Yale School of Management

North America Equity Research
December 11, 2006

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WCI Communities

Underweight recommendation – homebuilder lacks profit sustaining strategy, operates with weak margins, and in significant debt. Management ability to lead company in doubt.

Key Ratios and Statistics
Ticker: WCI

Stock Rating: Underweight
Industry View: Cautious

Homebuilding/United States of America

Price target	**$13.36**
Share price (as of 12.8.06)	$17.74
52-week range	$29.76-$13.73
Market cap. (as of 12.8.06)	$742.48MM

- ***Management gets near-sighted, sets debt reduction as top priority rather than focusing on strategy to increase or sustain growth.***

Management raised the first red flag when they decided to make reducing debt their number one priority instead of strategizing to maintain superior relative performance and sustainable profitability. For Q4 2006 and onward, management will focus on reducing debt and will not move onto other priorities until that goal is met.[1] That is a dangerous claim for two reasons 1) it provides a signal to investors that the relatively new CEO (since February 2005), Jerry Starkey, may not be ready for the job. Rather than focusing exclusively on the debt burden, Starkey's attention should be on strategy and profit growth. If WCI's profits improve, the debt problem should take care of itself; 2) puts doubts in investors' minds as to whether the company even has a growth strategy. The general statement to reduce debt gives investors no sense of where the company is heading or of details on how management plans to achieve that. And when investors are in doubt, they will most likely assume the worst and do without (sell the stock).

- ***Operating margins continue to weaken, will synergies with Spectrum Communities and Renaissance Housing Corp. ever kick in?***

For a total of nearly $200MM, cash-strapped WCI acquired Spectrum Communities for $53.5MM in 2004 and Renaissance Housing Corp. for $136.6MM in 2005,[2] investors have yet to reap the benefits of these investments. Besides a slight gross margin boost in 2005 (by 0.55%), the acquisitions have been more of a liability than an asset. Since 2004, operating margins have been eroding despite management's attempt to leverage the expertise of these companies and broaden its reach to the Mid-Atlantic and Florida regions. Granted, internal integrations can take time before synergies can be realized, however, if WCI cannot take advantage of the acquisition benefits during periods of favorable home-selling conditions, how can investors be optimistic that the synergies will happen in Q4 2006, 2007, and onward when demand for housing is expected to further slow? This again could be a sign of a mismanaged company.

- ***"Junk" territory credit rating lingers as expectations of slowing demand continue, especially in tower sales which make up more than half of total company revenues. Highly doubtful that WCI will be able to decrease current debt-to-equity ratio of approximately 66% to 50% in near term.***

Without a growth strategy in place and lack of value-adds from prior investments topped with expected slowing demand in the near term, what does WCI have left to increase cashflows to pay down its debt? Sure, WCI can continue to sell its existing inventory of active adult and/or luxury single or multi-family houses and high-rise tower units in leisure-oriented, amenity-rich, master-planned communities.[3] However, with management's concern with the current level of debt, it is unlikely that they will invest in more land, especially expensive land in highly desired locations which really is WCI's point of differentiation. Hence, WCI may not be able to compete in this niche market for long. This business model combined with slowing demand in the housing sector, particularly for tower units, is a recipe for failure. Of the 15 towers expected to close in 2006, only 1 tower closed as of Q3 2006. In addition to the 15 towers that have to close in 2006, 8 more have to be sold in order for WCI to achieve the goal of a 50% debt-to-equity ratio.[4] In other words, within the next fifteen short months, WCI will have to sell about 23 towers and use the free cashflows to repurchase debt. Given the current demand for tower homes, we certainly are not too optimistic. This task will be even more difficult when the first tranche of outstanding debt, about $200MM, matures in 2012.

WCI Competitive Landscape
Within the Northeast, Mid-Atlantic, and Florida active adults and luxury homes market, Lennar (active adults), Pulte Homes (active adults), and Toll Brothers (luxury) are the market leaders. Comparatively, WCI's annual sales total $2,601.8 in 2005 which make up about 19% of Lennar, 20% of Pulte Homes, and 45% of Toll Brothers' annual sales for the same period.[5] By that, WCI does not have significant market share and can easily be outperformed by its larger and better capitalized competitors. In order for WCI to maintain its competitive position, it branches into the tower building business, a sector played by few homebuilders. However, given the recent slowing demand for homes, especially for tower units, WCI is left with only land purchases in highly desired locations as its point of differentiation. And even that will not sustain it since management is scaling back on land investment in response to the slowing climate. So ultimately, with WCI's inability to create synergies with its acquisitions, WCI's profitability is limited and will depend almost solely on its existing inventory in the near term.

WCI Advantages
Even though WCI is under tremendous financial stress, it is only fair that we also mention the advantages of the business and present the glimmer of hope that may potentially allow the company to rebound. For one, WCI realizes its balance sheet constraints and participates mainly in a niche market - - targeting affluent active adults and families. Because customers in this market segment are less sensitive to changes in interest rates, unemployment, and macroeconomic factors in general, its profitability is less prone (not immune though) to fluctuates and downturns in the market. Also, it has only been about a year or two since its acquisitions of Spectrum Communities and Renaissance Housing Corp. While there have not been improvements in operating margins thus far, synergy benefits can very well be realized in the longer term as internal integration initiatives further develop.

WCI Risks
WCI's paramount risk is its lack of growth strategy. Besides engaging in traditional ways to cut costs (e.g., worker layoffs, land acquisition and material cutbacks, process redesign to reduce cycle time, etc…), WCI does not really have a game plan to execute against in order improve profitability. Hence any actions in the near term will be focused on short term performance, which could be bad news because in many cases, these margins are not sustainable and short-sighted decisions could cost long-term profits.

Namely, with management's obsession with reducing debt thereby decreasing its investment in new land, WCI may suffer huge opportunities costs once the housing market rebounds. In addition, WCI is under the leadership of a new CEO. His ability to steer the company in the right direction is to be determined.

WCI Revenues
For 9 months ended September 31, revenue decreased more than 13% to $1.53 billion. Given that the fourth quarter historically makes up more than 40% of total fiscal year revenue, we anticipate a 31% drop in revenue for full year 2006 to around $2.3 billion. The drop is attributable to mainly 1) expected decline in new orders for full year 2006 (compared to 2005 with a 65.8% decline in the first three quarters); 2) expected increase in cancellation rate for traditional homebuilding at 34% compared with that of a year ago and industry average of 25%; 3) expected increase in tower default rate of 5% compared with the historical rate of 2%; 4) deferred sale of 15 towers (due to slowing demand) that were initially planned to close in 2006; 5) weaker than average performance in Florida particularly in retirement-oriented communities; 6) dismal demand outlook for housing market in Q4 2006 and throughout 2007. For its Real Estate Service and Other Revenue businesses, revenues will decrease 30% and 50%, respectively, in 2006. Going by the same logic, revenue for the homebuilding business in 2007 will be driven primarily by closing the $800 million in its current backlog. This leads to a total 40% decline in revenues for full year 2007 to $1.41 billion which is above management's projection of $1.3 billion.

WCI Expenses
For the 9 months ended September 31, SG&A including real estate taxes increased to 9.7% from 8.8% for the same period last year.[6] Given the slowing demand and pressure to generate revenues, WCI increased its stock based compensation expense. We anticipate the trend to continue through 2007, thereby set SG&A at 11%. As the housing market picks up in possibly 2008, SG&A should move back closer to its historical average of 9.26%. Inventory levels increased significantly to 90.63% in 2006 which is significantly above WCI's 4-year historical average of 79%. Because WCI has scaled back on its land investments and will be primarily selling its existing inventory (as of Q3 2006, there are 45 tower sites left to be built on and/or sold),[7] we expect short term inventory levels to hover back to around its historical average, and long term inventory levels to decrease to slightly above its historical best at around 65%. Due to management's concern over its current debt obligation, we do not anticipate positive change in working capital until late 2009 or early 2010 when demand for tower units should improve. As for COGS, even though the number of homes sold is expected to decrease, short term expenses should still hit the historical average of about 75% so to factor in increases in prices due to inflation. Again, as sales start to improve in the longer term along with anticipation of new homebuilding technology to emerge, COGS should decrease back to a little over its historical best of approximately 73%.

WCI Beta Calculation
Based on our beta regression $R_i - R_f = \alpha + \beta^*(R_m - R_f)$, WCI's lifetime levered beta is 1.09. Given the large variations in the betas over time, we chose to use the 2-year beta of 1.55, which is the same as the industry 5-year levered beta, in our DCF analysis. Using that along with a risk-free rate of 4.8% (10-year Treasury), equity risk premium of 6.5%, and after-tax cost of debt of 5.2%, we came up with a WACC of 10%.

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WCI Discounted Cash Flow

WCI has maintained a debt-to-equity ratio ranging from 49% to 65% in the past three years. Although aggressive, we gave management the benefit of the doubt and assumed they will be able to reduce debt and achieve a 50% debt-to-equity ratio going forward. As such, we used WACC instead of APV to value the company. Based on our outlook for the company and strengths/weaknesses of the economy, we came up with a targeted share price of $13.36. This value is about 24.71% less than the closing price of $17.74 as of Friday, December 8, 2006; therefore, warrants an underweight recommendation. To be conservative since we are making a sell recommendation, we also ran a management best-case scenario where we used management's short term projections as stated in the Q3 2006 earnings conference call and historical bests as the long term forecasts to value the company. In the most optimistic case, WCI stock is valued at $17.65, which is still 0.51% lower than its closing price. Even under extremely positive and quite unrealistic projections, WCI only merits an equal-weight recommendation.

WCI Sensitivity Analysis

On average based on historical figures, WCI's homebuilding business (80% of total revenues) grows at about 4.44%. By that, to be conservative we assumed terminal value growth (TVGR) to be 5%. If we bring TVGR down closer to 4.44%, our targeted stock price further decreases ranging from $7.30-$13.20.

Sensitivity Analysis

		TVGR								
		3%	3.50%	4%	4.50%	5%	5.50%	6%	6.50%	7%
Beta	1.35	9.0	10.8	13.0	15.7	18.9	22.8	27.8	34.2	43.1
	1.40	8.1	9.9	12.0	14.4	17.4	21.0	25.6	31.4	39.3
	1.45	7.3	9.0	10.9	13.2	16.0	19.3	23.5	28.9	35.9
	1.50	6.5	8.1	10.0	12.1	14.7	17.8	21.6	26.5	32.9
	1.55	5.8	7.3	9.0	11.0	13.5	16.3	19.9	24.4	30.1
	1.60	5.1	6.5	8.1	10.0	12.3	15.0	18.3	22.4	27.6
	1.65	4.4	5.7	7.3	9.1	11.2	13.7	16.8	20.5	25.3
	1.70	3.7	5.0	6.5	8.2	10.2	12.5	15.3	18.8	23.2
	1.75	3.1	4.3	5.7	7.3	9.2	11.4	14.0	17.2	21.2
	1.80	2.5	3.6	5.0	6.5	8.2	10.3	12.8	15.8	19.4

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Appendix A - Discounted Cash Flow

		1	2	3	4	5	6	7
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
FCF to D+E								
EBIT	**257,677**	**185,439**	**199,533**	**247,708**	**272,178**	**312,554**	**337,318**	**354,033**
Taxes	100,494	72,321	77,818	96,606	106,149	121,896	131,554	138,073
After Tax EBIT	**157,183**	**113,118**	**121,715**	**151,102**	**166,028**	**190,658**	**205,764**	**215,960**
+Depreciation and Amortization	17,022	10,213	10,213	10,724	11,796	13,565	14,651	15,383
-Changing in WC	691,758	(1,410,674)	(94,365)	(38,028)	83,917	131,138	110,385	74,510
-CapEx	90,796	(125,433)	4,500	17,755	26,561	37,928	29,593	25,469
FCF to D+E	**(608,349)**	**1,659,438**	**221,793**	**182,098**	**67,346**	**35,158**	**80,436**	**131,364**
PV		1,502,653	181,862	135,207	45,280	21,405	44,344	
Accumulated PV	**1,322,402**							
Terminal Value	**2,417,506**							
PV of Terminal Value	1,332,767							
Firm Value	**2,655,169**							
-Net Debt	2,028,145							
Equity Value	**627,024**							
Total Shares outstanding	46,946							
Share Price	**13.36**							
Current Price (As of 12/22/06)	17.74							
Price Difference	**(24.71%)**							
Terminal Growth	5%							
Beta	1.55							

Appendix B – Weighted Average Cost of Capital

Weighted Average Cost of Debt and Equity Capital (WACC)		
Shares outstanding ('000)		46,946
Levered Beta for This Company	1.55	
Risk Free Rate		4.80%
Equity Risk Premium		6.5%
Cost of Equity:		14.9%
Market Value of Total Interest Bearing Debt (MVD)		2,084,931
Marginal Cost of Long-Term Debt		9.78%
Marginal Tax Rate		39%
After-Tax Cost of Debt:		6.0%
MVE/(MVD+MVE)		50%
MVD/(MVD+MVE)		50%
Weighted Average Cost of Capital		10.4%

Industry Levered Beta (5 Year)	1.56
Industry Levered Beta (2 Year)	2.43
Industry Unlevered Beta (5 Year)	0.97
Industry Unlevered Beta (2 Year)	1.51
WCI Levered Beta 4 Year	1.09
WCI Levered Beta 2 Year	1.55

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Appendix C – Projection Assumptions

	2002	2003	2004	2005	2006(adj)	2007	2008	2009	2010	2011	2012	2013
Sales Growth												
Homebuilding		22.62%	27.97%	41.28%	(6.00%)	(40.00%)	0.00%	5.00%	10.00%	15.00%	8.00%	5.00%
Real Estate Service		20.68%	24.28%	15.83%	(25.00%)	(30.00%)	0.00%	5.00%	10.00%	15.00%	8.00%	5.00%
Other		(7.22%)	(21.03%)	149.76%	(40.00%)	(50.00%)	0.00%	5.00%	10.00%	15.00%	8.00%	5.00%
Cost												
Homebuilding	71.75%	73.75%	75.69%	77.45%	78.00%	74.72%	74.72%	73.00%	73.00%	73.00%	73.00%	73.00%
Real Estate Service	86.45%	82.63%	84.00%	84.52%	87.00%	84.40%	84.40%	83.00%	83.00%	83.00%	83.00%	83.00%
Other	66.23%	83.36%	92.25%	58.94%	92.00%	75.20%	75.20%	70.00%	70.00%	70.00%	70.00%	70.00%
Interest Expense/COGS	3.55%	3.20%	3.12%	1.80%	2.92%	2.92%	2.92%	3.00%	3.00%	3.00%	3.00%	3.00%
Real Estate Tax/Sales	0.63%	0.80%	0.70%	0.56%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Tax Rate	38.92%	37.84%	39.07%	39.09%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%
Depreciation/Sales	0.75%	0.77%	0.76%	0.62%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%
SG&A/Sales	9.70%	9.65%	9.43%	8.24%	9.26%	11.00%	10.00%	9.26%	9.26%	9.26%	9.26%	9.26%
Other Income/Sales	0.44%	0.39%	1.39%	0.36%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%
Accounts Receivable/Sales	49.48%	44.74%	47.16%	45.16%	62.68%	49.84%	46.63%	45.00%	45.00%	45.00%	45.00%	45.00%
Inventory/Sales	80.67%	76.15%	81.85%	64.87%	90.63%	78.84%	75.00%	70.00%	68.00%	65.00%	65.00%	65.00%
PP&E/Sales	10.49%	11.63%	9.78%	8.00%	12.00%	10.38%	9.98%	9.98%	9.98%	9.98%	9.98%	9.98%
Cash/Sales	5.81%	13.34%	12.22%	6.17%	2.42%	7.99%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%
Accounts Payable/Sales	35.34%	37.72%	39.59%	32.54%	38.04%	36.65%	36.30%	36.30%	36.30%	36.30%	36.30%	36.30%
Other Assets/Sales	3.74%	3.52%	5.49%	4.95%	6.57%	4.85%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%
Community Obligation/Sales	2.45%	3.17%	5.16%	4.67%	6.47%	4.38%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%
Tax Payable/Sales	4.33%	3.95%	4.11%	3.25%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%
Net Debt/Capitalization		49.90%	53.80%	55.00%	55.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
STD+LTD+Equity					plug	plug	plug	plug	plug	plug	plug	plug

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Appendix D – Projected Income Statements

Year Ended December 31	2002	2003	2004	2005	First 9 months of 2005	First 9 months of 2006	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Revenues														
Homebuilding	1,014,303	1,243,789	1,591,695	2,248,753	1,466,857	1,363,164	2,113,828	1,268,297	1,268,297	1,331,712	1,464,883	1,684,615	1,819,384	1,910,354
Real estate services	90,226	108,885	135,321	156,740	128,513	87,083	117,555	82,289	82,289	86,403	95,043	109,300	118,044	123,946
Other	107,280	99,531	78,601	196,317	163,036	77,177	117,790	58,895	58,895	61,840	68,024	78,227	84,486	88,710
Total revenues	**1,211,809**	**1,452,205**	**1,805,617**	**2,601,810**	**1,758,406**	**1,527,424**	**2,349,173**	**1,409,480**	**1,409,480**	**1,479,954**	**1,627,950**	**1,872,142**	**2,021,914**	**2,123,009**
Costs of Sales														
Homebuilding	727,780	917,268	1,204,781	1,741,566	1,156,649	1,066,219	1,648,786	947,669	947,669	972,149	1,069,364	1,229,769	1,328,151	1,394,558
Real estate services	77,998	89,973	113,669	132,469	106,333	81,157	102,273	69,450	69,450	71,714	78,886	90,719	97,976	102,875
Other	71,054	82,974	72,506	115,711	89,498	87,251	108,367	44,287	44,287	43,288	47,617	54,759	59,140	62,097
Total costs of sales	**876,832**	**1,090,215**	**1,390,956**	**1,989,746**	**1,352,480**	**1,234,627**	**1,859,426**	**1,061,405**	**1,061,405**	**1,087,152**	**1,195,867**	**1,375,247**	**1,485,267**	**1,559,530**
Gross margin	**334,977**	**361,990**	**414,661**	**612,064**	**405,926**	**292,797**	**489,747**	**348,075**	**348,075**	**392,803**	**432,083**	**496,895**	**536,647**	**563,479**
Gross Margin (% of Total Revenues)	*27.64%*	*24.93%*	*22.97%*	*23.52%*	*23.08%*	*19.17%*	*20.85%*	*24.70%*	*24.70%*	*26.54%*	*26.54%*	*26.54%*	*26.54%*	*26.54%*
Other Income and Expenses														
Equity in losses (earnings) from joint ventures	410	(607)	1,206	1,386	827	814								
Other income	(5,745)	(5,075)	(26,250)	(10,804)	(4,917)	(5,248)								
Total other income	(5,335)	(5,682)	(25,044)	(9,418)	(4,090)	(4,434)	(15,155)	(9,093)	(9,093)	(9,548)	(10,502)	(12,078)	(13,044)	(13,696)
Minority interests	0	0	1,204	4,537	1,974	(259)	0	0	0	0	0	0	0	0
Hurricane costs, net of insurance recoveries	0	0	1,236	4,324	(2,364)	(6,435)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)

Selling, general, administrative and other	117,578	140,159	170,208	214,376	143,257	137,460	217,417	155,043	140,948	136,971	150,668	173,268	187,129	196,486
Real estate taxes, net	7,591	11,650	12,607	14,601	11,868	11,251	15,787	9,472	9,472	9,945	10,940	12,581	13,587	14,267
Depreciation and amortization	9,092	11,211	13,717	16,037	11,683	18,710	17,022	10,213	10,213	10,724	11,796	13,565	14,651	15,383
Expenses related to early repayment of debt	3,282	0	0	26,167	4,295	455	0	1	2	3	4	5	6	7
Income before interests and income taxes	**202,769**	**204,652**	**240,733**	**341,440**	**239,303**	**136,049**	**257,677**	**185,439**	**199,533**	**247,708**	**272,178**	**312,554**	**337,318**	**354,033**
Operating Margin	*16.73%*	*14.09%*	*13.33%*	*13.12%*	*13.61%*	*8.91%*	*10.97%*	*13.16%*	*14.16%*	*16.74%*	*16.72%*	*16.69%*	*16.68%*	*16.68%*
Interest expense, net	31,161	34,842	43,443	35,816	25,016	19,103	68,555	41,132	41,132	44,399	48,838	56,164	60,657	63,690
Income before income taxes	**171,608**	**169,810**	**197,290**	**305,624**	**214,287**	**116,946**	**189,122**	**144,307**	**158,401**	**203,309**	**223,339**	**256,390**	**276,660**	**290,342**
Income tax expense	66,792	64,250	77,087	119,474	82,697	43,370	73,758	56,280	61,776	79,290	87,102	99,992	107,897	113,234
Net income	**104,816**	**105,560**	**120,203**	**186,150**	**131,590**	**73,576**	**115,365**	**88,027**	**96,625**	**124,018**	**136,237**	**156,398**	**168,763**	**177,109**

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Appendix E – Projected Balance Sheets

	2002	2003	2004	2005	9 mon 2006	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Assets													
Cash and cash equivalents	49,789	95,005	61,992	52,584	21,454								
Restricted cash	20,577	98,655	158,694	107,850	35,332								
Total Cash	70,366	193,660	220,686	160,434	56,786	56,786	112,612	132,247	138,859	152,745	175,657	189,710	199,195
Contracts receivable	515,021	546,696	758,406	1,123,509	1,443,103								
Mortgage notes and accounts receivable	84,598	102,953	93,130	51,349	29,281								
Total Receivables	599,619	649,649	851,536	1,174,858	1,472,384	1,472,384	702,511	657,285	665,979	732,577	842,464	909,861	955,354
Real estate inventories	977,524	1,105,866	1,477,966	1,687,852	2,129,127	2,129,127	1,111,168	1,057,110	1,035,968	1,107,006	1,216,892	1,314,244	1,379,956
Property and equipment, net	127,152	168,920	176,589	208,205	281,979	281,979	146,333	140,620	147,651	162,416	186,779	201,721	211,807
Investment in joint ventures	47,427	54,919	51,964	47,927	0	0	0	0	0	0	0	0	0
Other assets	45,352	51,053	99,189	128,710	154,374	154,374	68,416	62,364	65,482	72,030	82,835	89,461	93,934
Goodwill	28,388	28,940	51,567	66,293	66,993	66,993	66,993	66,993	66,993	66,993	66,993	66,993	66,993
Other intangible assets, net	8,064	7,625	7,199	7,127	8,219	8,219	8,219	8,219	8,219	8,219	8,219	8,219	8,219
Total assets	**1,903,892**	**2,260,632**	**2,936,696**	**3,481,406**	**4,169,862**	**4,169,862**	**2,216,251**	**2,124,838**	**2,129,152**	**2,301,987**	**2,579,839**	**2,780,209**	**2,915,459**
Liabilities and Shareholders' Equity													
Accounts payable and other liabilities	244,718	316,570	332,289	378,299	477,707								
Customer deposits	183,540	231,142	382,610	468,341	415,976								
Total A/P	428,258	547,712	714,899	846,640	893,683	893,683	516,524	511,605	537,186	590,904	679,540	733,903	770,598
Income taxes payable	52,506	57,383	74,122	84,602		91,859	55,114	55,114	57,870	63,657	73,206	79,062	83,015
Community development district obligations	29,684	46,013	93,235	121,548	113,693	151,890	61,789	54,453	57,176	62,893	72,327	78,113	82,019
Senior unsecured revolving credit facility	44,935	0	190,730	94,050	571,556								
Senior unsecured term note	0	0	0	300,000	300,000								
Mortgages and notes payable	130,624	46,918	150,238	203,214	363,161								
Senior subordinated notes	554,397	678,859	678,321	530,473	525,000								
Junior subordinated notes	0	0	0	100,000	165,000								

Contingent convertible senior subordinated notes	0	125,000	125,000	125,000	125,000									
Minority interests	0	0	16,340	17,257	40438									
Total Liabilities	**1,240,404**	**1,501,885**	**2,042,885**	**2,422,784**	**3,097,531**									
Commitments and contingencies														
Shareholders' equity:														
Common stock, $.01 par value; 100,000 shares authorized,														
46,055 and 45,305 shares issued, respectively	445	447	453	460	465									
Additional paid-in capital	277,912	279,173	288,122	298,786	306,500									
Retained earnings	387,555	493,115	613,318	799,468	873,044									
Treasury stock, at cost, 1,693 and 693 shares,														
respectively	(795)	(13,795)	(8,082)	(38,987)	(108,047)									
Accumulated other comprehensive loss	(1,629)	(193)	0	(1,105)	369									
Total shareholders' equity	**663,488**	**758,747**	**893,811**	**1,058,622**	**1,072,331**									
Debt+Equity	**1,393,444**	**1,609,524**	**2,054,440**	**2,428,616**	**3,162,486**	**3,032,430**	**1,582,823**	**1,503,665**	**1,476,921**	**1,584,533**	**1,754,767**	**1,889,131**	**1,979,827**	
Total liabilities and shareholders' equity	**1,903,892**	**2,260,632**	**2,936,696**	**3,481,406**	**4,169,862**	**4,169,862**	**2,216,251**	**2,124,838**	**2,129,152**	**2,301,987**	**2,579,839**	**2,780,209**	**2,915,459**	

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Appendix F – Management Best-Case Scenario DCF

		1	2	3	4	5	6	7
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
FCF to D+E								
EBIT	**255,139**	**182,880**	**177,318**	**222,180**	**246,760**	**275,173**	**322,862**	**338,854**
Taxes	99,504	71,323	69,154	86,650	96,236	107,317	125,916	132,153
After Tax EBIT	**155,635**	**111,557**	**108,164**	**135,530**	**150,523**	**167,856**	**196,946**	**206,701**
+Depreciation and Amortization	16,660	10,004	9,004	9,454	10,210	11,231	12,130	12,736
-Changing in WC	691,758	(1,430,258)	(169,301)	(16,161)	16,912	79,901	42,753	61,584
-CapEx	90,434	(127,911)	(11,087)	15,653	20,624	25,290	24,501	21,087
FCF to D+E	**(609,897)**	**1,679,730**	**297,556**	**145,493**	**123,198**	**73,896**	**141,821**	**136,767**
PV		1,521,028	243,986	108,028	82,831	44,989	78,186	
Accumulated PV	**1,469,150**							
Terminal Value	**2,516,937**							
PV of Terminal Value	1,387,583							
Firm Value	**2,856,733**							
-Net Debt	2,028,145							
Equity Value	**828,588**							
Total Shares outstanding	46,946							
Share Price	**17.65**							
Current Price (As of 12/22/06)	17.74							
Price Difference	**(0.51%)**							
Terminal Growth	5%							
Beta	1.55							

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Appendix G – Management Best-Case Scenario Sensitivity Analysis

Sensitivity Analysis

		TVGR								
		3%	3.50%	4%	4.50%	5%	5.50%	6%	6.50%	7%
	1.35	13.1	15.1	17.4	20.1	23.4	27.5	32.7	39.4	48.6
	1.40	12.2	14.1	16.2	18.8	21.9	25.7	30.4	36.5	44.7
	1.45	11.4	13.1	15.2	17.6	20.4	23.9	28.3	33.8	41.2
	1.50	10.5	12.2	14.1	16.4	19.0	22.3	26.3	31.4	38.0
Beta	1.55	9.8	11.3	13.1	15.2	17.8	20.8	24.5	29.1	35.1
	1.60	9.0	10.5	12.2	14.2	16.5	19.3	22.8	27.0	32.5
	1.65	8.3	9.7	11.3	13.2	15.4	18.0	21.2	25.1	30.1
	1.70	7.6	8.9	10.4	12.2	14.3	16.7	19.7	23.3	27.8
	1.75	6.9	8.2	9.6	11.3	13.2	15.5	18.3	21.6	25.8
	1.80	6.3	7.5	8.8	10.4	12.3	14.4	17.0	20.1	23.9

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Appendix H – Management Best-Case Scenario Assumptions

	2002	2003	2004	2005	2006(adj)	2007	2008	2009	2010	2011	2012	2013
Sales Growth												
Homebuilding		22.62%	27.97%	41.28%	(7.00%)	(40.00%)	(10.00%)	5.00%	8.00%	10.00%	8.00%	5.00%
Real Estate Service		20.68%	24.28%	15.83%	(30.00%)	(30.00%)	(10.00%)	5.00%	8.00%	10.00%	8.00%	5.00%
Other		(7.22%)	(21.03%)	149.76%	(50.00%)	(50.00%)	(10.00%)	5.00%	8.00%	10.00%	8.00%	5.00%
Cost												
Homebuilding	71.75%	73.75%	75.69%	77.45%	78.00%	74.66%	74.66%	73.00%	73.00%	73.00%	71.75%	71.75%
Real Estate Service	86.45%	82.63%	84.00%	84.52%	87.00%	84.40%	84.40%	83.00%	83.00%	83.00%	82.63%	82.63%
Other	66.23%	83.36%	92.25%	58.94%	92.00%	75.20%	75.20%	70.00%	70.00%	70.00%	58.94%	58.94%
Interest Expense/COGS	3.55%	3.20%	3.12%	1.80%	2.92%	2.92%	2.92%	3.00%	3.00%	3.00%	3.00%	3.00%
Real Estate Tax/Sales	0.63%	0.80%	0.70%	0.56%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Tax Rate	38.92%	37.84%	39.07%	39.09%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%	39.00%
Depreciation/Sales	0.75%	0.77%	0.76%	0.62%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%
SG&A/Sales	9.70%	9.65%	9.43%	8.24%	9.26%	11.00%	10.00%	9.00%	8.50%	8.24%	8.24%	8.24%
Other Income/Sales	0.44%	0.39%	1.39%	0.36%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%
Accounts Receivable/Sales	49.48%	44.74%	47.16%	45.16%	64.04%	50.11%	50.11%	45.00%	45.00%	45.00%	45.00%	45.00%
Inventory/Sales	80.67%	76.15%	81.85%	64.87%	92.60%	79.23%	75.89%	75.00%	70.00%	68.00%	64.87%	64.87%
PP&E/Sales	10.49%	11.63%	9.78%	8.00%	12.26%	10.43%	9.98%	9.98%	9.98%	9.98%	9.98%	9.98%
Cash/Sales	5.81%	13.34%	12.22%	6.17%	2.47%	8.00%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%
Accounts Payable/Sales	35.34%	37.72%	39.59%	32.54%	38.87%	36.81%	36.81%	36.30%	36.30%	36.30%	36.30%	36.30%
Other Assets/Sales	3.74%	3.52%	5.49%	4.95%	6.71%	4.88%	4.42%	4.42%	4.42%	4.42%	4.42%	4.42%
Community Obligation/Sales	2.45%	3.17%	5.16%	4.67%	6.47%	4.38%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%
Tax Payable/Sales	4.33%	3.95%	4.11%	3.25%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%	3.91%
Net Debt/Capitalization		49.90%	53.80%	55.00%	55.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
STD+LTD+Equity					plug	plug	plug	plug	plug	plug	plug	plug
Terminal Growth		**5.0%**										

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Appendix I – Management Best-Case Scenario Projected Income Statements

Year Ended December 31	2002	2003	2004	2005	First 9 months of 2005	First 9 months of 2006	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Revenues														
Homebuilding	1,014,303	1,243,789	1,591,695	2,248,753	1,466,857	1,363,164	2,091,340	1,254,804	1,129,324	1,185,790	1,280,653	1,408,718	1,521,416	1,597,487
Real estate services	90,226	108,885	135,321	156,740	128,513	87,083	109,718	76,803	69,122	72,578	78,385	86,223	93,121	97,777
Other	107,280	99,531	78,601	196,317	163,036	77,177	98,159	49,079	44,171	46,380	50,090	55,099	59,507	62,483
Total revenues	**1,211,809**	**1,452,205**	**1,805,617**	**2,601,810**	**1,758,406**	**1,527,424**	**2,299,217**	**1,380,686**	**1,242,617**	**1,304,748**	**1,409,128**	**1,550,041**	**1,674,044**	**1,757,746**
Costs of Sales														
Homebuilding	727,780	917,268	1,204,781	1,741,566	1,156,649	1,066,219	1,631,245	936,828	843,145	865,627	934,877	1,028,364	1,091,642	1,146,224
Real estate services	77,998	89,973	113,669	132,469	106,333	81,157	95,455	64,820	58,338	60,240	65,059	71,565	76,947	80,794
Other	71,054	82,974	72,506	115,711	89,498	87,251	90,306	36,906	33,215	32,466	35,063	38,570	35,074	36,828
Total costs of sales	**876,832**	**1,090,215**	**1,390,956**	**1,989,746**	**1,352,480**	**1,234,627**	**1,817,006**	**1,038,554**	**934,698**	**958,333**	**1,034,999**	**1,138,499**	**1,203,664**	**1,263,847**
Gross margin	**334,977**	**361,990**	**414,661**	**612,064**	**405,926**	**292,797**	**482,211**	**342,132**	**307,919**	**346,416**	**374,129**	**411,542**	**470,381**	**493,900**
Other Income and Expenses														
Equity in losses (earnings) from joint ventures	410	(607)	1,206	1,386	827	814								
Other income	(5,745)	(5,075)	(26,250)	(10,804)	(4,917)	(5,248)								
Total other income	(5,335)	(5,682)	(25,044)	(9,418)	(4,090)	(4,434)	(14,833)	(8,907)	(8,016)	(8,417)	(9,091)	(10,000)	(10,800)	(11,340)
Minority interests	0	0	1,204	4,537	1,974	(259)	0	0	0	0	0	0	0	0
Hurricane costs, net of insurance recoveries	0	0	1,236	4,324	(2,364)	(6,435)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Selling, general, administrative and other	117,578	140,159	170,208	214,376	143,257	137,460	212,794	151,875	124,262	117,427	119,776	127,716	137,933	144,829

Real estate taxes, net	7,591	11,650	12,607	14,601	11,868	11,251	15,451	9,278	8,351	8,768	9,469	10,416	11,250	11,812
Depreciation and amortization	9,092	11,211	13,717	16,037	11,683	18,710	16,660	10,004	9,004	9,454	10,210	11,231	12,130	12,736
Expenses related to early repayment of debt	3,282	0	0	26,167	4,295	455	0	1	2	3	4	5	6	7
Income before interests and income taxes	**202,769**	**204,652**	**240,733**	**341,440**	**239,303**	**136,049**	**255,139**	**182,880**	**177,318**	**222,180**	**246,760**	**275,173**	**322,862**	**338,854**
Interest expense, net	31,161	34,842	43,443	35,816	25,016	19,103	67,097	40,292	36,263	39,142	42,274	46,501	50,221	52,732
Income before income taxes	**171,608**	**169,810**	**197,290**	**305,624**	**214,287**	**116,946**	**188,042**	**142,589**	**141,055**	**183,038**	**204,486**	**228,672**	**272,641**	**286,122**
Income tax expense	66,792	64,250	77,087	119,474	82,697	43,370	73,337	55,610	55,011	71,385	79,750	89,182	106,330	111,588
Net income	**104,816**	**105,560**	**120,203**	**186,150**	**131,590**	**73,576**	**114,706**	**86,979**	**86,043**	**111,653**	**124,736**	**139,490**	**166,311**	**174,534**

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Appendix J – Management Best-Case Scenario Projected Balance Sheets

	2002	2003	2004	2005	9 mon 2006	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
Assets													
Cash and cash equivalents	49,789	95,005	61,992	52,584	21,454								
Restricted cash	20,577	98,655	158,694	107,850	35,332								
Total Cash	70,366	193,660	220,686	160,434	56,786	56,786	110,456	116,591	122,420	132,214	145,435	157,070	164,924
Contracts receivable	515,021	546,696	758,406	1,123,509	1,443,103								
Mortgage notes and accounts receivable	84,598	102,953	93,130	51,349	29,281								
Total Receivables	599,619	649,649	851,536	1,174,858	1,472,384	1,472,384	691,920	622,728	587,137	634,108	697,518	753,320	790,986
Real estate inventories	977,524	1,105,866	1,477,966	1,687,852	2,129,127	2,129,127	1,093,905	942,971	978,561	986,390	1,054,028	1,085,990	1,140,289
Property and equipment, net	127,152	168,920	176,589	208,205	281,979	281,979	144,064	123,973	130,171	140,585	154,644	167,015	175,366
Investment in joint ventures	47,427	54,919	51,964	47,927	0	0	0	0	0	0	0	0	0
Other assets	45,352	51,053	99,189	128,710	154,374	154,374	67,412	54,981	57,730	62,348	68,583	74,070	77,773
Goodwill	28,388	28,940	51,567	66,293	66,993	66,993	66,993	66,993	66,993	66,993	66,993	66,993	66,993
Other intangible assets, net	8,064	7,625	7,199	7,127	8,219	8,219	8,219	8,219	8,219	8,219	8,219	8,219	8,219
Total assets	**1,903,892**	**2,260,632**	**2,936,696**	**3,481,406**	**4,169,862**	**4,169,862**	**2,182,969**	**1,936,455**	**1,951,232**	**2,030,857**	**2,195,420**	**2,312,677**	**2,424,550**
Liabilities and Shareholders' Equity													
Accounts payable and other liabilities	244,718	316,570	332,289	378,299	477707								
Customer deposits	183,540	231,142	382,610	468,341	415976								
Total A/P	428,258	547,712	714,899	846,640	893,683	893,683	508,255	457,429	473,590	511,477	562,625	607,635	638,017
Income taxes payable	52,506	57,383	74,122	84,602		89,905	53,988	48,590	51,019	55,101	60,611	65,459	68,732
Community development district obligations	29,684	46,013	93,235	121,548	113693	148,660	60,527	48,006	50,407	54,439	59,883	64,674	67,908
Senior unsecured revolving credit facility	44,935	0	190,730	94,050	571556								
Senior unsecured term note	0	0	0	300,000	300000								
Mortgages and notes payable	130,624	46,918	150,238	203,214	363161								
Senior subordinated notes	554,397	678,859	678,321	530,473	525000								

Junior subordinated notes	0	0	0	100,000	165000									
Contingent convertible senior subordinated notes	0	125,000	125,000	125,000	125000									
Minority interests	0	0	16,340	17,257	40438									
Total Liabilities	**1,240,404**	**1,501,885**	**2,042,885**	**2,422,784**	**3,097,531**									
Commitments and contingencies														
Shareholders' equity:														
Common stock, $.01 par value; 100,000 shares authorized,														
46,055 and 45,305 shares issued, respectively	445	447	453	460	465									
Additional paid-in capital	277,912	279,173	288,122	298,786	306,500									
Retained earnings	387,555	493,115	613,318	799,468	873,044									
Treasury stock, at cost, 1,693 and 693 shares,														
respectively	(795)	(13,795)	(8,082)	(38,987)	(108,047)									
Accumulated other comprehensive loss	(1,629)	(193)	0	(1,105)	369									
Total shareholders' equity	**663,488**	**758,747**	**893,811**	**1,058,622**	**1,072,331**									
Debt+Equity	**1,393,444**	**1,609,524**	**2,054,440**	**2,428,616**	**3,162,486**	**3,037,614**	**1,560,200**	**1,382,429**	**1,376,215**	**1,409,839**	**1,512,301**	**1,574,908**	**1,649,893**	
Total liabilities and shareholders' equity	**1,903,892**	**2,260,632**	**2,936,696**	**3,481,406**	**4,169,862**	**4,169,862**	**2,182,969**	**1,936,455**	**1,951,232**	**2,030,857**	**2,195,420**	**2,312,677**	**2,424,550**	

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