in identifying and addressing quality control issues and operating inefficiencies. We believe that this program has and will continue to improve our efficiency and decrease our construction time.

Marketing and Sales

We currently market our homes primarily under the Engle Homes brand name in Florida, most of the Mid-Atlantic, and the West, and under the Newmark Homes brand name in Texas and in Nashville, Tennessee. We also market our homes targeted to first-time homebuyers under the Trophy Homes brand name, and we market homes in Florida through an unconsolidated joint venture using the Transeastern Homes brand name.

We have recently consolidated our brands to leverage our most successful brands and reduce the costs associated with maintaining multiple brands. 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 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, 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.

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 marketing and sales consultants.

We market and sell homes through our own sales personnel and in cooperation with independent real estate brokers. Because approximately 65% of our sales (based on combined 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.

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 or percentage, typically averaging about five percent of the purchase price, plus additional deposits for options and upgrades selected by homebuyers. The contract typically includes a financing contingency which permits the customer to cancel in the event mortgage financing cannot be obtained within a specified period, usually 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 presold home and closing ranges from four months to over a year, depending on the market.

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 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 surveys. In most of our markets we contract with 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, we use a national customer satisfaction survey company to mail customer satisfaction surveys to homeowners within 60 days of their home closing. These surveys 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 on workmanship and materials, and a five to 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 currently have a homebuilder protective policy which covers warranty claims for structure and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. We have a warranty administration 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 generally 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. 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, closing and settlement services, and offer title, homeowners and other insurance products. Our mortgage financing operation derives most of its revenues from buyers of our homes, although existing homeowners may also use these services. By comparison, our title and closing services and our insurance agency operations are used by our homebuyers and a broad range of other clients purchasing or refinancing residential or commercial real estate.

Our mortgage business provides a full selection of conventional, FHA-insured and VA-guaranteed mortgage products to our homebuyers. We are an approved Fannie Mae seller/servicer. We sell substantially all of our loans and the related servicing rights to third party investors. We conduct this business through our subsidiary, Preferred Home Mortgage Company, which has its headquarters in Tampa, Florida and has offices in each of our markets.

For the year ended December 31, 2005, approximately 11% of our homebuyers paid in cash and 65% (excluding the Transeastern JV) of our non-cash homebuyers utilized the services of our mortgage business. During 2005, we closed 7,232 loans totaling \$1.3 billion in principal amount.

Through our title services business, we, as agent, obtain competitively-priced title insurance for, and provide closing services to, our homebuyers as well as third party homebuyers. We conduct this business through our subsidiary, Universal Land Title, Inc. and its subsidiaries.

Universal Land Title works with national underwriters and lenders to facilitate client service and coordinates closings at its offices. It is equipped to handle e-commerce applications, e-mail closing packages and digital document delivery. 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. Universal Land Title operates as a title agency with its headquarters in West Palm Beach, Florida and has 29 additional offices.

For the year ended December 31, 2005, approximately 91% of our homebuyers used 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. Third party homebuyers (or non-company customers) accounted for 73% of our title services business revenue for the year ended December 31, 2005.

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. For the year ended December 31, 2005, 19% of our new homebuyers used Alliance for their insurance needs.

Governmental Regulation

We must comply with federal, 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 requiring that commitments to provide roads and other infrastructure be in place prior to the commencement of new construction. These laws and 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. The requirements, interpretation and/or enforcement of these environmental laws and regulations are subject to change. 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 and/or approved slow growth or no growth initiatives and other ballot measures, which could impact the affordability and availability of homes and land within those localities.

Our title insurance agency subsidiaries must comply with applicable insurance laws and regulations. Our mortgage financing subsidiary must comply with applicable real estate lending laws and regulations. In addition, 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.

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, homeowners insurance, 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, and 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, mortgage brokers, banks, 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, and attorneys in the sale of title insurance, homeowner insurance, and related insurance services. Principal competitive factors include the level of service available, technology, cost and other features of insurance products available to the consumer.

Seasonality

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 number of sales contracts for new homes is highly dependent on the number of active communities and the timing of new community openings. Because new home deliveries trail new home contracts by a number of months, we typically have the greatest percentage of home deliveries in the fall and winter, and slow sales in the spring and summer months could negatively affect our full year results. 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. Our operations in Florida and Texas are at risk of repeated and potentially prolonged disruptions during the Atlantic hurricane season, which lasts from June 1 until November 30.

Backlog

At December 31, 2005, our consolidated operations had 5,272 homes in backlog representing \$1.8 billion in revenue, as compared to 5,094 homes in backlog representing \$1.6 billion in revenue as of December 31, 2004. In addition, our unconsolidated joint ventures had 4,749 homes in backlog at December 31, 2005, as compared to 669 homes at December 31, 2004. Backlog represents home purchase contracts that have been executed and for which earnest money deposits have been received, but for which the sale has not yet closed. We do not record home sales as revenues until the closings occur. Historically, most of the homes in our backlog at any given point in time have been closed in the following 12-month period. Although cancellations can disrupt anticipated home closings, we believe that cancellations have not had a material negative impact on our operations or liquidity during the last several years. We attempt to reduce the number of cancellations by reviewing each homebuyer's ability to obtain mortgage financing early in the sales process and by closely monitoring the mortgage approval process. Our combined home cancellation rate for the year ended December 31, 2005 was approximately 17%, as compared to 16% for the year ended December 31, 2004.

Employees

At December 31, 2005, we employed 2,467 people in our consolidated operations and our unconsolidated joint ventures employed an additional 580 people. None of our employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

Item 1A. Risk Factors

Risks Related to Our Business

Economic downturns, excess housing supply or decreased consumer confidence 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 various major metropolitan markets, our operations are concentrated in Florida, Texas, and Arizona. Adverse economic or other business conditions, including excess housing supply or decreased consumer

confidence in the real estate market in these regions or in any of 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 most 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.

Changes in economic or other business conditions could cause our significant level of debt to 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 December 31, 2005, on a consolidated basis, we had approximately \$876.6 million aggregate principal amount of debt outstanding (excluding obligations for inventory not owned of \$124.6 million and the impact of original issue discounts and premiums), of which \$810.0 million in aggregate principal amount matures in 2010 through 2015. As of December 31, 2005, we would have had the ability to borrow an additional \$316.1 million under our revolving credit facility, subject to our satisfying the relevant borrowing conditions in that facility. 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.

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;

invest in joint ventures above the amounts established in such instruments;

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 lines of credit require 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 lines 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, integrate and/or manage acquisitions or joint ventures, 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 or by entering into joint ventures. We may not be successful in implementing our acquisition or joint venture strategy, and growth may not continue at historical levels or at all. The failure to identify or complete business acquisitions or joint ventures, successfully integrate the businesses we acquire, or otherwise realize the expected benefits of any acquisitions or joint ventures, could adversely affect our results of operations and future growth. Even if we overcome these challenges and risks, we may not realize the expected benefits of our acquisitions or joint ventures, if any.

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, joint ventures, 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.

Changes in accounting rules relating to the consolidation of assets associated with option contracts and joint ventures, or a change in the interpretation or application of such rules, could adversely affect our financial condition and limit our use of such arrangements, which could impact our future growth.

We use option contracts and joint ventures to help us acquire attractive land positions, mitigate and share the risk associated with land ownership and development, increase our return on equity, and extend our capital resources. Under current accounting rules, the assets and liabilities associated with certain of these option contracts and joint ventures may not be required to be consolidated in our financial statements. A change in accounting rules or a change in the interpretation or application of such rules to require the consolidation of the assets and liabilities associated with these off-balance sheet arrangements could negatively affect our leverage ratios and could limit our future growth.

In the event that tax liabilities arise in connection with the October 2003 restructuring, there can be no assurance that we will not be liable for such amounts.

Prior to a restructuring transaction which occurred in October 2003, Technical Olympic, Inc., which we refer to as Technical Olympic, was the parent of our consolidated tax reporting group, and we were jointly and severally liable

for any U.S. federal income tax owed by Technical Olympic or any other member of the consolidated group. As part of the restructuring, Technical Olympic was merged into TOI, LLC, a newly-

formed limited liability company of which we are the sole member, and we became the parent of our consolidated tax reporting group. Also, as part of the restructuring, Technical Olympic Services, Inc., which we refer to as TOSI, a newly-formed corporation wholly-owned by Technical Olympic S.A., assumed all liabilities of Technical Olympic. We do not believe that any material tax liabilities will arise by reason of the restructuring. However, there can be no assurance that material tax liabilities will not arise in connection with the restructuring, that we will not be held liable for such amounts or that we will be able to collect from TOSI any amounts for which they may have assumed liability. The assessment of material tax liabilities in connection with the restructuring could have an adverse effect on our financial condition and results of operations.

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 they can delay our ability to timely complete or deliver homes, damage the partially complete or other unsold homes that are in our inventory, negatively impact the demand for homes, and/or negatively affect the price and availability of qualified labor and materials. Our operations are located in many areas that are especially subject to natural disasters; for example, we have significant operations in Florida which is especially at risk of hurricanes. 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.

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

Technical Olympic S.A. currently owns approximately 67% of the voting power of our common stock. As a result, Technical Olympic S.A. 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 S.A. may authorize actions or have interests that could conflict with those of our other stockholders.

Control of our company by Technical Olympic S.A. and/or our issuance of preferred stock could make it difficult for a third party to acquire us.

Through its ownership of voting control of our common stock, Technical Olympic, S.A. 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. In addition, 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 of our common stock 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.

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:

the limited amount of our common stock held by non-affiliates;

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;

material announcements by us or our competitors;

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, S.A., or the perception that such sales could occur; and

general economic and political conditions such as recessions and acts of war or terrorism.

Any of these factors could have a material adverse effect on the market price of our common stock.

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, and the availability of 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 and earnings.

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 up to three years. As a result, we face the risk that demand for housing may decline or costs of labor or materials may increase 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 profit margins 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, roofing, 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 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 mortgage funds provided or sponsored by Fannie Mae, Freddie Mac, the Federal Housing Administration, or the Veterans Administration could cause a decline in the market for new homes as potential homebuyers may not be able to obtain affordable financing. 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. 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. 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 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 and/or profit margins;
- 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 structure 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 a five to 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 currently have a homebuilder protective policy which covers warranty claims for structure and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. 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.

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

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. Many insurance carriers, including our insurance carriers to some extent, exclude coverage for claims arising from the presence of mold. Uninsured mold liability and claims could adversely affect our results of operations. Historically, we have had a low level of mold litigation and mold related claims and expenses related to any such litigation or claims have been immaterial to our net income. However, there can be no assurance that the

amount of mold litigation and claims brought against us will not increase and adversely affect our net income in the future.

States, cities, and counties in which we operate have, or may adopt, slow or no growth initiatives that 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.

Special Note Regarding Forward Looking Statements

This annual report 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 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, and typically include the words anticipate , believe , expect , estimate , project , future. Specifically, this annual report 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;

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 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, including our estimate of the number of years our supply of homesites affords us;

our belief that homes in premier locations will continue to attract homebuyers in both strong and weak economic conditions;

our expectations regarding future land sales;

our belief regarding growth opportunities within our financial services business;

our estimate that we have adequate financial resources to meet our current and anticipated working capital, including our annual debt service payments, and land acquisition and development needs;

our expectations regarding the implementation of certain recent accounting pronouncements, including SFAS No. 123(R);

the impact of inflation on our future results of operations;

our expectations regarding our ability to pass through to our customers any increases in our costs;

our expectations regarding the impact on our business and profits of intentional efforts by us and our joint ventures to slow sales rates to match production rates;

our expectations regarding our continued use of option contracts, investments in unconsolidated joint ventures and other off-balance sheet arrangements to control homesites and manage our business and their effect on our business;

our expectations regarding the labor and supply shortages and increases in costs of materials caused by recent hurricanes and the high cost of petroleum;

our expectations regarding the housing market in 2006;

our expectations regarding the portion of our combined home deliveries in 2006 that will come from the Phoenix market;

our expectations regarding the effects of hurricane seasons and land development and permitting issues on our combined net sales orders; and

our expectations regarding our use of cash in operations.

These forward-looking statements reflect our current views about future events and are subject to risks, uncertainties and assumptions. As a result, actual results may 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 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 and/or to effect our growth strategies in our homebuilding operations and financial services business;

our relationship with Technical Olympic S.A. and its control over our business activities;

our ability to successfully integrate and to realize the expected benefits of any 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, such as increases in interest rates, inflation, or unemployment rates or declines in median income growth, consumer confidence or the demand for, or the price of, housing;

events which would impede our ability to open new communities and/or deliver homes within anticipated time frames and/or within anticipated budgets;

our ability to successfully enter into, utilize, and recognize the anticipated benefits of, joint ventures and option contracts;

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, qualified labor and materials;

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;

the impact of hurricanes, tornadoes or other natural disasters or weather conditions on our business, including the potential for shortages and increased costs of materials and qualified labor and the potential for delays in construction and obtaining government approvals;

an increase or change in government regulations, or in the interpretation and/or enforcement of existing government regulations; and

the impact of any or all of the above risks on the operations or financial results of our unconsolidated joint ventures.

Availability of Reports and Other Information

Our corporate website is www.tousa.com. We make available, free of charge, access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 on our website under Investor Information SEC Filings, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission. Information on our website is not part of this document.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *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 substantially all of the office space required for our homebuilding and financial services operations and our corporate offices. We believe that our existing facilities are adequate for our current and planned levels of operations and that additional office space suitable for our needs is reasonably available in the markets within which we operate. We do not believe that any single leased property is material to our current or planned operations.

Item 3. *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.

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

None.

PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock began trading on the Nasdaq National Market on March 12, 1998 under the symbol NHCH. Following our merger with Engle Holdings Corp. on June 25, 2002, our common stock began trading under the symbol TOUS. On November 9, 2004, the listing of our common stock was transferred to

the New York Stock Exchange, where it currently trades under the symbol TOA. The table below sets forth the high and low sales price for our common stock as reported by the Nasdaq National Market or the New York Stock Exchange for the periods indicated. These prices have been adjusted for our three-for-two stock split paid on June 1, 2004, and our five-for-four stock split paid on March 31, 2005, discussed below.

	High	Low
Fiscal Year Ended December 31, 2005		
First Quarter	\$ 25.56	\$ 18.48
Second Quarter	\$ 25.69	\$ 20.70
Third Quarter	\$ 30.43	\$ 23.15
Fourth Quarter	\$ 26.46	\$ 19.03

	High	Low
Fiscal Year Ended December 31, 2004		
First Quarter	\$ 17.38	\$ 12.40
Second Quarter	\$ 17.99	\$ 11.27
Third Quarter	\$ 15.77	\$ 10.66
Fourth Quarter	\$ 15.14	\$ 12.62

As of March 6, 2006, there were 31 record holders of our common stock. The closing sale price of our common stock on March 6, 2006 was \$19.70 per share.

During the twelve months ended December 31, 2004, we declared a cash dividend of \$.015 per share of common stock in each of May 2004, August 2004 and November 2004. During the twelve months ended December 31, 2005, we declared a cash dividend of \$.015 per share of common stock in each of February 2005, May 2005, August 2005, and November 2005. On February 22, 2006, our Board of Directors declared a cash dividend of \$0.015 per share on our outstanding common stock payable on March 17, 2006 to shareholders of record at the close of business on March 6, 2006. The credit agreement relating to our revolving credit facility and the indentures governing our senior notes and senior subordinated notes 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. Under the terms of our new revolving credit facility, we may not pay cash dividends in excess of 4% of our consolidated net income prior to January 1, 2007, or in excess of 5% of our consolidated net income thereafter.

Our board of directors periodically evaluates the propriety of declaring cash dividends. Subject to their evaluation, the board of directors may, from time to time and upon unanimous consent, declare future cash dividends, subject to the restrictions described above and applicable law.

On April 27, 2004, our Board of Directors authorized a three-for-two stock split on all outstanding shares of our common stock. The stock split was effected on June 1, 2004 in the form of a 50% stock dividend to shareholders of record at the close of business on May 14, 2004.

On March 1, 2005, our Board of Directors authorized a five-for-four stock split on all outstanding shares of our common stock. The stock split was effected on March 31, 2005 in the form of a 25% stock dividend to shareholders of record at the close of business on March 11, 2005.

The following table gives information about our common stock that may be issued upon the exercise of options, warrants, and rights under all existing equity compensation plans as of December 31, 2005.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	6,606,611	\$ 11.06	719,061
Equity compensation plans not approved by security holders			
Total	6,606,611	\$ 11.06	719,061

Item 6. Selected Financial Data

	Year Ended December 31,				
	2005	2004	2003	2002(1)(2)	2001(1)(2)
(Dollars in millions, except per share data)					
Statement of Income Data:					
Total revenues	\$ 2,509.0	\$ 2,135.3	\$ 1,680.7	\$ 1,408.4	\$ 1,422.0
Homebuilding revenues	\$ 2,461.5	\$ 2,100.8	\$ 1,642.6	\$ 1,377.7	\$ 1,392.9
Homebuilding gross margin	\$ 604.9	\$ 428.4	\$ 323.2	\$ 276.1	\$ 284.6
Homebuilding pretax income	\$ 336.4	\$ 181.7	\$ 114.7	\$ 91.2	\$ 128.5
Financial services pretax income	\$ 8.5	\$ 8.3	\$ 15.6	\$ 15.7	\$ 11.5
Income from continuing operations before income taxes	\$ 344.9	\$ 190.0	\$ 130.3	\$ 106.9	\$ 140.0
Income from continuing operations	\$ 218.3	\$ 119.6	\$ 82.7	\$ 67.0	\$ 87.8
Share Data(3):					
Income from continuing operations per share basic	\$ 3.82	\$ 2.13	\$ 1.57	\$ 1.28	\$ 1.68
Income from continuing operations per share diluted	\$ 3.68	\$ 2.08	\$ 1.56	\$ 1.28	\$ 1.68
Cash dividends per share	\$ 0.057	\$ 0.036	\$	\$	\$ 0.12
Statement of Financial Condition Data:					
Inventory	\$ 1,740.8	\$ 1,281.2	\$ 1,177.9	\$ 753.9	\$ 646.0
Total assets	\$ 2,422.7	\$ 1,920.6	\$ 1,536.2	\$ 1,012.6	\$ 999.2
Homebuilding notes payable and bank borrowings(4)	\$ 876.6	\$ 811.4	\$ 497.9	\$ 413.1	\$ 308.7
Total borrowings(4)(5)	\$ 911.7	\$ 860.4	\$ 561.1	\$ 461.4	\$ 347.4
Stockholders equity	\$ 971.3	\$ 662.7	\$ 537.6	\$ 405.1	\$ 413.4

(1) On June 25, 2002, we completed the merger with Engle Holdings Corp. As both entities were under the common control of Technical Olympic, Inc., our parent company at the time, 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 Corp. 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 Corp. from November 22, 2000.

(2) 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.

(3) The shares issued and outstanding, the earnings per share and the cash dividends per share amounts have been adjusted to reflect a three-for-two stock split effected in the form of a 50% stock dividend paid on June 1, 2004 and a five-for-four stock split effected in the form of a 25% stock dividend paid on March 31, 2005. Cash dividends per share for 2001 have been restated to reflect the total shares outstanding as a result of the merger.

(4)

Homebuilding notes payable and bank borrowings and total borrowings do not include obligations for inventory not owned of \$124.6 million, \$136.2 million, \$246.2 million, \$16.3 million, and \$30.0 million as of December 31, 2005, 2004, 2003, 2002, and 2001 respectively.

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

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Financial Data and the consolidated financial statements and related notes included elsewhere in this report.

Executive Summary

We generate revenues from our homebuilding operations (Homebuilding) and financial services operations (Financial Services), which comprise our operating segments. Through our Homebuilding operations we design, build and market high-quality detached single-family residences, town homes and condominiums in various metropolitan markets in ten states located in four major geographic regions: Florida, the Mid-Atlantic, Texas and the West.

Florida

Mid-Atlantic