

**PULTE HOMES** 2006 Performance Final Grade: 54/100 **C**

<b>Financial</b> <span style="float: right;">20/40</span>		
EPS	\$2.67	↓ 51% YOY
Return on beg. yr. equity	12%	
Debt/total cap	35%	↓ 120 bps YOY

<b>Land</b> <span style="float: right;">10/20</span>		
Lots controlled	232,200	↓ 36% YOY
Supply (years)	9.7	
Pretax charges	\$524M	\$2.03/share

PHM responded quickly to the slowing market by dumping more than a third of its lots and taking substantial impairments and write-offs. PHM's actions as an aggressive land buyer during the market frenzy indicates future land-related charges are possible.

<b>Sales and Marketing</b> <span style="float: right;">10/20</span>		
Closings	41,487	↓ 9% YOY
Unit backlog	10,255	↓ 42% YOY

Sales activities managed to keep closings from falling even with '04 levels. The front line struggled to generate a backlog, though it fell in line with most of its competitors.

<b>Operations</b> <span style="float: right;">14/20</span>		
Revenue per employee	\$1.2M	↑ 1% YOY
HB pretax margin	9%	↓ 610 bps YOY
Inventory	\$9.9B	↑ 8% YOY



➔ In '06, PHM's business strategy of diversification and segmentation in its markets stood up to the test. So did its balance-sheet-first philosophy, which favors low leverage and high cash on hand. While its cash position did erode by 45%, its debt-to-capital ratio remains among the lowest in the group. PHM's initiative to centralize decisions and simplify the choices offered to buyers comes at a particularly good time. As a byproduct, the company identified successful plans and options for buyers and then condensed its offerings to generate operational efficiencies and cost savings.

**THE RYLAND GROUP** 2006 Performance Final Grade: 70/100 **B**

<b>Financial</b> <span style="float: right;">33/40</span>		
EPS	\$7.83	↓ 13% YOY
Return on beg. yr. equity	26%	
Debt/total cap	39%	↓ 150 bps YOY

<b>Land</b> <span style="float: right;">13/20</span>		
Lots controlled	63,385	↓ 20% YOY
Supply (years)	8.2	
Pretax charges	\$81M	\$1.83/share

RYL won out on the land game in '06 by avoiding big balance sheet charges. Geographic diversity and a fairly even balance of lots optioned to lots owned mitigated land exposure.

<b>Sales and Marketing</b> <span style="float: right;">9/20</span>		
Closings	15,392	↓ 8% YOY
Unit backlog	4,206	↓ 50% YOY

The company's backlog going into '06 proved more fragile than expected. However, rather than incentivize like crazy to boost sales, the company remained fairly judicious. Average incentives hovered around 6% of base home price.

<b>Operations</b> <span style="float: right;">15/20</span>		
Revenue per employee	\$1.7M	↑ 13% YOY
HB pretax margin	11%	↓ 340 bps YOY
Inventory	\$2.8B	↑ 7% YOY



➔ RYL's land strategy has been laudable. Because the company bought much less land in the past three years than its competitors, in '06, its land-related balance sheet charges were significantly less than its peers. And, because the company maintained a conservative, risk-averse business strategy, its financial performance also is noteworthy. CEO R. Chad Dreier set three goals for the company to achieve before fiscal year end: First, get debt-to-capitalization back to around 40%; second, pay down \$232M outstanding on the company's credit line; and third, reduce inventory by \$200M. RYL exceeded each of those financial goals and ended up with \$215M in cash. However, rather than keep it liquid, the company continued to buy back stock. In '06, it purchased 4.7M shares at an average price of \$53.22.

**STANDARD PACIFIC CORP.** 2006 Performance Final Grade: 42/100 **C-**

<b>Financial</b> <span style="float: right;">13/40</span>		
EPS	\$1.85	↓ 71% YOY
Return on beg. yr. equity	7%	
Debt/total cap	53%	↑ 580 bps YOY

<b>Land</b> <span style="float: right;">10/20</span>		
Lots controlled	60,383	↓ 19% YOY
Supply (years)	6.3	
Pretax charges	\$371M	\$5.55/share

SPF owns nearly 71% of its land, more than most of its peers, limiting its ability to easily adjust in a slowdown. Huge charges on land should help the company reposition itself for margin improvements as sales improve.

<b>Sales and Marketing</b> <span style="float: right;">9/20</span>		
Closings	10,763	↓ 8% YOY
Unit backlog	2,833	↓ 56% YOY

Early in the year, the focus remained on margin preservation, despite the slowing market. But as conditions deteriorated, SPF was forced to offer more incentives. At year-end, closings were acceptable, but backlog fell more than most of its peers.

<b>Operations</b> <span style="float: right;">10/20</span>		
Revenue per employee	\$1.5M	↓ 4% YOY
HB pretax margin	6%	↓ 980 bps YOY
Inventory	\$3.5B	↓ 1% YOY



➔ The California-based company's position in the hardest-hit markets in the country, along with its larger share of owned land, made '06 a challenging year for SPF. It was able to manage cancellations well enough to keep closings above '04 levels, yet lower than '05's peak. Still, sales concessions had their effect on margins, which dropped precipitously. Cash on hand also fell slightly. Even before the market slowed, the company was making efforts to consolidate its supply chain operations under the "one standard" banner, initiating a thorough review and attempted consolidation of its materials suppliers, and rolled out a bevy of new technology solutions. Long term, these efforts should improve the bottom line.

**TECHNICAL OLYMPIC USA** 2006 Performance Final Grade: 23/100

**Financial** 2/40

EPS	\$ (3.38)	NM
Return on beg. yr. equity	NM	
Debt/total cap	64%	↑1,360 bps YOY

**Land** 2/20

Lots controlled	67,500	↓26% YOY
Supply (years)	15.8	
Pretax charges	\$589M	\$9.88/share

TOA dropped more than a quarter of its lots and still has enough land to last through 2023 at current sales rates. Backlog is half of what it was last year and reflects TOA's past land cravings, much of which was sated during the '05 market peak when lot count went from 50,000 to 94,300.

**Sales and Marketing** 12/20

Closings	9,602	↑10% YOY
Unit backlog	4,593	↓54% YOY

In '06, closings rose substantially, despite TOA's cancellations and the fact most operations were in extremely challenging markets. On the other hand, backlog plummeted.

**Operations** 7/20

Revenue per employee	\$1.2M	↑22% YOY
HB pretax margin	2%	↓820 bps YOY
Inventory	\$2.2B	↑26% YOY



Any business strategies TOA might have put in place early last year were overshadowed by the third quarter when its year-old joint venture acquisition of Transeastern Homes tanked as the once simmering Florida market cooled. Financiers of the joint venture, as well as shareholders who claim they weren't privy to the venture's full risks, have filed lawsuits. At first, CEO Tony Mon said the joint venture insulated TOA from repercussions. Now there are talks of consolidating the joint venture into the company's primary operations and negotiating a cash settlement for the suing banks. How much resolving the issue will cost is a guess, but the company's 89% increase in cash on hand could come in handy.

**TOLL BROTHERS** 2006 Performance Final Grade: 61/100

**Financial** 27/40

EPS	\$3.52	↓26% YOY
Return on beg. yr. equity	20%	
Debt/total cap	39%	↓40 bps YOY

**Land** 12/20

Lots controlled	67,500	↓26%*
Supply (years)	10.4	
Pretax charges	\$257M	\$1.57/share

\*From 2005 peak  
TOL's land strategy has owned versus optioned emphasis, with astuteness in matching land position to luxury product position. Land development track record builds patient return expectations into its lot pipeline management plan.

**Sales and Marketing** 11/20

Closings	8,209	↓6% YOY
Unit backlog	5,992	↓31% YOY

Although TOL's luxury positioning in its competing arenas did not prove to be Teflon in light of the national housing downturn, its unique products, project manager-accountability structure, and submarket-sensitive pricing tactics stood TOL in impressive stead compared with peer group.

**Operations** 11/20

Revenue per employee	\$1.0M	↓1% YOY
HB pretax margin	14%	↓700 bps YOY
Inventory	\$6.2B	↑12% YOY



Strategically, TOL's stature as a luxury home builder among peers whose product portfolios emphasize lower-end and more diversified offerings recommends counterintuitive management of certain financial and operational metrics. Certainly, TOL took balance sheet-strengthening steps in '06 to manage worse conditions in the coming year. But the builder only reluctantly acted to reduce overheads and drive top line earnings, choosing instead to keep talent base and pricing integrity intact. Risks to its strategy include widening price depreciation impacting existing home sellers' capacity to move up to a TOL dream house product. Still, TOL's financial and operational strategy highlights long-haul opportunities as aging baby boom and affluent population trends remain positive for decades to come.

**WCI COMMUNITIES** 2006 Performance Final Grade: 19/100

**Financial** 5/40

EPS	\$0.21	↓95% YOY
Return on beg. yr. equity	1%	
Debt/total cap	67%	↑1,060 bps YOY

**Land** 3/20

Lots controlled	20,485	↓17% YOY
Supply (years)	18.5	
Pretax charges	\$140M	\$3.29/share

WCI's stated goal in early '06 was to lower its percentage of owned lots from a high of 90%. But it was too late, the market had started to fall and there was nobody to buy it. The company walked from the options it had, but there were too little to make much of a difference.

**Sales and Marketing** 6/20

Closings	2,215	↓24% YOY
Unit backlog	870	↓49% YOY

The company made an erroneous assumption that with hefty deposits, its towers were almost immune to defaults. It was slow to re-price and repackage a large community in Naples, Fla., which alone triggered \$84.9M in charges.

**Operations** 5/20

Revenue per employee	\$642K	↓6% YOY
HB pretax margin	0%	↓1,010 bps YOY
Inventory	\$2.0B	↑16% YOY



In '06, WCI set goals to decrease its debt. Instead, it significantly increased it. The company announced plans to start moving land holdings from direct ownership into options and joint ventures. But the land market had already begun to stall. As sales slowed, WCI executives took the historically low, tower default-rate for granted. Instead of working proactively to head off cancellations, they bet buyers wouldn't walk from substantive deposits. They bet on the wrong horse. WCI even managed to lose money on an Intracoastal Waterway marina in West Palm Beach, Fla., taking a \$4.5M, full-value write-down. The marina's ownership is restricted to residents of WCI's adjacent tower. But, according to CEO Jerry Starkey in the company's fourth quarter conference call, no one bought because, "many of them ... are now beyond their yachting days."