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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-32322

Technical Olympic USA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

*(State or Other Jurisdiction of
Incorporation or Organization)*

76-0460831

(I.R.S. Employer Identification No.)

**4000 Hollywood Boulevard, Suite 500 North
Hollywood, Florida**

(Address of Principal Executive Offices)

33021

(Zip Code)

Registrant's telephone number, including area code: (954) 364-4000

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
Common Stock, \$.01 par value	New York Stock Exchange
9% Senior Notes due 2010 (CUSIP No. 878483 AC0)	New York Stock Exchange
9% Senior Notes due 2010 (CUSIP No. 878483 AG1)	New York Stock Exchange
10 3/8 % Senior Subordinated Notes due 2012 (CUSIP No. 878483 AD8)	New York Stock Exchange
7 1/2% Senior Subordinated Notes due 2011 (CUSIP No. 878483 AJ5)	New York Stock Exchange
7 1/2% Senior Subordinated Notes due 2015 (CUSIP No. 878483 AL0)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes
 No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$282.8 million as of June 30, 2006.

As of March 9, 2007, there were 59,604,169 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2007 annual meeting of stockholders, which proxy statement will be filed no later than 120 days after the close of the Registrant's fiscal year ended December 31, 2006, are hereby incorporated by reference in Part III of this Annual Report on Form 10-K.

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Homebuilding borrowings consists of the following (dollars in millions):

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
Senior notes due 2010, at 9% (a)	\$ 300.0	\$ 300.0
Senior notes due 2011, at 8 1/4% (a)	250.0	—
Discount on senior notes	(3.5)	(3.1)
Senior subordinated notes due 2012, at 10 3/8% (a)	185.0	185.0
Senior subordinated notes due 2011, at 7 1/2% (a)	125.0	125.0
Senior subordinated notes due 2015, at 7 1/2% (a)	200.0	200.0
Premium on senior subordinated notes	4.2	4.7
Revolving credit facility (b)	—	65.0
	<u>\$1,060.7</u>	<u>\$ 876.6</u>

- (a) Interest on the senior notes due 2010 and senior subordinated notes due 2012 is payable semi-annually on January 1 and July 1 of each year. Interest on the senior subordinated notes due 2011 and 2015 is payable semi-annually on March 15 and September 15 of each year, and January 15 and July 15 of each year, respectively. Interest on the senior notes due 2010 is payable semi-annually on April 1 and October 1 of each year. Our outstanding senior notes are guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of our material direct and indirect subsidiaries (“Guarantor Subsidiaries”), other than our mortgage and title operations subsidiaries (“Non-guarantor Subsidiaries”). Our outstanding senior subordinated notes are guaranteed on a senior subordinated basis by all of the Guarantor Subsidiaries. The indentures governing the senior notes and senior subordinated notes require us to maintain a minimum net worth and place certain restrictions on our ability, among other things, to incur additional debt (other than under our revolving credit facility), pay or make dividends or other distributions, sell assets, enter into transactions with affiliates, invest in joint ventures above specified amounts, and merge or consolidate with other entities.
- Our outstanding senior notes and senior subordinated notes have call features that allow redemption of the notes prior to maturity, upon payment of a “make-whole” premium or, in certain cases, a stated premium as provided in the relevant indenture.
- (b) At December 31, 2005, our revolving credit facility permitted us to borrow up to the lesser of (i) \$600.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The revolving credit facility also has a letter of credit subfacility of \$300.0 million. In addition, we had the right to increase the size of the facility to provide up to an additional \$150.0 million of revolving loans, provided we give 10 business days’ notice of our intention to increase the size of the facility and we meet the following conditions: (i) at the time of and after giving effect to the increase, we are in pro forma compliance with our financial covenants; (ii) no default or event of default has occurred and is continuing or would result from the increase, and (iii) the conditions precedent to a borrowing are satisfied as of such date. The revolving credit facility was to expire on October 26, 2008. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. Base rate loans accrued interest at a rate per annum equal to (i) an applicable margin plus (ii) the higher of (A) Citicorp’s base rate or (B) 0.5% plus the Federal Funds Rate. Eurodollar loans accrue interest at a rate per annum equal to (i) an applicable margin plus (ii) the reserve-adjusted Eurodollar base rate for the interest period. Applicable margins were adjusted based on the ratio of our liabilities (net of unrestricted cash in excess of \$10 million) to our adjusted tangible net worth or our senior debt rating. The revolving credit facility required us to maintain specified financial ratios regarding leverage, interest coverage, adjusted tangible net worth and certain operational measurements. The revolving credit facility also places certain restrictions on, among other things, our ability to pay or declare dividends or other special payments, create or permit certain liens, make investments in joint ventures, enter into transactions with affiliates and merge or consolidate with other entities. Our obligations under the revolving credit facility are guaranteed by our Guarantor Subsidiaries. As of December 31, 2005, we had \$65.0 million in borrowings under the revolving credit facility and had issued letters of credit totaling \$218.9 million.

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On March 9, 2006, we entered into a new \$800.0 million unsecured revolving credit facility replacing our previous \$600.0 million revolving credit facility. The new revolving credit facility is substantially similar to our prior revolving credit facility and permits us to borrow to the lesser of (i) \$800.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement) minus our outstanding senior debt. The new unsecured revolving credit facility also has a letter credit subfacility of \$400.0 million. Loans outstanding under the new revolving credit facility may be base rate loans or Eurodollar loans, at our election. Our obligations under the new revolving credit facility are guaranteed by our Guarantor Subsidiaries. The new revolving credit facility requires us to maintain specified financial ratios regarding leverage, interest coverage, adjusted tangible net worth and certain operational measurements. The new revolving credit facility also places certain restrictions on, among other things, our ability to pay or declare dividends or other special payments, create or permit certain liens, make investments in joint ventures, enter into transactions with affiliates and merge or consolidate with other entities. The new revolving credit facility expires on March 9, 2010. In addition, we have the right to increase the size of the facility to provide up to an additional \$150.0 million of revolving loans, provided we satisfy certain conditions.

On October 23, 2006, we amended our new \$800.0 million revolving credit facility. This amendment changes our existing unsecured revolving credit facility to a secured revolving credit facility, which permits us to borrow up to the lesser of (i) \$800.0 million or (ii) our borrowing base calculated in accordance with the amendment. The amendment changes certain definitions in the new revolving credit facility, provides for mortgage requirements on the borrowing base assets, provides interim borrowing limits until the borrowing base assets have been securitized, and provides limitations on future investments in or advances to the Transeastern JV.

On December 20, 2006, we amended our \$800.0 million revolving credit facility to extend the timing of delivery relative to mortgage requirements on borrowing base assets and our financial projections.

On January 30, 2007, we amended and restated in its entirety the Credit Agreement among the Company, the Lenders and the Administrative Agent dated as of March 9, 2006, as amended on October 23, 2006 and December 20, 2006 (the "Amended Credit Agreement"). Among other things, the Amended Credit Agreement extended the dates by which the Company and its Subsidiaries are to deliver mortgages on certain assets of the Company and such assets are included in the Borrowing Base, as such term is defined in the Amended Credit Agreement. In addition, certain subsidiaries of the Company which had previously been guarantors of the Company's obligations under the previous credit agreement are now co-borrowers under the Amended Credit Agreement with the Company (and continue to guarantee the obligations of the Company). The Amended Credit Agreement is otherwise substantially similar to the previous credit agreement in that it continues to permit us to borrow up to the lesser of (i) \$800.0 million or (ii) our borrowing base (calculated in accordance with the revolving credit facility agreement). The facility has a letter of credit subfacility of \$400.0 million. In addition, we continue to have the right to increase the size of the facility to provide up to an additional \$150.0 million of revolving loans, provided we give 10 business days' notice of our intention to increase the size of the facility, there are lenders (existing or new) who are willing to commit to such an increase and we meet the following conditions: (i) at the time of and after giving effect to the increase, we are in pro forma compliance with our financial covenants; (ii) no default or event of default has occurred and is continuing or would result from the increase; and (iii) the conditions precedent to a borrowing are satisfied as of such date. The revolving credit facility expires on March 9, 2010, at which time we will be required to repay all outstanding principal. Loans outstanding under the facility may be base rate loans or Eurodollar loans, at our election. Base rate loans accrue interest at a rate per annum equal to (i) an applicable margin plus (ii) the higher of (A) Citicorp's base rate or (B) 0.5% plus the Federal Funds Rate. Eurodollar loans accrue interest at a rate per annum equal to (i) an applicable margin plus (ii) the reserve-adjusted Eurodollar base rate for the interest period. Applicable margins will be adjusted based on the ratio of our liabilities (net of our unrestricted cash in excess of \$10 million) to our adjusted tangible net worth or our senior debt rating. The Amended Credit Agreement continues to require us to maintain specified financial ratios regarding leverage, interest coverage, adjusted tangible net worth and certain operational measurements and continues to contain certain restrictions on, among other things, our ability to pay or make dividends or other distributions, create or permit certain liens, make investments in joint ventures, enter into transactions with affiliates and merge or consolidate with other entities. Our obligations under the Amended Credit Agreement continues to be guaranteed by our material domestic subsidiaries, other than our mortgage and title subsidiaries (unrestricted subsidiaries).

On March 13, 2007, we amended the Amended and Restated Credit Agreement. The amendment to the Amended and Restated Credit Agreement reduced the interest coverage ratio for the third and fourth quarters of 2007 from 2.00 to 1 to a new ratio of 1:35 to 1. In addition, we agreed to increase the applicable margin on Eurodollar rate loans and base rate loans to us by .25%. In connection with this amendment, we are required to pay a fee of up to \$2.0 million in expenses.

As of December 31, 2006, we had no borrowings under the new revolving credit facility, as amended, had

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issued letters of credit totaling \$294.9 million and had \$275.2 million in availability, all of which we could have borrowed without violating any of our debt covenants. Our availability under the Amended Credit Agreement would have been \$478.8 million on December 31, 2006, had all mortgage requirements been satisfied. We are currently in the process of satisfying the mortgage requirements and anticipate substantially completing this process by April 2007.

- (c) On April 12, 2006, we issued \$250.0 million of the 8¹/₄% Senior Notes due 2011. The net proceeds of \$248.8 million were used to repay amounts outstanding under our previous revolving credit facility. These notes are guaranteed, on a joint and several basis, by the Guarantor Subsidiaries. The senior notes rank *pari passu* in right of payment with all of our existing and future unsecured senior debt and senior in right of payment to our senior subordinated notes and any future subordinated debt. The indenture governing the senior notes requires us to maintain a minimum consolidated net worth and places certain restrictions on our ability, among other things, to incur additional debt, pay or declare dividends or other restricted payments, sell assets, enter into transactions with affiliates, and merge or consolidate with other entities. Interest on these notes is payable semi-annually.

In connection with the issuance of the 8¹/₄% senior notes, we filed within 90 days of the issuance a registration statement with the SEC covering a registered offer to exchange the notes for exchange notes of ours having terms substantially identical in all material respects to the notes (except that the exchange notes will not contain terms with respect to special interest or transfer restrictions). The registration statement has not been declared effective within the required 180 days of issuance and, as a result, on October 9, 2006 in accordance with the terms of the notes became subject to special interest which accrues at a rate of 0.25% per annum during the 90-day period immediately following the occurrence of such default, and shall increase by 0.25% per annum at the end of each 90-day period, up to a maximum of 1.0% per annum. As of December 31, 2006 we have incurred approximately \$0.1 million of additional interest expense as a result of such default.

Financial Services Borrowings

Our mortgage subsidiary has the ability to borrow up to \$150.0 million under two warehouse lines of credit to fund the origination of residential mortgage loans. The primary revolving warehouse line of credit (the "Primary Warehouse Line of Credit"), which was amended on December 9, 2006, provides for revolving loans of up to \$100.0 million. The Primary Warehouse Line of Credit, as amended, expires on December 8, 2007. The Primary Warehouse Line of Credit, as amended, bears interest at the 30 day LIBOR rate plus a margin of 1.0% to 3.0%, except for certain specialty mortgage loans, determined based upon the type of mortgage loans being financed. The Primary Warehouse Line of Credit, as amended, also places certain restrictions on, among other things, our mortgage subsidiary's ability to incur additional debt, create liens, pay or declare dividends or other restricted payments, make equity investments, enter into transactions with affiliates, and merge or consolidate with other entities.

Our mortgage subsidiary's other warehouse line of credit (the "Secondary Warehouse Line of Credit") provides for revolving loans of up to \$20.0 million, subject to meeting borrowing base requirements based on the value of collateral provided. The Secondary Warehouse Line of Credit is used to fund the origination of residential mortgage loans in addition to the Primary Warehouse Line of Credit. The Secondary Warehouse Line of Credit bears interest at the 30 day Eurodollar rate plus a margin of 1.125%.

On February 11, 2006, our Secondary Warehouse Line of Credit was amended and is comprised of (1) a credit facility providing for revolving loans of up to \$30.0 million, subject to meeting borrowing base requirements based on the value of collateral provided, and (2) a mortgage loan purchase and sale agreement which provides for the purchase by the lender of up to \$20.0 million in mortgage loans generated by our mortgage subsidiary. At no time may the amount outstanding under this Secondary Warehouse Line of Credit, as amended, plus the amount of purchased loans pursuant to the purchase and sale agreement exceed \$50.0 million. The Secondary Warehouse Line of Credit, as amended, bears interest at the 30 day LIBOR rate plus a margin of 1.125%. Effective February 11, 2007 the Secondary Warehouse Line of Credit was extended to May 12, 2007. It is our intent to extend this maturity date.

Both lines of credit are secured by funded mortgages, which are pledged as collateral, and require our mortgage subsidiary to maintain certain financial ratios and minimums. At December 31, 2006, we had \$35.4 million in borrowings under our mortgage subsidiary's warehouse lines of credit.

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Borrowing Capacity

At December 31, 2006, we had the capacity to borrow an additional \$275.2 million under the revolving credit facility and \$114.6 million under the warehouse lines of credit, subject to satisfying the relevant borrowing conditions in those facilities.

8. Commitments and Contingencies

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters, excluding the Transeastern JV matter discussed below under *Liquidity* and in further detail in Note 4, is not expected to have a material adverse effect on our consolidated financial position or results of operations.

Warranty

We provide homebuyers with a limited warranty of workmanship and materials from the date of sale for up to two years. We generally have recourse against our subcontractors for claims relating to workmanship and materials. We also provide up to a ten-year homeowner's warranty which covers major structural and design defects related to homes sold by us during the policy period, subject to a significant self-insured retention per occurrence. Estimated warranty costs are recorded at the time of sale based on historical experience and current factor. Warranty costs are included in accounts payable and other liabilities in the accompanying consolidated balance sheets.

During the years ended December 31, 2006 and 2005, the activity in our warranty cost accrual consisted of the following (dollars in millions):

	Year Ended December 31,	
	2006	2005
Accrued warranty costs at January 1	\$ 7.0	\$ 6.5
Liability recorded for warranties issued during the period	7.6	12.0
Warranty work performed	(9.2)	(9.1)
Liability recorded for pre-existing warranties	2.7	(2.4)
Accrued warranty costs at December 31	<u>\$ 8.1</u>	<u>\$ 7.0</u>

Letters of Credit

We are subject to the normal obligations associated with entering into contracts for the purchase, development and sale of real estate in the routine conduct of our business. We are committed under various letters of credit and performance bonds which are required for certain development activities, deposits on land and homesite purchase contract deposits. At December 31, 2006, we had total outstanding letters of credit and performance / surety bonds under these arrangements of approximately \$294.9 million and \$300.5 million, respectively.

Mortgage Insurance

We entered into an agreement with an insurance company to underwrite private mortgage insurance on certain loans originated by our mortgage services subsidiary. Under the terms of the agreement, we share in the premiums generated on the loans and are exposed to losses in the event of a loan default. At December 31, 2006, our maximum exposure to losses relating to loans insured is approximately \$5.9 million, which is further limited to the amounts held in trust of approximately \$1.9 million. We minimize the credit risk associated with such loans through credit investigations of customers as part of the loan origination process and by monitoring the status of the loans and related collateral on a continuous basis.

One-Time Termination Benefits

During the year ended December 31, 2006, we recorded \$11.5 million of one-time termination benefits and contract termination costs which are included in selling, general and administrative expenses in the accompanying consolidated statement of operations. The termination benefits related to employees that were involuntarily terminated and are no longer

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providing services. The contract termination costs related to costs that will continue to be incurred under consulting contracts for their remaining terms for which we are not receiving economic benefit.

Liquidity

Our Homebuilding results reflect the continue deterioration of conditions in most of our markets throughout our fiscal year ended December 31, 2006, characterized by record levels of new and existing homes available for sale, reduced affordability and diminished buyer confidence. The slowdown in the housing market has led to increased sales incentives, increased pressure on margins, higher cancellation rates, increased advertising expenditures and broker commissions, and increased inventories. We are responding to these situations by analyzing our sales positions and product mix in each of our markets, renegotiating takedowns under homesite and land option contracts, curtailing land acquisition, working with our suppliers to reduce costs and reducing our general and administrative expenses.

As previously discussed in Note 7, we amended our \$800.0 million revolving credit facility. This amendment requires us to have liens and security interests filed on our borrowing base assets to secure the revolving credit facility, as amended. Our availability under the revolving credit facility, as amended, at December 31, 2006 was \$275.2 million. Our availability would have been \$478.8 million at December 31, 2006, had all liens and security interests been filed.

During 2006, we evaluated our investment in the Transeastern JV and determined our investment in the joint venture was not recoverable based on the entity's current financial structure combined with the deteriorating market conditions described in the paragraph above. As a result, we wrote-off our entire investment of \$145.1 million. As previously discussed in Note 4, we received demand letters from Deutsche Bank demanding payment under the Completion Guarantees and Carve-Out Guarantees. The demand letters allege that the Transeastern JV has failed to comply with certain of its obligations pursuant to the Credit Agreements. The demand letters allege potential defaults and that events of default have occurred under the Guarantees that have triggered our obligations to pay all of the outstanding obligations under each of the credit agreements and that we are liable for default interest, costs and expenses. We do not believe that our obligations pursuant to the Guarantees have been triggered, and we have and continue to dispute these allegations. We are in discussions with the Administrative Agent and the lenders concerning this situation. If it is determined that we have significant obligations under these Guarantees, this could have a material adverse effect on our consolidated financial position and results of operations including increased debt and related interest.

We believe that based on our financial position, availability under our Amended Credit Agreement and our asset management initiatives, and in light of the current status of our negotiations with the lenders to the Transeastern JV, our lenders, financing sources, the other member of the Transeastern JV, and the joint venture's land bankers, we will continue to provide sufficient liquidity to fund our operations.

Operating Leases

At December 31, 2006, we are obligated under non-cancellable operating leases of office space, model homes and equipment. For the years ended December 31, 2006, 2005, and 2004 rent expense under operating leases was \$18.5 million, \$14.4 million, and \$13.9 million, respectively. Certain of our leases have renewal periods and/or escalation clauses. Minimum annual lease payments under these leases at December 31, 2006 are as follows (dollars in millions):

2007	\$ 12.1
2008	8.3
2009	6.1
2010	4.4
2011	2.7
Thereafter	7.7
	<u>\$ 41.3</u>

9. Related Party Transactions

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In 2000, we entered into a purchasing agreement with our ultimate parent, Technical Olympic S.A. The agreement provided that Technical Olympic S.A. would purchase certain of the materials and supplies necessary for operations and sell them to our entities, all in an effort to consolidate the purchasing function. Although Technical Olympic S.A. would incur certain franchise tax expense, we would not be required to pay such additional purchasing liability. Technical Olympic S.A. purchased \$366.9 million, \$347.1 million, and \$302.6 million of materials and supplies on our behalf during the years ended December 31, 2006, 2005, and 2004, respectively. These materials and supplies bought by Technical Olympic S.A. under the purchasing agreement are provided to us at Technical Olympic S.A.'s cost. We do not pay a fee or other consideration to Technical Olympic S.A. under the purchasing agreement. We may terminate the purchasing agreement upon 60 days prior notice.

In 2000, we entered into a management services agreement with Technical Olympic, Inc., whereby Technical Olympic, Inc. will provide certain advisory, administrative and other services. The management services agreement was amended and restated on June 13, 2003. Technical Olympic, Inc. assigned its obligations and rights under the amended and restated management agreement to Technical Olympic Services, Inc., a Delaware corporation wholly-owned by Technical Olympic S.A., effective as of October 29, 2003. For the years ended December 31, 2006, 2005, and 2004, we incurred \$0.5 million, \$3.5 million, and \$2.5 million, respectively. At December 31, 2005 and 2004, we accrued \$3.0 million and \$2.0 million, respectively, and is included in accounts payable and other liabilities in the accompanying consolidated statements of financial condition. These expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

We have sold certain undeveloped real estate tracts to, and entered into a number of agreements (including option contracts and construction contracts) with, Equity Investments LLC, a limited liability company controlled by the brother of one of our executives. We made payments of \$15.1 million, \$11.8 million, and \$5.5 million to this entity pursuant to these agreements during the years ended December 31, 2006, 2005, and 2004, respectively. We believe that the terms of these agreements include purchase prices that approximate fair market values.

In November 2005, we purchased the right to acquire land from the Transeastern JV that was controlled by the joint venture pursuant to an option arrangement. The owner of the land is a related entity of our joint venture partner in the Transeastern JV. We paid a net \$5.8 million assignment fee to Transeastern for this right. We subsequently exercised our option and purchased the property for \$78.2 million.

During 2005, we acquired \$15.5 million in work in process inventory from Transeastern Properties, Inc. and simultaneously entered into an agreement to sell the inventory to the Transeastern JV at a future date. In December 2006, the Transeastern JV purchased the inventory for approximately \$16.6 million. We deferred the \$1.1 million gain on the transaction all of which was recognized during the year ended December 31, 2006.

During 2006, we entered into compensation arrangements with two board members that are affiliated with our majority shareholder. These arrangements provide for annual compensation of \$300,000 for each board member and for a term of one year with automatic annual renewals.

During November 2006, we purchased homes in backlog inventory with a total sales value totaling \$17.6 million from the Transeastern JV for a purchase price of \$15.2 million, of which \$0.2 million has been held in escrow pending the completion of work. An additional \$1.2 million will be paid to the Transeastern JV if certain conditions are met when these homes are sold to third parties.

10. Income Taxes

Components of income tax expense (benefit) consist of (dollars in millions):

	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Federal	\$ 106.3	\$ 120.0	\$ 65.5
State	6.3	4.6	5.6
	<u>112.6</u>	<u>124.6</u>	<u>71.1</u>
Deferred:			
Federal	(150.6)	2.0	(0.6)
State	(5.0)	—	(0.1)
	<u>(155.6)</u>	<u>2.0</u>	<u>(0.7)</u>
	<u>\$ (43.0)</u>	<u>\$ 126.6</u>	<u>\$ 70.4</u>