Destination Maternity Corp
Form 10-Q
December 08, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 29, 2016

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 0-21196

Destination Maternity Corporation

(Exact name of registrant as specified in its charter)

Delaware	13-3045573
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
232 Strawbridge Drive	
Moorestown, New Jersey	08057
(Address of principal executive offices)	(Zip code)

(856) 291-9700

Registrant's telephone number, including area code

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value — 14,014,351 shares outstanding as of December 2, 2016

DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements
DESTINATION MATERNITY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	October 29, 2016	January 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,756	$ 2,116
Trade receivables, net	8,441	10,154
Inventories	73,532	72,509
Deferred income taxes	12,044	13,803
Prepaid expenses and other current assets	10,186	9,792
Total current assets	106,959	108,374
Property and equipment, net of accumulated depreciation and amortization of $94,467 and $84,798	86,236	92,673
Other assets:		
Deferred line of credit financing costs, net of accumulated amortization of $690 and $611	455	534
Other intangible assets, net of accumulated amortization of $776 and $683	1,122	1,148
Deferred income taxes	15,497	15,195
Other non-current assets	1,149	1,150
Total other assets	18,223	18,027
Total assets	$ 211,418	$ 219,074
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit borrowings	$ 6,500	$ 28,400
Current portion of long-term debt	5,917	2,897
Accounts payable	14,525	21,738
Accrued expenses and other current liabilities	33,124	39,488
Total current liabilities	60,066	92,523
Long-term debt	34,195	9,302
Deferred rent and other non-current liabilities	23,564	24,351
Total liabilities	117,825	126,176

Commitments and contingencies (Note 14)							
Stockholders' equity:		2.53		$ 1.25			
	Diluted	$	1.18	$	0.49	$ 2.43	$ 1.23
Pro forma earnings per common share:							
	Basic	$	1.24	$	0.51	$ 2.55	$ 1.27
	Diluted	$	1.19	$	0.50	$ 2.45	$ 1.24

The fair values of options granted were estimated on the date of their grant using the Black-Scholes option pricing model based on the following assumptions:

Expected life	4	10 years
Risk-free interest rate	1.47%	4.02%
Expected volatility	0.42%	0.48%
Expected dividend yield		0.0%

In December 2004, the FASB issued SFAS No. 123(R), *Share Based Payment*. SFAS No. 123(R) establishes accounting standards for transactions in which a company exchanges its equity instruments for goods or services. In particular, this Statement would require companies to record compensation expense for all share-based payments, such as employee stock options, at fair market value. This Statement is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. As a result, beginning January 1, 2006, we will adopt SFAS 123(R) and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro forma disclosure in the notes to the financial statements. We expect the effect of adopting SFAS 123(R) to be similar to the effect represented in our proforma disclosure related to SFAS 123.

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

3. Inventory

A summary of Homebuilding interest capitalized in inventory is (dollars in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Interest capitalized, beginning of period	$ 43.1	$ 35.7	$ 36.8	$ 29.7
Interest incurred	21.1	16.7	59.8	48.4
Less interest included in:				
Cost of sales	(16.5)	(12.6)	(48.9)	(36.1)
Other*	(4.3)	(1.4)	(4.3)	(3.6)
Interest capitalized, end of period	$ 43.4	$ 38.4	$ 43.4	$ 38.4

* Included in Other for the three and nine months ended September 30, 2005 is interest which was capitalized to inventory that was subsequently contributed to an unconsolidated joint venture.

In the ordinary course of business, we enter into contracts to purchase homesites and land held for development. At September 30, 2005 and December 31, 2004, we had refundable and nonrefundable deposits aggregating $199.4 million and $132.8 million, respectively, included in inventory in the accompanying consolidated statements of financial condition. Our liability for nonperformance under such contracts is generally limited to forfeiture of the related deposits.

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (Interpretation No. 46). Interpretation No. 46 addresses consolidation by business enterprises of variable interest entities (VIEs) in which an entity absorbs a majority of the expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

Generally, homebuilders will enter into option contracts for the purchase of land or homesites with land sellers and third-party financial entities, some of which may qualify as VIEs. In applying Interpretation No. 46 to our homesite option contracts and other transactions with VIEs, we make estimates regarding cash flows and other assumptions. We believe that our critical assumptions underlying these estimates are reasonable based on historical evidence and industry practice. Based on our analysis of transactions entered into with VIEs, we determined that we are the primary beneficiary of certain of these homesite option contracts. Consequently, Interpretation No. 46 requires us to consolidate the assets (homesites) at their fair value, although (1) we have no legal title to the assets, (2) our maximum exposure to loss is generally limited to the deposits or letters of credits placed with these entities, and (3) creditors, if any, of these entities have no recourse against us. The effect of Interpretation No. 46 at September 30, 2005 was to increase inventory by $42.4 million, excluding deposits of $10.0 million, which had been previously recorded, with a corresponding increase to obligations for inventory not owned in the accompanying consolidated statement of financial condition. We have also entered into arrangements with VIEs to acquire homesites in which our variable interest is insignificant and, therefore, we have determined that we are not the primary beneficiary and are not required to consolidate the assets of such VIEs.

From time to time we transfer title to certain parcels of land to unrelated third parties and enter into options with the purchasers to acquire fully developed homesites. In accordance with SFAS No. 66, *Accounting for the Sales of*

Real Estate, we have accounted for these transactions as financing arrangements because we have retained a continuing involvement in these properties. As of September 30,

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

2005, $37.1 million of inventory not owned and obligations for inventory not owned related to sales with continuing involvement.

4. Investments in Unconsolidated Joint Ventures

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

	September 30, 2005		
	Land Development	Home Construction	Total
Assets:			
Cash	$ 13.4	$ 122.0	$ 135.4
Inventories	203.9	941.2	1,145.1
Other assets	3.6	230.4	234.0
Total assets	$ 220.9	$ 1,293.6	$ 1,514.5
Liabilities and equity:			
Accounts payable and other liabilities	$ 11.5	$ 194.1	$ 205.6
Notes payable	143.6	782.7	926.3
Equity of:			
Technical Olympic USA, Inc.	32.0	153.7	185.7
Others	33.8	163.1	196.9
Total equity	65.8	316.8	382.6
Total liabilities and equity	$ 220.9	$ 1,293.6	$ 1,514.5

	December 31, 2004		
	Land Development	Home Construction	Total
Assets:			
Cash	$ 1.4	$ 14.8	$ 16.2
Inventories	74.0	196.8	270.8
Other assets	1.4	8.4	9.8
Total assets	$ 76.8	$ 220.0	$ 296.8
Liabilities and equity:			

Accounts payable and other liabilities	$ 11.0	$ 10.0	$ 21.0
Notes payable	32.0	81.8	113.8
Equity of:			
Technical Olympic USA, Inc.	15.6	51.0	66.6
Others	18.2	77.2	95.4
Total equity	33.8	128.2	162.0
Total liabilities and equity	$ 76.8	$ 220.0	$ 296.8

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

	Three Months Ended September 30, 2005			Three Months Ended September 30, 2004		
	Land Development	Home Construction	Total	Land Development	Home Construction	Total
Revenues	$ 10.6	$ 169.1	$ 179.7	$ 8.9	$ 7.6	$ 16.5
Cost and expenses	11.4	158.4	169.8	7.8	7.1	14.9
Net earnings (losses) of unconsolidated entities	$ (0.8)	$ 10.7	$ 9.9	$ 1.1	$ 0.5	$ 1.6
Our share of net earnings (losses)	$ (0.6)	$ 5.7	$ 5.1	$ 0.0	$ 0.0	$ 0.0
Management fees earned	0.8	7.4	8.2	0.0	0.7	0.7
Income from joint ventures	$ 0.2	$ 13.1	$ 13.3	$ 0.0	$ 0.7	$ 0.7

	Nine Months Ended September 30, 2005			Nine Months Ended September 30, 2004		
	Land Development	Home Construction	Total	Land Development	Home Construction	Total
Revenues	$ 20.8	$ 272.5	$ 293.3	$ 11.9	$ 8.2	$ 20.1
Cost and expenses	23.2	251.3	274.5	10.9	7.8	18.7
Net earnings (losses) of unconsolidated entities	$ (2.4)	$ 21.2	$ 18.8	$ 1.0	$ 0.4	$ 1.4
Our share of net earnings (losses)	$ (1.4)	$ 10.3	$ 8.9	$ 0.0	$ 0.0	$ 0.0
Management fees earned	2.3	12.8	15.1	0.0	0.7	0.7
Income from joint ventures	$ 0.9	$ 23.1	$ 24.0	$ 0.0	$ 0.7	$ 0.7

We enter into strategic joint ventures to acquire, to develop and to sell land and/or homesites, as well as to construct and sell homes, in which we have a voting ownership interest of 50% or less and do not have a controlling interest. Our partners generally are unrelated homebuilders, land sellers, financial partners or other real estate entities. At September 30, 2005, we had receivables of $80.3 million from these joint ventures, of which $45.5 million represent notes receivable.

In many instances, we are appointed as the day-to-day manager of the unconsolidated entities and receive management fees for performing this function. We received management fees from the unconsolidated entities of

$8.2 million and $15.1 million for the three and nine months ended September 30, 2005, respectively. These fees are included in income from joint ventures in the accompanying consolidated statements of income. Management fees were $0.7 million during the three and nine months ended September 30, 2004 as our unconsolidated joint venture operations during these periods were insignificant. In the aggregate, these joint ventures delivered 528 and 872 homes for the three and nine months ended September 30, 2005, respectively.

On August 1, 2005, through a joint venture (the Transeastern JV), we completed the acquisition of the homebuilding assets and operations of Transeastern Properties, Inc. (Transeastern) headquartered in Coral Springs, Florida. Our joint venture partner is an entity controlled by the former majority owners of Transeastern. The Transeastern JV acquired Transeastern s homebuilding assets, including work in process, finished lots and certain land option rights, for approximately $826.2 million (which includes the assumption of $112.0 million of liabilities, net of $30.8 million of cash). Additional consideration of up to $75.0 million will be paid to the sellers pursuant to an earn out agreement if certain conditions are met, such as achieving predetermined quarterly EBITDA targets and delivery of entitlement on certain tracts of land currently held under lot option contracts. In addition to the net assets acquired in the transaction, the

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

Transeastern JV will have a right of first offer on land developed by a related entity of our joint venture partner for a period of five years. We are the managing member of the Transeastern JV and hold a 50% voting interest. The Transeastern JV was funded with $675.0 million of third party debt capacity (of which $560.0 million was drawn upon acquisition), a $20.0 million subordinated bridge loan from us and $165.0 million of equity, of which $90.0 million was contributed by us. The third party debt is secured by the Transeastern JV s assets and ownership interests and is non-recourse to us.

5. Goodwill

The change in goodwill for the nine months ended September 30, 2005 and 2004 is as follows (dollars in millions):

	Nine Months Ended September 30,	
	2005	2004
Balance at January 1	$ 110.7	$ 100.1
Earn out consideration paid or accrued on acquisitions		6.6
Balance at September 30	$ 110.7	$ 106.7

6. Borrowings

Our revolving credit facility permits us to borrow to the lesser of (i) $600.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The facility has a letter of credit subfacility of $300.0 million. In addition, we have the right to increase the size of the facility to provide up to an additional $150.0 million of revolving loans, provided we satisfy certain conditions. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. Our obligations under the revolving credit facility are guaranteed by our material direct and indirect subsidiaries, other than our mortgage and title subsidiaries (unrestricted subsidiaries). The revolving credit facility expires on October 26, 2008. As of September 30, 2005, we had $80.0 million outstanding under the revolving credit facility, and had issued letters of credit totaling $177.1 million. Therefore as of September 30, 2005, we had $342.9 million remaining in availability, all of which we could have borrowed without violating any of our debt covenants.

Our mortgage subsidiary has the ability to borrow up to $120.0 million under two revolving warehouse lines of credit to fund the origination of residential mortgage loans. One of these warehouse lines can be increased to provide up to an additional $50.0 million of availability, subject to meeting certain requirements. One of the lines of credit bears interest at the 30 day LIBOR rate plus a margin of 1.25% to 3.0%, based upon the type of mortgage loans being financed, and the other bears interest at the 30 day Eurodollar rate plus a margin of 1.125%. Both warehouse lines of credit are secured by funded mortgages, which are pledged as collateral, and require our mortgage subsidiary to maintain certain financial ratios and minimums. Our primary warehouse line of credit was to expire on October 22, 2005 and has been extended until November 21, 2005. Our other warehouse line of credit expires December 15, 2005. As of September 30, 2005, we had $54.6 million in borrowings under our warehouse lines of credit.

7. Commitments and Contingencies

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations.

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

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

During the nine months ended September 30, 2005 and 2004, changes in our warranty accrual consisted of (dollars in millions):

	Nine Months Ended September 30,	
	2005	**2004**
Accrued warranty costs at January 1	$ 6.4	$ 5.2
Liability recorded for warranties issued during the period	8.2	10.4
Warranty work performed	(6.1)	(5.7)
Adjustments	(1.5)	(3.6)
Accrued warranty costs at September 30	$ 7.0	$ 6.3

8. Stockholders Equity and Stock-Based Compensation

During 2001, we adopted the Technical Olympic USA, Inc. Annual and Long-Term Incentive Plan (the Plan) pursuant to which our employees, consultants and directors, and those of our subsidiaries and affiliated entities, are eligible to receive shares of restricted common stock and/or options to purchase shares of common stock. Under the Plan, subject to adjustment as defined, the maximum number of shares with respect to which awards may be granted is 7,500,000. At September 30, 2005, 6,644,110 options and 35,428 shares of restricted stock were outstanding. Of the stock options outstanding at September 30, 2005, 1,567,072 contain accelerated vesting criteria or other features that are being accounted for under the variable accounting method as provided by APB Opinion No. 25. Additionally, certain stock purchase rights have been granted to our chief executive officer that are subject to the variable accounting method. During the three and nine months ended September 30, 2005, we recognized expense of $2.9 million and $7.4 million, respectively, related to these accelerated vesting options and stock purchase rights, as compared to expense of $2.4 million and $4.0 million, respectively, during the three and nine months ended September 30, 2004.

9. Summarized Financial Information

Our outstanding senior notes and senior subordinated notes are fully and unconditionally guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of our material direct and indirect subsidiaries, other than our mortgage and title operations subsidiaries (the Non-guarantor Subsidiaries). Each of the Guarantor Subsidiaries is directly or indirectly 100% owned by us. In lieu of providing separate financial statements for the Guarantor Subsidiaries, consolidated condensed financial statements are presented below. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management has determined that they are not material to investors.

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Financial Condition
September 30, 2005

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
		ASSETS			
HOMEBUILDING:					
Cash and cash equivalents	$ 10.8	$ 35.5	$	$	$ 46.3
Inventory		1,646.6			1,646.6
Property and equipment, net	6.8	17.8			24.6
Investments in unconsolidated joint ventures		188.0			188.0
Receivables from unconsolidated joint ventures		80.3			80.3
Investments in/ Advances to consolidated subsidiaries	1,843.7	(402.8)	(6.0)	(1,434.9)	
Other assets	19.8	102.4			122.2
Goodwill		110.7			110.7
	1,881.1	1,778.5	(6.0)	(1,434.9)	2,218.7
FINANCIAL SERVICES:					
Cash and cash equivalents			82.7		82.7
Mortgage loans held for sale			64.0		64.0
Other assets			13.3		13.3
			160.0		160.0
Total Assets	$ 1,881.1	$ 1,778.5	$ 154.0	$ (1,434.9)	$ 2,378.7
		LIABILITIES AND STOCKHOLDERS EQUITY			
HOMEBUILDING:					
Accounts payable and other liabilities	$ 92.0	$ 198.7	$	$	$ 290.7
Customer deposits		87.2			87.2
Obligations for inventory not owned		79.5			79.5
Notes payable	811.6				811.6
Bank borrowings	80.0				80.0
	983.6	365.4			1,349.0
FINANCIAL SERVICES:					
Accounts payable and other liabilities			77.6		77.6

Bank borrowings			54.6		54.6
			132.2		132.2
Total liabilities	983.6	365.4	132.2		1,481.2
Total stockholders equity	897.5	1,413.1	21.8	(1,434.9)	897.5
Total liabilities and stockholders equity	$ 1,881.1	$ 1,778.5	$ 154.0	$ (1,434.9)	$ 2,378.7

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Financial Condition
December 31, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	$ 159.3	$ 66.3	$	$	$ 225.6
Inventory		1,281.2			1,281.2
Property and equipment, net	6.8	19.9			26.7
Investments in unconsolidated joint ventures		66.6			66.6
Receivables from unconsolidated joint ventures		3.4			3.4
Investments in/ Advances to consolidated subsidiaries	1,349.9	24.0	(62.8)	(1,311.1)	
Other assets	22.4	45.3			67.7
Goodwill		110.7			110.7
	1,538.4	1,617.4	(62.8)	(1,311.1)	1,781.9
FINANCIAL SERVICES:					
Cash and cash equivalents			120.0		120.0
Mortgage loans held for sale			75.8		75.8
Other assets			9.8		9.8
			205.6		205.6
Total assets	$ 1,538.4	$ 1,617.4	$ 142.8	$ (1,311.1)	$ 1,987.5
LIABILITIES AND STOCKHOLDERS EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	$ 64.3	$ 124.6	$	$	$ 188.9
Customer deposits		69.1			69.1
Obligations for inventory not owned		136.2			136.2
Notes payable	811.4				811.4
	875.7	329.9			1,205.6
FINANCIAL SERVICES:					
Accounts payable and other liabilities			70.2		70.2
Bank borrowings			49.0		49.0

			119.2		119.2
Total liabilities	875.7	329.9	119.2		1,324.8
Total stockholders equity	662.7	1,287.5	23.6	(1,311.1)	662.7
Total liabilities and stockholders equity	$ 1,538.4	$ 1,617.4	$ 142.8	$ (1,311.1)	$ 1,987.5

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Income
Three Months Ended September 30, 2005

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 662.6	$	$	$ 662.6
Cost of sales		477.4			477.4
Gross profit		185.2			185.2
Selling, general and administrative expenses	23.5	69.4		(2.7)	90.2
Other income:					
Income from joint ventures, net		(13.3)			(13.3)
Other (income) expense, net	(92.1)	15.4		75.1	(1.6)
Homebuilding pretax income	68.6	113.7		(72.4)	109.9
FINANCIAL SERVICES:					
Revenues			16.1	(2.7)	13.4
Expenses			12.4	(2.0)	10.4
Financial Services pretax income			3.7	(0.7)	3.0
Income before provision (benefit) for income taxes	68.6	113.7	3.7	(73.1)	112.9
Provision (benefit) for income taxes	(1.7)	42.9	1.4		42.6
Net income	$ 70.3	$ 70.8	$ 2.3	$ (73.1)	$ 70.3

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Income
Three Months Ended September 30, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 507.2	$	$	$ 507.2
Cost of sales		405.4			405.4
Gross profit		101.8			101.8
Selling, general and administrative expenses	12.1	50.4		(1.3)	61.2
Other income:					
Income from joint ventures, net		(0.7)			(0.7)
Other (income) expense, net	(35.3)	(3.3)		36.4	(2.2)
Homebuilding pretax income	23.2	55.4		(35.1)	43.5
FINANCIAL SERVICES:					
Revenues			10.0	(1.8)	8.2
Expenses			8.8	(1.2)	7.6
Financial Services pretax income			1.2	(0.6)	0.6
Income before provision (benefit) for income taxes	23.2	55.4	1.2	(35.7)	44.1
Provision (benefit) for income taxes	(4.9)	20.2	0.7		16.0
Net income	$ 28.1	$ 35.2	$ 0.5	$ (35.7)	$ 28.1

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Income
Nine Months Ended September 30, 2005

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 1,812.0	$	$	$ 1,812.0
Cost of sales		1,373.3			1,373.3
Gross profit		438.7			438.7
Selling, general and administrative expenses	60.0	193.2		(6.5)	246.7
Other income:					
Income from joint ventures, net		(24.0)			(24.0)
Other (income) expense, net	(199.5)	32.6		161.1	(5.8)
Homebuilding pretax income	139.5	236.9		(154.6)	221.8
FINANCIAL SERVICES:					
Revenues			41.3	(6.5)	34.8
Expenses			32.5	(4.4)	28.1
Financial Services pretax income			8.8	(2.1)	6.7
Income before provision (benefit) for income taxes	139.5	236.9	8.8	(156.7)	228.5
Provision (benefit) for income taxes	(2.9)	86.2	2.8		86.1
Net income	$ 142.4	$ 150.7	$ 6.0	$ (156.7)	$ 142.4

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TECHNICAL OLYMPIC USA, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Consolidating Statement of Income
Nine Months Ended September 30, 2004

	Technical Olympic USA, Inc.	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 1,430.3	$	$	$ 1,430.3
Cost of sales		1,152.2			1,152.2
Gross profit		278.1			278.1
Selling, general and administrative expenses	33.5	148.7		(5.3)	176.9
Other income:					
Income from joint ventures, net		(0.7)			(0.7)
Other (income) expense, net	(90.1)	(5.9)		93.3	(2.7)
Homebuilding pretax income	56.6	136.0		(88.0)	104.6
FINANCIAL SERVICES:					
Revenues			31.8	(5.4)	26.4
Expenses			24.0	(4.0)	20.0
Financial Services pretax income		&nbs			