

HORTON D R INC /DE/
Form 424B5
July 08, 2004

PROSPECTUS SUPPLEMENT
(To Prospectus Dated March 27, 2002)

\$200,000,000

D.R. Horton, Inc.

6.125% Senior Notes due 2014

The notes will bear interest at the rate of 6.125% per year. Interest on the notes is payable on January 15 and July 15 of each year, beginning on January 15, 2005. The notes will mature on January 15, 2014.

At any time on or before July 15, 2007, we may redeem these notes with the net cash proceeds of one or more public equity offerings by us, at a redemption price equal to 106.125% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption, so long as at least 65% of the aggregate principal amount of the notes issued under the indenture remains outstanding.

The notes will be senior obligations of our company and will rank equally with all of our existing and future unsecured and unsubordinated senior indebtedness, including our revolving credit facility.

All of our existing and future restricted subsidiaries will guarantee the notes. These guarantees will be unsecured and will rank equally with all existing and future unsecured and unsubordinated indebtedness of the guarantors, including their guarantees of our credit facility.

Investing in the notes involves risks. See Risk Factors beginning on page S-8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be sold to the public at a per note price of 98.593% of the principal amount of the notes. On an aggregate basis, the notes will be sold to the public at a price of \$197,186,000. We will receive all of the proceeds from such sale, before deducting expenses.

Interest on the notes will accrue from July 12, 2004.

The underwriter expects to deliver the notes to purchasers on or about July 12, 2004.

Citigroup

July 6, 2004

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <hr/> | |
| Prospectus Supplement | |
| Incorporation by Reference | ii |
| Forward-Looking Statements | iii |
| Prospectus Supplement Summary | S-1 |
| Risk Factors | S-8 |
| Use of Proceeds | S-12 |
| Capitalization | S-13 |
| Business | S-15 |
| Description of Notes | S-22 |
| Underwriting | S-52 |
| Legal Matters | S-53 |
| Experts | S-53 |
| Prospectus | |
| Forward-Looking Statements | i |
| The Company | 1 |
| The Trusts | 1 |
| Securities We May Offer | 3 |
| Use of Proceeds | 3 |
| Summary Consolidated Financial Information and Operating Data | 4 |
| Ratio of Earnings to Fixed Charges | 5 |
| Description of Debt Securities | 5 |
| Description of Common Stock, Preferred Stock and Depositary Shares | 9 |
| Description of Warrants | 12 |
| Description of Stock Purchase Contracts and Stock Purchase Units | 13 |
| Description of Units | 14 |
| Description of Trust Preferred Securities and Subordinated Trust Debt Securities | 14 |
| Plan of Distribution | 24 |
| Legal Matters | 25 |
| Experts | 25 |
| Where You Can Find More Information | 26 |
| Incorporation of Certain Documents by Reference | 26 |

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus supplement and the accompanying prospectus. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus supplement and the accompanying prospectus, except for any information that is superseded by information that is included directly in this document.

This prospectus supplement and the accompanying prospectus incorporate by reference the documents listed below that we have filed with the SEC but have not been included or delivered with this document. These documents contain important information about us and our business, prospects and financial condition.

| Filing | Period or Date |
|--|---|
| Annual Report on Form 10-K | Year ended September 30, 2003 |
| Proxy Statement (other than information identified therein as not incorporated by reference) | December 12, 2003 |
| Quarterly Reports on Form 10-Q | Quarter ended December 31, 2003 Quarter ended March 31, 2004 |
| Current Reports on Form 8-K | January 6, 2004 February 13, 2004 March 29, 2004 June 18, 2004 |

We also incorporate by reference any future filings we make with the SEC under sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the termination of this offering of notes. These additional documents include periodic reports, such as annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (other than information furnished under Item 9 or 12, which is deemed not to be incorporated by reference in this prospectus supplement), as well as proxy statements (other than information identified therein as not incorporated by reference). You should review these filings as they may disclose a change in our business, prospects, financial condition or other affairs after the date of this prospectus supplement. The information that we file later with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act and before the termination of this offering will automatically update and supersede previous information included or incorporated by reference in this prospectus supplement.

You can obtain any of the documents incorporated by reference in this prospectus supplement and the accompanying prospectus from us without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference in this prospectus supplement. You can obtain documents incorporated by reference in this prospectus supplement and the accompanying prospectus by requesting them in writing or by telephone from us at the following address:

Investor Relations

D.R. Horton, Inc.
1901 Ascension Boulevard
Suite 100
Arlington, Texas 76006
(817) 856-8200, ext. 1562

FORWARD-LOOKING STATEMENTS

The statements contained in this prospectus supplement and the information incorporated by reference into this prospectus supplement and the accompanying prospectus include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements typically include the words believe, expect, anticipate, estimate, project, future or other words of similar meaning. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results to differ materially from the expectations or results we discuss in the forward-looking statements. These risks, uncertainties and other factors include, but are not limited to:

changes in general economic, real estate and business conditions;

changes in interest rates and the availability of mortgage financing;

governmental regulations and environmental matters;

our substantial debt;

competitive conditions within our industry;

the availability of capital; and

our ability to effect our growth strategies successfully.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. However, any further disclosures made on related subjects in additional documents incorporated into this prospectus supplement by reference should be consulted.

See the section entitled Risk Factors.

PROSPECTUS SUPPLEMENT SUMMARY

*This is only a summary of the offering. To fully understand an investment in the notes, you must consider this prospectus supplement, the accompanying prospectus and the detailed information incorporated into them by reference, including the financial statements and their accompanying notes. Unless the context otherwise requires, the terms **D.R. Horton**, the **Company**, **we** and **our** refer to D.R. Horton, Inc., a Delaware corporation, and its predecessors and subsidiaries.*

We are a national homebuilder. We construct and sell single-family homes in metropolitan areas of the Mid-Atlantic, Midwest, Southeast, Southwest and West regions of the United States. We offer high quality homes, designed principally for first-time and move-up home buyers. Our homes generally range in size from 1,000 to 5,000 square feet and range in price from \$80,000 to \$900,000. For the year ended September 30, 2003, we closed 35,934 homes with an average closing sales price approximating \$231,900. For the six months ended March 31, 2004, we closed 19,065 homes with an average closing sales price approximating \$230,000.

We are one of the largest and most geographically diversified homebuilders in the United States, with operating divisions in 21 states and 51 markets. The markets we operate in include: Albuquerque, Atlanta, Austin, Baltimore, Bend (Oregon), Birmingham, Charleston, Charlotte, Chicago, Colorado Springs, Columbia, Dallas, Denver, Fort Collins, Fort Myers/ Naples, Fort Worth, Greensboro, Greenville, Hawaii, Hilton Head, Houston, Inland Empire (Southern California), Jacksonville, Killeen (Texas), Laredo (Texas), Las Vegas, Los Angeles, Maryland-D.C., Miami/ West Palm Beach, Minneapolis/ St. Paul, Myrtle Beach, New Jersey, Oakland, Orange County, Orlando, Philadelphia, Phoenix, Portland, Raleigh/ Durham, Rio Grande Valley (Texas), Sacramento, Salt Lake City, San Antonio, San Diego, San Francisco, Savannah, Seattle/ Tacoma, Tampa, Tucson, Ventura County, and Virginia-D.C.

Our financial reporting segments consist of homebuilding and financial services. Our homebuilding operations are a substantial part of our business, comprising approximately 98% of our consolidated revenues for the year ended September 30, 2003, and for the six months ended March 31, 2004, and approximately 91% and 94% of our consolidated income before income taxes for the year ended September 30, 2003, and for the six months ended March 31, 2004, respectively. Our homebuilding operations segment generates most of its revenues from the sale of completed homes, with a lesser amount from the sale of land and lots. Our financial services segment generates its revenues from originating and selling mortgages and collecting fees for title insurance and closing services. Financial information, including revenue, pre-tax income and identifiable assets, for both of our reporting segments is included in our consolidated financial statements.

Donald R. Horton began our homebuilding business in 1978. In 1991 we were incorporated in Delaware to acquire the assets and businesses of our predecessor companies which were residential home construction and development companies owned or controlled by Mr. Horton. In the last ten fiscal years, we have acquired 17 other homebuilding companies. Our acquisitions have strengthened our market position in existing markets and expanded our geographic presence and product offerings in other markets.

Our principal executive offices are at 1901 Ascension Blvd., Suite 100, Arlington, Texas 76006, our telephone number is (817) 856-8200, and our Internet website address is www.drhorton.com. Information on our Internet website is not part of this prospectus supplement.

Recent Developments

Recent Sales Orders

For the fiscal quarter ended June 30, 2004, our net new sales orders increased approximately 23% to \$3.2 billion (12,444 homes), compared to \$2.6 billion (10,811 homes) for the same period of fiscal 2003.

S-2

The Offering

| | |
|---------------------|--|
| Issuer | D.R. Horton, Inc., a Delaware corporation. |
| The Notes | \$200 million aggregate principal amount of 6.125% Senior Notes due 2014. |
| Maturity | January 15, 2014. |
| Payment of Interest | Interest will accrue from July 12, 2004 and will be payable semi-annually on each January 15 and July 15, commencing January 15, 2005. |
| Guarantees | Each guarantor is our wholly owned subsidiary that is a restricted subsidiary under the supplemental indenture for these notes. However, not all of our wholly owned subsidiaries are guarantors of these notes. The guarantors do not include our subsidiaries that are engaged in the financial services segment. If we cannot make payments on the notes when they are due, the guarantor subsidiaries must make them. |
| Equity Clawback | At any time on or before July 15, 2007, we may redeem these notes with the net cash proceeds of one or more public equity offerings by us, at a redemption price equal to 106.125% of the principal amount of the notes, plus accrued and unpaid interest, if any, to the date of redemption, so long as at least 65% of the aggregate principal amount of the notes issued under the indenture remains outstanding. |
| Change of Control | Upon a change of control as described in the section Description of Notes, you will have the right to require us to purchase some or all of your notes at 101% of the principal amount, plus accrued and unpaid interest to the date of purchase. We can give no assurance that upon such an event we will have sufficient funds to purchase any of your notes. |
| Ranking | <p>These notes are our general obligations and will not be secured by any collateral. Your right to payment under these notes will be:</p> <ul style="list-style-type: none">junior to the rights of our secured creditors to the extent of the value of their security in our assets;equal with the rights of creditors under our other unsecured unsubordinated debt, including our revolving credit facility; andsenior to the rights of creditors under our debt that is expressly subordinated to these notes. <p>The guarantees of our existing and future restricted subsidiaries will also not be secured by any collateral. Your right to payment under any guarantee will be:</p> <ul style="list-style-type: none">junior to the rights of secured creditors to the extent of their security in the guarantors' assets; |

equal with the rights of creditors under the guarantors' other unsecured unsubordinated debt, including the guarantors' guarantee of our revolving credit facility; and

senior to the rights of creditors under the guarantors' debt that is expressly subordinated to the guarantees.

At March 31, 2004, assuming we had completed this offering of notes on that date and the net proceeds of this offering were used to reduce borrowings under our revolving credit facility, and giving effect to the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009, D.R. Horton, Inc. and the guarantors would have had approximately \$2,773.6 million of debt outstanding, including the notes being offered by this prospectus supplement. Of this debt, \$88.3 million would have been secured debt, \$2,185.1 million would have been unsubordinated unsecured debt that ranked equally with the notes being offered by this prospectus supplement, and \$500.2 million would have been subordinated to these notes. In addition, at such date, our non-guarantor subsidiaries had approximately \$371.4 million of debt outstanding.

Certain Covenants

We will issue the notes under an indenture as supplemented by a supplemental indenture (the "indenture"). The indenture, among other things, restricts our ability and the ability of our restricted subsidiaries to:

- borrow money;
- pay dividends on our common stock;
- repurchase our common stock;
- make investments in subsidiaries that are not restricted;
- use assets as security in other transactions;
- sell assets outside the ordinary course of business;
- merge with or into other companies; and
- enter into certain transactions with our affiliates.

If these notes are rated investment grade by both Standard and Poor's Rating Group and Moody's Investor Service, Inc., certain of these covenants will cease to apply.

For more details, see the section "Description of Notes" under the heading "Certain Covenants."

Use of Proceeds

We intend to use the proceeds from the offering to reduce borrowings under our revolving credit facility. For more details, see the section "Use of Proceeds."

Summary Consolidated Financial Information and Operating Data

The following summary consolidated financial information for the five years ended September 30, 2003, is derived from our audited consolidated financial statements. The following summary consolidated financial information for the six months ended March 31, 2003 and 2004, is derived from our unaudited consolidated financial statements. The data should be read in conjunction with the consolidated financial statements, related notes and other financial information incorporated by reference in this prospectus supplement. These historical results are not necessarily indicative of the results to be expected in the future.

| | Fiscal Years Ended September 30, | | | | | Six Months Ended March 31, | |
|---|----------------------------------|-----------|-----------|-----------|-----------|-------------------------------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| (in millions, except ratios, per share amounts and number of homes) | | | | | | | |
| Income Statement Data(1): | | | | | | | |
| Revenues: | | | | | | | |
| Homebuilding | \$3,119.0 | \$3,604.2 | \$4,383.6 | \$6,625.2 | \$8,552.1 | \$3,575.5 | \$4,456.8 |
| Financial services | 37.3 | 49.5 | 72.0 | 113.6 | 176.0 | 78.0 | 83.0 |
| Gross profit homebuilding | 570.5 | 663.1 | 856.4 | 1,260.8 | 1,746.3 | 710.5 | 1,010.3 |
| Income before income taxes: | | | | | | | |
| Homebuilding | 250.7 | 294.5 | 380.8 | 591.1 | 914.7 | 344.0 | 571.6 |
| Financial services | 13.1 | 14.7 | 27.0 | 56.4 | 93.4 | 41.1 | 36.8 |
| Income before cumulative effect of change in accounting principle | 159.8 | 191.7 | 254.9 | 404.7 | 626.0 | 239.7 | 374.2 |
| Cumulative effect of change in accounting principle, net of income taxes(2) | | | 2.1 | | | | |
| Net income(3) | 159.8 | 191.7 | 257.0 | 404.7 | 626.0 | 239.7 | 374.2 |
| Income before cumulative effect of change in accounting principle per share(4): | | | | | | | |
| Basic | 0.94 | 1.14 | 1.50 | 2.01 | 2.81 | 1.09 | 1.61 |
| Diluted | 0.92 | 1.13 | 1.47 | 1.91 | 2.73 | 1.08 | 1.58 |
| Net income per share(4): | | | | | | | |
| Basic | 0.94 | 1.14 | 1.51 | 2.01 | 2.81 | 1.09 | 1.61 |
| Diluted | 0.92 | 1.13 | 1.48 | 1.91 | 2.73 | 1.08 | 1.58 |
| Selected Operating Data(1): | | | | | | | |
| Gross profit margin | | | | | | | |
| homebuilding | 18.3% | 18.4% | 19.5% | 19.0% | 20.4% | 19.9% | 22.7% |
| Number of homes closed | 18,395 | 19,144 | 21,371 | 29,761 | 35,934 | 15,402 | 19,065 |
| New sales orders, net (homes)(5) | 18,911 | 19,223 | 22,179 | 31,491 | 38,725 | 17,800 | 21,714 |
| New sales orders, net (\$ value)(5) | \$3,266.2 | \$3,676.4 | \$4,502.6 | \$6,885.9 | \$9,162.3 | \$4,138.0 | \$5,367.5 |
| Sales backlog at end of period (homes)(6) | 7,309 | 7,388 | 9,263 | 12,697 | 15,488 | 15,095 | 18,137 |
| Sales backlog at end of period (\$ value)(6) | \$1,356.5 | \$1,536.9 | \$1,933.8 | \$2,825.2 | \$3,653.4 | \$3,518.9 | \$4,635.7 |
| Other Financial Data(1): | | | | | | | |
| Interest expensed: | | | | | | | |
| Expensed directly | \$ 16.5 | \$ 15.8 | \$ 14.1 | \$ 11.5 | \$ 12.6 | \$ 3.9 | \$ 5.7 |
| Amortized to cost of sales | 58.2 | 69.6 | 91.4 | 136.1 | 219.4 | 89.2 | 107.7 |
| Provision for income taxes | 104.0 | 117.5 | 152.9 | 242.8 | 382.2 | 145.4 | 234.2 |
| Depreciation and amortization | 20.3 | 22.0 | 31.2 | 32.8 | 41.8 | 18.8 | 21.9 |
| Interest incurred(7) | 81.0 | 110.0 | 136.3 | 204.3 | 246.9 | 120.5 | 120.4 |

| | As of September 30, | | | | | Six Months Ended March 31, | |
|-------------------------------|---------------------|-----------|-----------|-----------|-----------|-------------------------------|-----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | (in millions) | | | | | | |
| Balance Sheet Data(1): | | | | | | | |
| Inventories | \$1,866.1 | \$2,191.0 | \$2,804.4 | \$4,343.1 | \$5,082.3 | \$4,736.2 | \$5,835.6 |
| Total assets | 2,361.8 | 2,694.6 | 3,652.2 | 6,017.5 | 7,279.4 | 6,398.9 | 7,643.7 |
| Notes payable | 1,190.6 | 1,344.4 | 1,884.3 | 2,878.3 | 2,963.1 | 3,088.9 | 3,147.7 |
| Stockholders' equity | 797.6 | 969.6 | 1,250.2 | 2,269.9 | 3,031.3 | 2,466.0 | 3,390.2 |

- (1) On February 21, 2002, we acquired Schuler Homes in a merger. The total merger consideration consisted of 20,079,532 shares of D.R. Horton common stock, valued at \$30.93 per share; \$168.7 million in cash; \$802.2 million of assumed Schuler debt, \$238.2 million of which was paid at closing; \$218.7 million of assumed trade payables and other liabilities; and \$10.8 million of assumed obligations to the Schuler entities' minority interest holders.
- (2) On October 1, 2000, we adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS #133) as amended by SFAS #137 and #138. Accordingly, the fair market value of our interest rate swaps, which were not designated as hedges under SFAS #133, was recorded, net of applicable income taxes, as a cumulative effect of a change in accounting principle.
- (3) Beginning in fiscal 2002, pursuant to our adoption of Statement of Financial Accounting Standards No. 142, we no longer amortize goodwill, but test it for impairment annually. If we had not amortized goodwill in fiscal 1999, 2000 and 2001, reported net income and diluted net income per share (before cumulative effect of change in accounting principle and adjusted for the three-for-two common stock split (effected as a 50% stock dividend) paid on January 12, 2004) would have been:

| | Net Income (in millions) | | | Diluted Net Income Per Share | | |
|------|--------------------------|----------|------------------------------|------------------------------|----------|------------------------------|
| | Originally Reported | Increase | Before Goodwill Amortization | Originally Reported | Increase | Before Goodwill Amortization |
| 1999 | \$159.8 | \$5.8 | \$165.6 | \$0.92 | \$0.03 | \$0.95 |
| 2000 | 191.7 | 5.1 | 196.8 | 1.13 | 0.03 | 1.16 |
| 2001 | 254.9 | 6.0 | 260.9 | 1.47 | 0.04 | 1.51 |

- (4) Per share amounts have been adjusted to reflect the effects of the 9% and 11% stock dividends of September 2000 and March 2001 and the three-for-two stock splits as of April 2002 and January 2004.
- (5) Represents homes placed under contract during the period, net of cancellations.
- (6) Represents homes under contract but not yet closed at the end of the period, some of which are subject to contingencies, including mortgage loan approval. In the past, our backlog has been a reliable indicator of future closings, but we cannot assure you that homes subject to pending sales contracts will close.
- (7) Interest incurred consists of all interest costs, whether expensed or capitalized, including amortization of debt issuance costs, if applicable.

Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for the five years ended September 30, 2003 and the six months ended March 31, 2004:

| | Year ended September 30, | | | | | Six months ended |
|-------|--------------------------|------|------|------|------|------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | March 31, |
| | | | | | | 2004 |
| Ratio | 4.10 | 3.52 | 3.69 | 3.81 | 4.95 | 5.87 |

For purposes of computing the ratio of earnings to fixed charges, earnings consist of income, including distributions received from equity investments, before:

income taxes;

cumulative effect of a change in accounting principle;

minority interests in income of consolidated subsidiaries with fixed charges;

minority interests in losses of consolidated subsidiaries;

undistributed income from equity investments;

interest amortized to cost of sales; and

interest expensed and the portion of rent expensed deemed to represent interest.

Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest.

RISK FACTORS

Before purchasing these notes, you should consider all of the information set forth in this prospectus supplement, the accompanying prospectus, and the information incorporated by reference. In particular, you should evaluate the risk factors set forth below.

Risks Relating to Our Business

Because of the cyclical nature of our industry, future changes in general economic, real estate construction or other business conditions could adversely affect our business.

Cyclical Industry. The homebuilding industry is cyclical and is significantly affected by changes in general and local economic conditions, such as:

employment levels;

availability of financing for home buyers;

interest rates;

consumer confidence; and

housing demand.

An oversupply of alternatives to new homes, such as rental properties and used homes, could depress new home prices and reduce our margins on the sales of new homes.

Risks Related to National Security. Continued military deployments in the Middle East and other overseas regions, terrorist attacks, other acts of violence or threats to national security, and any corresponding response by the United States or others, may adversely affect general economic conditions or cause a slowdown of the national economy, which in turn could adversely affect our business.

Inventory Risks. Inventory risks can be substantial for our homebuilding business. We must continuously seek and make acquisitions of land for expansion into new markets and for replacement and expansion of land inventory within our current markets. The risks inherent in purchasing and developing land increase as consumer demand for housing decreases. Thus, we may have bought and developed land on which we cannot build and sell homes. The market value of undeveloped land, building lots and housing inventories can fluctuate significantly as a result of changing market conditions. We cannot assure you that the measures we employ to manage inventory risks and costs will be successful.

In addition, inventory carrying costs can be significant and can result in losses in a poorly performing project or market. In the event of significant changes in economic or market conditions, we may have to sell homes at a loss.

Supply Risks. The homebuilding industry has from time to time experienced significant difficulties, including:

shortages of qualified trades people;

reliance on local subcontractors, who may be inadequately capitalized;

shortages of materials; and

volatile increases in the cost of materials, particularly increases in the price of lumber, drywall and cement, which are significant components of home construction costs.

Risks from Nature. Weather conditions and natural disasters, such as hurricanes, tornadoes, earthquakes, volcanic activity, floods and fires, can harm our homebuilding business. The climates and geology of many of the states in which we operate, including California, Florida, Georgia, Hawaii, North Carolina, Oregon, South Carolina, Texas and Washington, present increased risks of natural disaster.

As a result of all of the foregoing, in the future, potential customers may be less willing or able to buy our homes, or we may take longer or incur more costs to build them. We may not be able to recapture increased costs by raising prices in many cases because we fix our prices up to six months in advance of delivery by signing home sales contracts. In addition, some home buyers may cancel or not honor their home sales contracts altogether.

Future increases in interest rates or reductions in mortgage availability could prevent potential customers from buying our homes which could adversely affect our business.

Virtually all our customers finance their acquisitions through lenders providing mortgage financing. After a prolonged period of low financing costs, interest rates have begun to increase. Increases in interest rates or decreases in availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs to potential home buyers. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their current homes to potential buyers who need financing. This could adversely affect sales of our homes, which could negatively affect our financial results.

In addition, we believe that the availability of FHA and VA mortgage financing is an important factor in marketing many of our homes. Any limitations or restrictions on the availability of such financing could adversely affect our sales.

Governmental regulations could increase the cost and limit the availability of our development and homebuilding projects which could adversely affect our business.

We are subject to extensive and complex regulations that affect the development and the homebuilding processes, including zoning, density restrictions and building standards. These regulations often provide broad discretion to the administering governmental authorities as to the conditions we must meet prior to being approved, if approved at all. This can delay or increase the costs of development or homebuilding.

We also are subject to a variety of local, state and federal laws and regulations concerning protection of the environment. These environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict development and homebuilding activity in environmentally sensitive regions or areas.

Our substantial debt could adversely affect our financial condition.

We have a significant amount of debt. As of March 31, 2004, assuming we had completed this offering of notes on that date and the net proceeds of this offering were used to reduce borrowings under our revolving credit facility, and giving effect to the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009, our consolidated debt would have been approximately \$3.1 billion.

Possible Consequences. The amount of our debt could have important consequences to you. For example, it could:

limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements;

require us to dedicate a substantial portion of our cash flow from operations to payment of our debt and reduce our ability to use our cash flow for other purposes;

limit our flexibility in planning for, or reacting to, the changes in our business;

place us at a competitive disadvantage because we have more debt than some of our competitors; and

make us more vulnerable in the event of a downturn in our business or in general economic conditions.

Dependence on Future Performance. Our ability to meet our debt service and other obligations will depend upon our future financial performance. We are engaged in businesses that are substantially affected by changes in economic conditions. Our revenues and earnings vary with the level of general economic activity in the markets we serve. Our businesses are also affected by financial, political, business and other factors, many of which are beyond our control. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of debt or equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations, because borrowings under our revolving credit facility bear interest at floating rates. These rates will increase with the current increase in interest rates generally. We have entered into interest rate swap agreements to fix our interest rate under our revolving credit facility for only a portion of our outstanding borrowings.

Our debt payment obligations for the repayment of principal on our outstanding debt for the 12 months following March 31, 2004 total \$606.3 million, including the \$150.0 million aggregate principal amount of our 8.375% senior notes due June 15, 2004, which was paid on June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009. Based on the current level of operations, we believe our cash flow from operations, available cash, available borrowings under our revolving credit facility, available borrowings under, and our ability to refinance or renew, our mortgage warehouse loan facility and our mortgage-backed commercial paper conduit facility and our ability to access the capital markets in a timely manner will be adequate to meet our future cash needs. We cannot assure you, however, that in the future our business will generate sufficient cash flow from operations or that borrowings will be available to us in an amount sufficient to enable us to pay or refinance our indebtedness or to fund other cash needs.

Indenture and Credit Facility Restrictions. The indentures governing our outstanding public debt and our revolving credit facility impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, lien incurrence, sales of assets and cash distributions by us and require us to comply with certain financial covenants. If we fail to comply with any of these restrictions or covenants, the trustees or the lending banks, as appropriate, could cause our debt to become due and payable prior to maturity. In addition, available credit under our revolving credit facility is subject to limitations based on specified percentages of the costs of unsold homes, developed lots and lots under development included in inventory and the amount of other senior, unsecured indebtedness. Under the most restrictive of the limitations imposed by our indentures and revolving credit agreement, as of March 31, 2004, assuming we had completed this offering of notes on that date and the net proceeds of this offering were used to reduce borrowings under our revolving credit facility and giving effect to the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009, we would have been permitted to increase our homebuilding debt by approximately \$2,052.6 million.

Homebuilding is very competitive, and competitive conditions could adversely affect our business.

The homebuilding industry is highly competitive. Homebuilders compete not only for home buyers, but also for desirable properties, financing, raw materials and skilled labor. We compete with other local, regional and national homebuilders, including those with a sales presence on the Internet, often within larger subdivisions designed, planned and developed by such homebuilders. The competitive conditions in the homebuilding industry could result in:

difficulty in acquiring suitable land at acceptable prices;

increased selling incentives;

lower sales or profit margins; or

delays in construction of our homes.

If we are affected by these competitive conditions at increased levels, our business and results of operations could be adversely affected.

Our future growth may require additional capital, which may not be available.

Our operations require significant amounts of cash. We may be required to seek additional capital, whether from sales of equity or debt or additional bank borrowings, for the future growth and development of our business. We can give no assurance as to the availability of such additional capital or, if available, whether it would be on terms acceptable to us. Moreover, the indentures for our outstanding debt and our revolving credit facility contain provisions that restrict the debt we may incur in the future. If we are not successful in obtaining sufficient capital, it could reduce our sales and may adversely affect our future growth and results of operations.

We cannot assure you that our growth strategies will be successful.

Since 1993, we have acquired many homebuilding companies. Although we have focused recently on internal growth, we may make strategic acquisitions of homebuilding companies in the future. Successful strategic acquisitions require the integration of operations and management and other efforts to realize the benefits that may be available. Although we believe that we have been successful in doing so in the past, we can give no assurance that we would be able to identify, acquire and integrate successfully strategic acquisitions in the future. Moreover, we may not be able to implement successfully our operating and growth strategies within our existing markets.

Risks Relating to the Notes

We may not have the ability to raise funds necessary to finance any change of control offer required by the indenture.

If a change of control occurs as described in the section Description of Notes under the heading Certain Covenants, we would be required to offer to purchase your notes at 101% of their principal amount, together with all accrued and unpaid interest, if any. If a purchase offer obligation arises under the indenture governing the notes, a change of control will have also occurred under one or more of the other indentures governing our debt. Moreover, a change of control may also result in the acceleration of our revolving credit facility. If purchase offers were required under the indentures for our other debt or our revolving credit facility debt were accelerated, we can give no assurance that we would have sufficient funds to pay the required amounts of the debt that we would be required to repurchase or repay. After giving effect to the issuance of the notes, we currently would not have sufficient funds available to purchase all of such outstanding debt upon a change of control.

Federal and state laws allow courts, under specific circumstances, to void guarantees and to require you to return payments received from guarantors.

Although you will be direct creditors of the guarantors by virtue of the guarantees, a court could avoid or subordinate any guarantor's guarantee under the fraudulent conveyance laws if existing or future creditors of any such guarantor were successful in establishing that:

such guarantee was incurred with fraudulent intent; or

such guarantor did not receive fair consideration or reasonably equivalent value for issuing its guarantee; and

was insolvent at the time of the guarantee;

was rendered insolvent by reason of the guarantee;

was engaged in a business or transaction for which its assets constituted unreasonably small capital to carry on its business; or

intended to incur, or believed that it would incur, debt beyond its ability to pay such debt as it matured.

The measures of insolvency for purposes of determining whether a fraudulent conveyance occurred would vary depending upon the laws of the relevant jurisdiction and upon the valuation assumptions and methodology applied by the court. Generally, however, a company would be considered insolvent for purposes of the foregoing if:

the sum of the company's debts, including contingent, unliquidated and unmatured liabilities, is greater than all of such company's property at a fair valuation; or

the present fair saleable value of the company's assets is less than the amount that will be required to pay the probable liability on its existing debts as they become absolute and matured.

We cannot assure you that an active trading market will develop for the notes.

We do not intend to apply for listing of these notes on a securities exchange or on any other market. The underwriters have informed us that they intend to make a market in the notes. However, the underwriters are not obligated to do so, and may cease any market-making activities at any time without notice. We cannot assure you that an active trading market will develop for the notes, that you will be able to sell your notes, or that, even if you can sell them, you will be able to do so at an acceptable price. The notes could trade at prices that are higher or lower than the initial offering price depending on many factors, including the number of holders of the notes, the overall market for similar securities, our financial performance and prospects and prospects for companies in our industry generally.

USE OF PROCEEDS

We intend to use the proceeds from the offering to reduce borrowings under our revolving credit facility. Amounts repaid under our revolving credit facility will remain available for future borrowing. Borrowings under our revolving credit facility are available, subject to satisfaction of customary borrowing conditions, for our homebuilding operations, acquisitions, working capital, repayment of debt and other general corporate purposes. See footnote 2 to the section entitled "Capitalization." Borrowings under our revolving credit facility currently bear interest at rates based upon the London Interbank Offered Rate (LIBOR) plus a spread based upon our ratio of debt to tangible net worth and our senior unsecured debt rating. The interest rate applicable to the revolving credit facility was 2.2% *per annum* as of March 31, 2004. We have entered into an interest rate swap arrangement that effectively fixes the interest rate for a \$200 million notional amount of indebtedness at 5.10% *per annum*.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2004 and as adjusted to reflect the receipt of the proceeds of the sale of notes being offered by this prospectus supplement, the use of a portion of such proceeds to reduce borrowings under our revolving credit facility and the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009.

| | As of March 31, 2004 | |
|---|-----------------------------|-----------------------------|
| | Actual | Adjusted(1) |
| | (dollars in thousands) | |
| Homebuilding debt: | | |
| Notes payable under revolving credit facility(2)(3) | \$ 50,000 | \$ |
| Notes payable other, secured | 92,853 | 92,853 |
| 8.375% senior notes due 2004, net | 149,934 | |
| 10.5% senior notes due 2005, net | 199,763 | 199,763 |
| 7.5% senior notes due 2007, net | 215,000 | 215,000 |
| 8% senior notes due 2009, net | 383,739 | 383,739 |
| 9.375% senior notes due 2009, net | 243,117 | 243,117 |
| 5% senior notes due 2009, net | 199,457 | 199,457 |
| 9.75% senior subordinated notes due 2010, net | 149,129 | 149,129 |
| 7.875% senior notes due 2011, net | 198,632 | 198,632 |
| 9.375% senior subordinated notes due 2011, net | 199,746 | 199,746 |
| 10.5% senior subordinated notes due 2011, net | 151,277 | 151,277 |
| 8.5% senior notes due 2012, net | 248,214 | 248,214 |
| 6.875% senior notes due 2013, net | 200,000 | 200,000 |
| 5.875% senior notes due 2013, net | 100,000 | 100,000 |
| 6.125% senior notes due 2014, net | | 197,186 |
| | <u> </u> | <u> </u> |
| Total homebuilding debt | \$2,780,861 | \$2,778,113 |
| | <u> </u> | <u> </u> |
| Financial services debt: | | |
| Notes payable under mortgage warehouse facility due 2004 | 216,864 | 216,864 |
| Notes payable under commercial paper conduit facility due 2006 | 150,000 | 150,000 |
| | <u> </u> | <u> </u> |
| Total financial services debt | 366,864 | 366,864 |
| | <u> </u> | <u> </u> |
| Total debt | 3,147,725 | 3,144,977 |
| | <u> </u> | <u> </u> |
| Stockholders' equity: | | |
| Preferred stock, \$0.10 par value; 30,000,000 shares authorized, no shares issued | | |
| Common stock, \$0.01 par value, 400,000,000 shares authorized, 235,688,413 shares issued and 233,035,613 shares outstanding at March 31, 2004 | 2,357 | 2,357 |
| Additional capital | 1,594,114 | 1,594,114 |
| Unearned compensation(4) | (1,079) | (1,079) |
| Retained earnings | 1,853,670 | 1,853,670 |
| Treasury stock, 2,652,800 shares, at cost | (58,859) | (58,859) |
| | <u> </u> | <u> </u> |
| Total stockholders' equity | 3,390,203 | 3,390,203 |
| | <u> </u> | <u> </u> |
| Total capitalization | \$6,537,928 | \$6,535,180 |
| | <u> </u> | <u> </u> |

- (1) Adjusted to reflect the receipt of the anticipated net proceeds of the sale of notes being offered by this prospectus supplement, the use of such proceeds to reduce borrowings under our revolving credit facility, and the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009.
- (2) In March 2004, we restructured and amended our existing unsecured revolving credit facility. The facility was increased to \$1 billion and the maturity was extended to March 25, 2008. The new facility includes a \$350 million letter of credit sub-facility and provided an uncommitted \$250 million accordion feature that permitted an increase in the facility. In June 2004, we exercised the accordion feature and obtained commitments from our lenders that increased the total size of the facility to \$1.21 billion. The facility is guaranteed by substantially all of our wholly-owned subsidiaries other than our financial services subsidiaries. Borrowings bear daily interest at rates based upon the London Interbank Offered Rate (LIBOR) plus a spread based upon our ratio of debt to tangible net worth and our senior unsecured debt rating. Available credit under the revolving credit facility is subject to limitations based on specified percentages of the costs of unsold homes, developed lots and lots under development included in inventory and the amount of other unsecured senior indebtedness. The revolving credit facility and our senior and senior subordinated note indentures contain covenants which, taken together, limit investments in inventory, stock repurchases, cash dividends and other restricted payments, incurrence of indebtedness, creation of liens and asset dispositions, and require minimum levels of tangible net worth.
- (3) The amount outstanding under our revolving credit facility currently exceeds the proceeds we expect to receive from this offering.
- (4) Unearned compensation represents the intrinsic value of unvested options to purchase D.R. Horton common stock which were issued to Schuler Homes employees in connection with the acquisition of Schuler Homes on February 21, 2002. The unearned compensation is being amortized over the remaining vesting period of the stock options.

S-14

BUSINESS

We are a national homebuilder. We construct and sell high quality single-family homes, principally for first-time and move-up home buyers.

Operating Strategy

We believe that the following operating strategies have enabled us to achieve consistent growth and profitability:

Geographic Diversity

From 1978 to late 1987, excluding Continental Homes locations, our homebuilding activities were conducted in the Dallas/ Fort Worth area. We then instituted a policy of diversifying geographically, entering the following of our current markets, both through startup operations and acquisitions, in the years shown:

| Years Entered | Markets |
|----------------------|--|
| 1987 | Phoenix |
| 1988 | Atlanta, Orlando |
| 1989 | Charlotte |
| 1990 | Houston |
| 1991 | Maryland-D.C., Virginia-D.C. |
| 1992 | Chicago, Raleigh/Durham |
| 1993 | Austin, Los Angeles, Salt Lake City, San Diego |
| 1994 | Minneapolis/St. Paul, Las Vegas, San Antonio |
| 1995 | Birmingham, Denver, Greensboro, Miami/West Palm Beach |
| 1996 | Albuquerque |
| 1997 | Greenville, New Jersey, Tucson |
| 1998 | Charleston, Hilton Head, Jacksonville, Killeen (Texas), Myrtle Beach, Portland, Sacramento |
| 1999 | Columbia |
| 2000 | Ventura County |
| 2001 | Fort Myers/Naples |
| 2002 | Colorado Springs, Fort Collins, Hawaii, Inland Empire (Southern California), Oakland, Orange County, San Francisco, Seattle/Tacoma |
| 2003 | Baltimore, Bend (Oregon), Tampa |
| 2004 | Philadelphia, Savannah, Laredo (Texas), Rio Grande Valley (Texas) |

We continually monitor the sales and margins achieved in each of the subdivisions in which we operate as part of our evaluation of the use of our capital. While we believe there are significant growth opportunities in our existing markets, we also intend to continue our policy of diversification by seeking to enter new markets. We believe our diversification strategy mitigates the effects of local and regional economic cycles and enhances our growth potential. Typically, we will not invest material amounts in real estate, including raw land, developed lots, models and speculative homes, or overhead in start-up operations in new markets, until such markets demonstrate significant growth potential and acceptance of our products.

Acquisitions

We have recently focused on internal growth. However, as an integral component of our operational strategy of continued expansion, we are continuing our historical approach of evaluating opportunities for strategic acquisitions in the future. We believe that expanding our operations through the acquisition of existing homebuilding companies has afforded us several benefits not found in start-up operations. Such benefits include:

Established land positions and inventories;

Existing relationships with land owners, developers, subcontractors and suppliers;

Brand name recognition; and

Proven product acceptance by home buyers in the market.

In evaluating potential acquisition candidates, we have sought homebuilding companies that have an excellent reputation, a track record of profitability and a strong management team with an entrepreneurial orientation. We have limited the risks associated with acquiring a going concern by conducting extensive operational, financial and legal due diligence on each acquisition and by only acquiring homebuilding companies that we believe will have an immediate positive impact on our earnings. In the last ten fiscal years, we have made 17 acquisitions. In the future, we will continue to evaluate potential acquisition opportunities that satisfy our acquisition criteria in existing or new markets.

Decentralized Operations

We decentralize our homebuilding activities to give more operating flexibility to our local division presidents. We have 41 separate operating divisions, some of which are in the same market area and some of which operate in more than one market area. Generally, each operating division consists of a division president, a land acquisition manager, a sales manager and sales personnel, a construction manager and construction superintendents, a controller, a purchasing manager and office staff. We believe that division presidents, who are intimately familiar with local conditions, make better decisions regarding local operations. Our division presidents receive performance bonuses based upon achieving targeted operating levels in their operating divisions.

Operating Division Responsibilities

Each operating division is responsible for:

Site selection, which involves

A feasibility study;

Soil and environmental reviews;

Review of existing zoning and other governmental requirements; and

Review of the need for and extent of offsite work required to meet local building codes.

Negotiating lot option or similar contracts;

Overseeing land development;

Planning its homebuilding schedule;

Selecting building plans and architectural schemes;

Obtaining all necessary building approvals; and

Developing a marketing plan.

S-16

Corporate Office Controls

The corporate office controls key risk elements through centralized:

- Financing;
- Cash management;
- Risk management;
- Accounting and management reporting;
- Payment of subcontractors' invoices;
- Administration of payroll and employee benefits;
- Final approval of land and lot acquisitions;
- Capital allocation; and
- Oversight of inventory levels.

Cost Management

We control our overhead costs by centralized administrative and accounting functions and by limiting the number of field administrative personnel and middle level management positions. We also minimize advertising costs by participating in promotional activities, publications and newsletters sponsored by local real estate brokers, mortgage companies, utility companies and trade associations.

We control construction costs through the efficient design of our homes and by obtaining favorable pricing from certain subcontractors and national vendors based on the high volume of services and products we purchase from them. We also control construction costs by monitoring expenses on each house through our purchase order system. We control capital and overhead costs by monitoring our inventory levels through our management information systems.

Markets

Homebuilding activities are conducted in five geographic regions, consisting of:

| Geographic Region | Markets |
|-------------------|--|
| Mid-Atlantic | Baltimore, Charleston, Charlotte, Columbia, Greensboro, Greenville, Hilton Head, Maryland-D.C., Myrtle Beach, New Jersey, Philadelphia, Raleigh/ Durham, Savannah, Virginia-D.C. |
| Midwest | Chicago, Minneapolis/ St. Paul |
| Southeast | Atlanta, Birmingham, Fort Myers/ Naples, Jacksonville, Miami/ West Palm Beach, Orlando, Tampa |
| Southwest | Albuquerque, Austin, Dallas, Fort Worth, Houston, Killeen (Texas), Laredo (Texas), Phoenix, Rio Grande Valley (Texas), San Antonio, Tucson |
| West | Bend (Oregon), Colorado Springs, Denver, Fort Collins, Hawaii, Inland Empire (Southern California), Las Vegas, Los Angeles, Oakland, Orange County, Portland, Sacramento, Salt Lake City, San Diego, San Francisco, Seattle/Tacoma, Ventura County |

When entering new markets or conducting operations in existing markets, among the things we consider are:

Regional economic conditions;

Job growth;

Land availability;

Local land development process;

Consumer tastes;

Competition; and

Secondary home sales activity.

Our homebuilding revenues from home sales by geographic region are:

| | Year Ended September 30, | | | Six Months Ended March 31, | |
|--------------|--------------------------|-----------|-----------|-------------------------------|-----------|
| | 2001 | 2002 | 2003 | 2003 | 2004 |
| | (in millions) | | | | |
| Mid-Atlantic | \$ 607.2 | \$ 625.7 | \$ 674.8 | 288.7 | 362.0 |
| Midwest | 443.9 | 488.7 | 513.2 | 217.1 | 238.5 |
| Southeast | 508.8 | 595.8 | 773.9 | 325.0 | 469.0 |
| Southwest | 1,480.3 | 1,997.3 | 2,381.5 | 1,070.2 | 1,370.9 |
| West | 1,249.6 | 2,822.1 | 3,990.7 | 1,543.3 | 1,944.8 |
| Total | \$4,289.8 | \$6,529.6 | \$8,334.1 | \$3,444.3 | \$4,385.2 |

Land Policies

Typically, we acquire land only after necessary entitlements have been obtained, *i.e.*, when we have the right to begin development or construction. Before we acquire lots or tracts of land, we will, among other things, complete a feasibility study, which includes soil tests, independent environmental studies and other engineering work, and determine that all necessary zoning and other governmental entitlements required to develop and use the property for home construction have been acquired. Although we purchase and develop land primarily to support our own homebuilding activities, occasionally we sell lots and land to other developers and homebuilders.

We also use lot option contracts, in which we purchase the right, but not the obligation, to buy building lots at predetermined prices on a takedown schedule commensurate with anticipated home closings. Lot option contracts generally are on a non-recourse basis, thereby limiting our financial exposure to earnest money deposits given to property sellers. This enables us to control significant lot positions with a minimal capital investment and substantially reduces the risks associated with land ownership and development. At March 31, 2004, approximately 52% of our total lot position of 200,471 lots was controlled under option or similar contracts.

A summary of our land/lot position at March 31, 2004 is:

| | |
|------------------------------|--------|
| Finished lots owned | 23,865 |
| Lots under development owned | 72,013 |

Edgar Filing: HORTON D R INC /DE/ - Form 424B5

| | |
|--|----------------|
| Total lots owned | 95,878 |
| Lots controlled under lot option and similar contracts | <u>104,593</u> |
| Total land/lot position | <u>200,471</u> |

S-18

We limit our exposure to real estate inventory risks by:

Generally commencing construction of homes under contract only after receipt of a satisfactory down payment and, where applicable, the buyer's receipt of mortgage approval;

Limiting the number of speculative homes (homes started without an executed sales contract) built in each subdivision;

Closely monitoring local market and demographic trends, housing preferences and related economic developments, such as new job opportunities, local growth initiatives and personal income trends;

Utilizing lot option contracts, where possible; and

Limiting the size of acquired land parcels to smaller tracts of land.

Construction

Our home designs are prepared by architects in each of our markets to appeal to local tastes and preferences of the community. We also offer optional interior and exterior features to enhance the basic home design and to promote our sales efforts.

Substantially all of our construction work is performed by subcontractors. Our construction supervisors monitor the construction of each home, participate in important design and building decisions, 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. Subcontractors typically are retained for a specific subdivision pursuant to a contract that obligates the subcontractor to complete construction at a fixed price. Agreements with our subcontractors and suppliers generally are negotiated for each subdivision. We compete with other homebuilders for qualified subcontractors, raw materials and lots in the markets where we operate.

Construction time for our homes depends on the weather, availability of labor, materials and supplies, size of the home and other factors. We typically complete the construction of a home within four months.

We do not maintain significant inventories of construction materials, except for work in process materials for homes under construction. Typically, the construction materials used in our operations are readily available from numerous sources. We have contracts exceeding one year with certain suppliers of our building materials that are cancelable at our option with a 30 day notice. In recent years, we have not experienced any significant delays in construction due to shortages of materials or labor.

Marketing and Sales

We market and sell our homes through commissioned employees and independent real estate brokers. We typically conduct home sales from sales offices located in furnished model homes in each subdivision. At March 31, 2004, we owned 1,580 model homes, which we generally do not offer for sale until the completion of a subdivision. Our sales personnel assist prospective home buyers by providing them with floor plans, price information, tours of model homes and the selection of options and other custom features. We train and inform our sales personnel as to the availability of financing, construction schedules, and marketing and advertising plans.

In addition to using model homes, we typically build a limited number of speculative homes in each subdivision to enhance our marketing and sales activities. Construction of these speculative homes also is necessary to satisfy the requirements of relocated personnel and independent brokers, who often represent home buyers requiring a completed home within 60 days. We sell a majority of these speculative homes while they are under construction or immediately following completion. The number of speculative homes is influenced by local market factors, such as new employment opportunities, significant job relocations, growing housing demand and the length of time we have built in the market. Depending upon the seasonality of each market, we attempt to limit our speculative homes in each subdivision. At March 31,

2004, we averaged approximately six speculative homes, in various stages of construction, in each subdivision.

We advertise on a limited basis in newspapers and on television and in real estate broker, mortgage company and utility publications, brochures, newsletters and on billboards. In addition, we use our Internet website to market the location, price range, and availability of our homes. To minimize advertising costs, we attempt to operate in subdivisions in conspicuous locations that permit us to take advantage of local traffic patterns. We also believe that model homes play a significant role in our marketing efforts. Consequently, we expend significant effort in creating an attractive atmosphere in our model homes.

Our sales contracts require a down payment of at least \$500. The contracts include a financing contingency which permits customers to cancel if they cannot obtain mortgage financing at prevailing interest rates within a specified period, typically four to six weeks, and may include other contingencies, such as the sale of an existing home. We include a home sale in our sales backlog when the sales contract is signed and we have received the initial down payment. We recognize revenue only when the home sale has closed and title passes to the home buyer. The average period between the signing of a sales contract for a home and closing is approximately three to five months.

Customer Service and Quality Control

Our operating divisions are responsible for pre-closing quality control inspections and responding to customers' post-closing needs. We believe that prompt and courteous response to home buyers' needs during and after construction reduces post-closing repair costs, enhances our reputation for quality and service, and ultimately leads to significant repeat and referral business from the real estate community and home buyers. We provide our home buyers with a limited one-year warranty on workmanship and building materials. The subcontractors who perform most of the actual construction also provide us with warranties on workmanship and are generally prepared to respond to us and the homeowner promptly upon request. In addition, we provide a supplemental ten-year limited warranty that covers major construction defects.

Customer Financing

We provide mortgage financing services principally to purchasers of homes we build and sell. DHI Mortgage, a wholly-owned subsidiary, provides mortgage banking services in Arizona, California, Colorado, Florida, Georgia, Hawaii, Illinois, Maryland, Minnesota, Nevada, New Mexico, North Carolina, Oregon, South Carolina, Texas, Virginia and Washington. During the year ended September 30, 2003, in the markets we served, our combined mortgage banking entities provided mortgage financing services for approximately 73% of the homes closed that required mortgage financing.

In other markets where we currently do not provide mortgage financing, we work with a variety of mortgage lenders that make available to home buyers a range of conventional mortgage financing programs. By making information about these programs available to prospective home buyers and maintaining a relationship with such mortgage lenders, we are able to coordinate and expedite the entire sales transaction by ensuring that mortgage commitments are received and that closings take place on a timely and efficient basis.

Title Services

Through our subsidiaries, DHI Title of Arizona, Custom Title, DHI Title of Texas, Ltd., DHI Title of Florida, Inc., DHI Title of Minnesota, Inc., Grande Title Agency, LLC, Metro Title Company and Travis County Title Company, we serve as a title insurance agent by providing title insurance policies, examination and closing services to purchasers of homes we build in the Atlanta, Austin, Dallas, Fort Worth, Houston, Maryland-D.C., Miami/ West Palm Beach, Minneapolis, New Jersey, Orlando, Phoenix, San Antonio and Virginia-D.C. markets. We have assumed no underwriting risk associated with these title policies.

Employees

At March 31, 2004, we employed 6,855 persons, of whom 1,442 were sales and marketing personnel, 2,370 were executive, administrative and clerical personnel, 1,935 were involved in construction, and 1,108 worked in mortgage and title operations. We had fewer than 25 employees covered by collective bargaining agreements. Employees of some of the subcontractors which we use are represented by labor unions or are subject to collective bargaining agreements. We believe that our relations with our employees and subcontractors are good.

Competition

The single family residential housing industry is highly competitive and we compete in each of our markets with numerous other national, regional and local homebuilders, often with larger subdivisions designed, planned and developed by such homebuilders. Our homes compete on the basis of quality, price, design, mortgage financing terms and location.

Governmental Regulation and Environmental Matters

The housing, mortgage and title insurance industries are subject to extensive and complex regulations. We and our subcontractors must comply with various federal, state and local laws and regulations, including zoning, density and development requirements, building, environmental, advertising and consumer credit rules and regulations, as well as other rules and regulations in connection with our development, homebuilding, sales and financial services activities. These include requirements affecting the development process, as well as building materials to be used, building designs and minimum elevation of properties. Our homes are inspected by local authorities where required, and homes eligible for insurance or guarantees provided by the FHA and VA are subject to inspection by them. These regulations often provide broad discretion to the administering governmental authorities. This can delay or increase the cost of development or homebuilding.

We also are subject to a variety of local, state and federal statutes, ordinances, rules and regulations concerning protection of health and the environment. The particular environmental laws for each site vary greatly according to location, environmental condition and the present and former uses of the site and adjoining properties. These environmental laws may result in delays, may cause us to incur substantial compliance and other costs, and can prohibit or severely restrict development and homebuilding activity in certain environmentally sensitive regions or areas.

Our internal mortgage activities and title insurance agencies must also comply with various federal and state laws, consumer credit rules and regulations and other rules and regulations unique to such activities. Additionally, mortgage loans and title activities originated under the FHA, VA, FNMA and GNMA are subject to rules and regulations imposed by those agencies.

DESCRIPTION OF NOTES

The following description of the particular terms of the Notes supplements and, to the extent inconsistent therewith, replaces the description of the general terms of the Debt Securities set forth under the heading "Descriptions of Debt Securities" in the accompanying prospectus, to which description reference is hereby made. The Notes offered hereby will be issued under an Indenture dated as of June 9, 1997, among the Company, the Guarantors and American Stock Transfer and Trust Company, as trustee (the "Trustee"), as supplemented (the "Indenture"). The following is a summary of the material terms and provisions of the Notes. The terms of the Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), as in effect on the date of the Indenture. The Notes are subject to all such terms, and prospective purchasers of the Notes are referred to the Indenture and the Trust Indenture Act for a statement of such terms. As used in this "Description of Notes," the term "Company" refers to D.R. Horton, Inc. and not any of its Subsidiaries.

Definitions of certain terms are set forth under "Certain Definitions" and throughout this description. Capitalized terms that are used but not otherwise defined herein have the meanings assigned to them in the Indenture, and those definitions are incorporated herein by reference.

General

The Notes bear interest from July 12, 2004 at 6.125% *per annum*, payable semi-annually on January 15 and July 15 of each year, commencing January 15, 2005, to Holders of record at the close of business on January 1 or July 1, as the case may be, immediately preceding each such interest payment date. The Notes will mature on January 15, 2014, and will be issued in denominations of \$1,000 and integral multiples thereof.

An aggregate principal amount of \$200 million of Notes will be issued in this offering. Additional Notes (the "Additional Notes") in an unlimited amount may be issued in one or more series from time to time subject to the limitations set forth under "Certain Covenants" "Limitation on Indebtedness."

The Notes will be guaranteed by each of the Guarantors pursuant to the guarantees (the "Guarantees") described below. The Guarantors currently do not include our subsidiaries that are engaged in the financial services segment. These subsidiaries currently do not guarantee our other senior notes or our revolving credit facility. In addition, the Notes will not initially be guaranteed by several of our insignificant subsidiaries.

Ranking

The Notes are general unsecured obligations of the Company and rank senior in right of payment to all existing and future Indebtedness of the Company that is, by its terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Company that is not so subordinated. The Guarantees described below will be general unsecured obligations of the Guarantors and will rank senior in right of payment to all existing and future Indebtedness of the Guarantors that is, by its terms, expressly subordinated in right of payment to the Guarantees and will rank *pari passu* in right of payment with all existing and future unsecured Indebtedness of the Guarantors that is not so subordinated.

Secured creditors of the Company and the Guarantors will have a claim on the assets which secure the obligations of the Company and the Guarantors to such creditors prior to claims of Holders of the Notes against those assets. At March 31, 2004, assuming we had completed this offering on that date and the net proceeds of this offering were used to reduce borrowings under our revolving credit facility, and giving effect to the payment of our 8.375% senior notes due June 15, 2004, from the net proceeds of our January 2004 issuance of our 5.0% senior notes due 2009, the Company and the Guarantors would have had approximately \$2,773.6 million of Indebtedness (including these Notes) outstanding. Of this Indebtedness, \$88.3 million would have been secured debt, \$2,185.1 million would have been equal to

these Notes, and \$500.2 million would have been subordinated to these Notes. In addition, at such date, our non-guarantor subsidiaries had approximately \$371.4 million of debt outstanding.

Equity Clawback

Except as set forth in the following sentence, the Notes are not redeemable. Pursuant to the equity clawback provision, the Company may redeem Notes, at any time on or before July 15, 2007, with the net cash proceeds of one or more Public Equity Offerings by the Company, at a redemption price equal to 106.125% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to the date of redemption; *provided*, that at least 65% of the aggregate principal amount of Notes issued under the Indenture, excluding any Notes held by the Company or any of its Affiliates, remains outstanding immediately after the occurrence of such redemption. Notice of any such redemption must be given within 60 days after the date of the closing of the relevant Public Equity Offering.

Selection of the Notes or portions thereof for redemption pursuant to the foregoing shall be made by the Trustee only on a pro rata basis or on as nearly a pro rata basis as is practicable (subject to the procedures of the Depository Trust Company), unless such method is otherwise prohibited. Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder whose Notes are to be redeemed at the registered address of such Holder. On and after the redemption date, interest ceases to accrue on the Notes or portions thereof called for redemption.

There is no sinking fund for the Notes.

The Guarantees

The Notes will be guaranteed by each of the Guarantors pursuant to the Guarantees. In general, the Guarantors currently do not include our subsidiaries that are engaged in the financial services segment. These subsidiaries currently also do not guarantee our other senior notes or our revolving credit facility. In addition, the Notes will initially not be guaranteed by several of our insignificant subsidiaries.

Each of the Guarantors will (so long as it remains a Restricted Subsidiary) unconditionally guarantee on a joint and several basis all of the Company's obligations under the Notes, including its obligations to pay principal, premium, if any, and interest, if any, with respect to the Notes. The Guarantees will be general unsecured obligations of the Guarantors and will rank *pari passu* with all existing and future unsecured Indebtedness of the Guarantors that is not, by its terms, expressly subordinated in right of payment to the Guarantees. The obligations of each Guarantor are limited to the maximum amount which, after giving effect to all other contingent and fixed liabilities of such Guarantor and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Guarantee or pursuant to its contribution obligations under the Indenture, will result in the obligations of such Guarantor under its Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each Guarantor that makes a payment or distribution under a Guarantee shall be entitled to a contribution from each other Guarantor in an amount pro rata, based on the net assets of each Guarantor, determined in accordance with GAAP. Except as provided in the covenants described under "Certain Covenants" below, the Company is not restricted from selling or otherwise disposing of any of the Guarantors.

The Indenture will require that each existing and future Restricted Subsidiary be a Guarantor. The Company will be permitted to cause any Unrestricted Subsidiary to be a Guarantor.

The Indenture will provide that if all or substantially all of the assets of any Guarantor or all of the Capital Stock of any Guarantor is sold (including by consolidation, merger, issuance or otherwise) or disposed of (including by liquidation, dissolution or otherwise) by the Company or any of its Subsidiaries, or, unless the Company elects otherwise, if any Guarantor is designated an Unrestricted Subsidiary in accordance with the terms of the Indenture, then such Guarantor (in the event of a sale or other disposition of all of the Capital Stock of such Guarantor or a designation as an Unrestricted Subsidiary) or the Person acquiring such assets (in the event of a sale or other disposition of all or substantially all of the

assets of such Guarantor) shall be deemed automatically and unconditionally released and discharged from any of its obligations under the Indenture without any further action on the part of the Trustee or any Holder of the Notes.

An Unrestricted Subsidiary that is a Guarantor shall be deemed automatically and unconditionally released and discharged from all obligations under its Guarantee upon notice from the Company to the Trustee to such effect, without any further action required on the part of the Trustee or any Holder.

A sale of assets or Capital Stock of a Guarantor may constitute an Asset Disposition subject to the Limitations on Disposition of Assets covenant.

Certain Covenants

The following is a summary of certain covenants contained in the Indenture. Such covenants are applicable (unless waived or amended as permitted by the Indenture) so long as any of the Notes are outstanding or until the Notes are defeased pursuant to provisions described under Defeasance of Indenture.

Repurchase of Notes upon Change of Control. In the event that there shall occur a Change of Control, each Holder of Notes shall have the right, at such Holder's option, to require the Company to purchase all or any part of such Holder's Notes on a date (the **Repurchase Date**) that is no later than 90 days after notice of the Change of Control, at 101% of the principal amount thereof plus accrued and unpaid interest to the Repurchase Date.

On or before the thirtieth day after any Change of Control, the Company is obligated to mail, or cause to be mailed, to all Holders of record of Notes a notice regarding the Change of Control and the repurchase right. The notice shall state the Repurchase Date, the date by which the repurchase right must be exercised, the price for the Notes and the procedure which the Holder must follow to exercise such right. To exercise such right, the Holder of such Note must deliver at least ten days prior to the Repurchase Date written notice to the Company (or an agent designated by the Company for such purpose) of the Holder's exercise of such right, together with the Note with respect to which the right is being exercised, duly endorsed for transfer; *provided, however*, that if mandated by applicable law, a Holder may be permitted to deliver such written notice nearer to the Repurchase Date than may be specified by the Company.

The Company will comply with applicable law, including Section 14(e) of the Exchange Act and Rule 14e-1 thereunder, if applicable, if the Company is required to give a notice of right of repurchase as a result of a Change of Control.

With respect to any disposition of assets, the phrase *all or substantially all* as used in the Indenture (including as set forth under Limitations on Mergers, Consolidations and Sales of Assets below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the Indenture) and is subject to judicial interpretation. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of *all or substantially all* of the assets of the Company, and therefore it may be unclear as to whether a Change of Control has occurred and whether the Holders have the right to require the Company to repurchase Notes.

None of the provisions relating to a repurchase upon a Change of Control is waivable by the Board of Directors of the Company. The Company could, in the future, enter into certain transactions, including certain recapitalizations of the Company, that would not result in a Change of Control, but would increase the amount of Indebtedness outstanding at such time.

The Indenture requires the payment of money for Notes or portions thereof validly tendered to and accepted for payment by the Company pursuant to a Change of Control offer. In the event that a Change of Control has occurred under the Indenture, a change of control may have also occurred under the agreements governing other Indebtedness of the Company or its subsidiaries. In addition, a Change of

Control may also result in the acceleration of Indebtedness under the Credit Facilities. If a Change of Control were to occur, there can be no assurance that the Company would have sufficient funds to pay the purchase price for all Notes and amounts due under other Indebtedness that the Company may be required to repurchase or repay. After giving effect to this Offering and the application of the estimated net proceeds therefrom as set forth under the section entitled Use of Proceeds, the Company would not have sufficient funds available to purchase all of the outstanding Notes pursuant to a Change of Control offer. In the event that the Company were required to purchase outstanding Notes pursuant to a Change of Control offer, the Company expects that it would need to seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing.

Failure by the Company to purchase the Notes when required upon a Change of Control will result in an Event of Default with respect to the Notes.

These provisions could have the effect of deterring