TECHNICAL OLYMPIC USA INC
Form 10-Q
November 09, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2005

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

COMMISSION FILE NUMBER: 001-32322
TECHNICAL OLYMPIC USA, INC.
(Exact name of registrant as specified in its charter)

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

(954) 364-4000
(Registrant s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 59,536,227 shares of common stock as of November 4, 2005.

TECHNICAL OLYMPIC USA, INC.
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PART I. Financial Information

ITEM 1. Financial Statements

TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in millions, except shares and par value)

	September 30, 2005	December 31, 2004
	(Unaudited)	
ASSETS		
HOMEBUILDING:		
Cash and cash equivalents:		
Unrestricted	$ 43.2	$ 217.6
Restricted	3.1	8.0
Inventory:		
Deposits	199.4	132.8
Homesites and land under development	614.7	341.2
Residences completed and under construction	753.0	671.0
Inventory not owned	79.5	136.2
	1,646.6	1,281.2
Property and equipment, net	24.6	26.7
Investments in unconsolidated joint ventures	188.0	66.6
Receivables from unconsolidated joint ventures	80.3	3.4
Other assets	122.2	67.7
Goodwill	110.7	110.7
	2,218.7	1,781.9
FINANCIAL SERVICES:		
Cash and cash equivalents:		
Unrestricted	7.0	50.9
Restricted	75.7	69.1
Mortgage loans held for sale	64.0	75.8
Other assets	13.3	9.8
	160.0	205.6
Total assets	$ 2,378.7	$ 1,987.5
LIABILITIES AND STOCKHOLDERS EQUITY		
HOMEBUILDING:		
Accounts payable and other liabilities	$ 290.7	$ 188.9
Customer deposits	87.2	69.1
Obligations for inventory not owned	79.5	136.2
Notes payable	811.6	811.4
Bank borrowings	80.0	

		1,349.0		1,205.6
FINANCIAL SERVICES:				
Accounts payable and other liabilities		77.6		70.2
Bank borrowings		54.6		49.0
		132.2		119.2
Total liabilities		1,481.2		1,324.8
Stockholders equity:				
Preferred stock $0.01 par value; 3,000,000 shares authorized; none issued or outstanding				
Common stock $0.01 par value; 97,000,000 shares authorized and 59,536,227 and 56,070,510 shares issued and outstanding at September 30, 2005, and December 31, 2004, respectively		0.6		0.6
Additional paid-in capital		485.6		388.3
Unearned compensation		(11.5)		(9.0)
Retained earnings		422.8		282.8
Total stockholders equity		897.5		662.7
Total liabilities and stockholders equity	$	2,378.7	$	1,987.5

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in millions, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
		(Unaudited)		
HOMEBUILDING:				
Revenues:				
Home sales	$ 562.8	$ 500.1	$ 1,657.3	$ 1,369.3
Land sales	99.8	7.1	154.7	61.0
	662.6	507.2	1,812.0	1,430.3
Cost of sales:				
Home sales	407.5	398.8	1,256.7	1,104.4
Land sales	69.9	6.6	116.6	47.8
	477.4	405.4	1,373.3	1,152.2
Gross profit	185.2	101.8	438.7	278.1
Selling, general and administrative expenses	90.2	61.2	246.7	176.9
Other income:				
Income from joint ventures, net	(13.3)	(0.7)	(24.0)	(0.7)
Other (income) expense, net	(1.6)	(2.2)	(5.8)	(2.7)
Homebuilding pretax income	109.9	43.5	221.8	104.6
FINANCIAL SERVICES:				
Revenues	13.4	8.2	34.8	26.4
Expenses	10.4	7.6	28.1	20.0
Financial Services pretax income	3.0	0.6	6.7	6.4
Income before provision for income taxes	112.9	44.1	228.5	111.0
Provision for income taxes	42.6	16.0	86.1	40.8
Net income	$ 70.3	$ 28.1	$ 142.4	$ 70.2
EARNINGS PER COMMON SHARE:				
Basic	$ 1.24	$ 0.50	$ 2.53	$ 1.25
Diluted	$ 1.18	$ 0.49	$ 2.43	$ 1.23

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:				
Basic	56,753,826	56,064,565	56,304,544	56,056,943
Diluted	59,392,423	57,427,500	58,569,725	57,178,499
CASH DIVIDENDS PER SHARE	$ 0.015	$ 0.012	$ 0.042	$ 0.024

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in millions)

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 142.4	$ 70.2
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	9.6	9.5
Non-cash compensation expense	7.6	4.0
Equity in earnings from unconsolidated subsidiaries	(8.9)	
Changes in operating assets and liabilities:		
Restricted cash	(1.7)	5.1
Inventory	(422.0)	(266.6)
Other assets	(113.9)	(13.2)
Accounts payable and other liabilities	105.5	3.5
Customer deposits	18.1	33.7
Mortgage loans held for sale	11.8	5.0
Net cash used in operating activities	(251.5)	(148.8)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net additions to property and equipment	(8.1)	(14.7)
Investments in unconsolidated joint ventures	(112.5)	(20.1)
Earn out consideration paid for acquisitions		(6.6)
Loans to unconsolidated joint ventures	(20.0)	
Net cash used in investing activities	(140.6)	(41.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings from revolving credit facilities	80.0	48.0
Proceeds from notes offerings		125.0
Net proceeds from equity offering	89.3	
Net proceeds from (repayments on) Financial Services bank borrowings	5.6	(5.1)
Payments for deferred financing costs	(0.3)	(2.1)
Dividends paid	(2.4)	(1.3)
Other	1.6	(6.5)
Net cash provided by financing activities	173.8	158.0
Decrease in cash and cash equivalents	(218.3)	(32.2)
Unrestricted cash and cash equivalents at beginning of period	268.5	76.8
Unrestricted cash and cash equivalents at end of period	$ 50.2	$ 44.6
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY		

Decrease in obligations for inventory not owned and corresponding decrease in inventory	$ (56.7)	$ (44.6)

See accompanying notes to consolidated financial statements.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2005

1. Business and Organization

Business

Technical Olympic USA, Inc. is a homebuilder with a geographically diversified national presence. We operate in 16 metropolitan markets located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West. We design, build, and market detached single-family residences, townhomes and condominiums. We also provide title and mortgage brokerage services to our homebuyers and others. Generally, we do not retain or service the mortgages that we originate but, rather, sell the mortgages and related servicing rights to investors.

Organization

Technical Olympic S.A. owns approximately 67% of our outstanding common stock. Technical Olympic S.A. is a publicly-traded Greek company whose shares are traded on the Athens Stock Exchange.

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

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

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

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

Interim Presentation

The accompanying unaudited consolidated financial statements reflect all adjustments, consisting primarily of normal recurring items that, in the opinion of management, are considered necessary for a fair presentation of the financial position, results from operations, and cash flows for the periods presented. Results of operations achieved through September 30, 2005 are not necessarily indicative of those that may be achieved for the year ending December 31, 2005. Certain information and footnote disclosures normally included in financial statements presented in accordance with accounting principles generally accepted in the United States have been omitted from the accompanying financial statements. The financial statements included as part of this Form 10-Q should be read in conjunction with the financial statements and notes thereto included in our December 31, 2004 Annual Report on Form 10-K.

For the three months ended September 30, 2005 and 2004, we have eliminated inter-segment Financial Services revenues of $2.7 million and $1.8 million, respectively. For the nine months ended September 30, 2005 and 2004, we have eliminated inter-segment Financial Services revenues of $6.5 million and $5.4 million, respectively.

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

Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options or other common stock equivalents that are freely exercisable into common stock at less than market prices. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Basic weighted average shares outstanding	56,753,826	56,064,565	56,304,544	56,056,943
Net effect of stock options assumed to be exercised	2,638,597	1,362,935	2,265,181	1,121,556
Diluted weighted average shares outstanding	59,392,423	57,427,500	58,569,725	57,178,499

The shares issued and outstanding and the earnings per share amounts in the consolidated financial statements have been adjusted to reflect a five-for-four stock split effected in the form of a 25% stock dividend paid on March 31, 2005.

On September 13, 2005, pursuant to an underwritten public offering, we sold 3,358,000 shares of our common stock at a price of $28.00 per share. The net proceeds of the offering to us were $89.3 million, after deducting offering costs and underwriting fees of $4.8 million. The offering proceeds were used to pay outstanding indebtedness under our revolving credit facility.

Stock-Based Compensation

We account for our stock option plan in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. As such, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Accordingly, no compensation cost has been recognized as all stock options granted under our stock option plan have exercise prices at or greater than the market value of our stock on the grant date. If the methodologies of SFAS No. 123 were applied to determine compensation expense for our stock options based on the fair value of our common stock at the grant dates for awards under our option plan, our net income and earnings per share for the three and nine months ended September 30,

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

2005 and 2004, would have been adjusted to the pro forma amounts indicated below (dollars in millions, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income as reported	$ 70.3	$ 28.1	$ 142.4	$ 70.2
Add: Stock-based employee compensation included in reported net income, net of tax	1.8	1.5	4.6	2.6
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(1.4)	(0.7)	(3.3)	(1.8)
Pro forma net income	$ 70.7	$ 28.9	$ 143.7	$ 71.0
Reported earnings per common share:				
Basic	$ 1.24	$ 0.50	$	