HCA Holdings, Inc.
Form 424B3
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Registration No. 333-176949

PROSPECTUS

HCA Holdings, Inc.

Offer to Exchange

$1,525,000,000 aggregate principal amount of its 73/4% Senior Notes due 2021 (the exchange notes), which have been registered under the Securities Act of 1933, as amended (the Securities Act), for any and all of its outstanding 73/4% Senior Notes due 2021 (the outstanding notes, and such transaction, the exchange offer).

We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered notes for freely tradable notes that have been registered under the Securities Act.

The Exchange Offer

We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.

The exchange offer expires at 5:00 p.m., New York City time, on November 3, 2011, unless extended. We do not currently intend to extend the expiration date.

The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradable.

Results of the Exchange Offer

The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. We do not plan to list the notes on a national market.

All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

See Risk Factors beginning on page 20 for a discussion of certain risks that you should consider before participating in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the exchange notes to be distributed in the exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different information. The prospectus may be used only for the purposes for which it has been published, and no person has been authorized to give any information not contained herein. If you receive any other information, you should not rely on it. We are not making an offer of these securities in any state where the offer is not permitted.

The date of this prospectus is October 5, 2011.

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MARKET, RANKING AND OTHER INDUSTRY DATA

The data included or incorporated by reference in this prospectus regarding markets and ranking, including the size of certain markets and our position and the position of our competitors within these markets, are based on reports of government agencies or published industry sources and estimates based on management s knowledge and experience in the markets in which we operate. These estimates have been based on information obtained from our trade and business organizations and other contacts in the markets in which we operate. We believe these estimates to be accurate as of the date of this prospectus. However, this information may prove to be inaccurate because of the method by which we obtained some of the data for the estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, you should be aware that market, ranking and other similar industry data included or incorporated by reference in this prospectus, and estimates and beliefs based on that data, may not be reliable. We cannot guarantee the accuracy or completeness of any such information contained or incorporated by reference in this prospectus.

FORWARD-LOOKING STATEMENTS

Some of the information included or incorporated by reference in this prospectus contains forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like may, believe, will, expect, project, estimate, anticipate, plan, initiat These forward-looking statements are based on our current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond our control, which could significantly affect current plans and expectations and our future financial position and results of operations. These factors include, but are not limited to:

- the impact of our substantial indebtedness and the ability to refinance such indebtedness on acceptable terms;

- the effects related to the enactment and implementation of the Budget Control Act of 2011 (BCA) and the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (collectively, the Health Reform Law), the possible enactment of additional federal or state health care

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reforms and possible changes to the Health Reform Law and other federal, state or local laws or regulations affecting the health care industry;

increases in the amount and risk of collectibility of uninsured accounts and deductibles and copayment amounts for insured accounts;

the ability to achieve operating and financial targets, and attain expected levels of patient volumes and control the costs of providing services;

possible changes in the Medicare, Medicaid and other state programs, including Medicaid supplemental payments pursuant to upper payment limit (UPL) programs, that may impact reimbursements to health care providers and insurers;

the highly competitive nature of the health care business;

changes in revenue mix, including potential declines in the population covered under managed care agreements and the ability to enter into and renew managed care provider agreements on acceptable terms;

the efforts of insurers, health care providers and others to contain health care costs;

the outcome of our continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures;

increases in wages and the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical and technical support personnel;

the availability and terms of capital to fund the expansion of our business and improvements to our existing facilities;

changes in accounting practices;

changes in general economic conditions nationally and regionally in our markets;

future divestitures which may result in charges and possible impairments of long-lived assets;

changes in business strategy or development plans;

delays in receiving payments for services provided;

the outcome of pending and any future tax audits, appeals and litigation associated with our tax positions;

potential adverse impact of known and unknown government investigations, litigation and other claims that may be made against us;

our ability to demonstrate meaningful use of certified electronic health record technology and recognize revenues for the related Medicare or Medicaid incentive payments; and

other risk factors described in this prospectus.

All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements.

We caution you that the important factors discussed above and incorporated by reference may not contain all of the material factors that are important to you. The forward-looking statements included in this prospectus are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to another document. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of this prospectus and before the date that the exchange offer by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

This prospectus incorporates by reference the documents listed below that we have previously filed with the SEC. These documents contain important information about us. Any information referred to in this way is considered part of this prospectus from the date we filed that document.

We incorporate by reference the documents listed below:

HCA Holdings, Inc. s Annual Report on Form 10-K for the year ended December 31, 2010 (SEC File No. 001-11239);

HCA Holdings, Inc. s Quarterly Reports on Form 10-Q for the periods ended March 31, 2011 and June 30, 2011;

HCA Holdings, Inc. s Current Reports on Form 8-K, filed on February 11, 2011, March 16, 2011, April 5, 2011, May 4, 2011, May 9, 2011, July 12, 2011, July 26, 2011, July 28, 2011, August 1, 2011, September 21, 2011 and October 3, 2011 (other than information furnished pursuant to Item 2.02 or Item 7.01 of any Current Report on Form 8-K, unless expressly stated otherwise therein); and

All documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) after the date of this prospectus and before the termination of the exchange offer to which this prospectus relates (other than information furnished pursuant to Item 2.02 or Item 7.01 of any Current Report on Form 8-K, unless expressly stated otherwise therein).

In reviewing any agreements incorporated by reference, please remember that they are included to provide you with information regarding the terms of such agreements and are not intended to provide any other factual or disclosure information about us. The agreements may contain representations and warranties by us which should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate. The representations and warranties were made only as of the date of the relevant agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments. Accordingly, these representations and warranties alone may not describe the actual state of affairs as of the date they were made or at any other time.

We will provide without charge to each person to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may request copies of those documents, at no cost, by writing or calling us at the following address or telephone number:

Corporate Secretary
HCA Holdings, Inc.
One Park Plaza
Nashville, Tennessee 37203
(615) 344-9551

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PROSPECTUS SUMMARY

This summary highlights information appearing elsewhere in and incorporated by reference in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in the notes. You should carefully read the entire prospectus and the information incorporated herein by reference, including the financial data and related notes and the section entitled Risk Factors.

As used herein, unless otherwise stated or indicated by context, references to (i) the Issuer refer to HCA Holdings, Inc., parent of HCA Inc., and not its affiliates, (ii) HCA Inc. refer to HCA Inc. and its affiliates and (iii) the Company, HCA, we, our or us refer to HCA Inc. and its affiliates prior to the Corporate Reorganization (as defined herein) and to HCA Holdings, Inc. and its affiliates upon the consummation of the Corporate Reorganization. The term affiliates means direct and indirect subsidiaries and partnerships and joint ventures in which such subsidiaries are partners. The terms facilities or hospitals refer to entities with ownership interests held by and operated by affiliates of HCA and the term employees refers to employees of affiliates of HCA.

Our Company

We are the largest non-governmental hospital operator in the U.S. and a leading comprehensive, integrated provider of health care and related services. We provide these services through a network of acute care hospitals, outpatient facilities, clinics and other patient care delivery settings. As of June 30, 2011, we operated a diversified portfolio of 164 hospitals (with approximately 42,000 beds) and 111 freestanding surgery centers across 20 states throughout the U.S. and in England. As a result of our efforts to establish significant market share in large and growing urban markets with attractive demographic and economic profiles, we currently have a substantial market presence in 14 of the top 25 fastest growing markets with populations greater than 500,000 in the U.S. and currently maintain the first or second position, based on inpatient admissions, in many of our key markets. We believe our ability to successfully position and grow our assets in attractive markets and execute our operating plan has contributed to the strength of our financial performance over the last several years. For the six months ended June 30, 2011, we generated revenues of $16.118 billion, net income attributable to HCA Holdings, Inc. of $469 million and Adjusted EBITDA of $3.010 billion.

Our patient-first strategy is to provide high quality health care services in a cost-efficient manner. We intend to build upon our history of profitable growth by maintaining our dedication to quality care, increasing our presence in key markets through organic expansion and strategic acquisitions and joint ventures, leveraging our scale and infrastructure, and further developing our physician and employee relationships. We believe pursuing these core elements of our strategy helps us develop a faster-growing, more stable and more profitable business and increases our relevance to patients, physicians, payers and employers.

Using our scale, significant resources and over 40 years of operating experience, we have developed a significant management and support infrastructure. Some of the key components of our support infrastructure include a revenue cycle management organization, a health care group purchasing organization (GPO), an information technology and services provider, a nurse staffing agency and a medical malpractice insurance underwriter. These shared services have helped us to maximize our cash collection efficiency, achieve savings in purchasing through our scale, more rapidly deploy information technology upgrades, more effectively manage our labor pool and achieve greater stability in malpractice insurance premiums. Collectively, these components have helped us to further enhance our operating effectiveness, cost efficiency and overall financial results. We have also created a subsidiary, Parallon Business Solutions, that offers certain of these component services to other health care companies.

Since the founding of our business in 1968 as a single-facility hospital company, we have demonstrated an ability to consistently innovate and sustain growth during varying economic and regulatory climates. Under the leadership of an experienced senior management team, whose tenure at HCA averages over 20 years, we have established an extensive record of providing high quality care, profitably growing our business, making and integrating strategic acquisitions and efficiently and strategically allocating capital spending.

On November 17, 2006, HCA Inc. was acquired by a private investor group comprised of affiliates of or funds sponsored by Bain Capital Partners, LLC (Bain Capital), Kohlberg Kravis Roberts & Co. (KKR), Merrill Lynch

Global Private Equity (MLGPE), now BAML Capital Partners (each a Sponsor), Citigroup Inc., Bank of America Corporation (the Sponsor Assignees) and HCA founder Dr. Thomas F. Frist, Jr. (the Frist Entities), a group we collectively refer to as the Investors, and by members of management and certain other investors. We refer to the merger, the financing transactions related to the merger and other related transactions collectively as the Recapitalization.

Since the Recapitalization, we have achieved substantial operational and financial progress. During this time, we have made significant investments in expanding our service lines and expanding our alignment with highly specialized and primary care physicians. In addition, we have enhanced our operating efficiencies through a number of corporate cost-saving initiatives and an expansion of our support infrastructure. We have made investments in information technology to optimize our facilities and systems. We have also undertaken a number of initiatives to improve clinical quality and patient satisfaction. As a result of these initiatives, our financial performance has improved significantly from the year ended December 31, 2007, the first full year following the Recapitalization, to the year ended December 31, 2010, with revenues growing by $3.825 billion, net income attributable to HCA Holdings, Inc. increasing by $333 million and Adjusted EBITDA increasing by $1.276 billion. This represents compounded annual growth rates on these key metrics of 4.5%, 11.4% and 8.5%, respectively.

Our Industry

We believe well-capitalized, comprehensive and integrated health care delivery providers are well-positioned to benefit from the current industry trends, some of which include:

Aging Population and Continued Growth in the Need for Health Care Services. According to the U.S. Census Bureau, the demographic age group of persons aged 65 and over is expected to experience compounded annual growth of 3.0% over the next 20 years, and constitute 19.3% of the total U.S. population by 2030. The Centers for Medicare & Medicaid Services (CMS) projects continued increases in hospital services based on the aging of the U.S. population, advances in medical procedures, expansion of health coverage, increasing consumer demand for expanded medical services and increased prevalence of chronic conditions such as diabetes, heart disease and obesity. We believe these factors will continue to drive increased utilization of health care services and the need for comprehensive integrated hospital networks that can provide a wide array of essential and sophisticated health care.

Continued Evolution of Quality-Based Reimbursement Favors Large-Scale, Comprehensive and Integrated Providers. We believe the U.S. health care system is continuing to evolve in ways that favor large-scale, comprehensive and integrated providers that provide high levels of quality care. Specifically, we believe there are a number of initiatives that will continue to gain importance in the foreseeable future, including introduction of value-based payment methodologies tied to performance, quality and coordination of care, implementation of integrated electronic health records and information, and an increasing ability for patients and consumers to make choices about all aspects of health care. We believe our company is well positioned to respond to these emerging trends and has the resources, expertise and flexibility necessary to adapt in a timely manner to the changing health care regulatory and reimbursement environment.

Impact of Health Reform Law. The Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the Health Reform Law), will change how health care services are covered, delivered and reimbursed. It will do so through expanded coverage of uninsured individuals, significant reductions in the growth of Medicare program payments, material decreases in Medicare and Medicaid disproportionate share hospital (DSH) payments, and the establishment of programs where reimbursement is tied in part to quality and integration. The Health Reform Law, as enacted, is expected to expand health insurance coverage to approximately 32 to 34 million additional individuals through a combination of public program expansion and private sector health insurance reforms. We believe the expansion of private sector and Medicaid coverage will, over time, increase our reimbursement related to providing services to individuals who were previously uninsured. On the other hand, the reductions in the growth in Medicare payments and the decreases in DSH payments will adversely affect our government reimbursement. Because of the many variables involved, including pending court challenges, the potential for changes to the law as a result and efforts to amend or repeal the law, we are unable to predict the net impact of the Health Reform Law on us; however, we believe our experienced management team, emphasis on quality

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care and diverse service offerings will enable us to capitalize on the opportunities presented by the Health Reform Law, as well as adapt in a timely manner to its challenges.

Our Competitive Strengths

We believe our key competitive strengths include:

Largest Comprehensive, Integrated Health Care Delivery System. We are the largest non-governmental hospital operator in the U.S., providing approximately 4% to 5% of all U.S. hospital services through our national footprint. The scope and scale of our operations, evidenced by the types of facilities we operate, the diverse medical specialties we offer and the numerous patient care access points we provide enable us to provide a comprehensive range of health care services in a cost-effective manner. As a result, we believe the breadth of our platform is a competitive advantage in the marketplace enabling us to attract patients, physicians and clinical staff while also providing significant economies of scale and increasing our relevance with commercial payers.

Reputation for High Quality Patient-Centered Care. Since our founding, we have maintained an unwavering focus on patients and clinical outcomes. We believe clinical quality influences physician and patient choices about health care delivery. We align our quality initiatives throughout the organization by engaging corporate, local, physician and nurse leaders to share best practices and develop standards for delivering high quality care. We have invested extensively in quality of care initiatives, with an emphasis on implementing information technology and adopting industry-wide best practices and clinical protocols. As a result of these efforts, we have achieved significant progress in clinical quality. As measured by the CMS clinical core measures reported on the CMS Hospital Compare website and based on publicly available data for the twelve months ended September 30, 2010, our hospitals achieved a composite score of 98.6% of the CMS core measures versus the national average of 95.7%, making us among the top performing major health systems in the U.S. In addition, as required by the Health Reform Law, CMS will establish a value-based purchasing system and will adjust hospital payment rates based on hospital-acquired conditions and hospital readmissions. We also believe our quality initiatives favorably position us in a payment environment that is increasingly performance-based.

Leading Local Market Positions in Large, Growing, Urban Markets. Over our history, we have sought to selectively expand and upgrade our asset base to create a premium portfolio of assets in attractive growing markets. As a result, we have a strong market presence in 14 of the top 25 fastest growing markets with populations greater than 500,000 in the U.S. We currently operate in 29 markets, 19 of which have populations of one million or more, with all but two of these markets projecting growth above the national average from 2011 to 2016. Our inpatient market share places us first or second in many of our key markets. We believe the strength and stability of these market positions will create organic growth opportunities and allow us to develop long-term relationships with patients, physicians, large employers and third-party payers.

Diversified Revenue Base and Payer Mix. We believe our broad geographic footprint, varied service lines and diverse revenue base mitigate our risks in numerous ways. Our diversification limits our exposure to competitive dynamics and economic conditions in any single local market, reimbursement changes in specific service lines and disruptions with respect to payers such as state Medicaid programs or large commercial insurers. We have a diverse portfolio of assets with no single facility contributing more than 2.3% of our revenues and no single metropolitan statistical area contributing more than 8.0% of revenues for the year ended December 31, 2010. We have also developed a highly diversified payer base, including approximately 3,000 managed care contracts, with no single commercial payer representing more than 8% of revenues for the year ended December 31, 2010. In addition, we are one of the country s largest providers of outpatient services, which accounted for approximately 38% of our revenues for the year ended December 31, 2010. We believe the geographic diversity of our markets and the scope of our inpatient and outpatient operations help reduce volatility in our operating results.

Scale and Infrastructure Drive Cost Savings and Efficiencies. Our scale allows us to leverage our support infrastructure to achieve significant cost savings and operating efficiencies, thereby driving margin expansion. We strategically manage our supply chain through centralized purchasing and supply warehouses, as well as our revenue cycle through centralized billing, collections and health information management functions. We also manage the provision of information technology through a combination of centralized systems with regional

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service support as well as centralize many other clinical and corporate functions, creating economies of scale in managing expenses and business processes. In addition to the cost savings and operating efficiencies, this support infrastructure simultaneously generates revenue from third parties that utilize our services.

Well-Capitalized Portfolio of High Quality Assets. In order to expand the range and improve the quality of services provided at our facilities, we invested over $7.5 billion in our facilities and information technology systems over the five-year period ended June 30, 2011. We believe our significant capital investments in these areas will continue to attract new and returning patients, attract and retain high-quality physicians, maximize cost efficiencies and address the health care needs of our local communities. Furthermore, we believe our platform, as well as electronic health record infrastructure, national research and physician management capabilities, provide a strategic advantage by enhancing our ability to capitalize on anticipated incentives through the Health Information Technology for Economic and Clinical Health Act (HITECH) provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) and position us well in an environment that increasingly emphasizes quality, transparency and coordination of care.

Strong Operating Results and Cash Flows. Our leading scale, diversification, favorable market positions, dedication to clinical quality and focus on operational efficiency have enabled us to achieve attractive historical financial performance even during the most recent economic period. In the six months ended June 30, 2011, we generated net income attributable to HCA Holdings, Inc. of $469 million, Adjusted EBITDA of $3.010 billion and cash flows from operating activities of $1.666 billion. Our ability to generate strong and consistent cash flow from operations has enabled us to invest in our operations, reduce our debt, enhance earnings per share and continue to pursue attractive growth opportunities.

Proven and Experienced Management Team. We believe the extensive experience and depth of our management team are a distinct competitive advantage in the complicated and evolving industry in which we compete. Our CEO and Chairman of the Board of Directors, Richard M. Bracken, began his career with our company over 29 years ago and has held various executive positions with us over that period, including, most recently, as our President and Chief Operating Officer. Our President, Chief Financial Officer and Director, R. Milton Johnson, joined our company over 28 years ago and has held various positions in our financial operations since that time. Our Group Presidents average approximately 20 years of experience with our company. Members of our senior management hold significant equity interests in our company, further aligning their long-term interests with those of our stockholders.

Our Growth Strategy

We are committed to providing the communities we serve with high quality, cost-effective health care while growing our business, increasing our profitability and creating long-term value for our stockholders. To achieve these objectives, we align our efforts around the following growth agenda:

Grow Our Presence in Existing Markets. We believe we are well positioned in a number of large and growing markets that will allow us the opportunity to generate long-term, attractive growth through the expansion of our presence in these markets. We plan to continue recruiting and strategically collaborating with the physician community and adding attractive service lines such as cardiology, emergency services, oncology and women s services. Additional components of our growth strategy include expanding our footprint through developing various outpatient access points, including surgery centers, rural outreach, freestanding emergency departments and walk-in clinics. Since our Recapitalization, we have invested significant capital into these markets and expect to continue to see the benefit of this investment.

Achieve Industry-Leading Performance in Clinical and Satisfaction Measures. Achieving high levels of patient safety, patient satisfaction and clinical quality are central goals of our business model. To achieve these goals, we have implemented a number of initiatives including infection reduction initiatives, hospitalist programs, advanced health information technology and evidence-based medicine programs. We routinely analyze operational practices from our best-performing hospitals to identify ways to implement organization-wide performance improvements and reduce clinical variation. We believe these initiatives will continue to improve patient care, help us achieve cost efficiencies, grow our revenues and favorably position us in an environment where our constituents are increasingly focused on quality, efficacy and efficiency.

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Recruit and Employ Physicians to Meet Need for High Quality Health Services. We depend on the quality and dedication of the health care providers and other team members who serve at our facilities. We believe a critical component of our growth strategy is our ability to successfully recruit and strategically collaborate with physicians and other professionals to provide high quality care. We attract and retain physicians by providing high quality, convenient facilities with advanced technology, by expanding our specialty services and by building our outpatient operations. We believe our continued investment in the employment, recruitment and retention of physicians will improve the quality of care at our facilities.

Continue to Leverage Our Scale and Market Positions to Enhance Profitability. We believe there is significant opportunity to continue to grow the profitability of our company by fully leveraging the scale and scope of our franchise. We are currently pursuing next generation performance improvement initiatives such as contracting for services on a multistate basis and expanding our support infrastructure for additional clinical and support functions, such as physician credentialing, medical transcription and electronic medical recordkeeping. We believe our centrally managed business processes and ability to leverage cost-saving practices across our extensive network will enable us to continue to manage costs effectively. We have created a subsidiary, Parallon Business Solutions, to leverage key components of our support infrastructure, including revenue cycle management, health care group purchasing, supply chain management and staffing functions, by offering these services to other hospital companies.

Selectively Pursue a Disciplined Development Strategy. We continue to believe there are significant growth opportunities in our markets. We will continue to provide financial and operational resources to successfully execute on our in-market opportunities. To complement our in-market growth agenda, we intend to focus on selectively developing and acquiring new hospitals, outpatient facilities and other health care service providers. We believe the challenges faced by the hospital industry may spur consolidation and we believe our size, scale, national presence and access to capital will position us well to participate in any such consolidation. We have a strong record of successfully acquiring and integrating hospitals and entering into joint ventures and intend to continue leveraging this experience.

Recent Developments

On August 1, 2011, we issued $5.000 billion aggregate principal amount of notes, comprised of $3.000 billion of 6.50% senior secured first lien notes due 2020 (the August 2011 first lien notes) and $2.000 billion of 7.50% senior unsecured notes due 2022 (the August 2011 unsecured notes) (collectively, the August notes offering). On August 26, 2011, HCA Inc. redeemed all $3.200 billion aggregate principal amount of its outstanding 91/4% Senior Secured Notes due 2016 and all $1.578 billion aggregate principal amount of its outstanding 95/8%/103/8% Senior Secured Toggle Notes due 2016 (collectively, the August redemptions). We used the net proceeds from the August notes offering, together with approximately $280 million of borrowings under our asset-based revolving credit facility, to fund the August redemptions.

On August 2, 2011, we entered into a definitive Membership Interest Purchase Agreement with The Colorado Health Foundation for the purchase (or redemption) of the Foundation s remaining ownership interest in HCA-HealthONE LLC for $1.450 billion. We expect the transaction to close in the fourth quarter of 2011.

On September 21, 2011, we completed the repurchase of 80,771,143 shares of HCA common stock beneficially owned by affiliates of Bank of America Corporation, using a combination of cash on hand and borrowing through available credit facilities (collectively, the September stock repurchase).

On September 30, 2011, we refinanced our $2.000 billion asset-based revolving credit facility maturing on November 16, 2012 (the asset-based revolving credit facility) to, among other things, increase the total size to $2.500 billion and extend the maturity to 2016 (the ABL refinancing).

On October 3, 2011, we issued $500 million aggregate principal amount of 8.00% Senior Notes due 2018 (the October notes offering and, together with the August notes offering, the August redemptions, the September stock repurchase and the ABL refinancing, the subsequent financing transactions).

Corporate Reorganization

On November 22, 2010, HCA Inc. reorganized by creating a new holding company structure (the Corporate Reorganization), pursuant to which HCA Holdings, Inc. became the new parent company, and HCA Inc. became HCA Holdings, Inc. s wholly-owned direct subsidiary. As part of the Corporate Reorganization, HCA Inc. s outstanding shares of capital stock were automatically converted, on a share for share basis, into identical shares of HCA Holdings, Inc. s common stock, and HCA Holdings, Inc. became a guarantor but did not assume the debt of HCA Inc. s outstanding secured notes and is not subject to the covenants contained in the indentures governing such secured notes. See Description of Other Indebtedness.

Through our predecessors, we commenced operations in 1968. HCA Inc. was incorporated in Nevada in January 1990 and reincorporated in Delaware in September 1993. Our principal executive offices are located at One Park Plaza, Nashville, Tennessee 37201, and our telephone number is (615) 344-9551.

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Corporate Structure

The following diagram summarizes our corporate structure as of June 30, 2011. The indebtedness figures in the diagram below are as of June 30, 2011 and give effect to the subsequent financing transactions.

(1) In connection with the Corporate Reorganization, HCA Holdings, Inc. became a guarantor of all of HCA Inc. s then-outstanding secured notes but is not subject to the covenants that apply to HCA Inc. or HCA Inc. s restricted subsidiaries under those notes.

(2) Consists of (i) a $2.500 billion asset-based revolving credit facility maturing on September 30, 2016 ($1.875 billion outstanding at June 30, 2011, as adjusted to give effect to the subsequent financing transactions); (ii) a $2.000 billion senior secured revolving credit facility maturing on November 17, 2015 (the senior secured revolving credit facility); ($988 million outstanding at June 30, 2011, without giving effect to outstanding letters of credit, as adjusted to give effect to the subsequent financing transactions); (iii) a $472 million senior secured term loan A-1 facility maturing on November 17, 2012; (iv) a $586 million senior secured term loan A-2 facility maturing on May 2, 2016; (v) a $1.689 billion senior secured term loan B-1 facility maturing on November 17, 2013; (vi) a $2.000 billion senior secured term loan B-2 facility maturing on March 31, 2017; (vii) a $2.373 billion senior secured term loan B-3 facility maturing on May 1, 2018; and (viii) a 291 million, or $421 million-equivalent, senior secured European term loan facility maturing on November 17, 2013. We refer to the facilities described under (ii) through (viii) above, collectively, as the cash flow credit facility and, together with the asset-based revolving credit facility, the senior secured credit facilities. Does not give effect to amounts that may be drawn under the revolving credit facilities to fund our acquisition of HCA-HealthONE LLC, if consummated.

(3) Consists of (i) $1.500 billion aggregate principal amount of 81/2% first lien notes due 2019 that HCA Inc. issued in April 2009 (the April 2009 first lien notes); (ii) $1.250 billion aggregate principal amount of 77/8% first lien notes due 2020 that HCA Inc. issued in August 2009 (the August 2009 first lien notes); (iii) $1.400 billion aggregate principal amount of 71/4% first lien notes due 2020 that HCA Inc. issued in March 2010 (the March 2010 first lien notes); (iv) $3.000 billion aggregate principal amount of 6.50% first lien notes due 2020 (the August 2011 first lien notes and, collectively with the April 2009 first lien notes, the August 2009 first lien notes and the March 2010 first lien notes, the first lien notes) and (v) $72 million of unamortized debt discounts that reduce the existing indebtedness.

(4) Consists of (i) $201 million aggregate principal amount of 97/8% second lien notes due 2017, and (ii) $5 million of unamortized debt discounts that reduce the existing indebtedness. We refer to the notes issued in (i) as the second lien notes.

(5) As adjusted, consists of (i) $2.000 billion aggregate principal amount of 7.50% senior notes due 2022 that HCA Inc. issued in August 2011 (the August 2011 unsecured notes); (ii) $500 million aggregate principal amount of 8.00% senior notes due 2018 that HCA Inc. issued in October 2011; (iii) an aggregate principal amount of $246 million medium-term notes with maturities ranging from 2014 to 2025 and a weighted average interest rate of 8.28%; (iv) an aggregate principal amount of $886 million debentures with maturities ranging from 2015 to 2095 and a weighted average interest rate of 7.55%; (v) an aggregate principal amount of $4.694 billion senior notes with maturities ranging from 2012 to 2033 and a weighted average interest rate of 6.54%; (vi) $304 million of secured debt, which represents capital leases and other secured debt with a weighted average interest rate of 7.13%; and (vii) $8 million of unamortized debt discounts that reduce the existing indebtedness. For more information regarding our unsecured and other indebtedness, see Description of Other Indebtedness.

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(6) The cash flow credit facility and the first lien notes are secured by first-priority liens, and the second lien notes and related guarantees are secured by second-priority liens, on substantially all the capital stock of Healthtrust, Inc. The Hospital Company and the first-tier subsidiaries of the subsidiary guarantors (but limited to 65% of the voting stock of any such first-tier subsidiary that is a foreign subsidiary), subject to certain exceptions.

(7) Includes subsidiaries which are designated as restricted subsidiaries under HCA Inc. s indenture dated as of December 16, 1993, certain of their wholly owned subsidiaries formed in connection with the asset-based revolving credit facility and certain excluded subsidiaries (non-material subsidiaries).

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The Exchange Offer

In connection with the issuance of the outstanding notes, we entered into a registration rights agreement (as more fully described below) with the initial purchasers of the outstanding notes. Under this agreement, we agreed to deliver to you this prospectus and to consummate the exchange offer for the outstanding notes by November 18, 2011. If we do not consummate the exchange offer for the outstanding notes by November 18, 2011, we will incur additional interest expense pursuant to the registration rights agreement. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes which are identical in all material respects to the outstanding notes except that:

- the exchange notes have been registered under the Securities Act;
- the exchange notes are not entitled to any registration rights which are applicable to the outstanding notes under the registration rights agreement; and
- our obligation to pay additional interest on the outstanding notes due to the failure to consummate the exchange offer by a certain date does not apply to the exchange notes.

The Exchange Offer

We are offering to exchange $1,525,000,000 aggregate principal amount of 73/4% Senior Notes due 2021 which have been registered under the Securities Act for any and all of our existing 73/4% Senior Notes due 2021.

Resale

Based on an interpretation by the staff of the Securities and Exchange Commission (the SEC) set forth in no-action letters issued to third parties, we believe that the exchange notes issued pursuant to the exchange offer in exchange for the outstanding notes may be offered for resale, resold and otherwise transferred by you (unless you are our affiliate within the meaning of Rule 405 under the Securities Act) without compliance with the registration and prospectus delivery provisions of the Securities Act, provided that:

- you are acquiring the exchange notes in the ordinary course of your business; and
- you have not engaged in, do not intend to engage in, and have no arrangement or understanding with any person to participate in, a distribution of the exchange notes.

If you are a broker-dealer and receive exchange notes for your own account in exchange for outstanding notes that you acquired as a result of market-making activities or other trading activities, you must acknowledge that you will deliver this prospectus in connection with any resale of the exchange notes. See Plan of Distribution.

Any holder of outstanding notes who:

- is our affiliate;
- does not acquire exchange notes in the ordinary course of its business; or

tenders its outstanding notes in the exchange offer with the intention to participate, or for the purpose of participating, in a distribution of exchange notes

cannot rely on the position of the staff of the SEC enunciated in *Morgan Stanley & Co. Incorporated* (available June 5, 1991) and *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in *Shearman & Sterling* (available July 2, 1993), or similar

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	no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on November 3, 2011, unless extended by us. We currently do not intend to extend the expiration date.
Withdrawal	You may withdraw the tender of your outstanding notes at any time prior to the expiration of the exchange offer. We will return to you any of your outstanding notes that are not accepted for any reason for exchange, without expense to you, promptly after the expiration or termination of the exchange offer.
Conditions to the Exchange Offer	Each exchange offer is subject to customary conditions, which we may waive. See The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Outstanding Notes	If you wish to participate in the exchange offer, you must complete, sign and date the applicable accompanying letter of transmittal, or a facsimile of such letter of transmittal, according to the instructions contained in this prospectus and the letter of transmittal. You must then mail or otherwise deliver the letter of transmittal, or a facsimile of such letter of transmittal, together with your outstanding notes and any other required documents, to the exchange agent at the address set forth on the cover page of the letter of transmittal. If you hold outstanding notes through The Depository Trust Company (DTC) and wish to participate in the exchange offer, you must comply with the Automated Tender Offer Program procedures of DTC by which you will agree to be bound by the letter of transmittal. By signing, or agreeing to be bound by, the letter of transmittal, you will represent to us that, among other things: you are not our affiliate within the meaning of Rule 405 under the Securities Act; you do not have an arrangement or understanding with any person or entity to participate in the distribution of the exchange notes; you are acquiring the exchange notes in the ordinary course of your business; and if you are a broker-dealer that will receive exchange notes for your own account in exchange for outstanding notes that were acquired as a result of market-making activities, you will deliver a prospectus, as required by law, in connection with any resale of such exchange notes.
Special Procedures for Beneficial Owners	If you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other

nominee, and you wish to tender those outstanding notes in the exchange offer, you should contact the registered holder promptly and instruct the registered holder to tender those outstanding notes on your behalf. If you wish to tender on your own behalf, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to

	register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available, or you cannot deliver your outstanding notes, the letter of transmittal or any other required documents, or you cannot comply with the procedures under DTC s Automated Tender Offer Program for transfer of book-entry interests prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under The Exchange Offer Guaranteed Delivery Procedures.
Effect on Holders of Outstanding Notes	As a result of the making of, and upon acceptance for exchange of all validly tendered outstanding notes pursuant to the terms of the exchange offer, we will have fulfilled a covenant under the registration rights agreement. Accordingly, there will be no increase in the applicable interest rate on the outstanding notes under the circumstances described in the registration rights agreement. If you do not tender your outstanding notes in the exchange offer, you will continue to be entitled to all the rights and limitations applicable to the outstanding notes as set forth in the indenture, except we will not have any further obligation to you to provide for the exchange and registration of untendered outstanding notes under the registration rights agreement. To the extent that outstanding notes are tendered and accepted in the exchange offer, the trading market for outstanding notes that are not so tendered and accepted could be adversely affected.
Consequences of Failure to Exchange	All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.
Certain United States Federal Income Tax Consequences	The exchange of outstanding notes in the exchange offer will not be a taxable event for United States federal income tax purposes. See Certain United States Federal Tax Consequences.
Regulatory Approvals	Other than compliance with the Securities Act and qualification of the indenture governing the notes under the Trust Indenture Act, there are no federal or state regulatory requirements that must be complied with or approvals that must be obtained in connection with the exchange offer.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. See Use of Proceeds.

Exchange Agent	Deutsche Bank Trust Company Americas is the exchange agent for the exchange offer. The addresses and telephone numbers of the exchange agent are set forth in the section captioned The Exchange Offer Exchange Agent.

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The Exchange Notes

The following summary highlights all material information contained elsewhere in this prospectus but does not contain all the information that you should consider before participating in the exchange offer. We urge you to read this entire prospectus, including the Risk Factors section and the consolidated financial statements and related notes.

Issuer	HCA Holdings, Inc.
Securities Offered	$1,525,000,000 aggregate principal amount of 73/4% senior notes due 2021.
Maturity Date	The exchange notes will mature on May 15, 2021.
Interest Rate	Interest on the exchange notes will be payable in cash and will accrue at a rate of 73/4% per annum.
Interest Payment Dates	May 15 and November 15. Interest began to accrue from November 23, 2010.
Ranking	The exchange notes will be the Issuer s senior obligations and will: rank senior in right of payment to any of its future subordinated indebtedness; rank equally in right of payment with any of its future senior indebtedness; be effectively subordinated in right of payment to any of its future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and be structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of its subsidiaries. As of the date hereof, HCA Holdings, Inc. has no indebtedness other than the outstanding notes. As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions: the exchange notes would have been structurally subordinated in right of payment to $26.385 billion of indebtedness, $18.059 billion of which would have been secured; and HCA Inc. would have had $946 million of unutilized capacity under its senior secured revolving credit facility and $308 million of unutilized capacity under its asset-based revolving credit facility, after giving effect to letters of credit and borrowing base limitations, all of which would be structurally senior to the exchange notes offered hereby if borrowed.

Guarantees	The exchange notes will not be guaranteed by any of the Issuer s existing or future direct or indirect subsidiaries.
Optional Redemption	The Issuer may redeem the exchange notes, in whole or in part, at any time prior to November 15, 2015 at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium, as described under Description of the Notes Optional Redemption.

	The Issuer may redeem the exchange notes, in whole or in part, on or after November 15, 2015, at the redemption prices set forth under Description of the Notes Optional Redemption. Additionally, from time to time before November 15, 2013, the Issuer may choose to redeem up to 35% of the principal amount of the exchange notes at a redemption price equal to 107.750% of the face amount thereof, with the net cash proceeds that we raise in one or more equity offerings.
Change of Control Offer	Upon the occurrence of a change of control, you will have the right, as holders of the notes, to require the Issuer to repurchase some or all of your exchange notes at 101% of their face amount, plus accrued and unpaid interest to the repurchase date. See Description of the Notes Repurchase at the Option of Holders Change of Control. The Issuer may not be able to pay you the required price for exchange notes you present to it at the time of a change of control, because: the Issuer may not have enough funds at that time; or the terms of our indebtedness under HCA Inc. s senior secured credit facilities may prevent it from making such payment. Your right to require the Issuer to repurchase the exchange notes upon the occurrence of a change of control will cease to apply to the exchange notes at all times during which such exchange notes have investment grade ratings from both Moody s Investors Service, Inc. and Standard & Poor s.
Certain Covenants	The indenture governing the exchange notes contains covenants limiting the Issuer s and certain of its subsidiaries ability to: create liens on certain assets to secure debt; engage in certain sale and lease-back transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of its assets. These covenants are subject to a number of important limitations and exceptions. See Description of the Notes. See Description of the Notes Certain Covenants Covenant Suspension.
No Prior Market	The exchange notes will be new securities for which there is currently no market. Although the initial purchasers of the outstanding notes have informed the Issuer that they intend to make a market in the exchange notes, they are not obligated to do so, and they may discontinue market making activities at any time without notice. Accordingly, the Issuer

cannot assure you that a liquid market for the exchange notes will develop or be maintained.

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Ratio of Earnings to Fixed Charges

The following table sets forth our historical ratios of earnings available for fixed charges to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus.

	Six Months Ended		Year Ended December 31,				
	June 30, 2011	June 30, 2010	2010	2009	2008	2007	2006
Ratio of earnings to fixed charges(1)	1.85	2.05	1.97	1.91	1.52	1.57	2.61

(1) For purposes of calculating the ratio of earnings to fixed charges, earnings represents earnings before income tax expense, and net income attributable to noncontrolling interests, plus fixed charges; and fixed charges include: (a) interest expense; (b) amortization of capitalized expenses related to debt; and (c) the portion of rental expense which management believes is representative of the interest component of rent expense.

Risk Factors

You should consider carefully all of the information set forth and incorporated by reference in this prospectus prior to exchanging your outstanding notes. In particular, we urge you to consider carefully the factors set forth under the heading Risk Factors.

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SUMMARY FINANCIAL DATA

The following table sets forth our summary financial data as of and for the periods indicated. The financial data as of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008 have been derived from our consolidated financial statements incorporated by reference into this prospectus, which have been audited by Ernst & Young LLP. The financial data as of December 31, 2008 has been derived from our consolidated financial statements audited by Ernst & Young LLP that are not included or incorporated by reference herein.

The summary financial data as of June 30, 2011 and for the six months ended June 30, 2011 and 2010 have been derived from our unaudited condensed consolidated financial statements incorporated by reference in this prospectus. The summary financial data as of June 30, 2010 has been derived from our unaudited condensed consolidated financial statements that are not included or incorporated by reference herein. The unaudited financial data presented has been prepared on a basis consistent with HCA Holdings, Inc. s audited consolidated financial statements. In the opinion of management, such unaudited financial data reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

The summary financial data should be read in conjunction with Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and the related notes thereto and our unaudited condensed consolidated financial statements and the related notes thereto incorporated by reference into this prospectus.

	Years Ended December 31,			Six Months Ended June 30,	
	2010	2009	2008	2011	2010
				(Unaudited)	
	(Dollars in millions)				
Income Statement Data:					
Revenues	$ 30,683	$ 30,052	$ 28,374	$ 16,118	$ 15,300
Salaries and benefits	12,484	11,958	11,440	6,615	6,148
Supplies	4,961	4,868	4,620	2,570	2,451
Other operating expenses	5,004	4,724	4,554	2,648	2,428
Provision for doubtful accounts	2,648	3,276	3,409	1,424	1,352
Equity in earnings of affiliates	(282)	(246)	(223)	(149)	(143)
Depreciation and amortization	1,421	1,425	1,416	716	710
Interest expense	2,097	1,987	2,021	1,053	1,046
Losses (gains) on sales of facilities	(4)	15	(97)	1	
Impairments of long-lived assets	123	43	64		109
Loss on retirement of debt				75	
Termination of management agreement				181	
	28,452	28,050	27,204	15,134	14,101
Income before income taxes	2,231	2,002	1,170	984	1,199
Provision for income taxes	658	627	268	330	345

Net income	1,573	1,375	902	654	854
Net income attributable to noncontrolling interests	366	321	229	185	173
Net income attributable to HCA Holdings, Inc.	$ 1,207	$ 1,054	$ 673	$ 469	$ 681

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	Years Ended December 31,			Six Months Ended June 30,	
	2010	2009	2008	2011	2010
				(Unaudited)	
	(Dollars in millions)				
Statement of Cash Flows Data:					
Cash flows provided by operating activities	$ 3,085	$ 2,747	$ 1,990	$ 1,666	$ 1,295
Cash flows used in investing activities	(1,039)	(1,035)	(1,467)	(812)	(51)
Cash flows used in financing activities	(1,947)	(1,865)	(451)	(726)	(1,206)
Other Financial Data:					
EBITDA(1)	$ 5,383	$ 5,093	$ 4,378	$ 2,568	$ 2,782
Adjusted EBITDA(1)	5,868	5,472	4,574	3,010	3,064
Capital expenditures	1,325	1,317	1,600	776	536
Operating Data:(2)					
Number of hospitals at end of period(3)	156	155	158	157	154
Number of freestanding outpatient surgical centers at end of period(3)	97	97	97	98	98
Number of licensed beds at end of period(4)	38,827	38,839	38,504	39,472	38,636
Weighted average licensed beds(5)	38,655	38,825	38,422	39,209	38,647
Admissions(6)	1,554,400	1,556,500	1,541,800	804,400	784,100
Equivalent admissions(7)	2,468,400	2,439,000	2,363,600	1,277,300	1,233,400
Average length of stay (days)(8)	4.8	4.8	4.9	4.8	4.9
Average daily census(9)	20,523	20,650	20,795	21,380	21,053
Occupancy(10)	53%	53%	54%	55%	54%
Emergency room visits(11)	5,706,200	5,593,500	5,246,400	3,039,600	2,803,300
Outpatient surgeries(12)	783,600	794,600	797,400	392,100	389,300
Inpatient surgeries(13)	487,100	494,500	493,100	239,900	244,300
Days revenues in accounts receivable(14)	46	45	49	44	45
Gross patient revenues(15)	$ 125,640	$ 115,682	$ 102,843	$ 69,006	$ 61,785
Outpatient revenues as a percentage of patient revenues(16)	38%	38%	37%	38%	37%
Balance Sheet Data:					
Working capital(17)	$ 2,650	$ 2,264	$ 2,391	$ 2,613	$ 2,395
Property, plant and equipment, net	11,352	11,427	11,529	11,584	11,152
Cash and cash equivalents	411	312	465	539	350
Total assets	23,852	24,131	24,280	23,877	23,420

Total debt	28,225	25,670	26,989	25,320	26,798
Equity securities with contingent redemption rights	141	147	155		144
Stockholders deficit attributable to HCA Holdings, Inc.	(11,926)	(8,986)	(10,255)	(8,681)	(10,525)
Noncontrolling interests	1,132	1,008	995	1,147	1,017
Total stockholders deficit	(10,794)	(7,978)	(9,260)	(7,534)	(9,508)

(1) EBITDA, a measure used by management to evaluate operating performance, is defined as net income attributable to HCA Holdings, Inc. plus (i) provision for income taxes, (ii) interest expense and (iii) depreciation and amortization. EBITDA is not a recognized term under generally accepted accounting principles (GAAP) and does not purport to be an alternative to net income as a measure of operating performance or to cash flows

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from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management s discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and other debt service requirements. Management believes EBITDA is helpful to investors and our management in highlighting trends because EBITDA excludes the results of decisions outside the control of operating management and that can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, our presentation of EBITDA may not be comparable to similarly titled measures of other companies.

Adjusted EBITDA is defined as EBITDA, adjusted to exclude net income attributable to noncontrolling interests, losses (gains) on sales of facilities, impairments of long-lived assets, loss on retirement of debt and termination of management agreement. We believe Adjusted EBITDA is an important measure that supplements discussions and analysis of our results of operations. We believe it is useful to investors to provide disclosures of our results of operations on the same basis used by management. Management relies upon Adjusted EBITDA as the primary measure to review and assess operating performance of its hospital facilities and their management teams. Adjusted EBITDA target amounts are the performance measures utilized in our annual incentive compensation programs and are vesting conditions for a portion of our stock option grants. Management and investors review both the overall performance (GAAP net income attributable to HCA Holdings, Inc.) and operating performance (Adjusted EBITDA) of our health care facilities. Adjusted EBITDA and the Adjusted EBITDA margin (Adjusted EBITDA divided by revenues) are utilized by management and investors to compare our current operating results with the corresponding periods during the previous year and to compare our operating results with other companies in the health care industry. It is reasonable to expect that losses (gains) on sales of facilities and impairments of long-lived assets will occur in future periods, but the amounts recognized can vary significantly from period to period, do not directly relate to the ongoing operations of our health care facilities and complicate period comparisons of our results of operations and operations comparisons with other health care companies. Adjusted EBITDA is not a measure of financial performance under accounting principles generally accepted in the United States, and should not be considered an alternative to net income attributable to HCA Holdings, Inc. as a measure of operating performance or cash flows from operating, investing and financing activities as a measure of liquidity. Because Adjusted EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is susceptible to varying calculations, Adjusted EBITDA, as presented, may not be comparable to other similarly titled measures presented by other companies. There may be additional adjustments to Adjusted EBITDA under our agreements governing our material debt obligations, including the exchange notes offered hereby.

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EBITDA and Adjusted EBITDA are calculated as follows:

	Years Ended December 31,			Six Months Ended June 30,	
	2010	2009	2008	2011	2010
				(Unaudited)	
	(Dollars in millions)				
Net income attributable to HCA Holdings, Inc.	$ 1,207	$ 1,054	$ 673	$ 469	$ 681
Provision for income taxes	658	627	268	330	345
Interest expense	2,097	1,987	2,021	1,053	1,046
Depreciation and amortization	1,421	1,425	1,416	716	710
EBITDA	5,383	5,093	4,378	2,568	2,782
Net income attributable to noncontrolling interests(i)	366	321	229	185	173
Losses (gains) on sales of facilities(ii)	(4)	15	(97)	1	
Impairments of long-lived assets(iii)	123	43	64		109
Loss on retirement of debt(iv)				75	
Termination of management agreement(v)				181	
Adjusted EBITDA	$ 5,868	$ 5,472	$ 4,574	$ 3,010	$ 3,064

(i) Represents the add-back of net income attributable to noncontrolling interests.

(ii) Represents the elimination of losses (gains) on sales of facilities.

(iii) Represents the add-back of impairments of long-lived assets.

(iv) Represents the add-back of loss on retirement of debt.

(v) Represents the add-back of termination of management agreement.

(2) The operating data set forth in this table includes only those facilities that are consolidated for financial reporting purposes.

(3) Excludes facilities that are not consolidated (accounted for using the equity method) for financial reporting purposes.

(4) Licensed beds are those beds for which a facility has been granted approval to operate from the applicable state licensing agency.

(5) Weighted average licensed beds represents the average number of licensed beds, weighted based on periods owned.

(6) Represents the total number of patients admitted to our hospitals and is used by management and certain investors as a general measure of inpatient volume.

(7) Equivalent admissions are used by management and certain investors as a general measure of combined inpatient and outpatient volume. Equivalent admissions are computed by multiplying admissions (inpatient volume) by the sum of gross inpatient revenues and gross outpatient revenues and then dividing the resulting amount by gross inpatient revenues. The equivalent admissions computation equates outpatient revenues to the volume measure (admissions) used to measure inpatient volume, resulting in a general measure of combined inpatient and outpatient volume.

(8) Represents the average number of days admitted patients stay in our hospitals.

(9) Represents the average number of patients in our hospital beds each day.

(10) Represents the percentage of hospital licensed beds occupied by patients. Both average daily census and occupancy rate provide measures of the utilization of inpatient rooms.

(11) Represents the number of patients treated in our emergency rooms.

(12) Represents the number of surgeries performed on patients who were not admitted to our hospitals. Pain management and endoscopy procedures are not included in outpatient surgeries.

(13) Represents the number of surgeries performed on patients who have been admitted to our hospitals. Pain management and endoscopy procedures are not included in inpatient surgeries.

(14) Revenues per day is calculated by dividing the revenues for the period by the days in the period. Days revenues in accounts receivable is then calculated as accounts receivable, net of the allowance for doubtful accounts, at the end of the period divided by revenues per day.

(15) Gross patient revenues are based upon our standard charge listing. Gross charges/revenues typically do not reflect what our hospital facilities are paid. Gross charges/revenues are reduced by contractual adjustments, discounts and charity care to determine reported revenues.

(16) Represents the percentage of patient revenues related to patients who are not admitted to our hospitals.

(17) We define working capital as current assets minus current liabilities.

RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained or incorporated by reference in this prospectus before deciding to tender your outstanding notes in the exchange offer. Any of the following risks could materially and adversely affect our business, financial condition or results of operations; however, the following risks are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial also may materially and adversely affect our business, financial condition or results of operations. In such a case, the trading price of the exchange notes could decline or we may not be able to make payments of interest and principal on the exchange notes, and you may lose all or part of your original investment.

Risks Related to the Exchange Offer

There may be adverse consequences if you do not exchange your outstanding notes.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to restrictions on transfer of your outstanding notes as set forth in the prospectus distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to Summary The Exchange Offer and The Exchange Offer for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the outstanding amount of each series of the outstanding notes, which may have an adverse effect upon, and increase the volatility of, the market prices of the outstanding notes due to a reduction in liquidity.

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the exchange notes.

We do not intend to apply for a listing of the exchange notes on a securities exchange or on any automated dealer quotation system. There is currently no established market for the exchange notes, and we cannot assure you as to the liquidity of markets that may develop for the exchange notes, your ability to sell the exchange notes or the price at which you would be able to sell the exchange notes. If such markets were to exist, the exchange notes could trade at prices that may be lower than their principal amount or purchase price depending on many factors, including prevailing interest rates, the market for similar notes, our financial and operating performance and other factors. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market with respect to the exchange notes. However, these initial purchasers are not obligated to do so, and any market making with respect to the exchange notes may be discontinued at any time without notice. In addition, such market making activity may be limited during the pendency of the exchange offer or the effectiveness of a shelf registration statement in lieu thereof. Therefore, we cannot assure you that an active market for the exchange notes will develop or, if developed, that it will continue. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. The market, if any, for the exchange notes may experience similar disruptions and any such disruptions may adversely affect the prices at which you may sell your exchange notes.

Certain persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the staff of the SEC contained in *Exxon Capital Holdings Corp.*, SEC no-action letter (April 13, 1988), *Morgan Stanley & Co. Inc.*, SEC no-action letter (June 5, 1991) and *Shearman & Sterling*, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, certain holders of exchange notes will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer the exchange notes. If such a holder transfers any exchange notes without delivering a prospectus meeting the requirements of the Securities Act or without an applicable exemption from registration under the Securities Act, such a holder may incur liability under the Securities Act. We do not and will not assume, or indemnify such a holder against, this liability.

Risks Related to Our Indebtedness

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations.

We are highly leveraged. As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions, our total indebtedness would have been $27.825 billion. As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions, the Issuer would have had availability of $946 million under its senior secured revolving credit facility and $308 million under its asset-based revolving credit facility, after giving effect to letters of credit and borrowing base limitations. Our high degree of leverage could have important consequences, including:

- increasing our vulnerability to downturns or adverse changes in general economic, industry or competitive conditions and adverse changes in government regulations;

- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;

- exposing us to the risk of increased interest rates as certain of our unhedged borrowings are at variable rates of interest;

- limiting our ability to make strategic acquisitions or causing us to make nonstrategic divestitures;

- limiting our ability to obtain additional financing for working capital, capital expenditures, product or service line development, debt service requirements, acquisitions and general corporate or other purposes; and

- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who are less highly leveraged.

We and our subsidiaries have the ability to incur additional indebtedness in the future, subject to the restrictions contained in HCA Inc. s senior secured credit facilities and the indentures governing HCA Inc. s outstanding notes, and the indenture governing the exchange notes offered hereby. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

We may not be able to generate sufficient cash to service all of our indebtedness and may not be able to refinance our indebtedness on favorable terms. If we are unable to do so, we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

In addition, we conduct our operations through our subsidiaries, none of which will guarantee the exchange notes. Accordingly, repayment of our indebtedness is dependent on the generation of cash flow by our subsidiaries and their ability to make such cash available to us by dividend, debt repayment or otherwise. Unless they become guarantors of the exchange notes, our subsidiaries will not have any obligation to pay amounts due on the exchange notes or our other indebtedness or to make funds available for that purpose. Our subsidiaries may not be able to, or may not be permitted to, make distributions to enable us to make payments in respect of our indebtedness. The agreements governing the current and future indebtedness of the Issuer s subsidiaries may not permit the Issuer s subsidiaries to provide the Issuer with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on these exchange notes when due. The terms of HCA Inc. s senior secured credit facilities and the indentures governing HCA Inc. s outstanding notes, and the indenture governing the exchange notes offered hereby significantly restrict the Issuer and its subsidiaries from paying dividends and otherwise transferring assets to the Issuer. Each subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries.

We may find it necessary or prudent to refinance our outstanding indebtedness with longer-maturity debt at a higher interest rate. In March of 2010, for example, we issued $1.400 billion in aggregate principal amount of 71/4% first lien notes due 2020. The net proceeds of this offering was used to prepay term loans under our cash flow credit facility, which currently bears interest at a lower floating rate. Our ability to refinance our indebtedness on favorable terms, or at all, is directly affected by the current global economic and financial conditions. In addition, our ability to incur secured indebtedness (which would generally enable us to achieve better pricing than the incurrence of unsecured indebtedness) depends in part on the value of our assets, which depends, in turn, on the strength of our cash flows and results of operations, and on economic and market conditions and other factors.

If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions, or the proceeds from the dispositions may not be adequate to meet any debt service obligations then due.

Our and HCA Inc. s debt agreements contain restrictions that limit our flexibility in operating our business.

HCA Inc. s senior secured credit facilities and the indentures governing HCA Inc. s outstanding notes contain, and the indenture governing the exchange notes offered hereby will contain, various covenants that limit our ability to engage in specified types of transactions. These covenants limit our and certain of our subsidiaries ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of our capital stock or make other restricted payments;
- make certain investments;
- sell or transfer assets;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- enter into certain transactions with our affiliates.

Under HCA Inc. s asset-based revolving credit facility, when (and for as long as) the combined availability under HCA Inc. s asset-based revolving credit facility and HCA Inc. s senior secured revolving credit facility is less than a specified amount for a certain period of time or, if a payment or bankruptcy event of default has occurred and is continuing, funds deposited into any of HCA Inc. s depository accounts will be transferred on a daily basis into a blocked account with the administrative agent and applied to prepay loans under the asset-based revolving credit facility and to cash collateralize letters of credit issued thereunder.

Under HCA Inc. s senior secured credit facilities, HCA Inc. is required to satisfy and maintain specified financial ratios. Its ability to meet those financial ratios can be affected by events beyond our control, and there can be no assurance HCA Inc. will continue to meet those ratios. A breach of any of these covenants could result in a default under both the cash flow credit facility and the asset-based revolving credit facility. Upon the occurrence of an event of default under the senior secured credit facilities, the lenders thereunder could elect to declare all amounts outstanding under the senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If HCA Inc. were unable to repay those amounts, the lenders under the senior secured credit facilities could proceed against the collateral granted to them to secure such indebtedness. HCA has pledged a significant portion of its assets under HCA Inc. s senior secured credit facilities and that collateral (other than certain European collateral securing HCA Inc. s senior secured European term loan facility) is also pledged as collateral under HCA Inc. s first lien notes. If any of the lenders under the senior secured credit facilities accelerate the repayment of borrowings, there can be no assurance there will be sufficient assets to repay the senior secured credit facilities, the first lien notes and the exchange notes offered hereby.

Risks related to the Exchange Notes

The following risks apply to the outstanding notes and will apply equally to the exchange notes.

The Issuer is the sole obligor of the notes; the notes are unsecured and the Issuer s subsidiaries do not have any obligation with respect to the notes; the notes are structurally subordinated to all of the debt and liabilities of the Issuer s subsidiaries and will be effectively subordinated to any of the Issuer s secured debt.

The Issuer of the exchange notes, HCA Holdings, Inc., is a holding company that has no operations of its own and derives all of its revenues and cash flow from its subsidiaries. The Issuer s subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay amounts due under the exchange notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payments. The exchange notes are structurally subordinated to all debt and liabilities of the Issuer s subsidiaries, including HCA Inc. and will be effectively subordinated to any of the Issuer s secured debt to the extent of the value of the collateral securing such debt. The claims of HCA Holdings, Inc. s creditors and its subsidiaries creditors will be required to be paid before holders of the unsecured notes have a claim (if any) against the entities and their assets. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to the Issuer s subsidiaries, you will participate with all other holders of the Issuer s indebtedness in the assets remaining after the Issuer s subsidiaries have paid all of their debt and liabilities. In any of these cases, the Issuer s subsidiaries may not have sufficient funds to make payments to the Issuer, and you may receive less, ratably, than the holders of debt of the Issuer s subsidiaries and other liabilities.

As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions, the aggregate amount of indebtedness of the Issuer s subsidiaries would have been $26.385 billion, $18.059 billion of which would have been secured and all of which would have been structurally senior to the unsecured notes. As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions, the Issuer s subsidiaries could have borrowed $946 million under HCA Inc. s senior secured revolving credit facility and $308 million under its asset-based revolving credit facility, after giving effect to letters of credit and borrowing base limitations. In addition, holders of the Issuer s subsidiaries debt will have claims that are prior to your claims as holders of the notes. Additionally, the indenture governing the notes, the indentures governing HCA Holdings, Inc. and HCA Inc. s outstanding notes and HCA Inc. s senior secured credit facilities permit us and/or our subsidiaries to incur additional indebtedness, including secured indebtedness, under certain circumstances.

The Issuer of the exchange notes is a holding company with no independent operations or assets. Repayment of the exchange notes is dependent on cash flow generated by the Issuer s subsidiaries. Restrictions in our subsidiaries debt instruments and under applicable law limit their ability to provide funds to us.

The Issuer s operations are conducted through its subsidiaries and its ability to make payment on the notes is dependent on the earnings and the distribution of funds from its subsidiaries. Their earnings are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond their and the Issuer s control. The Issuer s subsidiaries are not obligated to make funds available to the Issuer for payment on the notes. The agreements governing the current and future indebtedness of the Issuer s subsidiaries may not permit the Issuer s subsidiaries to provide the Issuer with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on these notes when due. The terms of the senior secured credit facilities and the indentures governing HCA Inc. s outstanding notes significantly restrict the Issuer s subsidiaries from paying dividends and otherwise transferring assets to the Issuer. In addition, if the Issuer s subsidiaries do not generate sufficient cash flow from operations to satisfy their and the Issuer s debt service obligations, including payments on the notes, we may have to undertake alternative financing plans, such as refinancing or restructuring our indebtedness, selling assets, reducing or delaying capital investments or seeking to raise additional capital. Our ability to restructure or refinance our debt will depend on the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, the terms of existing or future debt instruments may restrict us from adopting some of these alternatives. Our inability to generate sufficient cash flow to satisfy our debt service obligations, or to refinance our obligations on commercially reasonable terms, would have an adverse effect, which could be material, on our business, financial position, results of operations and cash flows, as well as on our ability to satisfy our obligations in respect of the notes.

The Issuer may not be able to repurchase the exchange notes upon a change of control.

Under certain circumstances, and upon the occurrence of specific kinds of change of control events, the Issuer will be required to offer to repurchase all outstanding notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the notes will be our available cash or cash generated from its subsidiaries operations or other sources, including borrowings, sales of assets or sales of equity. The Issuer may not be able to repurchase the notes upon a change of control because the Issuer may not have sufficient financial resources to purchase all of the exchange notes that are tendered upon a change of control. Further, the Issuer is contractually restricted under the terms of the senior secured credit facilities from repurchasing all of the notes tendered by holders upon a change of control. Accordingly, the Issuer may not be able to satisfy its obligations to purchase the notes unless it is able to refinance or obtain waivers under the instruments governing that indebtedness. The Issuer s failure to repurchase the exchange notes upon a change of control would cause a default under the indenture and a cross-default under the instruments governing HCA Inc. s senior secured credit facilities and the indenture governing the Existing Exchange Notes. The instruments governing the senior secured credit facilities also provide that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of the Issuer s future debt agreements may contain similar provisions.

Federal and state fraudulent transfer laws may permit a court to void the exchange notes, and, if that occurs, you may not receive any payments on the exchange notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the notes. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the notes could be voided as a fraudulent transfer or conveyance if (1) we issued the notes with the intent of hindering, delaying or defrauding creditors or (2) we received less than reasonably equivalent value or fair consideration in return for issuing the notes and, in the case of (2) only, one of the following is also true at the time thereof:

- we were insolvent or rendered insolvent by reason of the issuance of the notes;
- the issuance of the notes left us with an unreasonably small amount of capital to carry on the business;
- we intended to, or believed that we would, incur debts beyond our ability to pay as they mature; or

we were a defendant in an action for money damages, or had a judgment for money damages docketed against us if, in either case, after final judgment, the judgment was unsatisfied.

If a court were to find that the issuance of the notes was a fraudulent transfer or conveyance, the court could void the payment obligations under the notes or further subordinate the notes to presently existing and future indebtedness of ours. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any repayment on the notes.

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As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor.

We cannot be certain as to the standards a court would use to determine whether or not we were solvent at the relevant time. Generally, however, an entity would be considered insolvent if, at the time it incurred indebtedness:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and there is no assurance that any active trading market will develop for the exchange notes.

We cannot assure you that an active market for the exchange notes will develop or, if developed, that it will continue. Historically, the market for non investment-grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the notes. We cannot assure you that the market, if any, for the exchange notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your notes. In addition, the exchange notes may trade at a discount from the price at which the outstanding notes of the applicable series were initially offered, depending upon prevailing interest rates, the market for similar notes, our performance and other factors.

USE OF PROCEEDS

The exchange offer is intended to satisfy our obligations under the registration rights agreement that we entered into in connection with the private offering of the outstanding notes. We will not receive any cash proceeds from the issuance of the exchange notes in the exchange offer. Accordingly, the issuance of the exchange notes will not result in any change in our capitalization. As consideration for issuing the exchange notes as contemplated in this prospectus, we will receive in exchange a like principal amount of outstanding notes, the terms of which are identical in all material respects to the exchange notes, except that the exchange notes will not contain terms with respect to transfer restrictions or additional interest upon a failure to fulfill certain of our obligations under the registration rights agreement.

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CAPITALIZATION

The following table sets forth the capitalization of HCA Holdings, Inc. as of June 30, 2011:

on a historical basis; and

on an as adjusted basis to give effect to

the issuance in August 2011 of $5.000 billion aggregate principal amount of notes, comprised of $3.000 billion of 6.50% senior secured first lien notes due 2020 and $2.000 billion of 7.50% senior unsecured notes due 2022 (collectively, the August notes offering);

the redemption in August 2011 of all $3.200 billion aggregate principal amount of its outstanding 91/4% Senior Secured Notes due 2016 and all $1.578 billion aggregate principal amount of its outstanding 95/8/103/8 Senior Secured Toggle Notes due 2016 (collectively, the August redemptions);

the repurchase in September 2011 of 80,771,143 shares of HCA common stock beneficially owned by affiliates of Bank of America Corporation using a combination of cash on hand and borrowing through available credit facilities (collectively, the September stock repurchase);

the refinancing in September 2011 of the $2.000 billion asset-based revolving credit facility maturing on November 16, 2012 to increase the total size to $2.500 billion and extend the maturity to 2016 (the ABL refinancing); and

the issuance in October 2011 of $500 million of 8.00% senior notes due 2018 (the October notes offering and, together with the August notes offering, the August redemptions, the September stock repurchase and the ABL refinancing, the subsequent refinancing transactions).

The information in this table should be read in conjunction with Summary Summary Financial Data, included in this prospectus and our consolidated financial statements and related notes and condensed consolidated financial statements and related notes incorporated by reference herein.

	As of June 30, 2011	
	Historical	**As Adjusted for the subsequent financing transactions**
	(Dollars in millions) (Unaudited)	
Cash and cash equivalents	$ 539	$ 1,031
Senior secured credit facilities(1)	$ 8,621	$ 10,404
First lien notes(2)	4,078	7,078
Other secured indebtedness(3)	304	304
Second lien notes(4)	4,974	196

Total senior secured indebtedness	17,977	17,982
Unsecured indebtedness(5)	7,343	9,843
Total debt	25,320	27,825
Stockholders deficit attributable to HCA Holdings, Inc.	(8,681)	(10,183)
Noncontrolling interests	1,147	1,147
Total stockholders deficit	(7,534)	(9,036)
Total capitalization	$ 17,786	$ 18,789

(1) Consists of (i) a $2.500 billion asset-based revolving credit facility maturing on September 30, 2016 (the asset-based revolving credit facility) ($1.875 billion outstanding at June 30, 2011, as adjusted to give effect to the subsequent financing transactions); (ii) a $2.000 billion senior secured revolving credit facility maturing on November 17, 2015 (the senior secured revolving credit facility) ($988 million outstanding at June 30, 2011,

without giving effect to outstanding letters of credit, as adjusted to give effect to the subsequent financing transactions); (iii) a $472 million senior secured term loan A-1 facility maturing on November 17, 2012; (iv) a $586 million senior secured term loan A-2 facility maturing on May 2, 2016; (v) a $1.689 billion senior secured term loan B-1 facility maturing on November 17, 2013; (vi) a $2.000 billion senior secured term loan B-2 facility maturing on March 31, 2017; (vii) a $2.373 billion senior secured term loan B-3 facility maturing on May 1, 2018; and (viii) a 291 million, or $421 million-equivalent, senior secured European term loan facility maturing on November 17, 2013. We refer to the facilities described under (ii) through (viii) above, collectively, as the cash flow credit facility and, together with the asset-based revolving credit facility, the senior secured credit facilities. Does not give effect to amounts that may be drawn under the revolving credit facility to fund our acquisition of HCA-HealthONE LLC, if consummated. See Summary Recent Developments.

(2) Consists of (i) $1.500 billion aggregate principal amount of 81/2% first lien notes due 2019 that HCA Inc. issued in April 2009 (the April 2009 first lien notes); (ii) $1.250 billion aggregate principal amount of 77/8% first lien notes due 2020 that HCA Inc. issued in August 2009 (the August 2009 first lien notes); (iii) $1.400 billion aggregate principal amount of 71/4% first lien notes due 2020 that HCA Inc. issued in March 2010 (the March 2010 first lien notes) (iv) $3.000 billion aggregate principal amount of 6.50% first lien notes due 2020 (the August 2011 first lien notes and, collectively with the April 2009 first lien notes, the August 2009 first lien notes and the March 2010 first lien notes, the first lien notes) and (v) $72 million of unamortized debt discounts that reduce the existing indebtedness.

(3) Consists of capital leases and other secured debt with a weighted average interest rate of 7.13%.

(4) Consists of (i) $201 million aggregate principal amount of 97/8% second lien notes due 2017 and (ii) $5 million of unamortized debt discounts that reduce the existing indebtedness. We refer to these notes as the second lien notes.

(5) Consists of HCA Inc. s (i) $2.000 billion aggregate principal amount of 7.50% senior notes due 2022 that HCA Inc. issued in August 2011; (ii) $500 million aggregate principal amount of 8.00% senior notes due 2018 that HCA Inc. issued in October 2011; (iii) an aggregate principal amount of $246 million medium-term notes with maturities ranging from 2014 to 2025 and a weighted average interest rate of 8.28%; (iv) an aggregate principal amount of $886 million debentures with maturities ranging from 2015 to 2095 and a weighted average interest rate of 7.55%; (v) an aggregate principal amount of $4.694 billion senior notes with maturities ranging from 2012 to 2033 and a weighted average interest rate of 6.54%; and (vi) $8 million of unamortized debt discounts that reduce the existing indebtedness. Existing unsecured indebtedness also includes HCA Holdings, Inc. s $1.525 billion aggregate principal amount of 73/4% senior notes due 2021. For more information regarding our unsecured and other indebtedness, see Description of Other Indebtedness.

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DESCRIPTION OF OTHER INDEBTEDNESS

The summaries set forth below are qualified in their entirety by the actual text of the applicable agreements and indentures, each of which has been filed with the SEC and which may be obtained on publicly available websites at the addresses set forth under Available Information.

Senior Secured Credit Facilities

The senior secured credit facilities provide senior secured financing of $11.541 billion, consisting of:

- $7.541 billion-equivalent in term loan facilities, comprised of a $472 million senior secured term loan A-1 facility maturing on November 17, 2012, a $586 million senior secured term loan A-2 facility maturing on May 2, 2016, a $1.689 billion senior secured term loan B-1 facility maturing on November 17, 2013, a $2.000 billion senior secured term loan B-2 facility maturing on March 31, 2017, a $2.373 billion senior secured term loan B-3 facility maturing on May 1, 2018 and a 291 million, or $421 million-equivalent, senior secured European term loan facility maturing on November 17, 2013; and

- $4.500 billion in revolving credit facilities, comprised of a $2.500 billion senior secured asset-based revolving credit facility available in dollars maturing on September 30, 2016 and a $2.000 billion senior secured revolving credit facility available in dollars, euros and pounds sterling maturing on November 17, 2015. Availability under the asset-based revolving credit facility is subject to a borrowing base of 85% of eligible accounts receivable less customary reserves. As of September 30, 2011, only $2.183 billion of the $2.500 billion facility is available due to the borrowing base limitation.

We refer to these senior secured credit facilities, excluding the asset-based revolving credit facility, as the cash flow credit facility and, collectively with the asset-based revolving credit facility, the senior secured credit facilities. The asset-based revolving credit facility is documented in a separate loan agreement from the other senior secured credit facilities.

HCA Inc. is the primary borrower under the senior secured credit facilities, except that a U.K. subsidiary is the borrower under the European term loan facility. The revolving credit facilities include capacity available for the issuance of letters of credit and for borrowings on same-day notice, referred to as the swingline loans. A portion of the letter of credit availability under the cash-flow revolving credit facility is available in euros and pounds sterling. Lenders under the cash flow credit facility are subject to a loss sharing agreement pursuant to which, upon the occurrence of certain events, including a bankruptcy event of default under the cash flow credit facility, each such lender will automatically be deemed to have exchanged its interest in a particular tranche of the cash flow credit facility for a pro rata percentage in all of the tranches of the cash flow credit facility.

On February 16, 2007, the cash flow credit facility was amended to reduce the applicable margins with respect to the term borrowings thereunder. On June 20, 2007, the asset-based revolving credit facility was amended to reduce the applicable margin with respect to borrowings thereunder.

On March 2, 2009, the cash flow credit facility was amended to allow for one or more future issuances of additional secured notes, which may include notes that are secured on a *pari passu* basis or on a junior basis with the obligations under the cash flow credit facility, so long as

(1) such notes do not require, subject to certain exceptions, scheduled repayments, payment of principal or redemption prior to the scheduled term loan B-1 maturity date, (2) the terms of such notes, taken as a whole, are not more restrictive than those in the cash flow credit facility and (3) no subsidiary of HCA Inc. that is not a U.S. guarantor is an obligor of such additional secured notes, and such notes are not secured by any European collateral securing the cash flow credit facility. The U.S. security documents related to the cash flow credit facility were also amended and restated in connection with the amendment in order to give effect to the security interests to be granted to holders of such additional secured notes.

On March 2, 2009, the asset-based revolving credit facility was amended to allow for one or more future issuances of additional secured notes or loans, which may include notes or loans that are secured on a *pari passu* basis or on a junior basis with the obligations under the cash flow credit facility, so long as (1) such notes or loans do not require, subject to certain exceptions, scheduled repayments, payment of principal or redemption prior to the scheduled term loan B-1 maturity date, (2) the terms of such notes or loans, as applicable, taken as a whole, are not more restrictive than those in the cash flow credit facility and (3) no subsidiary of HCA Inc. that is not a U.S. guarantor is an obligor of such additional secured notes. The amendment to the asset-based revolving credit facility also altered the excess facility availability requirement to include a separate minimum facility availability requirement applicable to the asset-based revolving credit facility and increased the applicable LIBOR and asset-based revolving margins for all borrowings under the asset-based revolving credit facility by 0.25% each.

On June 18, 2009, the cash flow credit facility was amended to permit unlimited refinancings of the term loans initially incurred in November 2006 under the cash flow credit facility (the initial term loans), as well as any previously incurred refinancing term loans through the incurrence of new term loans under the cash flow credit facility (refinancing term loans), (collectively, with the initial term loans, the then-existing term loans), and to permit the establishment of one or more series of commitments under replacement cash flow revolvers under the cash flow credit facility (replacement revolver) to replace all or a portion of the revolving commitments initially established in November 2006 under the cash flow credit facility (the initial revolver) as well as any previously issued replacement revolvers (with no more than three series of revolving commitments to be outstanding at any time) in each case, subject to the terms described below. The amendment to the cash flow credit facility further permits the maturity date of any then-existing term loan to be extended (any such loans so extended, the extended term loans). The amendment to the cash flow credit facility provides that:

As to refinancing term loans, (1) the proceeds from such refinancing term loans be used to repay in full the initial term loans before being used to repay any previously issued refinancing term loans; (2) the refinancing term loans mature no earlier than the latest maturity date of any of the initial term loans; (3) the weighted average life to maturity for the refinancing term loans be no shorter than the remaining weighted average life to maturity of the tranche B term loan under the cash flow credit facility measured at the time such refinancing term loans are incurred; and (4) refinancing term loans will not share in mandatory prepayments resulting from the creation or issuance of extended term loans and/or first lien notes until the initial term loans are repaid in full but will share in other mandatory prepayments such as those from asset sales.

As to replacement revolvers, terms of such replacement revolver be substantially identical to the commitments being replaced, other than with respect to maturity, size of any swingline loan and/or letter of credit subfacilities and pricing.

As to extended term loans, (1) any offer to extend must be made to all lenders under the term loan being extended, and, if such offer is oversubscribed, the extension will be allocated ratably to the lenders according to the respective amounts then held by the accepting lenders; (2) each series of extended term loans having the same interest margins, extension fees and amortization schedule shall be a separate class of term loans; and (3) extended term loans will not share in mandatory prepayments resulting from the creation or issuance of refinancing term loans and/or first lien notes until the initial term loans are repaid in full but will share in other mandatory prepayments such as those from asset sales.

Any refinancing term loans and any obligations under replacement revolvers will have a *pari passu* claim on the collateral securing the initial term loans and the initial revolver.

On April 6, 2010, the cash flow credit facility was amended to (i) extend the maturity date for $2.0 billion of the tranche B term loans from November 17, 2013 to March 31, 2017 and (ii) increase the ABR margin and LIBOR margin with respect to such extended term loans to 2.25% and 3.25%, respectively. The maturity date, interest margins and fees, as applicable, with respect to all other loans, and all commitments and letters of credit, outstanding under the cash flow credit facility remain unchanged.

On November 8, 2010, an amended and restated joinder agreement was entered into with respect to the cash flow credit facility to establish a new replacement revolving credit series, which will mature on November 17, 2015.

Under the amended and restated joinder agreement, these replacement revolving credit commitments became effective upon completion of our initial public offering.

On May 4, 2011, the cash flow credit facility and asset-based revolving credit facility were amended and restated, respectively, to, among other things, (i) permit HCA Inc. and its restricted subsidiaries to issue new unsecured and second lien notes so long as (x) HCA Inc. would be, following such issuance, be in compliance with its maintenance covenants under the respective credit facilities, (y) the maturity of the new notes is later than the final maturity date and (z) the covenants of the new notes are no more restrictive than those under HCA Inc. s existing second lien notes, (ii) allow HCA Inc. and its restricted subsidiaries to issue new first lien notes and first lien term loans, subject to a maximum first lien leverage ratio of 3.75 to 1.00, so long as (x) HCA Inc. complies with the same covenant restrictions that apply to the issuance of new unsecured and second lien notes described above and (y) the maturity of the new first lien debt is later than the final maturity date and (iii) revise the change of control definition to provide that, in addition to acquiring, on a fully diluted basis, at least 35% of HCA Inc. s voting stock, a third party must also acquire, on a fully diluted basis, ownership of HCA Inc. s voting stock greater than that then held by those equity holders of HCA Holdings, Inc. that existed prior to HCA Holdings, Inc. s initial public offering in order to trigger a change of control.

In addition to the amendments described above, the cash flow credit facility was amended to (A) remove restrictions on the prepayment of second lien, senior unsecured or subordinated debt and (B) increase the general investment basket from $1.5 billion to the greater of (i) $3.0 billion or (ii) 12% of HCA Inc. s total assets.

The cash flow credit facility was also amended to (i) extend the maturity date of $594 million of HCA Inc. s term loan A facility from November 17, 2012 to May 2, 2016 and increases the ABR margin and LIBOR margin with respect to such extended term loans to 1.50% and 2.50%, respectively and (ii) extend the maturity date of $537 million of HCA Inc. s term loan A facility from November 17, 2012 to May 1, 2018 and $1.836 billion of HCA Inc. s term loan B-1 facility from November 17, 2013 to May 1, 2018 and increase the ABR margin and LIBOR margin with respect to such extended term loans to 2.25% and 3.25%, respectively.

Interest Rate and Fees

Borrowings under the senior secured credit facilities bear interest at a rate equal to, at HCA Inc. s option, either (a) LIBOR for deposits in the applicable currency plus an applicable margin or (b) the higher of (1) the prime rate of Bank of America, N.A. and (2) the federal funds effective rate plus 0.50%, plus an applicable margin. The applicable margins in effect for borrowings as of June 30, 2011 are (i) under the asset-based revolving credit facility, 0.25% with respect to base rate borrowings and 1.25% with respect to LIBOR borrowings, (ii) under the senior secured revolving credit facility, 0.50% with respect to base rate borrowings and 1.50% with respect to LIBOR borrowings, (iii) under the term loan A-1 facility, 0.25% with respect to base rate borrowings and 1.25% with respect to LIBOR borrowings, (iv) under the term loan A-2 facility, 1.50% with respect to base rate borrowings and 2.50% with respect to LIBOR borrowings, (v) under the term loan B-1 facility, 1.25% with respect to base rate borrowings and 2.25% with respect to LIBOR borrowings, (vi) under the term loan B-2 facility and term loan B-3 facility, 2.25% with respect to base rate borrowings and 3.25% with respect to LIBOR borrowings, and (vii) under the European term loan facility, 2.00% with respect to LIBOR borrowings. Certain of the applicable margins may be reduced or increased depending on HCA Inc. s leverage ratios.

In addition to paying interest on outstanding principal under the senior secured credit facilities, HCA Inc. is required to pay a commitment fee to the lenders under the revolving credit facilities in respect of the unutilized commitments thereunder. The commitment fee rate as of June 30, 2011 is 0.375% per annum for the revolving credit facility and 0.25% for the asset-based revolving credit facility. The commitment fee rates may fluctuate due to changes in specified leverage ratios. HCA Inc. must also pay customary letter of credit fees.

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Prepayments

The cash flow credit facility requires HCA Inc. to prepay outstanding term loans, subject to certain exceptions, with:

50% (which percentage will be reduced to 25% if HCA Inc. s total leverage ratio is 5.50x or less and to 0% if HCA Inc. s total leverage ratio is 5.00x or less) of HCA Inc. s annual excess cash flow;

100% of the compensation for any casualty event, proceeds from permitted sale-leasebacks and the net cash proceeds of all nonordinary course asset sales or other dispositions of property, other than the Receivables Collateral, as defined below, if HCA Inc. does not (1) reinvest or commit to reinvest those proceeds in assets to be used in our business or to make certain other permitted investments within 15 months as long as, in the case of any such commitment to reinvest or make certain other permitted investments, such investment is completed within such 15-month period or, if later, within 180 days after such commitment is made or (2) apply such proceeds within 15 months to repay debt of HCA Inc. that was outstanding on the effective date of the Recapitalization scheduled to mature prior to the earliest final maturity of the senior secured credit facilities then outstanding; and

100% of the net cash proceeds of any incurrence of debt, other than proceeds from the receivables facilities and other debt permitted under the senior secured credit facilities.

The foregoing mandatory prepayments are applied among the term loan facilities (1) during the first three years after the effective date of the Recapitalization, pro rata to such facilities based on the respective aggregate amounts of unpaid principal installments thereof due during such period, with amounts allocated to each facility being applied to the remaining installments thereof in direct order of maturity and (2) thereafter, pro rata to such facilities, with amounts allocated to each facility being applied pro rata among the term loan A-1 facility, term loan A-2 facility, the term loan B-1 facility, the term loan B-2 facility, term loan B-3 facility and the European term loan facility based upon the applicable remaining repayment amounts due thereunder. Notwithstanding the foregoing, (i) proceeds of asset sales by foreign subsidiaries are applied solely to prepay European term loans until such term loans have been repaid in full and (ii) HCA Inc. is not required to prepay loans under the term loan A facility or the term loan B facility with net cash proceeds of asset sales or with excess cash flow, in each case attributable to foreign subsidiaries, to the extent that the repatriation of such amounts is prohibited or delayed by applicable local law or would result in material adverse tax consequences.

The asset-based revolving credit facility requires HCA Inc. to prepay outstanding loans if borrowings exceed the borrowing base.

HCA Inc. may voluntarily repay outstanding loans under the senior secured credit facilities at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans.

Amortization

HCA Inc. is required to repay the loans under the term loan facilities as follows:

the term loan A-1 facility amortizes in quarterly installments such that the aggregate amount of the original funded principal amount of such facility repaid pursuant to such amortization payments in each year, with the quarter ending June 30, 2011, is equal to $15 million in the first quarter, $57 million in the following two quarters, $215 million in the following three quarters and with the balance being payable on the final maturity date of such term loans;

the term loan A-2 facility amortizes in equal quarterly installments that commenced on June 30, 2011 in aggregate annual amounts equal to 1.25% of the amount outstanding, on the restatement effective date of such facility, with the balance being payable on the final maturity date of such term loans;

each of the term loan B-1 facility and the European term loan facility currently has no remaining amortization payments,with the balance being payable on the final maturity date of such term loans;

the term loan B-2 facility amortizes in equal quarterly installments commencing December 31, 2013 in aggregate annual amounts equal to $5 million, with the balance payable on the final maturity date of such term loans; and

the term loan B-3 facility amortizes in equal quarterly installments commencing December 31, 2013 in aggregate annual amounts equal to 0.25% of the amount outstanding, on the restatement effective date of such facility, with the balance being payable on the final maturity date of such term loans.

Principal amounts outstanding under the revolving credit facilities are due and payable in full at maturity.

Guarantee and Security

All obligations under the senior secured credit facilities are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned material domestic subsidiaries that are unrestricted subsidiaries under the 1993 Indenture (except for certain special purpose subsidiaries that only guarantee and pledge their assets under the asset-based revolving credit facility), and the obligations under the European term loan facility are also unconditionally guaranteed by HCA Inc. and each of its existing and future wholly-owned material subsidiaries formed under the laws of England and Wales, subject, in each of the foregoing cases, to any applicable legal, regulatory or contractual constraints and to the requirement that such guarantee does not cause adverse tax consequences.

All obligations under the asset-based revolving credit facility, and the guarantees of those obligations, are secured, subject to permitted liens and other exceptions, by a first-priority lien on substantially all of the receivables of the borrowers and each guarantor under such asset-based revolving credit facility (the Receivables Collateral). All obligations under the cash flow credit facility and the guarantees of such obligations, are secured, subject to permitted liens and other exceptions, by:

a first-priority lien on the capital stock owned by HCA Inc. or by any U.S. guarantor in each of their respective first-tier subsidiaries (limited, in the case of foreign subsidiaries, to 65% of the voting stock of such subsidiaries);

a first-priority lien on substantially all present and future assets of HCA Inc. and of each U.S. guarantor other than (i) Principal Properties (as defined in the 1993 Indenture), except for certain Principal Properties the aggregate amount of indebtedness secured thereby in respect of the cash flow credit facility and the first lien notes and any future first lien obligations, taken as a whole, do not exceed 10% of Consolidated Net Tangible Assets (as defined under the 1993 Indenture), (ii) certain other real properties and (iii) deposit accounts, other bank or securities accounts, cash, leaseholds, motor-vehicles and certain other exceptions (such collateral under this and the preceding bullet, the Non-Receivables Collateral); and

a second-priority lien on certain of the Receivables Collateral (such portion of the Receivables Collateral, the Shared Receivables Collateral ; the Receivables Collateral that does not secure such cash flow credit facility on a second-priority basis is referred to as the Separate Receivables Collateral).

The obligations of the borrowers and the guarantors under the European term loan facility are also secured by substantially all present and future assets of the European subsidiary borrower and each European guarantor (the European Collateral), subject to permitted liens and other exceptions (including, without limitation, exceptions for deposit accounts, other bank or securities accounts, cash, leaseholds, motor-vehicles and certain other exceptions) and subject to such security interests otherwise being permitted by applicable law and contract and not resulting in adverse tax consequences. Neither our first lien notes nor our second lien notes are secured by any of the European Collateral.

Certain Covenants and Events of Default

The senior secured credit facilities contain a number of covenants that, among other things, restrict, subject to certain exceptions, HCA Inc. s ability and the ability of its restricted subsidiaries to:

incur additional indebtedness;

create liens;

enter into sale and leaseback transactions;

engage in mergers or consolidations;

sell or transfer assets;

pay dividends and distributions or repurchase capital stock;

make investments, loans or advances;

with respect to the asset-based revolving credit facility, prepay certain subordinated indebtedness, the second lien notes and certain other indebtedness existing on the effective date of the Recapitalization (Retained Indebtedness), subject to certain exceptions;

make certain acquisitions;

engage in certain transactions with affiliates;

make certain material amendments to agreements governing certain subordinated indebtedness, the second lien notes or Retained Indebtedness; and

change lines of business.

In addition, the senior secured credit facilities require the following financial covenants to be maintained:

in the case of the asset-based revolving credit facility, a minimum interest coverage ratio (applicable only when availability under such facility is less than 10% of the borrowing base thereunder); and

in the case of the other senior secured credit facilities, a maximum total leverage ratio.

The senior secured credit facilities also contain certain customary affirmative covenants and events of default, including a change of control.

Senior Secured Notes

In connection with the Corporate Reorganization, the Issuer became a guarantor of HCA Inc. s senior secured notes described below but is not subject to the covenants that apply to HCA Inc. or HCA Inc. s restricted subsidiaries under those notes.

Overview of Senior Secured First Lien Notes

As of June 30, 2011, on an as adjusted basis after giving effect to the August notes offering and the August redemptions, HCA Inc. had $7.150 billion aggregate principal amount of senior secured first lien notes consisting of:

$1.500 billion aggregate principal amount of 81/2% senior secured notes due 2019 issued by HCA Inc. on April 22, 2009 at a price of 96.755% of their face value, resulting in $1.451 billion of gross proceeds;

$1.250 billion aggregate principal amount of 77/8% senior secured notes due 2020 issued by HCA Inc. on August 11, 2009 at a price of 98.254% of their face value, resulting in $1.228 billion of gross proceeds;

$1.400 billion aggregate principal amount of 71/4% senior secured first lien notes due 2020 issued by HCA Inc. on March 10, 2010 at a price of 99.095% of their face value, resulting in $1.387 billion of gross proceeds; and

$3.000 billion aggregate principal amount of 6.50% senior secured first lien notes due 2020 issued by HCA Inc. on August 1, 2011 at a price of 100% of their face value, resulting in $3.000 billion of gross proceeds.

We refer to these notes issued on April 22, 2009, August 11, 2009, March 10, 2010, and August 1, 2011 as the first lien notes and the indentures governing the first lien notes as the first lien indentures.

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The first lien notes and the related guarantees are secured by first-priority liens, subject to permitted liens, on HCA Inc. s subsidiary guarantors assets, subject to certain exceptions, that secure HCA Inc. s cash flow credit facility on a first-priority basis and are secured by second-priority liens, subject to permitted liens, on HCA Inc. s subsidiary guarantors assets that secure HCA Inc. s asset-based revolving credit facility on a first-priority basis and HCA Inc. s cash flow credit facility on a second-priority basis.

Overview of Senior Secured Second Lien Notes

As of June 30, 2011, on an as adjusted basis after giving effect to the August notes offering and the August redemptions, HCA Inc. had senior secured second lien notes of $201 million aggregate principal amount of 97/8% senior secured notes due 2017.

We refer to these notes as the second lien notes and, together with the first lien notes, the secured notes. We refer to the indenture governing the second lien notes as the second lien indenture and, together with the first lien indentures, the indentures governing the secured notes.

These second lien notes and the related guarantees are secured by second-priority liens, subject to permitted liens, on HCA Inc. s subsidiary guarantors assets, subject to certain exceptions, that secure the cash flow credit facility on a first-priority basis and are secured by third-priority liens, subject to permitted liens, on HCA Inc. s and its subsidiary guarantors assets that secure the asset-based revolving credit facility on a first-priority basis and the cash flow credit facility on a second-priority basis.

Optional Redemption

The indentures governing the secured notes permit HCA Inc. to redeem some or all of the secured notes at any time at redemption prices described or set forth in the respective indenture.

Change of Control

In addition, the indentures governing the secured notes provide that, upon the occurrence of a change of control as defined therein, each holder of secured notes has the right to require us to repurchase some or all of such holder s secured notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The indentures governing the secured notes contain covenants limiting, among other things, HCA Inc. s ability and the ability of its restricted subsidiaries to, subject to certain exceptions:

- incur additional debt or issue certain preferred stock;
- pay dividends on or make certain distributions of capital stock or make other restricted payments;
- create certain liens or encumbrances;
- sell certain assets;
- enter into certain transactions with affiliates;

make certain investments; and

consolidate, merge, sell or otherwise dispose of all or substantially all of HCA Inc. s assets.

The extent of such restrictions varies by series. The indentures governing certain of the secured notes also contain a covenant limiting HCA Inc. s ability to prepay certain series of unsecured notes based on the maturity of those unsecured notes. In particular, the indenture governing the first lien notes issued in April 2009 permits HCA Inc. to prepay only those unsecured notes maturing on or prior to April 15, 2019, the indenture governing the first lien notes issued in August 2009 permits HCA Inc. to prepay only those unsecured notes maturing on or prior to February 15, 2020 and the indenture governing the notes issued in February 2009 permit HCA Inc. to prepay only those unsecured notes maturing on or prior to November 15, 2016.

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Events of Default

The indentures governing the secured notes also provide for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the secured notes to become or to be declared due and payable.

Other Secured Indebtedness

As of June 30, 2011, HCA Inc. had approximately $304 million of capital leases and other secured debt outstanding.

Under the lease with HRT of Roanoke, Inc., effective December 20, 2005, HCA Inc. makes annual payments for rent and additional expenses for the use of premises in Roanoke and Salem, Virginia. The rent payments will increase each year beginning January 1, 2007 by the lesser of 3% or the change in the Consumer Price Index. The lease is for a fixed term of 12 years with the option to extend the lease for another ten years.

Under the lease with Medical City Dallas Limited, effective March 18, 2004, HCA Inc. makes annual payments for rent for the use of premises that are a part of a complex known as Medical City Dallas located in Dallas, Texas. The rent payment is adjusted yearly based on the fair market value of the premises and a capitalization rate. The initial term is 240 months with the option to extend for two more terms of 240 months each.

Unsecured Indebtedness

Overview

As of June 30, 2011, on an as adjusted basis after giving effect to the August notes offering, the August redemptions and the October notes offering, HCA Inc. had outstanding an aggregate principal amount of $8.080 billion of senior notes and debentures, consisting of the following series:

$402,499,000 aggregate principal amount of 6.95% Senior Notes due 2012;

$500,000,000 aggregate principal amount of 6.30% Senior Notes due 2012;

$500,000,000 aggregate principal amount of 6.25% Senior Notes due 2013;

$500,000,000 aggregate principal amount of 6.75% Senior Notes due 2013;

$500,000,000 aggregate principal amount of 5.75% Senior Notes due 2014;

$150,000,000 aggregate principal amount of 7.19% Debentures due 2015;

$750,000,000 aggregate principal amount of 6.375% Senior Notes due 2015;

$1,000,000,000 aggregate principal amount of 6.50% Senior Notes due 2016;

$500,000,000 aggregate principal amount of 8.00% Senior Notes due 2018;

$2,000,000,000 aggregate principal amount of 7.50% Senior Notes due 2022;

$135,645,000 aggregate principal amount of 7.50% Debentures due 2023;

$150,000,000 aggregate principal amount of 8.36% Debentures due 2024;

$291,436,000 aggregate principal amount of 7.69% Senior Notes due 2025;

$150,000,000 aggregate principal amount of 7.05% Debentures due 2027;

$250,000,000 aggregate principal amount of 7.50% Senior Notes due 2033;

$100,000,000 aggregate principal amount of 7.75% Debentures due 2036; and

$200,000,000 aggregate principal amount of 7.50% Debentures due 2095.

As of June 30, 2011, on an as adjusted basis after giving effect to the August notes offering, the August redemptions and the October notes offering, HCA Inc. also had outstanding $121,110,000 aggregate principal amount of 9.00% Medium Term Notes due 2014 and $125,000,000 aggregate principal amount of 7.58% Medium Term Notes due 2025.

All of HCA Inc. s outstanding series of senior notes, debentures and medium term notes listed above, which we refer to collectively as the 1993 unsecured notes, were issued under an indenture, which we refer to as the 1993 Indenture, with the exception of the $2,000,000,000 aggregate principal amount of 7.50% senior notes due 2022 and the $500,000,000 aggregate principal amount of 8.00% senior notes due 2018, which were issued under a separate indenture (the new indenture) with terms similar to the 1993 Indenture. We refer to the 1993 Indenture and the new indenture as the Indentures, collectively.

Optional Redemption

If permitted by the respective supplemental indenture, HCA Inc. is permitted to redeem some or all of that series of unsecured notes at any time at redemption prices described or set forth in such supplemental indenture.

Covenants

The Indentures contain covenants limiting, among other things, HCA Inc. s ability and/or the ability of HCA Inc. s restricted subsidiaries to (subject to certain exceptions):

- assume or guarantee indebtedness or obligation secured by mortgages, liens, pledges or other encumbrances;
- enter into sale and lease-back transactions with respect to any Principal Property (as such term is defined in the 1993 Indenture);
- create, incur, issue, assume or otherwise become liable with respect to, extend the maturity of, or become responsible for the payment of, any debt or preferred stock; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of HCA Inc. s assets.

In addition, the Indentures provide that the aggregate amount of all other indebtedness of HCA Inc. secured by mortgages on Principal Properties (as such term is defined in the 1993 Indenture) together with the aggregate principal amount of all indebtedness of restricted subsidiaries (as such term is defined in the 1993 Indenture) and the attributable debt in respect of sale-leasebacks of Principal Properties, may not exceed 15% of the consolidated net tangible assets of HCA Inc. and its consolidated subsidiaries, subject to exceptions for certain permitted mortgages and debt.

Events of Default

The Indentures contain certain events of default, which, if any of them occurs, would permit or require the principal of and accrued interest on such series to become or to be declared due and payable.

Change of Control

In addition, the new indenture provides that, upon the occurrence of a change of control as defined therein, each holder of the notes has the right to require us to repurchase some or all of such holder s secured notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

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THE EXCHANGE OFFER

Purpose and Effect of the Exchange Offer

We have entered into a registration rights agreement with the initial purchasers of the outstanding notes in which we agreed, under certain circumstances, to use our reasonable best efforts to file one or more registration statements relating to an offer to exchange the outstanding notes for exchange notes and to complete the exchange offer within 360 days after the date of original issuance of the outstanding notes. The exchange notes will have terms identical in all material respects to the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions, registration rights and additional interest for failure to observe certain obligations in the registration rights agreement. The outstanding notes were issued on November 23, 2010.

Under the circumstances set forth below, we will use our reasonable best efforts to cause the SEC to declare effective one or more shelf registration statements with respect to the resale of the outstanding notes within the time periods specified in the registration rights agreement and keep the registration statement effective from the effective date of the shelf registration statement until the expiration of the one-year period referred to in Rule 144 under the Securities Act applicable to securities held by non-affiliates under the Securities Act (or a shorter period that will terminate when all the notes of that series covered by the shelf registration statement have been sold pursuant to the shelf registration statement or are freely tradable). These circumstances include:

- if any changes in law, SEC rules or regulations or applicable interpretations thereof by the SEC do not permit us to effect the exchange offer as contemplated by the registration rights agreement;
- if the exchange offer is not consummated within 360 days after the date of issuance of the outstanding notes;
- if any initial purchaser of any series of outstanding notes so requests, within 360 days after the date of issuance of such outstanding notes, with respect to the outstanding notes held by it that are not eligible to be exchanged for the exchange notes; or
- if any holder notifies us, within 360 days after the date of issuance of the applicable outstanding notes, that (1) it is prohibited by applicable law or SEC policy from participating in the applicable exchange offer, (2) it may not resell exchange notes acquired by it in the applicable exchange offer to the public without delivering a prospectus and that this prospectus is not appropriate or available for such resales by such holder or (3) it is a broker-dealer and holds outstanding notes of that series acquired directly from us or one of our affiliates.

Under the registration rights agreement, if we fail to complete the exchange offer (other than in the event we file a shelf registration statement) or the shelf registration statement, if required thereby, is not declared effective, in either case on or prior to 360 days after the issue date of the outstanding notes (the target registration date), the interest rate on those outstanding notes will be increased by 0.25% per annum (which rate will be increased by an additional 0.25% per annum for each subsequent 90-day period that such additional interest continues to accrue, provided that the rate at which such additional interest accrues may in no event exceed 1.0% per annum) commencing on (x) the 361st day after the original issue date of the notes, in the case of (1) above, or (y) the day such shelf registration statement ceases to be effective, in the case of (2) above; provided, however, that upon the exchange of exchange notes for all notes tendered (in the case of clause (1) above), or upon the effectiveness of a shelf registration statement that had ceased to remain effective (in the case of clause (2) above), additional interest on such notes as a result of such clause (or the relevant sub-clause thereof), as the case may be, shall cease to accrue. A copy of the registration rights agreement has been filed as an exhibit to the registration statement of which this prospectus is a part.

If you wish to exchange your outstanding notes for exchange notes in the exchange offer, you will be required to make the following written representations:

you are not our affiliate within the meaning of Rule 405 of the Securities Act;

you have no arrangement or understanding with any person to participate in a distribution (within the meaning of the Securities Act) of the exchange notes in violation of the provisions of the Securities Act;

you are not engaged in, and do not intend to engage in, a distribution of the exchange notes; and you are acquiring the exchange notes in the ordinary course of your business.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where the broker-dealer acquired the outstanding notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. Please see Plan of Distribution.

Resale of Exchange Notes

Based on interpretations by the SEC set forth in no-action letters issued to third parties, we believe that you may resell or otherwise transfer exchange notes issued in the exchange offer without complying with the registration and prospectus delivery provisions of the Securities Act if:

you are not our affiliate within the meaning of Rule 405 under the Securities Act;

you do not have an arrangement or understanding with any person to participate in a distribution of the exchange notes;

you are not engaged in, and do not intend to engage in, a distribution of the exchange notes; and

you are acquiring the exchange notes in the ordinary course of your business.

If you are our affiliate, or are engaging in, or intend to engage in, or have any arrangement or understanding with any person to participate in, a distribution of the exchange notes, or are not acquiring the exchange notes in the ordinary course of your business:

you cannot rely on the position of the SEC set forth in *Morgan Stanley & Co. Incorporated* (available June 5, 1991) and *Exxon Capital Holdings Corporation* (available May 13, 1988), as interpreted in the SEC s letter to *Shearman & Sterling*, dated July 2, 1993, or similar no-action letters; and

in the absence of an exception from the position stated immediately above, you must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the exchange notes.

This prospectus may be used for an offer to resell, resale or other transfer of exchange notes only as specifically set forth in this prospectus. With regard to broker-dealers, only broker-dealers that acquired the outstanding notes as a result of market-making activities or other trading activities may participate in the exchange offer. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. Please read Plan of Distribution for more details regarding the transfer of exchange notes.

Terms of the Exchange Offer

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letters of transmittal, we will accept for exchange in the exchange offer any outstanding notes that are validly tendered and not validly withdrawn prior to the expiration date. Outstanding notes may only be tendered in minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. We will issue exchange notes in principal amount identical to outstanding notes surrendered in the exchange offer. The form and terms of the exchange notes will be identical in all material respects to the form and terms of the outstanding notes except the exchange notes will be registered under the Securities Act, will not bear legends restricting their transfer and will not provide for any additional interest upon our failure to fulfill our obligations under the registration rights agreement to complete the exchange offer, or file, and cause to be effective, a shelf registration statement, if required thereby, within the specified time period. The exchange notes will evidence the same debt as the outstanding notes. The exchange notes will be issued under and entitled to the benefits of the indenture that authorized the issuance of the outstanding notes. For a description of the indenture, see Description of the Notes.

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange.

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This prospectus and the letters of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer. We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Exchange Act and the rules and regulations of the SEC. Outstanding notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the indenture relating to such holders series of outstanding notes and the applicable registration rights agreement except we will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement.

We will be deemed to have accepted for exchange properly tendered outstanding notes when we have given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from us and delivering exchange notes to holders. Subject to the terms of the registration rights agreement, we expressly reserve the right to amend or terminate the exchange offer and to refuse to accept the occurrence of any of the conditions specified below under Conditions to the Exchange Offer.

If you tender your outstanding notes in the exchange offer, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses, other than certain applicable taxes described below in connection with the exchange offer. It is important that you read Fees and Expenses below for more details regarding fees and expenses incurred in the exchange offer.

Expiration Date, Extensions and Amendments

As used in this prospectus, the term expiration date means 5:00 p.m., New York City time, on, November 3, 2011. However, if we, in our sole discretion, extend the period of time for which the exchange offer is open, the term expiration date will mean the latest time and date to which we shall have extended the expiration of the exchange offer.

We expressly reserve the right at any time or at various times to extend the period of time during which the exchange offer are open. Consequently, we may delay acceptance of any outstanding notes by giving oral or written notice of such extension to their holders. We will return any outstanding notes that it does not accept for exchange for any reason without expense to their tendering holder promptly after the expiration or termination of the exchange offer. To extend the period of time during which the exchange offer is open, we will notify the exchange agent of any extension by oral or written notice, followed by notification by press release or other public announcement to the registered holders of the outstanding notes no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

We expressly reserve the right to amend or terminate any of the exchange offer and to reject for exchange any outstanding notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified above. We will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of the outstanding notes. If we amend the exchange offer in a manner that we determine to constitute a material change, it will promptly disclose the amendment in a manner reasonably calculated to inform the holders of applicable outstanding notes of that amendment.

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Conditions to the Exchange Offer

Despite any other term of the exchange offer, we will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and it may terminate or amend the exchange offer as provided in this prospectus prior to the expiration date if in our reasonable judgment:

the exchange offer or the making of any exchange by a holder violates any applicable law or interpretation of the SEC; or

any action or proceeding has been instituted or threatened in writing in any court or by or before any governmental agency with respect to the exchange offer that, in our judgment, would reasonably be expected to impair our ability to proceed with the exchange offer.

In addition, we will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us:

the representations described under Purpose and Effect of the Exchange Offer, Procedures for Tendering Outstanding Notes and Plan of Distribution ; or

any other representations as may be reasonably necessary under applicable SEC rules, regulations or interpretations to make available to us an appropriate form for registration of the exchange notes under the Securities Act.

In addition, we will not accept for exchange any outstanding notes tendered, and will not issue exchange notes in exchange for any such outstanding notes, if at such time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the applicable indenture under the Trust Indenture Act of 1939 (the TIA).

These conditions are for our sole benefit, and we may assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times prior to the expiration date in our sole discretion. If we fail at any time to exercise any of the foregoing rights, this failure will not constitute a waiver of such right. Each such right will be deemed an ongoing right that it may assert at any time or at various times prior to the expiration date.

Procedures for Tendering Outstanding Notes

To tender your outstanding notes in the exchange offer, you must comply with either of the following:

complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature(s) on the letter of transmittal guaranteed if required by the letter of transmittal and mail or

deliver such letter of transmittal or facsimile thereof to the exchange agent at the address set forth below under Exchange Agent prior to the expiration date; or

comply with DTC s Automated Tender Offer Program procedures described below.

In addition, either:

the exchange agent must receive certificates for outstanding notes along with the letter of transmittal prior to the expiration date;

the exchange agent must receive a timely confirmation of book-entry transfer of outstanding notes into the exchange agent s account at DTC according to the procedures for book-entry transfer described below or a properly transmitted agent s message prior to the expiration date; or

you must comply with the guaranteed delivery procedures described below.

Your tender, if not withdrawn prior to the expiration date, constitutes an agreement between us and you upon the terms and subject to the conditions described in this prospectus and in the letter of transmittal.

The method of delivery of outstanding notes, letters of transmittal and all other required documents to the exchange agent is at your election and risk. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure timely delivery to the exchange agent before the expiration date. You should not send letters of transmittal or certificates representing

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outstanding notes to us. You may request that your broker, dealer, commercial bank, trust company or nominee effect the above transactions for you.

If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes, you should promptly contact the registered holder and instruct the registered holder to tender on your behalf. If you wish to tender the outstanding notes yourself, you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either:

- make appropriate arrangements to register ownership of the outstanding notes in your name; or
- obtain a properly completed bond power from the registered holder of outstanding notes.

The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

Signatures on the letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc., a commercial bank or trust company having an office or correspondent in the United States or another eligible guarantor institution within the meaning of Rule 17A(d)-15 under the Exchange Act unless the outstanding notes surrendered for exchange are tendered:

- by a registered holder of the outstanding notes who has not completed the box entitled Special Registration Instructions or Special Delivery Instructions on the letter of transmittal; or
- for the account of an eligible guarantor institution.

If the letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed on the outstanding notes, such outstanding notes must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder s name appears on the outstanding notes, and an eligible guarantor institution must guarantee the signature on the bond power.

If the letter of transmittal, any certificates representing outstanding notes or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, those persons should also indicate when signing and, unless waived by us, they should also submit evidence satisfactory to us of their authority to so act.

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC s system may use DTC s Automated Tender Offer Program to tender outstanding notes. Participants in the program may, instead of physically completing and signing the letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange by causing DTC to transfer the outstanding notes to the exchange agent in accordance with DTC s Automated Tender Offer Program procedures for transfer. DTC will then send an agent s message to the exchange agent. The term agent s message means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

- DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that is tendering outstanding notes that are the subject of the book-entry confirmation;

the participant has received and agrees to be bound by the terms of the letter of transmittal, or in the case of an agent s message relating to guaranteed delivery, that such participant has received and agrees to be bound by the notice of guaranteed delivery; and

we may enforce that agreement against such participant. DTC is referred to herein as a book-entry transfer facility.

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Acceptance of Exchange Notes

In all cases, we will promptly issue exchange notes for outstanding notes that it has accepted for exchange under the exchange offer only after the exchange agent timely receives:

- outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent s account at the book-entry transfer facility; and
- a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent s message.

By tendering outstanding notes pursuant to the exchange offer, you will represent to us that, among other things:

- you are not our affiliate within the meaning of Rule 405 under the Securities Act;
- you do not have an arrangement or understanding with any person or entity to participate in a distribution of the exchange notes; and
- you are acquiring the exchange notes in the ordinary course of your business.

In addition, each broker-dealer that is to receive exchange notes for its own account in exchange for outstanding notes must represent that such outstanding notes were acquired by that broker-dealer as a result of market-making activities or other trading activities and must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the exchange notes. The letters of transmittal state that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. See Plan of Distribution.

We will interpret the terms and conditions of the exchange offer, including the letters of transmittal and the instructions to the letters of transmittal, and will resolve all questions as to the validity, form, eligibility, including time of receipt and acceptance of outstanding notes tendered for exchange. Our determinations in this regard will be final and binding on all parties. We reserve the absolute right to reject any and all tenders of any particular outstanding notes not properly tendered or to not accept any particular outstanding notes if the acceptance might, in its or its counsel s judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities as to any particular outstanding notes prior to the expiration date.

Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within such reasonable period of time as we determine. Neither we, the exchange agent nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of them incur any liability for any failure to give notification. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, unless otherwise provided in the letter of transmittal, promptly after the expiration date.

Book-Entry Delivery Procedures

Promptly after the date of this prospectus, the exchange agent will establish an account with respect to the outstanding notes at DTC and, as the book-entry transfer facility, for purposes of the exchange offer. Any financial institution that is a participant in the book-entry transfer facility s system may make book-entry delivery of the outstanding notes by causing the book-entry transfer facility to transfer those outstanding notes into the exchange agent s account at the facility in accordance with the facility s procedures for such transfer. To be timely, book-entry delivery of outstanding notes requires receipt of a confirmation of a book-entry transfer, a book-entry confirmation, prior to the expiration date. In addition, although delivery of outstanding notes may be effected through book-entry transfer into the exchange agent s account at the book-entry transfer facility, the letter of transmittal or a manually signed facsimile thereof, together with any required signature guarantees and any other required documents, or an agent s message, as defined below, in connection with a book-entry transfer, must, in any case, be delivered or transmitted to and received by the exchange agent at its address set forth on the cover page of the letter of transmittal prior to the expiration date to receive exchange notes for tendered outstanding notes, or the guaranteed delivery procedure described below must be complied with. Tender will not be deemed made until such documents are received by the exchange agent. Delivery of documents to the book-entry transfer facility does not constitute delivery to the exchange agent.

Holders of outstanding notes who are unable to deliver confirmation of the book-entry tender of their outstanding notes into the exchange agent s account at the book-entry transfer facility or all other documents required by the letter of transmittal to the exchange agent on or prior to the expiration date must tender their outstanding notes according to the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes but your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other required documents to the exchange agent or comply with the procedures under DTC s Automatic Tender Offer Program in the case of outstanding notes, prior to the expiration date, you may still tender if:

the tender is made through an eligible guarantor institution;

prior to the expiration date, the exchange agent receives from such eligible guarantor institution either a properly completed and duly executed notice of guaranteed delivery, by facsimile transmission, mail, or hand delivery or a properly transmitted agent s message and notice of guaranteed delivery, that (1) sets forth your name and address, the certificate number(s) of such outstanding notes and the principal amount of outstanding notes tendered; (2) states that the tender is being made thereby; and (3) guarantees that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal, will be deposited by the eligible guarantor institution with the exchange agent; and

the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, as well as certificate(s) representing all tendered outstanding notes in proper form for transfer or a book-entry confirmation of transfer of the outstanding notes into the exchange agent s account at DTC and all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the expiration date.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your outstanding notes according to the guaranteed delivery procedures.

Withdrawal Rights

Except as otherwise provided in this prospectus, you may withdraw your tender of outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective:

the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at its address set forth below under Exchange Agent ; or

you must comply with the appropriate procedures of DTC s Automated Tender Offer Program system.

Any notice of withdrawal must:

specify the name of the person who tendered the outstanding notes to be withdrawn;

identify the outstanding notes to be withdrawn, including the certificate numbers and principal amount of the outstanding notes; and

where certificates for outstanding notes have been transmitted, specify the name in which such outstanding notes were registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, you must also submit:

- the serial numbers of the particular certificates to be withdrawn; and

- a signed notice of withdrawal with signatures guaranteed by an eligible institution unless you are an eligible guarantor institution.

If outstanding notes have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of the facility. We will determine all questions as to the validity, form and eligibility, including time of receipt of notices of withdrawal, and our determination will be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder, without cost to the holder, or, in the case of book-entry transfer, the outstanding notes will be credited to an account at the book-entry transfer facility, promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn outstanding notes may be retendered by following the procedures described under Procedures for Tendering Outstanding Notes above at any time on or prior to the expiration date.

Exchange Agent

Deutsche Bank Trust Company Americas has been appointed as the exchange agent for the exchange offer. You should direct all executed letters of transmittal and all questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

By Registered or Certified Mail:	*By Regular Mail:*	*By Overnight Courier or Hand Delivery:*
DB Services Americas, Inc. MS JCKOI-0218 5022 Gate Parkway Suite 200 Jacksonville, FL 32256	DB Services Americas, Inc. MS JCKOI-0218 5022 Gate Parkway Suite 200 Jacksonville, FL 32256	DB Services Americas, Inc. MS JCKOI-0218 5022 Gate Parkway Suite 200 Jacksonville, FL 32256

By Facsimile Transmission
(eligible institutions only):
615-866-3889

Telephone Inquiries:
(800) 735-7777 (option# 1)

If you deliver the letter of transmittal to an address other than the one set forth above or transmit instructions via facsimile to a number other than the one set forth above, that delivery or those instructions will not be effective.

Fees and Expenses

The registration rights agreement provides that we will bear all expenses in connection with the performance of our obligations relating to the registration of the exchange notes and the conduct of the exchange offer. These expenses include registration and filing fees, accounting and legal fees and printing costs, among others. We will pay the exchange agent reasonable and customary fees for its services and reasonable out-of-pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for customary mailing and handling expenses incurred by them in forwarding this prospectus and related documents to their clients that are holders of outstanding notes and for handling or tendering for such clients.

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We have not retained any dealer-manager in connection with the exchange offer and will not pay any fee or commission to any broker, dealer, nominee or other person, other than the exchange agent, for soliciting tenders of outstanding notes pursuant to the exchange offer.

Accounting Treatment

We will record the exchange notes in our accounting records at the same carrying value as the outstanding notes, which is the aggregate principal amount as reflected in our accounting records on the date of exchanges. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will record the expenses of the exchange offer as incurred.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchanges of outstanding notes under the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of outstanding notes tendered;

- tendered outstanding notes are registered in the name of any person other than the person signing the letter of transmittal; or

- a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offer.

If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

Holders who tender their outstanding notes for exchange will not be required to pay any transfer taxes. However, holders who instruct us to register exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer tax.

Consequences of Failure to Exchange

If you do not exchange your outstanding notes for exchange notes under the exchange offer, your outstanding notes will remain subject to the restrictions on transfer of such outstanding notes:

- as set forth in the legend printed on the outstanding notes as a consequence of the issuance of the outstanding notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

- as otherwise set forth in the offering memoranda distributed in connection with the private offerings of the outstanding notes.

In general, you may not offer or sell your outstanding notes unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the

Securities Act.

Other

Participating in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through a subsequent exchange offer or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes.

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DESCRIPTION OF THE NOTES

Certain terms used in this description are defined under the subheading Certain Definitions. In this description, the terms *we, our, us* and *the Company* each refer to HCA Holdings, Inc. (the *Issuer*) and its consolidated Subsidiaries. The Issuer issued the Notes under an indenture, dated as of November 23, 2010, between the Issuer and Law Debenture Trust Company of New York, as *Trustee* and Deutsche Bank Trust Company Americas, as Paying Agent, Registrar and Transfer Agent. We will refer to the indenture, together with all supplements, as the *Indenture*.

The following is a summary of certain provisions of the Indenture and of the Notes (the *Notes*). This summary does not purport to be complete and is subject to, and qualified by, the Indenture. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended. We urge you to read the Indenture because it, and not this description, will define your rights as Holders of the Notes. You may request copies of the Indenture at the address set forth under the heading Summary.

Ranking and Holding Company Structure

The Notes are:

- unsecured senior obligations of the Issuer;
- equal in right of payment to any future senior Indebtedness of the Issuer;
- senior in right of payment to any future Subordinated Indebtedness of the Issuer; and
- are structurally subordinated in right of payment to all Indebtedness of the Issuer s Subsidiaries.

The Indebtedness evidenced by the Notes is unsecured and will rank equally with any other unsecured and unsubordinated indebtedness the Issuer may incur in the future. The Notes are not guaranteed by any of the Issuer s Subsidiaries. The Issuer s future secured Indebtedness and other future secured obligations will be effectively senior to the Notes to the extent of the value of the assets securing such other secured Indebtedness and other obligations.

The Issuer is a holding company for its Subsidiaries, with no material operations of its own and only limited assets. Accordingly, the Issuer is dependent upon the distribution of the earnings of its Subsidiaries, whether in the form of dividends, advances or payments on account of intercompany obligations, to service its debt obligations. Additionally, claims of such Subsidiaries creditors, including trade creditors and claims of preferred stockholders (if any) of such Subsidiaries, generally will have priority with respect to the assets and earnings of such Subsidiaries over the claims of the Issuer s creditors, including holders of the Notes. The Notes, therefore, are structurally subordinated to creditors (including trade creditors) and preferred stockholders (if any) of our Subsidiaries, including HCA Inc. As of June 30, 2011, on an as adjusted basis after giving effect to the subsequent financing transactions, HCA Inc. and its Subsidiaries would have had Indebtedness of $26.385 billion outstanding, of which $18.059 billion would have been secured.

The Indenture limits the Issuer s ability and that of certain of our Subsidiaries under certain circumstances to secure Indebtedness by Mortgages on our Principal Properties and to enter into Sale and Lease-Back Transactions and limits certain of our Subsidiaries ability to issue Indebtedness or Preferred Stock. In a liquidation or reorganization of any of our Subsidiaries, the right of holders of the Notes to participate in any distribution is subject to the prior claims of creditors of that subsidiary, except to the extent that we are a creditor.

Principal, Maturity and Interest

The Issuer issued $1.525 billion of the Notes in a private transaction that was not subject to the registration requirements of the Securities Act. The Notes will mature on May 15, 2021. The Notes will bear interest at the rate of 73/4% per annum, computed on the basis of a 360-day year of twelve 30-day months, commencing on the Issue Date. Interest will be payable twice a year on May 15 and November 15, beginning on May 15, 2011. Interest payable on any Note that is punctually paid or duly provided for on any interest payment date shall be paid to the person in whose name such Note is registered at the close of business on May 1 and November 1, as the case may be, preceding such interest payment date.

The Issuer may issue additional Notes from time to time under the Indenture (any such Notes, *Additional Notes*). The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context requires otherwise, references to Notes for all purposes of the Indenture and this Description of the Notes include any Additional Notes that are actually issued.

The Notes will be issued in book-entry form only.

Additional Interest

Additional Interest may accrue on the Notes in certain circumstances pursuant to the Registration Rights Agreement. All references in the Indenture, in any context, to any interest or other amount payable on or with respect to the Notes shall be deemed to include any Additional Interest pursuant to the Registration Rights Agreement. Principal of, premium, if any, and interest on the Notes will be payable at the office or agency of the Issuer maintained for such purpose within the City and State of New York or, at the option of the Issuer, payment of interest may be made by check mailed to the Holders of the Notes at their respective addresses set forth in the register of Holders; *provided* that all payments of principal, premium, if any, and interest with respect to the Notes represented by one or more global notes registered in the name of or held by DTC or its nominee will be made by wire transfer of immediately available funds to the accounts specified by the Holder or Holders thereof. Until otherwise designated by the Issuer, the Issuer s office or agency in New York will be the office of the Registrar and Paying Agent maintained for such purpose.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer will not be required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase Notes as described under the caption Repurchase at the Option of Holders. The Issuer may at any time and from time to time purchase Notes in the open market or otherwise.

Optional Redemption

Except as set forth below, the Issuer is not entitled to redeem Notes at its option prior to November 15, 2015.

At any time prior to November 15, 2015, the Issuer may redeem all or a part of the Notes, upon not less than 30 nor more than 60 days prior notice mailed by first-class mail to the registered address of each Holder or otherwise in accordance with the procedures of DTC, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest and Additional Interest, if any, to the date of redemption (the *Redemption Date*), subject to the rights of Holders of the Notes on the relevant record date to receive interest due on the relevant interest payment date.

On and after November 15, 2015 the Issuer may redeem the Notes, in whole or in part, upon not less than 30 nor more than 60 days prior notice mailed by first-class mail to the registered address of each Holder or otherwise in accordance with the procedures of DTC, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon and Additional Interest, if any, to the applicable Redemption Date, subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date, if redeemed during the twelve-month period beginning on November 15 of each of the years indicated below:

Year	Percentage
2015	103.875%
2016	102.583%
2017	101.292%
2018 and thereafter	100.000%

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In addition, until November 15, 2013, the Issuer may, at its option, on one or more occasions redeem up to 35% of the aggregate principal amount of Notes and Additional Notes at a redemption price equal to 107.750% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon and Additional Interest, if any, to the applicable Redemption Date, subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more Equity Offerings; *provided* that at least 50% of the sum of the original aggregate principal amount of Notes issued under the Indenture and the original principal amount of any Additional Notes that are Notes issued under the Indenture after the Issue Date remains outstanding immediately after the occurrence of each such redemption; *provided further* that each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

Any notice of any redemption may be given prior to the redemption thereof, and any such redemption or notice may, at the Issuer s discretion, be subject to one or more conditions precedent, including, but not limited to, completion of an Equity Offering or other corporate transaction.

If the Issuer redeems less than all of the outstanding notes, the Registrar and Paying Agent shall select the notes to be redeemed in the manner described under Repurchase at the Option of Holders Selection and Notice.

Denominations, Registration and Transfer

The Issuer has issued the Notes in registered form and in denominations of $2,000 and any integral multiple of $1,000 in excess thereof. You will be able to exchange the Notes of any series (other than a global Note) for an equal aggregate principal amount of registered Notes of the same series having the same maturity date, interest rate and other terms, as long as the Notes are issued in authorized denominations. You may exchange the Notes at the office of the security registrar or co-security registrar that we have designated. We will not impose any service charge for the exchange of any Indebtedness security; however, we may ask you to pay any taxes and other governmental charges as described in the Indenture. The security registrar or co-security registrar will effect the exchange when satisfied with your documents of title and identity. We have appointed the Trustee as security registrar.

Transfer of the Notes at the Option of the Issuer

At any time prior to the maturity of the Notes, the Issuer may elect to have obligations under the Notes and the Indenture assumed by HCA Inc.; *provided*, *however*, that such transfer, merger or other assumption results in the full and unconditional obligation of HCA Inc. under the Notes and the Indenture. In such event, references herein to the Issuer shall instead refer to HCA Inc.

Repurchase at the Option of Holders

Change of Control

The Notes provide that if a Change of Control occurs, unless the Issuer has previously or concurrently mailed a redemption notice with respect to all the outstanding Notes as described under Optional Redemption, the Issuer will make an offer to purchase all of the Notes pursuant to the offer described below (the *Change of Control Offer*) at a price in cash (the *Change of Control Payment*) equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, subject to the right of Holders of the Notes of record on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will send notice of such Change of Control Offer by first-class mail, with a copy to the Trustee and the Registrar, to each Holder of Notes to the address of such Holder appearing in the security register with a copy to the Trustee and the Registrar or otherwise in accordance with the procedures of DTC, with the following information:

(1) that a Change of Control Offer is being made pursuant to the covenant entitled Change of Control and that all Notes properly tendered pursuant to such Change of Control Offer will be accepted for payment by the Issuer;

(2) the purchase price and the purchase date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed (the *Change of Control Payment Date*);

(3) that any Note not properly tendered will remain outstanding and continue to accrue interest;

(4) that unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest on the Change of Control Payment Date;

(5) that Holders electing to have any Notes purchased pursuant to a Change of Control Offer will be required to surrender such Notes, with the form entitled Option of Holder to Elect Purchase on the reverse of such Notes completed, to the paying agent specified in the notice at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date;

(6) that Holders will be entitled to withdraw their tendered Notes and their election to require the Issuer to purchase such Notes; *provided* that the paying agent receives, not later than the close of business on the 30th day following the date of the Change of Control notice, a telegram, facsimile transmission or letter setting forth the name of the Holder of the Notes, the principal amount of Notes tendered for purchase, and a statement that such Holder is withdrawing its tendered Notes and its election to have such Notes purchased;

(7) that Holders tendering less than all of their Notes will be issued new Notes and such new Notes will be equal in principal amount to the unpurchased portion of the Notes surrendered. The unpurchased portion of the Notes must be equal to $2,000 or an integral multiple of $1,000 in excess thereof; and

(8) the other instructions, as determined by us, consistent with the covenant described hereunder, that a Holder must follow.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

On the Change of Control Payment Date, the Issuer will, to the extent permitted by law,

(1) accept for payment all Notes issued by it or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the aggregate Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver, or cause to be delivered, to the Trustee for cancellation the Notes so accepted together with an Officer s Certificate to the Trustee stating that such Notes or portions thereof have been tendered to and purchased by the Issuer.

Existing indebtedness of HCA Inc. limits, and future indebtedness of HCA Inc. and its Subsidiaries may prohibit or limit, the Issuer from purchasing any Notes as a result of a Change of Control. In the event a Change of Control occurs at a time when the Issuer is prohibited from purchasing the Notes, HCA Inc. could seek the consent of its lenders and noteholders to permit the purchase of the Notes or could attempt to refinance the borrowings that contain such prohibition. If HCA Inc. does not obtain such consent or repay such borrowings, the Issuer will remain prohibited from purchasing the Notes. In such case, the Issuer s failure to purchase tendered Notes would constituted an Event of Default under the Indenture.

The Issuer s ability to pay cash to the Holders of the Notes following the occurrence of a Change of Control may be limited by its then-existing financial resources. Therefore, sufficient funds may not be available when necessary to make any required repurchases.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of us and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the Initial Purchasers and us. After the Issue Date, we have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Such restrictions in the Indenture can be waived only with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

The Issuer will not be required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by us and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The definition of Change of Control includes a disposition of all or substantially all of the assets of the Issuer to any Person. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of all or substantially all of the assets of the Issuer. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions under the Indenture relating to the Issuer s obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes.

Selection and Notice

If the Issuer is redeeming less than all of the Notes issued by it at any time, the Registrar and Paying Agent will select the Notes to be redeemed (a) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed, (b) on a pro rata basis to the extent practicable or (c) by lot or such other similar method in accordance with the procedures of DTC.

Notices of purchase or redemption shall be mailed by first-class mail, postage prepaid, at least 30 but not more than 60 days before the purchase or Redemption Date to each Holder of Notes at such Holder s registered address or otherwise in accordance with the procedures of DTC, except that redemption notices may be mailed more than 60 days prior to a Redemption Date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. If any Note is to be purchased or redeemed in part only, any notice of purchase or redemption that relates to such Note shall state the portion of the principal amount thereof that has been or is to be purchased or redeemed.

The Issuer will issue a new Note in a principal amount equal to the unredeemed portion of the original Note in the name of the Holder upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption. On and after the Redemption Date, interest ceases to accrue on Notes or portions thereof called for redemption.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Covenant Termination

From and after any date following the Issue Date on which both, (A) no Default has occurred and is continuing under the Indenture and (B) either (i) the Issuer shall have consummated a Qualified IPO, (ii) the Issuer shall have a Consolidated Leverage Ratio of less than 4.0x or (iii) at the Issuer s option, the Issuer s obligations under the Notes and the Indenture are assumed (via merger, exchange or otherwise) and become the full and unconditional obligation of HCA Inc. in accordance with the terms set forth above under Transfer of the Notes at the Option of the Issuer (each of the occurrence of the events described in the foregoing clauses (A) and (B)(i)-(iii) are referred to as a *Covenant Termination Event*), the Issuer and the Restricted Subsidiaries will no longer be subject to the Limitation on Restricted Payments covenant. A Covenant Termination Event occurred on March 9, 2011 upon completion of a Qualified IPO by the Issuer.

Covenant Suspension

If on any date following the Issue Date (i) the Notes have Investment Grade Ratings from both Rating Agencies and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a *Covenant Suspension Event*), the Issuer and the Restricted Subsidiaries will not be subject to the Repurchase at the Option of Holders Change of Control covenant (the *Suspended Covenant*).

In the event that the Issuer and the Restricted Subsidiaries are not subject to the Suspended Covenant under the Indenture for any period of time as a result of the foregoing, and on any subsequent date (the *Reversion Date*) one or both of the Rating Agencies (a) withdraw their Investment Grade Rating or downgrade the rating assigned to the Notes below an Investment Grade Rating and/or (b) the Issuer or any of its Affiliates enters into an agreement to effect a transaction that would result in a Change of Control and one or more of the Rating Agencies indicate that if consummated, such transaction (alone or together with any related recapitalization or refinancing transactions) would cause such Rating Agency to withdraw its Investment Grade Rating or downgrade the ratings assigned to the Notes below an Investment Grade Rating, then the Issuer and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenant under the Indenture with respect to future events, including, without limitation, a proposed transaction described in clause (b) above.

The period of time between the Suspension Date and the Reversion Date is referred to in this description as the *Suspension Period.* In the event of any such reinstatement, no action taken or omitted to be taken by the Issuer or any of its Restricted Subsidiaries prior to such reinstatement will give rise to a Default or Event of Default under the Indenture with respect to the Notes.

There can be no assurance that the Notes will ever achieve or maintain Investment Grade Ratings.

Limitation on Restricted Payments

As noted above, the following covenant no longer applies to the Issuer and its Restricted Subsidiaries. The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(I) declare or pay any dividend or make any payment or distribution on account of the Issuer s, or any of its Restricted Subsidiaries Equity Interests, including any dividend or distribution payable in connection with any merger or consolidation other than:

(a) dividends or distributions by the Issuer payable solely in Equity Interests (other than Disqualified Stock) of the Issuer; or

(b) dividends or distributions by a Restricted Subsidiary so long as, in the case of any dividend or distribution payable on or in respect of any class or series of securities issued by a Restricted Subsidiary other than a Wholly-Owned Subsidiary, the Issuer or a Restricted Subsidiary receives at least its pro rata share of such dividend or distribution in accordance with its Equity Interests in such class or series of securities; or

(II) purchase, redeem, defease or otherwise acquire or retire for value any Equity Interests of the Issuer or any direct or indirect parent of the Issuer, including in connection with any merger or consolidation

(all such payments and other actions set forth in clauses (I) and (II) above (other than any exception thereto) being collectively referred to as *Restricted Payments*), unless, at the time of such Restricted Payment:

(1) no Default shall have occurred and be continuing or would occur as a consequence thereof;

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(2) immediately after giving effect to such transaction on a pro forma basis, the Issuer and its Restricted Subsidiaries on a consolidated basis would have had a Fixed Charge Coverage Ratio of at least 2.00 to 1.00; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries (including HCA Inc.) after November 17, 2006 (including Restricted Payments permitted by clauses (1), (2) (with respect to the payment of dividends on Refunding Capital Stock (as defined below) pursuant to clause (b) thereof only), (6)(c) and (9) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph), is less than the sum of (without duplication):

(a) 50% of the Consolidated Net Income of the Issuer and, for the period prior to the Issue Date, of HCA Inc.) for the period (taken as one accounting period) beginning October 1, 2006, to the end of the Issuer s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment, or, in the case such Consolidated Net Income for such period is a deficit, minus 100% of such deficit; *plus*

(b) 100% of the aggregate net cash proceeds and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received by the Issuer and, for the period prior to the Issue Date, by HCA Inc., since immediately after November 17, 2006 from the issue or sale of:

(i) (A) Equity Interests of the Issuer and, for the period prior to the Issue Date, of HCA Inc., including Treasury Capital Stock (as defined below), but excluding cash proceeds and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received from the sale of:

(x) Equity Interests to members of management, directors or consultants of the Issuer, any direct or indirect parent company of the Issuer and the Issuer s or HCA Inc. s Subsidiaries after November 17, 2006 to the extent such amounts have been applied to Restricted Payments made in accordance with clause (4) of the next succeeding paragraph; and

(y) Designated Preferred Stock; and

(B) to the extent such net cash proceeds are actually contributed to the Issuer, or, for the period prior to the Issue Date, to HCA Inc., Equity Interests of the Issuer s direct or indirect parent companies (excluding contributions of the proceeds from the sale of Designated Preferred Stock of such companies or contributions to the extent such amounts have been applied to Restricted Payments made in accordance with clause (4) of the next succeeding paragraph); or

(ii) debt securities of the Issuer and, for the period prior to the Issue Date, of HCA Inc. that have been converted into or exchanged for such Equity Interests of the Issuer and, for the period prior to the Issue Date, of HCA Inc.;

provided, *however*, that this clause (b) shall not include the proceeds from (V) Refunding Capital Stock (as defined below), (W) Equity Interests or convertible debt securities of the Issuer and, for the period prior to the Issue Date, of HCA Inc., sold to a Restricted Subsidiary, as the case may be, (X) Disqualified Stock or debt securities that have been converted into Disqualified Stock or (Y) Excluded Contributions; *plus*

(c) 100% of the aggregate amount of cash and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property contributed to the capital of the Issuer and, for the period prior to the Issue Date, to the capital of HCA Inc., following November 17, 2006 (other than net cash proceeds to the extent such net cash proceeds (i) are contributed by a Restricted Subsidiary or (ii) constitute Excluded Contributions); *plus*

(d) 100% of the aggregate amount received in cash and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received by means of the sale (other than to the Issuer or a Restricted Subsidiary) of the stock of an Unrestricted Subsidiary or a distribution from an

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Unrestricted Subsidiary or a dividend from an Unrestricted Subsidiary after November 17, 2006 (in each case, other than Unrestricted Subsidiaries the primary assets of which are Principal Property).

The foregoing provisions will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at the date of declaration such payment would have complied with the provisions of the Indenture;

(2) (a) the redemption, repurchase, retirement or other acquisition of any Equity Interests (*Treasury Capital Stock*) of the Issuer or any Equity Interests of any direct or indirect parent company of the Issuer, in exchange for, or out of the proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary) of, Equity Interests of the Issuer or any direct or indirect parent company of the Issuer to the extent contributed to the Issuer (in each case, other than any Disqualified Stock) (*Refunding Capital Stock*) and (b) if immediately prior to the retirement of Treasury Capital Stock, the declaration and payment of dividends thereon was permitted under clause (6) of this paragraph, the declaration and payment of dividends on the Refunding Capital Stock (other than Refunding Capital Stock the proceeds of which were used to redeem, repurchase, retire or otherwise acquire any Equity Interests of any direct or indirect parent company of the Issuer) in an aggregate amount per year no greater than the aggregate amount of dividends per annum that were declarable and payable on such Treasury Capital Stock immediately prior to such retirement;

(3) *reserved*;

(4) a Restricted Payment to pay for the repurchase, retirement or other acquisition or retirement for value of Equity Interests (other than Disqualified Stock) of the Issuer or any of its direct or indirect parent companies held by any future, present or former employee, director or consultant of the Issuer, any of its Subsidiaries or any of its direct or indirect parent companies pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement; *provided*, *however*, that the aggregate Restricted Payments made under this clause (4) do not exceed in any calendar year $75.0 million (which shall increase to $150.0 million subsequent to the consummation of an underwritten public Equity Offering by the Issuer or any direct or indirect parent entity of the Issuer) (with unused amounts in any calendar year being carried over to succeeding calendar years subject to a maximum (without giving effect to the following proviso) of $225.0 million in any calendar year (which shall increase to $450.0 million subsequent to the consummation of an underwritten public Equity Offering by the Issuer or any direct or indirect parent corporation of the Issuer)); *provided further* that such amount in any calendar year may be increased by an amount not to exceed:

(a) the cash proceeds from the sale of Equity Interests (other than Disqualified Stock) of the Issuer and, to the extent contributed to the Issuer, Equity Interests of any of the Issuer s direct or indirect parent companies, in each case to members of management, directors or consultants of the Issuer, any of its Subsidiaries or any of its direct or indirect parent companies that occurs after November 17, 2006, to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3) of the preceding paragraph; *plus*

(b) the cash proceeds of key man life insurance policies received by the Issuer or its Restricted Subsidiaries after November 17, 2006; *less*

(c) the amount of any Restricted Payments previously made with the cash proceeds described in clauses (a) and (b) of this clause (4);

and *provided*, *further*, that cancellation of Indebtedness owing to the Issuer or any Restricted Subsidiary from members of management of the Issuer, any of the Issuer s direct or indirect parent companies or any of the Issuer s Restricted Subsidiaries in connection with a repurchase of Equity Interests of the Issuer or any of its direct or indirect parent companies will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(5) the declaration and payment of dividends to holders of any class or series of Disqualified Stock of the Issuer or any of its Restricted Subsidiaries or any class or series of Preferred Stock of any Restricted Subsidiary to the extent such dividends are included in the definition of Fixed Charges ;

(6) (a) the declaration and payment of dividends to holders of any class or series of Designated Preferred Stock (other than Disqualified Stock) issued by the Issuer and, for the period prior to the Issue Date, by HCA Inc., after November 17, 2006;

(b) the declaration and payment of dividends to a direct or indirect parent company of the Issuer, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preferred Stock (other than Disqualified Stock) of such parent corporation issued after November 17, 2006; *provided* that the amount of dividends paid pursuant to this clause (b) shall not exceed the aggregate amount of cash actually contributed to the Issuer from the sale of such Designated Preferred Stock; or

(c) the declaration and payment of dividends on Refunding Capital Stock that is Preferred Stock in excess of the dividends declarable and payable thereon pursuant to clause (2) of this paragraph;

provided, *however*, in the case of each of (a) and (c) of this clause (6), that for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of issuance of such Designated Preferred Stock or the declaration of such dividends on Refunding Capital Stock that is Preferred Stock, after giving effect to such issuance or declaration on a pro forma basis, the Issuer and its Restricted Subsidiaries on a consolidated basis would have had a Fixed Charge Coverage Ratio of at least 2.00 to 1.00;

(7) *reserved*;

(8) repurchases of Equity Interests deemed to occur upon exercise of stock options or warrants if such Equity Interests represent a portion of the exercise price of such options or warrants;

(9) the declaration and payment of dividends on the Issuer s common stock (or the payment of dividends to any direct or indirect parent entity to fund a payment of dividends on such entity s common stock), following consummation of the first public offering of the Issuer s common stock or the common stock of any of its direct or indirect parent companies after November 17, 2006, of up to 6% per annum of the net cash proceeds received by or contributed to the Issuer in or from any such public offering, other than public offerings with respect to the Issuer s common stock registered on Form S-8 and other than any public sale constituting an Excluded Contribution;

(10) Restricted Payments that are made with Excluded Contributions;

(11) other Restricted Payments in an aggregate amount taken together with all other Restricted Payments made pursuant to this clause (11) not to exceed 3.0% of Total Assets at the time made;

(12) distributions or payments of Receivables Fees;

(13) any Restricted Payment used to fund amounts owed to Affiliates (including dividends to any direct or indirect parent of the Issuer to permit payment by such parent of such amount), in each case to the extent permitted by the covenant described under Transactions with Affiliates set forth in the Existing Secured Bond Indentures as in effect on the Issue Date;

(14) *reserved*;

(15) the declaration and payment of dividends by the Issuer to, or the making of loans to, any direct or indirect parent in amounts required for any direct or indirect parent companies to pay, in each case without duplication,

(a) franchise and excise taxes and other fees, taxes and expenses required to maintain their corporate existence;

(b) foreign, federal, state and local income taxes, to the extent such income taxes are attributable to the income of the Issuer and its Restricted Subsidiaries and, to the extent of the amount actually received from its Unrestricted Subsidiaries, in amounts required to pay such taxes to the extent attributable to the income of such Unrestricted Subsidiaries; *provided* that in each case the amount of such payments in any fiscal year does not exceed the amount that the Issuer and its Restricted Subsidiaries would be required to pay in respect of foreign, federal, state and local taxes for such fiscal year were the Issuer, its Restricted

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Subsidiaries and its Unrestricted Subsidiaries (to the extent described above) to pay such taxes separately from any such parent entity;

(c) for as long as Hercules Holding II, LLC is a parent of the Issuer, distributions equal to any taxable income of Hercules Holding II, LLC resulting from the Hedging Arrangements multiplied by 45%;

(d) customary salary, bonus and other benefits payable to officers and employees of any direct or indirect parent company of the Issuer to the extent such salaries, bonuses and other benefits are attributable to the ownership or operation of the Issuer and its Restricted Subsidiaries;

(e) general corporate operating and overhead costs and expenses of any direct or indirect parent company of the Issuer to the extent such costs and expenses are attributable to the ownership or operation of the Issuer and its Restricted Subsidiaries; and

(f) fees and expenses other than to Affiliates of the Issuer related to any unsuccessful equity or debt offering of such parent entity;

(16) the distribution, by dividend or otherwise, of shares of Capital Stock of, or Indebtedness owed to the Issuer or a Restricted Subsidiary by, Unrestricted Subsidiaries (other than Unrestricted Subsidiaries, the primary assets of which are cash and/or Cash Equivalents or Principal Properties); and

(17) distributions in respect of the Issuer s Equity Interests made in connection with the HCA Holdings Transactions.

provided, *however*, that at the time of, and after giving effect to, any Restricted Payment permitted under clauses (11) and (16), no Default shall have occurred and be continuing or would occur as a consequence thereof.

As of the Issue Date, all of the Issuer s Subsidiaries will be Restricted Subsidiaries. The Issuer will not permit any Unrestricted Subsidiary to become a Restricted Subsidiary except pursuant to the definition of Unrestricted Subsidiary. Unrestricted Subsidiaries will not be subject to any of the restrictive covenants set forth in the Indenture.

Limitations on Mortgages

Nothing in the Indenture or in the Notes shall in any way restrict or prevent the Issuer or any Subsidiary from incurring any Indebtedness, *provided*, *however*, that the Indenture provides that neither the Issuer nor any of its Subsidiaries (other than HCA Inc.) will issue, assume or guarantee any indebtedness or obligation secured by Mortgages upon any Principal Property, unless the Notes shall be secured equally and ratably with (or prior to) such Indebtedness. This restriction will not apply to:

(a) Mortgages securing all or any part of the purchase price of property acquired or cost of construction of property or cost of additions, substantial repairs, alterations or improvements or property, if the Indebtedness and the related Mortgages are incurred within 18 months of the later of the acquisition or completion of construction and full operation or additions, repairs, alterations or improvements;

(b) Mortgages existing on property at the time of its acquisition by the Issuer or a Subsidiary or on the property of a Person at the time of the acquisition of such Person by the Issuer or a Subsidiary (including acquisitions through merger or consolidation);

(c) Mortgages to secure Indebtedness on which the interest payments to holders of the related indebtedness are excludable from gross income for federal income tax purposes under Section 103 of the Code;

(d) Mortgages in favor of the Issuer or any Subsidiary;

(e) Mortgages existing on the date of the Indenture;

(f) Mortgages in favor of a government or governmental entity that (i) secure Indebtedness which is guaranteed by the government or governmental entity, (ii) secure Indebtedness incurred to finance all or some of the purchase price or cost of construction of goods, products or facilities produced under contract or subcontract for the government or governmental entity, or (iii) secure Indebtedness incurred to finance all or some of the purchase price or cost of construction of the property subject to the Mortgage;

(g) Mortgages incurred in connection with the borrowing of funds where such funds are used to repay within 120 days after entering into such Mortgage, Indebtedness in the same principal amount secured by other Mortgages on Principal Property with at least the same appraised fair market value;

(h) Mortgages incurred within 90 days (or any longer period, not in excess of one year, as permitted by law) after the acquisition of the property or equipment subject to that Mortgage and arising solely in connection with the transfer of tax benefits in accordance with Section 168(f)(8) of the Code; and

(i) any extension, renewal or replacement of any Mortgage referred to in clauses (a) through (h) above, *provided* the amount secured is not increased and such extension, renewal or replacement Mortgage relates to the same property.

Limitations on Sale and Lease-Back

The Indenture provides that neither the Issuer nor any Subsidiary (other than HCA Inc.) will enter into any Sale and Lease-Back Transaction with respect to any Principal Property with another person (other than with the Issuer or a Subsidiary) unless either:

(a) the Issuer or such Subsidiary could incur indebtedness secured by a mortgage on the property to be leased without equally and ratably securing the Notes; or

(b) within 120 days, the Issuer applies the greater of the net proceeds of the sale of the leased property or the fair value of the leased property, net of all Notes delivered under the Indenture, to the voluntary retirement of our Funded Debt and/or the acquisition or construction of a Principal Property.

Exempted Transactions

Notwithstanding the foregoing provisions described above under Limitation on Mortgages and Limitations on Sale and Lease-Back if

(a) the aggregate outstanding principal amount of all Indebtedness of HCA Inc. and its Subsidiaries that is subject to and not otherwise permitted under these restrictions does not exceed 15% of the Consolidated Net Tangible Assets of HCA Inc. and its Subsidiaries, then:

(i) HCA Inc. or any of its Subsidiaries may issue, assume or guarantee Indebtedness secured by Mortgages; and

(ii) HCA Inc. or any of its Subsidiaries may enter into any Sale and Lease-Back Transaction; and

(iii) the Issuer may guarantee the obligations of HCA Inc. or any of its Subsidiaries under clauses (i) or (ii) above; and

(b) the aggregate outstanding principal amount of all Indebtedness of the Issuer and its Subsidiaries that is subject to and not otherwise permitted under these restrictions does not exceed 20% of the Consolidated Net Tangible Assets of the Issuer and its Subsidiaries, then:

(i) the Issuer or any of its Subsidiaries (other than HCA Inc. and its Subsidiaries) may issue, assume or guarantee Indebtedness secured by Mortgages; and

(ii) the Issuer or any of its Subsidiaries (other than HCA Inc. and its Subsidiaries) may enter into any Sale and Lease-Back Transaction;

provided, however, that in no event shall the Capital Stock of HCA Inc. be pledged or otherwise be encumbered to secure any Indebtedness of the Issuer unless in all such instances, the Notes are equally and ratably secured with (or prior to) such Indebtedness.

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Events of Default

Under the Indenture, an *Event of Default* applicable to the Notes of any series means:

- failure to pay the principal or any premium on the Notes when due;
- failure to pay any interest on the Notes when due, and such default continues for a period of 30 days;
- failure to deposit any sinking fund payment in respect of the Notes when due;
- failure to perform, or the breach of, any of our other applicable covenants or warranties in the Indenture, and such default continues for a period of 60 days after written notice by Holders of at least 10% in principal amount of the outstanding Notes; and
- events in bankruptcy, insolvency or reorganization.

If any Event of Default with respect to the Notes occurs and is continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal amount of all the Notes to be due and payable immediately. The Holders may, under certain circumstances, rescind and annul this acceleration prior to obtaining a judgment or decree.

Other than the duties of the Trustee during a default to act with the required standard of care, the Trustee is not obligated to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders unless the holders shall have offered to the Trustee reasonable indemnity. Subject to these indemnification provisions, the holders of a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Notes.

We will furnish the Trustee annually with a statement as to our performance of certain obligations under the Indenture and as to any default in our performance.

Modification and Waiver

Without Holder Consent

Without the consent of any Holders, the Issuer and the Trustee, may enter into supplemental indentures for any of the following purposes:

(1) to evidence the succession of another corporation to the Issuer and the assumption by such successor of the covenants of the Issuer in compliance with the requirements set forth in the Indenture; or

(2) to add to the covenants for the benefit of the Holders or to surrender any right or power herein conferred upon the Issuer; or

(3) to add any additional Events of Default; or

(4) to change or eliminate any of the provisions of the Indenture, *provided* that any such change or elimination shall become effective only when there are no outstanding Notes of any series created prior to the execution of such supplemental indenture that is entitled to the benefit of such provision and as to which such supplemental indenture

would apply; or

(5) to secure the Notes; or

(6) to supplement any of the provisions of the Indenture to such extent necessary to permit or facilitate the defeasance and discharge of the Notes, *provided* that any such action does not adversely affect the interests of the Holders of the Notes in any material respect; or

(7) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee and to add to or change any of the provisions of the Indenture necessary to provide for or facilitate the administration of the trusts by more than one Trustee; or

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(8) to cure any ambiguity, to correct or supplement any provision of the Indenture which may be defective or inconsistent with any other provision; or

(9) to change any place or places where the principal of and premium, if any, and interest, if any, on the Notes shall be payable, the Notes may be surrendered for registration or transfer, the Notes may be surrendered for exchange, and notices and demands to or upon the Issuer may be served.

With Holder Consent

We and the Trustee may modify and amend the Indenture with the consent of the holders of a majority in aggregate principal amount of the outstanding Notes; however, we must have the consent of the Holder of each outstanding Note affected to:

(1) change the stated maturity of the principal of, or installment of interest, if any, on, the Notes, or reduce the principal amount thereof or the interest thereon or any premium payable upon redemption thereof;

(2) change the currency in which the principal of (and premium, if any) or interest on such Notes are denominated or payable, or reduce the amount of the principal of a Discount Security that would be due and payable upon a declaration of acceleration of the maturity thereof;

(3) adversely affect the right of repayment or repurchase, if any, at the option of the Holder after such obligation arises, or reduce the amount of, or postpone the date fixed for, any payment under any sinking fund or impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date);

(4) reduce the percentage of Holders whose consent is required for modification or amendment of the Indenture or for waiver of compliance with certain provisions of the Indenture or certain defaults; or

(5) modify the provisions that require Holder consent to modify or amend the Indenture or that permit Holders to waive compliance with certain provisions of the Indenture or certain defaults.

The holders of a majority in aggregate principal amount of the outstanding Notes may, on behalf of all holders, waive any past default under the Indenture with respect to Notes. However, such holders may not waive a past default in the payment of principal, premium or interest, or any sinking fund installment with respect to the Notes, or waive a covenant or provision that cannot be modified or amended, without the consent of the holders of each outstanding Note affected.

Consolidation, Merger, Sale or Lease of Assets

We may consolidate with or merge into, or transfer or lease all or substantially all of our assets to any corporation without the consent of the holders of the Notes under the Indenture if:

- the successor corporation assumes our obligations on the Notes and under the Indenture;

- after giving effect to the transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing;

- if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Issuer would become subject to a mortgage, pledge, lien, security interest or other encumbrance that would not be permitted by the Indenture, the Issuer or such successor corporation or Person, as the case may be, shall take such steps as shall be necessary effectively to secure all the Notes equally and ratably with (or prior to) all indebtedness secured thereby; and

the Issuer has delivered to the Trustee an Officers Certificate and an Opinion of Counsel each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture comply with this covenant and that all conditions precedent provided for relating to such transaction have been complied with.

Notwithstanding the foregoing, the above restrictions shall not apply in connection with the full and unconditional assumption (whether via merger, exchange or otherwise) of the Issuer s obligations under the Notes and the

Indenture by HCA Inc. in accordance with the terms set forth under Transfer of the Notes at the Option of the Issuer.

Defeasance

We may be discharged from our obligations under the Notes, and we will not be subject to the limitations in the Indenture discussed in the above sections, if we deposit with the Trustee trust money or U.S. government obligations that are sufficient to pay all principal, premium and interest on the Notes. We would deliver to the Trustee an opinion of counsel to the effect that the deposit and related defeasance would not (1) cause the holders of the Notes to recognize income, gain or loss for United States income tax purposes or (2) result in the delisting of the Notes from any national securities exchange (if so listed).

Notices

Notices to holders will be mailed to the addresses of the holders listed in the security register.

Governing Law

We will construe the Indenture and the Notes in accordance with the laws of the State of New York.

Concerning the Trustee

The Trustee has normal banking relationships with us.

Certain Definitions

Additional Interest means all additional interest then owing pursuant to the Registration Rights Agreement.

Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, *control* (including, with correlative meanings, the terms *controlling*, *controlled by* and *under common control with*), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise.

Affiliated Entity means any Person which (i) does not transact any substantial portion of its business or regularly maintain any substantial portion of its operating assets within the continental limits of the United States of America, (ii) is principally engaged in the business of financing (including, without limitation, the purchase, holding, sale or discounting of or lending upon any notes, contracts, leases or other forms of obligations) the sale or lease of merchandise, equipment or services (1) by the Issuer or HCA Inc., (2) by a Subsidiary (whether such sales or leases have been made before or after the date which such Person became a Subsidiary), (3) by another Affiliated Entity or (4) by any Person prior to the time which substantially all its assets have heretofore been or shall hereafter have been acquired by the Issuer or HCA Inc., (iii) is principally engaged in the business of owning, leasing, dealing in or developing real property, (iv) is principally engaged in the holding of stock in, and/or the financing of operations of, an Affiliated Entity, or (v) is principally engaged in the business of (1) offering health benefit products or (2) insuring against professional and general liability risks of the Issuer or HCA Inc.

Applicable Premium means, with respect to any Note on any Redemption Date, the greater of:

(1) 1.0% of the principal amount of such Note; and

(2) the excess, if any, of (a) the present value at such Redemption Date of (i) the redemption price of such Note at November 15, 2015 (such redemption price being set forth in the tables appearing above under the caption Optional Redemption), plus (ii) all required interest payments due on such Note through November 15, 2015 (excluding accrued but unpaid interest to the Redemption Date), computed using a discount rate equal to the Treasury Rate as of such Redemption Date plus 50 basis points; over (b) the principal amount of such Note.

Business Day means each day which is not a Legal Holiday.

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Capitalized Lease Obligation means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) in accordance with GAAP.

Capitalized Software Expenditures means, for any period, the aggregate of all expenditures (whether paid in cash or accrued as liabilities) by a Person and its Restricted Subsidiaries during such period in respect of purchased software or internally developed software and software enhancements that, in conformity with GAAP, are or are required to be reflected as capitalized costs on the consolidated balance sheet of a Person and its Restricted Subsidiaries.

Capital Stock means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

Cash Equivalents means:

(1) United States dollars;

(2) euros or any national currency of any participating member state of the EMU or such local currencies held by the Company and its Restricted Subsidiaries from time to time in the ordinary course of business;

(3) securities issued or directly and fully and unconditionally guaranteed or insured by the U.S. government (or any agency or instrumentality thereof the securities of which are unconditionally guaranteed as a full faith and credit obligation of the U.S. government) with maturities of 24 months or less from the date of acquisition;

(4) certificates of deposit, time deposits and eurodollar time deposits with maturities of one year or less from the date of acquisition, bankers acceptances with maturities not exceeding one year and overnight bank deposits, in each case with any commercial bank having capital and surplus of not less than $500.0 million in the case of U.S. banks and $100.0 million (or the U.S. dollar equivalent as of the date of determination) in the case of non-U.S. banks;

(5) repurchase obligations for underlying securities of the types described in clauses (3) and (4) entered into with any financial institution meeting the qualifications specified in clause (4) above;

(6) commercial paper rated at least P-1 by Moody s or at least A-1 by S&P and in each case maturing within 24 months after the date of creation thereof;

(7) marketable short-term money market and similar securities having a rating of at least P-2 or A-2 from either Moody s or S&P, respectively (or, if at any time neither Moody s nor S&P shall be rating such obligations, an equivalent rating from another Rating Agency) and in each case maturing within 24 months after the date of creation thereof;

(8) investment funds investing 95% of their assets in securities of the types described in clauses (1) through (7) above;

(9) readily marketable direct obligations issued by any state, commonwealth or territory of the United States or any political subdivision or taxing authority thereof having an Investment Grade Rating from either Moody s or S&P with maturities of 24 months or less from the date of acquisition;

(10) Indebtedness or Preferred Stock issued by Persons with a rating of A or higher from S&P or A2 or higher from Moody s with maturities of 24 months or less from the date of acquisition; and

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(11) Investments with average maturities of 24 months or less from the date of acquisition in money market funds rated AAA- (or the equivalent thereof) or better by S&P or Aaa3 (or the equivalent thereof) or better by Moody s.

Notwithstanding the foregoing, Cash Equivalents shall include amounts denominated in currencies other than those set forth in clauses (1) and (2) above; *provided* that such amounts are converted into any currency listed in clauses (1) and (2) as promptly as practicable and in any event within ten Business Days following the receipt of such amounts.

Change of Control means the occurrence of any of the following:

(1) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Issuer and its Subsidiaries, taken as a whole, to any Person other than a Permitted Holder; or

(2) the Issuer becomes aware (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) of the acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than the Permitted Holders, in a single transaction or in a related series of transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 50% or more of the total voting power of the Voting Stock of the Issuer or any of its direct or indirect parent companies holding directly or indirectly 100% of the total voting power of the Voting Stock of the Issuer.

Code means the Internal Revenue Code of 1986, as amended, or any successor thereto.

Consolidated Depreciation and Amortization Expense means with respect to any Person for any period, the total amount of depreciation and amortization expense, including the amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses and Capitalized Software Expenditures, of such Person and its Restricted Subsidiaries for such period on a consolidated basis and otherwise determined in accordance with GAAP.

Consolidated Interest Expense means, with respect to any Person for any period, without duplication, the sum of:

(1) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, to the extent such expense was deducted (and not added back) in computing Consolidated Net Income (including (a) amortization of original issue discount resulting from the issuance of Indebtedness at less than par, (b) all commissions, discounts and other fees and charges owed with respect to letters of credit or bankers acceptances, (c) non-cash interest payments (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments pursuant to GAAP), (d) the interest component of Capitalized Lease Obligations, and (e) net payments, if any, pursuant to interest rate Hedging Obligations with respect to Indebtedness, and excluding (u) accretion or accrual of discounted liabilities not constituting Indebtedness, (v) any expense resulting from the discounting of the Existing Notes or other Indebtedness in connection with the application of recapitalization accounting or, if applicable, purchase accounting, (w) any Additional Interest and any comparable additional interest with respect to other securities, (x) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses, (y) any expensing of bridge, commitment and other financing fees and (z) commissions, discounts, yield and other fees and charges (including any interest expense) related to any Receivables Facility); *plus*

(2) consolidated capitalized interest of such Person and its Restricted Subsidiaries for such period, whether paid or accrued; *less*

(3) interest income for such period.

For purposes of this definition, interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by such Person to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with GAAP.

Consolidated Leverage Ratio, with respect to any Person as of any date of determination, means the ratio of (x) Consolidated Total Indebtedness of such Person as of the end of the most recent fiscal quarter for which internal financial statements are available immediately preceding the date on which such event for which such calculation is being made shall occur to (y) the aggregate amount of EBITDA of such Person for the period of the most recently ended four full consecutive fiscal quarters for which internal financial statements are available immediately preceding the date on which such event for which such calculation is being made shall occur, in each case with such pro forma adjustments to Consolidated Total Indebtedness and EBITDA as are appropriate and consistent with the pro forma adjustment provisions set forth in the definition of Fixed Charge Coverage Ratio.

Consolidated Net Income means, with respect to any Person for any period, the aggregate of the Net Income of such Person for such period, on a consolidated basis, and otherwise determined in accordance with GAAP; *provided*, *however*, that, without duplication,

(1) any after-tax effect of extraordinary, non-recurring or unusual gains or losses (less all fees and expenses relating thereto) or expenses, severance, relocation costs, consolidation and closing costs, integration and facilities opening costs, business optimization costs, transition costs, restructuring costs, signing, retention or completion bonuses, and curtailments or modifications to pension and post-retirement employee benefit plans shall be excluded,

(2) the cumulative effect of a change in accounting principles during such period shall be excluded,

(3) any after-tax effect of income (loss) from disposed, abandoned or discontinued operations and any net after-tax gains or losses on disposal of disposed, abandoned, transferred, closed or discontinued operations shall be excluded,

(4) any after-tax effect of gains or losses (less all fees and expenses relating thereto) attributable to asset dispositions or abandonments other than in the ordinary course of business, as determined in good faith by the Issuer, shall be excluded,

(5) the Net Income for such period of any Person that is an Unrestricted Subsidiary shall be excluded, and, solely for the purpose of determining the amount available for Restricted Payments under clause 3(a) of the first paragraph of Certain Covenants Limitation on Restricted Payments, the Net Income for such period of any Person that is not a Subsidiary or that is accounted for by the equity method of accounting shall be excluded; *provided* that Consolidated Net Income of the Issuer shall be increased by the amount of dividends or distributions or other payments that are actually paid in cash (or to the extent converted into cash) to the referent Person or a Restricted Subsidiary thereof in respect of such period,

(6) solely for the purpose of determining the amount available for Restricted Payments under clause (3)(a) of the first paragraph of Certain Covenants Limitation on Restricted Payments, the Net Income for such period of any Restricted Subsidiary shall be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of its Net Income is not at the date of determination wholly permitted without any prior governmental approval (which has not been obtained) or, directly or indirectly, by the operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule, or governmental regulation applicable to that Restricted Subsidiary or its stockholders, unless such restriction with respect to the payment of dividends or similar distributions has been legally waived; *provided* that Consolidated Net Income of the Issuer will be increased by the amount of dividends or other distributions or other payments actually paid in cash (or to the extent converted into cash) or Cash Equivalents to the Issuer or a Restricted Subsidiary thereof in respect of such period, to the extent not already included therein,

(7) effects of adjustments (including the effects of such adjustments pushed down to the Issuer and its Restricted Subsidiaries) in the property, equipment, inventory, software and other intangible assets, deferred revenues and debt

line items in such Person s consolidated financial statements pursuant to GAAP resulting from the application of recapitalization accounting or, if applicable, purchase accounting in relation to the Transaction or any consummated acquisition or the amortization or write-off of any amounts thereof, net of taxes, shall be excluded,

(8) any after-tax effect of income (loss) from the early extinguishment of Indebtedness or Hedging Obligations or other derivative instruments shall be excluded,

(9) any impairment charge or asset write-off, including, without limitation, impairment charges or asset write-offs related to intangible assets, long-lived assets or investments in debt and equity securities, in each case, pursuant to GAAP and the amortization of intangibles arising pursuant to GAAP shall be excluded,

(10) any non-cash compensation expense recorded from grants of stock appreciation or similar rights, stock options, restricted stock or other rights, and any cash charges associated with the rollover, acceleration or payout of Equity Interests by management of the Company or any of its direct or indirect parent companies in connection with the Transaction, shall be excluded,

(11) any fees and expenses incurred during such period, or any amortization thereof for such period, in connection with any acquisition, Investment, asset sale, issuance or repayment of any Indebtedness, issuance of Equity Interests, refinancing transaction or amendment or modification of any debt instrument (in each case, including any such transaction consummated prior to the Issue Date and any such transaction undertaken but not completed) and any charges or non-recurring merger costs incurred during such period as a result of any such transaction shall be excluded,

(12) accruals and reserves that are established or adjusted within twelve months after November 17, 2006 that are so required to be established as a result of the Transaction in accordance with GAAP, or changes as a result of adoption or modification of accounting policies, shall be excluded, and

(13) to the extent covered by insurance and actually reimbursed, or, so long as the Issuer has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is (a) not denied by the applicable carrier in writing within 180 days and (b) in fact reimbursed within 365 days of the date of such evidence (with a deduction for any amount so added back to the extent not so reimbursed within 365 days), expenses with respect to liability or casualty events or business interruption shall be excluded.

Consolidated Net Tangible Assets means, with respect to any Person, the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (a) all current liabilities as disclosed on the consolidated balance sheet of such Person (excluding any thereof which are by their terms extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed and further excluding any deferred income taxes that are included in current liabilities) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent consolidated balance sheet of the Issuer and computed in accordance with generally accepted accounting principles.

Consolidated Total Indebtedness means, as at any date of determination, an amount equal to the sum of (1) the aggregate amount of all outstanding Indebtedness of the Issuer and its Restricted Subsidiaries on a consolidated basis consisting of Indebtedness for borrowed money, Obligations in respect of Capitalized Lease Obligations and debt obligations evidenced by promissory notes and similar instruments (and excluding, for the avoidance of doubt, all obligations relating to Receivables Facilities) and (2) the aggregate amount of all outstanding Disqualified Stock of the Issuer and all Preferred Stock of its Restricted Subsidiaries on a consolidated basis, with the amount of such Disqualified Stock and Preferred Stock equal to the greater of their respective voluntary or involuntary liquidation preferences and maximum fixed repurchase prices, in each case determined on a consolidated basis in accordance with GAAP. For purposes hereof, the maximum fixed repurchase price of any Disqualified Stock or Preferred Stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock or Preferred Stock as if such Disqualified Stock or Preferred Stock were purchased on any date on which Consolidated Total Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Stock or Preferred Stock, such fair market value shall be determined reasonably and in good faith by the Issuer.

Contingent Obligations means, with respect to any Person, any obligation of such Person guaranteeing any leases, dividends or other obligations that do not constitute Indebtedness (*primary obligations*) of any other Person (the *primary obligor*) in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent,

(1) to purchase any such primary obligation or any property constituting direct or indirect security therefor,

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(2) to advance or supply funds

(a) for the purchase or payment of any such primary obligation, or

(b) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, or

(3) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation against loss in respect thereof.

Corporate Reorganization means the series of transactions anticipated to occur on or about the Issue Date (or prior to the Release Date, as the case may be) resulting in the Issuer becoming the new parent holding company for the business and operations of HCA Inc. and its Subsidiaries and HCA Inc. becoming a direct Wholly-Owned Subsidiary of the Issuer.

Default means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

Designated Preferred Stock means Preferred Stock of the Issuer or any parent corporation thereof (in each case other than Disqualified Stock) that is issued for cash (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Issuer or any of its Subsidiaries) and is so designated as Designated Preferred Stock, pursuant to an Officer s Certificate executed by the principal financial officer of the Issuer or the applicable parent corporation thereof, as the case may be, on the issuance date thereof, the cash proceeds of which are excluded from the calculation set forth in clause (3) of the first paragraph under Certain Covenants Limitation on Restricted Payments.

Disqualified Stock means, with respect to any Person, any Capital Stock of such Person which, by its terms, or by the terms of any security into which it is convertible or for which it is putable or exchangeable, or upon the happening of any event, matures or is mandatorily redeemable (other than solely as a result of a change of control or asset sale) pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof (other than solely as a result ofpe=body -->

Year Ended December 31,	**2007**		**2006**		**2005**	
	Homes	**$**	**Homes**	**$**	**Homes**	**$**
Deliveries:						
Consolidated:						
Florida	2,471	$ 849.1	2,742	$ 999.2	2,785	$ 829.4
Mid-Atlantic	649	228.2	683	258.8	697	290.3
Texas[1]	2,421	625.4	2,382	592.0	1,610	408.4
West	1,039	346.7	1,453	459.4	2,228	646.3
Continuing operations	6,580	2,049.4	7,260	2,309.4	7,320	2,174.4
Discontinued operations[1]	190	44.9	564	129.7	449	92.2

Total	6,770	2,094.3	7,824	2,439.1	7,769	2,266.6
Unconsolidated joint ventures:						
Florida (excluding Transeastern)	40	11.3				
Transeastern	739	174.8	2,173	659.3	347	106.6
Mid-Atlantic	16	4.0	108	31.2	185	55.5
West	871	255.9	1,670	590.7	1,134	382.0
Total unconsolidated joint ventures	1,666	446.0	3,951	1,281.2	1,666	544.1
Combined total	8,436	$ 2,540.3	11,775	$ 3,720.3	9,435	$ 2,810.7

(1) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

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	Year Ended December 31,					
	2007		2006		2005	
	Homes	$	Homes	$	Homes	$
Net Sales Orders[1]:						
Consolidated:						
Florida	1,349	$ 381.9	2,028	$ 809.2	2,794	$ 959.2
Mid-Atlantic	517	174.6	588	227.8	597	243.1
Texas[2]	1,996	506.6	2,406	611.3	2,182	558.2
West	974	269.8	1,063	345.6	2,469	817.6
Continuing operations	4,836	1,332.9	6,085	1,993.9	8,042	2,578.1
Discontinued operations[2]	60	15.6	498	119.8	572	124.4
Total	4,896	1,348.5	6,583	2,113.7	8,614	2,702.5
Unconsolidated joint ventures:						
Florida (excluding Transeastern)	12	1.7	10	4.7	4	1.7
Transeastern	248	27.1	(208)	(32.6)	387	118.4
Mid-Atlantic	19	3.8	74	18.0	141	47.3
West	536	129.5	580	161.0	1,477	548.0
Total unconsolidated joint ventures	815	162.1	456	151.1	2,009	715.4
Combined total	5,711	$ 1,510.6	7,039	$ 2,264.8	10,623	$ 3,417.9

(1) Net of cancellations.

(2) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

	December 31,								
	2007			2006			2005		
	Homes	$	Avg. Price	Homes	$	Avg. Price	Homes	$	Avg. Price
Sales Backlog:									
Consolidated:									
Florida[1]	1,330	$ 435.7	$ 328	2,228	$ 851.9	$ 382	2,937	$ 1,036.7	$ 353
Mid-Atlantic	80	28.1	$ 351	206	80.5	$ 391	246	94.7	$ 385
Texas[2]	549	154.8	$ 282	974	273.6	$ 281	950	254.3	$ 268
West	420	117.7	$ 280	461	189.9	$ 412	851	303.8	$ 357
Continuing operations	2,379	736.3	$ 310	3,869	1,395.9	$ 361	4,984	1,689.5	$ 339
Discontinued operations[2]	3	0.8	$ 253	222	55.1	$ 248	288	65.0	$ 226
Consolidated total	2,382	737.1	$ 309	4,091	1,451.0	$ 355	5,272	1,754.5	$ 333

Unconsolidated joint ventures:									
Florida (excluding Transeastern)				46	14.2	$ 308	36	9.5	$ 261
Transeastern				697	194.3	$ 279	3,078	886.2	$ 288
Mid-Atlantic				3	1.3	$ 434	92	31.3	$ 341
West	94	24.7	$ 263	453	155.8	$ 344	1,543	585.5	$ 379
Total unconsolidated joint ventures	94	24.7	$ 263	1,199	365.6	$ 305	4,749	1,512.5	$ 318
Combined total	2,476	$ 761.8	$ 308	5,290	$ 1,816.6	$ 343	10,021	$ 3,267.0	$ 326

(1) Contracts with a third-party that marketed homes in the United Kingdom included in backlog at December 31, 2007 were cancelled in 2008. These contracts were for 511 homes representing $115.6 million in revenue.

(2) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

	Year Ended December 31,					
	2007		2006		2005	
	Deliveries	Sales Orders	Deliveries	Sales Orders	Deliveries	Sales Orders
Average Price:						
Consolidated:						
Florida	$ 344	$ 283	$ 364	$ 399	$ 298	$ 343
Mid-Atlantic	$ 352	$ 338	$ 379	$ 387	$ 417	$ 407
Texas[(1)]	$ 258	$ 254	$ 249	$ 254	$ 254	$ 256
West	$ 334	$ 277	$ 316	$ 325	$ 290	$ 331
Continuing operations	$ 311	$ 276	$ 318	$ 328	$ 297	$ 321
Discontinued operations[(1)]	$ 236	$ 259	$ 230	$ 241	$ 205	$ 218
Total	$ 309	$ 275	$ 312	$ 321	$ 292	$ 314
Unconsolidated joint ventures:						
Florida (excluding Transeastern)	$ 282	$ 142	$	$ 476	$	$ 410
Transeastern	$ 237	$ 109	$ 303	$ 157	$ 307	$ 306
Mid-Atlantic	$ 249	$ 202	$ 289	$ 243	$ 300	$ 336
West	$ 294	$ 242	$ 354	$ 278	$ 337	$ 371
Total unconsolidated joint ventures	$ 268	$ 199	$ 324	$ 332	$ 327	$ 356
Combined total	$ 301	$ 265	$ 316	$ 322	$ 298	$ 322

(1) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

Fiscal Year 2007 Compared to Fiscal Year 2006

Florida: Homebuilding revenues decreased 12% to $892.0 million for the year ended December 31, 2007 from $1.0 billion for the year ended December 31, 2006. The decrease in Homebuilding revenues was due to a 15% decrease in revenues from home sales to $849.1 million for the year ended December 31, 2007 from $999.2 million for the year ended December 31, 2006, partially offset by an increase in revenue from land sales to $42.8 million for the year ended December 31, 2007 from $18.8 million for the year ended December 31, 2006. The decrease in revenue from home sales was due to a 10% decrease in the number of home deliveries to 2,471 homes delivered for the year ended December 31, 2007 from 2,742 homes delivered for the year ended December 31, 2006, and a 6% decrease in the average selling price of homes to $344,000 for the year ended December 31, 2007 from $364,000 for the year ended December 31, 2006.

The gross margin on home sales decreased to 8% for the year ended December 31, 2007 from 26% for the year ended December 31, 2006. During the year ended December 31, 2007, we recognized $95.8 million in impairment charges compared to $13.2 million for the year ended December 31, 2006. Gross margin on home sales, excluding impairments, was 19% for the year ended December 31, 2007, compared to 27% for the year ended December 31, 2006. This decrease in gross margin was primarily due to an increase in sales incentives offered to home buyers. The average sales incentive per home delivered increased 193% to $66,300 per home for the year ended December 31, 2007, from $22,600 for the year ended December 31, 2006.

For the year ended December 31, 2007, we generated a loss of $372.7 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $370.1 million, as compared to a loss on land sales of

$1.6 million during the year ended December 31, 2006, which included $8.3 million of write-offs of deposits and abandonments costs.

For the year ended December 31, 2007, we incurred $90.5 million of impairment charges and accrued obligations related to our unconsolidated joint ventures as compared to $152.8 million for the year ended December 31, 2006.

Mid-Atlantic: Homebuilding revenues decreased 13% to $265.0 million for the year ended December 31, 2007 from $306.0 million for the year ended December 31, 2006. The decrease in Homebuilding revenues was primarily due to a 12% decrease in revenues from home sales to $228.2 million for the year ended December 31, 2007 from $258.8 million for the year ended December 31, 2006, and in part due to a decrease in revenue from land sales to $36.8 million for the year ended December 31, 2007 from $47.2 million for the year ended December 31, 2006. The decrease in revenue from home sales was due to: (1) a 5% decrease in the number of home deliveries to 649 homes delivered for the year ended December 31, 2007 from 683 homes delivered for the year ended December 31, 2006, and (2) a 7% decrease in the average selling price of homes to $352,000 for the year ended December 31, 2007 from $379,000 for the year ended December 31, 2006.

The gross margin on home sales decreased to 6% for the year ended December 31, 2007 from 11% for the year ended December 31, 2006. During the year ended December 31, 2007, we recognized $16.0 million in impairment charges compared to $26.2 million for the year ended December 31, 2006. Gross margin on home sales, excluding impairments, was 13% for the year ended December 31, 2007, compared to 21% for the year ended December 31, 2006. This decrease in gross margin was primarily due to an increase in sales incentives offered to home buyers. The average sales incentive per home delivered increased 27% to $31,400 per home for the year ended December 31, 2007, from $24,800 for the year ended December 31, 2006.

For the year ended December 31, 2007, we generated a loss of $76.8 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $63.3 million, as compared to a loss on land sales of $19.2 million during the year ended December 31, 2006, which included $11.8 million of write-offs of deposits and abandonments costs.

Texas: Homebuilding revenues increased 5% to $635.0 million for the year ended December 31, 2007 from $602.3 million for the year ended December 31, 2006. The increase in Homebuilding revenues was primarily due to a 6% increase in revenues from home sales to $625.4 million for the year ended December 31, 2007 from $592.0 million for the year ended December 31, 2006, partially offset by a decrease in revenue from land sales to $9.6 million for the year ended December 31, 2007 from $10.3 million for the year ended December 31, 2006. The increase in revenue from home sales was due to a 2% increase in the number of home deliveries to 2,421 homes delivered for the year ended December 31, 2007 from 2,382 homes delivered for the year ended December 31, 2006, and a 4% increase in the average selling price of homes to $258,000 for the year ended December 31, 2007 from $249,000 for the year ended December 31, 2006.

The gross margin on home sales was 22% for the year ended December 31, 2007, consistent with the comparable prior year. During the year ended December 31, 2007, we recognized $1.0 million in impairment charges compared to $0.6 million for the year ended December 31, 2006. The average sales incentive per home delivered increased 38% to $18,100 per home for the year ended December 31, 2007, from $13,100 for the year ended December 31, 2006.

For the year ended December 31, 2007, we generated a loss of $4.3 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $5.3 million, compared to a $1.7 million profit during the year ended December 31, 2006, which included $0.2 million of write-offs of deposits and abandonments costs.

West: Homebuilding revenues decreased 29% to $366.9 million for the year ended December 31, 2007 from $515.0 million for the year ended December 31, 2006. The decrease in Homebuilding revenues was primarily due to a 25% decrease in revenues from home sales to $346.7 million for the year ended December 31, 2007 from $459.4 million for the year ended December 31, 2006, and in part due to a decrease in revenue from land sales to $20.2 million for the year ended December 31, 2007 from $55.6 million for the year ended December 31, 2006. The decrease in revenue from home sales was due to a 28% decrease in the number of home deliveries to 1,039 homes delivered for the year ended December 31, 2007 from 1,453 homes delivered for the year ended December 31, 2006, partially offset by a 6% increase in the average selling price of homes to $334,000 for the year ended December 31, 2007 from $316,000 for the year ended December 31, 2006.

The gross margin on home sales decreased to (9)% for the year ended December 31, 2007 from 15% for the year ended December 31, 2006. During the year ended December 31, 2007, we recognized $68.0 million in impairment charges compared to $41.9 million for the year ended December 31, 2006. Gross margin on home sales, excluding impairments, was 11% for the year ended December 31, 2007, compared to 24% for the year ended December 31, 2006. This decrease in gross margin was primarily due to an increase in sales incentives offered to home buyers. The average sales incentive per home delivered increased 95% to $58,900 per home for the year ended December 31, 2007, from $30,200 for the year ended December 31, 2006.

For the year ended December 31, 2007, we generated a loss of $240.5 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $233.2 million, as compared to a loss on land sales of $44.3 million during year ended December 31, 2006, which included $51.0 million of write-offs of deposits and abandonment costs.

For the year ended December 31, 2007, we incurred $99.9 million of impairment charges and accrued obligations related to our unconsolidated joint ventures as compared to none for the year ended December 31, 2006.

Fiscal Year 2006 Compared to Fiscal Year 2005

Florida: Homebuilding revenues increased 18% to $1.0 billion for the year ended December 31, 2006 from $859.2 million for the year ended December 31, 2005. The increase in Homebuilding revenues was primarily due to a 20% increase in revenues from home sales to $999.2 million for the year ended December 31, 2006 from $829.4 million for the year ended December 31, 2005, partially offset by a decrease in revenue from land sales to $18.8 million for the year ended December 31, 2006 from $29.8 million for the year ended December 31, 2005. The increase in revenue from home sales was due to a 22% increase the average selling price of homes to $364,000 for the year ended December 31, 2006 from $298,000 for the year ended December 31, 2005, partially offset by a 2% decrease in the number of home deliveries to 2,742 homes delivered for the year ended December 31, 2006 from 2,785 homes delivered for the year ended December 31, 2005.

The gross margin on home sales increased to 26% for the year ended December 31, 2006 from 25% for the year ended December 31, 2005. During the year ended December 31, 2006, we recognized $13.2 million in impairment charges compared to $1.8 million for the year ended December 31, 2005. Gross margin on home sales, excluding impairments, was 27% for the year ended December 31, 2006, compared to 25% for the year ended December 31, 2005. The average sales incentive per home delivered increased 562% to $22,600 per home for the year ended December 31, 2006, from $3,400 for the year ended December 31, 2005.

For the year ended December 31, 2006, we generated a loss of $1.6 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $8.3 million, as compared to a profit on land sales of $15.4 million during year ended December 31, 2005. There were no write-offs of deposits and abandonment costs for the year ended December 31, 2005.

Impairments on our investments in, and related receivables from, unconsolidated joint ventures of $152.8 million were recognized during the year ended December 31, 2006.

Mid-Atlantic: Homebuilding revenues increased 5% to $306.0 million for the year ended December 31, 2006 from $290.9 million for the year ended December 31, 2005. The increase in Homebuilding revenues was due to a sizeable increase in revenues from land sales to $47.2 million for the year ended December 31, 2006 from $0.6 million for the year ended December 31, 2005, partially offset by a 11% decrease in revenue from home sales to $258.8 million for the year ended December 31, 2006 from $290.3 million for the year ended December 31, 2005. The decrease in revenue from home sales was due to a 9% decrease the average selling price of homes to $379,000 for the year ended December 31, 2006 from $417,000 for the year ended December 31, 2005, and a 2% decrease in the number of home deliveries to 683 homes delivered for the year ended December 31, 2006 from 697 homes delivered for the year ended December 31, 2005.

The gross margin on home sales decreased to 11% for the year ended December 31, 2006 from 24% for the year ended December 31, 2005. During the year ended December 31, 2006, we recognized $26.2 million in impairment charges compared to $0.8 million for the year ended December 31, 2005. Gross margin on home sales, excluding impairments, was 21% for the year ended December 31, 2006, compared to 24% for the year ended December 31, 2005. This decrease in gross margin was primarily due to an increase in sales incentives offered to home buyers. The average sales incentive per home delivered increased 249% to $24,800 per home for the year ended December 31, 2006, from $7,100 for the year ended December 31, 2005.

For the year ended December 31, 2006, we generated a loss of $19.2 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $11.8 million, as compared to a loss on land sales of $4.6 million during year ended December 31, 2005. There were not any write-offs of deposits and abandonment costs for the year ended December 31, 2005.

Texas: Homebuilding revenues increased 45% to $602.3 million for the year ended December 31, 2006 from $415.4 million for the year ended December 31, 2005. The increase in Homebuilding revenues was primarily due to a 45% increase in revenues from home sales to $592.0 million for the year ended December 31, 2006 from $408.4 million for the year ended December 31, 2005, and in part to an increase in revenue from land sales to $10.3 million for the year ended December 31, 2006 from $7.0 million for the year ended December 31, 2005. The increase in revenue from home sales was due to a 48% increase in the number of home deliveries to 2,382 homes delivered for the year ended December 31, 2006 from 1,610 homes delivered for the year ended December 31, 2005, partially offset by a 2% decrease the average selling price of homes to $249,000 for the year ended December 31, 2006 from $254,000 for the year ended December 31, 2005.

The gross margin on home sales was 22% for the year ended December 31, 2006, consistent with the comparable prior year. During the year ended December 31, 2006, we recognized $0.6 million in impairment charges. There were no impairment charges on home sales for the year ended December 31, 2005. The average sales incentive per home delivered decreased 27% to $13,100 per home for the year ended December 31, 2006, from $17,900 for the year ended December 31, 2005.

For the year ended December 31, 2006, we generated a profit of $1.7 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $0.3 million, as compared to a loss on land sales of $1.6 million during year ended December 31, 2005, which also included $0.2 million of write-offs of deposits and abandonment costs.

West: Homebuilding revenues decreased 35% to $515.1 million for the year ended December 31, 2006 from $795.0 million for the year ended December 31, 2005. The decrease in Homebuilding revenues was due to a 29% decrease in revenues from home sales to $459.5 million for the year ended December 31, 2006 from $646.3 million for the year ended December 31, 2005, and a decrease in revenue from land sales to $55.6 million for the year ended December 31, 2006 from $148.7 million for the year ended December 31, 2005. The decrease in revenue from home sales was due to a 35% decrease in the number of home deliveries to 1,453 homes delivered for the year ended December 31, 2006 from 2,228 homes delivered for the year ended December 31, 2005, partially offset by a 9% increase the average selling price of homes to $316,000 for the year ended December 31, 2006 from $290,000 for the year ended December 31, 2005.

The gross margin on home sales decreased to 15% for the year ended December 31, 2006 from 28% for the year ended December 31, 2005. For the year ended December 31, 2006, we recognized $41.9 million in impairment charges compared to $3.9 million for the year ended December 31, 2005. Gross margin on home sales, excluding impairments, was 24% for the year ended December 31, 2006, compared to 28% for the year ended December 31, 2005. This decrease in gross margin was primarily due to an increase in sales incentives offered to home buyers. The average sales incentive per home delivered increased 222% to $30,200 per home for the year ended December 31, 2006, from $9,400 for the year ended December 31, 2005.

For the year ended December 31, 2006, we generated a loss of $44.3 million on our revenues from land sales, which included write-offs of deposits and abandonment costs of $51.0 million, as compared to a profit on land sales of

$36.3 million during year ended December 31, 2005. There were no write-offs of deposits and abandonment costs for the year ended December 31, 2005.

Operating income for the year ended December 31, 2006 included a $5.7 million charge for the impairment of goodwill at our Colorado division.

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Financial Services Operations

The following table presents selected financial data related to our Financial Services reportable segment for the periods indicated (dollars in millions):

	Year Ended December 31, 2007	2006	2005
Revenues	$ 36.5	$ 63.3	$ 47.5
Expenses	36.3	41.8	39.0
Goodwill Impairment	3.9		
Financial services pretax income	$ (3.7)	$ 21.5	$ 8.5

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Our Homebuilding operations primary uses of cash have been for land acquisitions, construction and development expenditures, joint venture investments, and SG&A expenditures. Our sources of cash to finance these uses have been primarily cash generated from operations and cash from our financing activities.

Our Financial Services operations primarily use cash to fund mortgages, prior to their sale, and SG&A expenditures. We rely primarily on internally generated funds, which include the proceeds generated from the sale of mortgages, and the mortgage operations warehouse lines of credit to fund these operations. Our income before non-cash charges generally is our most significant source of operating cash flow.

At December 31, 2007, we had unrestricted cash and cash equivalents of $76.5 million as compared to $54.2 million at December 31, 2006.

We are operating our businesses as debtors and debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As a result, we are subject to the risks and uncertainties associated with our Chapter 11 cases which include, among other things:

- our ability to operate subject to the terms of the debtors-in-possession financing;
- our ability to obtain final approval of the debtor in possession financing or some other financing alternative;
- limitations on our ability to implement and execute our business plans and strategy;
- our ability to obtain and maintain normal terms with existing and potential homebuyers, vendors and service providers and maintain contracts and leases that are critical to our operations;
- our ability to obtain needed approval from the Bankruptcy Court for transactions outside of the ordinary course of business, which may limit our ability to respond on a timely basis to certain events or take advantage of certain opportunities;

limitations on our ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 cases that we may seek from time to time or potentially adverse decisions by the Bankruptcy Court with respect to such motions, including as a result of the actions of our creditors and other third parties, who may oppose our plans or who may seek to require us to take actions that we oppose;

limitations on our ability to reject contracts or leases that are burdensome or uneconomical;

limitations on our ability to raise capital, including through sales of assets; and

our ability to attract, motivate and retain key and essential personnel is impacted by the Bankruptcy Code which limits our ability to implement a retention program or take other measures intended to motivate employees to remain with us.

These risks and uncertainties could negatively affect our business and operations in various ways. For example, events or publicity associated with our Chapter 11 cases could adversely affect our relationships with existing and potential homebuyers, vendors and employees, which in turn could adversely affect our operations and financial condition, particularly if such proceedings are protracted.

As a result of our Chapter 11 cases and the other matters described herein, including the uncertainties related to the fact that we have not yet had time to complete and obtain confirmation of a plan of reorganization, there is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern, including our ability to meet our ongoing operational obligations, is dependent upon, among other things:

- our ability to generate and maintain adequate cash;
- the cost, duration and outcome of the restructuring process;
- our ability to comply with the terms of our cash collateral order and, if necessary, seek further extensions of our ability to use cash collateral;
- our ability to achieve profitability following a restructuring given housing market challenges; and
- our ability to retain key employees.

These challenges are in addition to those operational and competitive challenges that we face in connection with our business.

As a result of severe market conditions and our liquidity constraints, during the year ended December 31, 2007, we abandoned our rights under certain option agreements which resulted in a 21,100 unit decline in our controlled homesites. Abandonment decisions were made following in depth community by community analyses of all option contracts based on projected returns, amount and timing of incremental cash flow, and owned homesites. In connection with the abandonment of our rights under these option contracts, we forfeited cash deposits of $82.5 million and had letters of credit of $98.5 million drawn at December 31, 2007, which increased our outstanding borrowings. Through June 30, 2008 an additional $72.8 million of letters of credit have been drawn related to the abandonment of option contracts. In certain instances, we have entered into development agreements in connection with option contracts which require us to complete the development of the land, at a fixed reimbursable amount, even if we choose not to exercise our option and forfeit our deposit and even if our costs exceed the reimbursable amount. As of December 31, 2007 we recorded a $43.6 million loss accrual with respect thereto. See Note 3 to our consolidated financial statements included herein. In 2008, we expect to continue to reduce inventory in an attempt to further align our inventory levels to housing demand in those markets we serve, reduce our cost of sales relating to construction and labor costs for the homes we build, and reduce our selling, general and administrative costs to levels consistent with fewer home deliveries to operate within our liquidity constraints. These or future actions may not be sufficient to allow us to continue our operations.

Our consolidated financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have $1.8 billion in borrowings, have experienced significant losses for the years ended December 31, 2007 and 2006 and continue to generate negative cash flows from operations. For the year ended December 31, 2007, we incurred a net loss from continuing operations of $1.3 billion and had stockholders deficit of $475.5 million, which was a significant decrease compared to $774.9 million at December 31, 2006. There is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern and emerge successfully from our Chapter 11 cases will depend upon our development and consummation of a plan of reorganization. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets.

For the year ended December 31, 2007, cash used in operating activities was $79.4 million, as compared to $146.9 million during the year ended December 31, 2006. The improvement in the use of cash by our operating activities is primarily a result of a decrease in our inventory during the year ended December 31, 2007. On June 6, 2007, we sold substantially all of our Dallas/Fort Worth division for approximately

$56.5 million in net cash proceeds and on September 25, 2007 we sold in bulk, home sites in our Mid-Atlantic and Virginia division for $31.3 million in net cash proceeds. Both of these transactions helped to offset a portion of the cash used by our operating activities during the year ended December 31, 2007.

Cash used in investing activities was $34.0 million during the year ended December 31, 2007, as compared to $7.8 million during the year ended December 31, 2006. The increase in cash used in investing activities is primarily due to reductions in the receipt of capital distributions from our unconsolidated joint ventures to $14.3 million during the year ended December 31, 2007 from $52.9 million for the prior year period and net acquisition cash disbursement related to the Transeastern JV acquisition of $7.6 million, partially offset by a decrease in net additions to property and equipment to $8.9 million for the year ended December 31, 2007 compared to $16.4 million for the prior year period.

Refunds of Federal & State Income Taxes

In April 2008, we received a $207.3 million refund of previously paid income taxes for 2005 and 2006 through the carryback of our taxable loss from 2007. In addition to this refund resulting from the carryback of the 2007 loss through June 2008, we have received refunds of overpayments of federal and state income taxes reflected on our 2006 returns and a quick refund application for 2007 estimated tax payments totaling $33.4 million.

Financing Activities

Our consolidated borrowings at December 31, 2007 were $1.8 billion, an increase of $0.7 billion as compared to December 31, 2006. See Note 8 to the consolidated financial statements for homebuilding borrowings as of December 31, 2007 and 2006.

The filing of the Chapter 11 cases triggered repayment obligations under a number of instruments and agreements relating to our direct and indirect financial obligations. As a result, all our obligations under the notes became automatically and immediately due and payable. We believe that any efforts to enforce the payment obligations are stayed as a result of the filing of the Chapter 11 cases in the Bankruptcy Court.

On February 5, 2008, pursuant to an interim order from the Bankruptcy Court dated January 31, 2008, we entered into the Senior Secured Super-Priority Debtor in Possession Credit and Security Agreement. The agreement provided for a first priority and priming secured revolving credit interim commitment of up to $134.6 million. The agreement was subsequently amended to extend it to June 19, 2008. No funds were drawn under the agreement. The agreement was subsequently terminated and we entered into an agreement with our secured lenders to use cash collateral on hand (cash generated by our operations, including the sale of excess inventory and the proceeds of our federal tax refund of $207.3 million received in April 2008). Under the Bankruptcy Court order dated June 20, 2008, we are authorized to use cash collateral of our first lien and second lien lenders (approximately $358.0 million at the time of the order) for a period of six months in a manner consistent with a budget negotiated by the parties. The order further provides for the paydown of $175.0 million to our first lien term loan facility secured lenders, subject to disgorgement provisions in the event that certain claims against the lenders are successful and repayment is required. The order also reserves our sole right to paydown an additional $15.0 million to our fist lien term loan facility secured lenders. We are permitted under the order to incur liens and enter into sale/leaseback transactions for model homes subject to certain limitations. As part of the order, we have granted the prepetition agents and the lenders various forms of protection, including liens and claims to protect against any diminution of the collateral value, payment of accrued, but unpaid interest on the first priority indebtedness at the non-default rate and the payment of reasonable fees and expenses of the agents under our secured facilities.

Revolving Loan Facility and First and Second Lien Term Loan Facilities

To effect the Transeastern JV acquisition, on July 31, 2007, we entered into (i) the $200.0 million aggregate principal amount first lien term loan facility (the First Lien Term Loan Facility) and (ii) the $300.0 million aggregate principal amount second lien term loan facility (the Second Lien Term Loan Facility), (First and Second Lien Term Loan Facilities taken together, the Facilities) with Citicorp

North America, Inc. as Administrative Agent. The proceeds from the credit facilities were used to satisfy claims of the senior lenders against the Transeastern JV. Our existing $800.0 million revolving loan facility (the Revolving Loan Facility) was amended and restated to (i) reduce the revolving commitments thereunder by $100.0 million and (ii) permit the incurrence of the Facilities (and make other conforming changes relating to the Facilities). Collectively, these transactions are referred to as the Financing. Net proceeds from the Financing at closing were $470.6 million which is net of a 1% discount and transaction costs. The Revolving Loan Facility expires on March 9, 2010. The First Lien Term Loan Facility expires on July 31, 2012 and the Second Lien Term Loan Facility expires on July 31, 2013.

On October 25, 2007, our Revolving Loan Facility was amended by Amendment No. 1 to the Second Amended and Restated Revolving Credit Agreement. Among other things, the existing agreement was amended with respect to (i) the pricing of loans, (ii) limiting the amounts which may be borrowed prior to December 31, 2007, (iii) modifying the definition of a Material Adverse Effect, (iv) waiving compliance with certain representations and financial covenants, (v) establishing minimum operating cash flow requirements, (vi) requiring compliance with weekly budgets, (vii) inclusion of a five week operating cash flow covenant at the end of November, (viii) requiring the payment of certain fees, and (ix) reducing the Lenders commitments by $50.0 million.

On October 25, 2007, the First Lien Term Loan Facility was also amended by Amendment No. 1 to the First Lien Term Loan Credit Agreement to amend certain terms including (i) the pricing of loans, (ii) the definition of Material Adverse Effect, and (iii) waiving compliance with certain financial covenants.

On December 14, 2007, we entered into further amendments to our First Lien Term Loan Credit Agreement and our Revolving Loan Facility to, among other things, (i) extend through February 1, 2008, the waiver of the financial covenants set forth in Amendment No. 1 to the First Lien Term Loan Credit Agreement and the Revolving Loan Facility, (ii) revise the material adverse change representation with respect to matters disclosed in our quarterly report on Form 10-Q for the nine months ended September 30, 2007, (iii) modify a provision regarding the obligation to pay amounts owed in connection with certain land banking arrangements, and (iv) seek waivers of the cross-default provision resulting from any breach of a covenant regarding the matters described in (iii) above.

The interest rates on the Facilities and the Revolving Loan Facility are based on LIBOR plus a margin or an alternate base rate plus a margin, at our option. For the Revolving Loan Facility, the LIBOR rates are increased by between 2.50% and 5.25% depending on our leverage ratio (as defined in the Agreement) and credit ratings. Loans bearing interest at the base rate (the rate announced by Citibank as its base rate or 0.50% above the Federal Funds Rate) increase between 1.00% and 4.25% in accordance with the same criteria. Based on our current leverage ratio and credit ratings, our LIBOR loans bear interest at LIBOR plus 5.25% and our base rate loans bear interest at the Federal Funds Rate plus 4.25%. For the First Lien Term Loan Facility, the interest rate is LIBOR plus 5.00% or base rate plus 4.00%. For the Second Lien Term Loan Facility, the interest rate is LIBOR plus 7.25% or base rate plus 6.25%. The Second Lien Term Loan Facility allows us to pay interest, at our option, (i) in cash, (ii) entirely by increasing the principal amount of the Second Lien Term Loan Facility, or (iii) a combination thereof. The Facilities and the New Revolving Loan Facility are guaranteed by substantially all of our domestic subsidiaries (the Guarantors). The obligations are secured by substantially all of our assets, including those of our Guarantors. Our mortgage and title subsidiaries are not Guarantors.

Senior Notes and Senior Subordinated Notes

On April 12, 2006, we issued $250.0 million of 81/4% Senior Notes due 2011. 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

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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. For the year ended December 31, 2007, we incurred an additional $2.0 million of additional interest expense as a result of such default. In addition, we accrued a contingency reserve of $2.5 million for such interest expected to be incurred in 2008.

Our outstanding senior notes are guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of our material domestic subsidiaries, other than our mortgage and title subsidiaries (the Non-Guarantor Subsidiaries). Our outstanding senior subordinated notes are guaranteed on a senior subordinated basis by all of 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 senior subordinated notes rank *pari passu* in right of payment with all of our existing and future unsecured senior subordinated debt. The indentures governing the senior notes and senior subordinated notes generally require us to maintain a minimum consolidated net worth and place 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, invest in joint ventures above specified amounts, and merge or consolidate with other entities. Interest on our outstanding senior notes and senior subordinated notes is payable semi-annually.

Senior Subordinated PIK Notes

As part of the transactions to settle the disputes regarding the Transeastern JV, on July 31, 2007, the senior mezzanine lenders to the Transeastern JV received $20.0 million in aggregate principal amount of 14.75% Senior Subordinated PIK Election Notes due 2015.

Interest on the PIK Notes is payable semi-annually. The Notes are unsecured senior subordinated obligations of ours, and are guaranteed on an unsecured senior subordinated basis by each of our existing and future subsidiaries that guarantee our 7.5% Senior Subordinated Notes due 2015 (the Existing Notes). We are required to pay 1% of the interest in cash and the remaining 13.75%, at our option, (i) in cash, (ii) entirely by increasing the principal amount of the Notes or issuing new notes, or (iii) a combination thereof. The Notes will mature on July 1, 2015. The indenture governing the Notes contains the same covenants as contained in the indenture governing the Existing Notes and is subject, in most cases, to any change to such covenants made to the indenture governing the Existing Notes. The Notes are redeemable by us at redemption prices greater than their principal amount. The PIK Notes contain an optional redemption feature that allows us to redeem up to a maximum of 35% of the aggregate principal amount of the PIK Notes using the proceeds of subsequent sales of its equity interest at 114.75% of the aggregate principal amount of the PIK Notes then outstanding, plus accrued and unpaid interest. Additionally, after July 1, 2012, subject to certain terms of our other debt agreements, we may redeem the PIK Notes at a premium to the principal amount as follows: 2012 107.375%; 2013 103.688%; 2014 and thereafter 100.000%. The call options exercisable at anytime after July 1, 2012 at a premium do not require bifurcation under SFAS 133 because they are only exercisable by us and they are not contingently exercisable. The redemption option conditionally exercisable based on the proceeds raised from an equity offering at 114.75% of up to 35% of the aggregate outstanding PIK Notes principal represents an embedded call option that must be bifurcated from the PIK Notes; however, the fair value of this call option is not material and has not been bifurcated from the host instrument at December 31, 2007.

The PIK Notes provide for registration rights for the holders whereby the interest rate shall increase by 0.25% per annum for the first 90 days of a registration default, as defined, which amount shall increase by an additional 0.25% every 90 days a registration default is continuing, not to exceed 1.0% in the aggregate, from and including the date of the registration default to and excluding the date on which the registration default is cured. Registration default payments shall be paid, at our option, in (i) cash, (ii) additional Notes, or (iii) a combination thereof. For the year ended December 31, 2007, we have not incurred additional interest expense as a result of such default.

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Financial Services Borrowings

Our mortgage subsidiary has two warehouse lines of credit in place to fund the origination of residential mortgage loans. The revolving warehouse line of credit (the Warehouse Line of Credit), which was entered into on December 5, 2007, provides for revolving loans of up to $25.0 million. The Warehouse Line of Credit replaced the $100.0 million revolving warehouse line of credit that expired on December 8, 2007. From January 25, 2008 through December 4, 2008 the availability under the Warehouse Line of Credit is reduced to $15.0 million. The $150.0 million mortgage loan purchase facility (Purchase Facility) was amended to decrease the size of the facility to $75.0 million. From January 25, 2008 through December 4, 2008 the availability under the Purchase Facility is reduced to $40.0 million. At no time may the amount outstanding under the Warehouse Line of Credit and the purchased loans pursuant to the Purchase Facility exceed $55.0 million. Both the Warehouse Line of Credit and Purchase Facility expire on December 4, 2008. The Warehouse Line of Credit bears interest at the 30-day LIBOR rate plus a margin of 2.0%, and is secured by funded mortgages, which are pledged as collateral, and requires our mortgage subsidiary to maintain certain financial ratios and minimums. The Warehouse Line of Credit also places certain restrictions on, among other things, our mortgage subsidiary s ability to incur additional debt, create liens, pay or make dividends or other distributions, make equity investments, enter into transactions with affiliates and merge or consolidate with other entities. Our mortgage subsidiary was in compliance with all covenants and restrictions at December 31, 2007. At December 31, 2007, our mortgage subsidiary had $7.8 million in borrowings under its Warehouse Line of Credit, and had the capacity to borrow an additional $17.2 million, subject to our mortgage subsidiary satisfying the relevant borrowing conditions. As discussed above, the borrowing capacity changed on January 25, 2008.

On January 28, 2008, Preferred Home Mortgage Company, our wholly-owned residential mortgage lending subsidiary, entered into an Amended and Restated Agreement of Limited Liability Company with Wells Fargo Ventures, LLC. The limited liability company is known as PHMCWF, LLC but does business as Preferred Home Mortgage Company, an affiliate of Wells Fargo. Preferred Home Mortgage Company owns 49.9% of the venture with the balance owned by Wells Fargo. Effective April 1, 2008, the venture began to carry on the mortgage business of Preferred Home Mortgage Company. The venture is managed by a committee composed of six members, three from Preferred Home Mortgage Company and three from Wells Fargo. The venture entered into a revolving credit agreement with Wells Fargo Bank, N.A. providing for advances of up to $20.0 million.

Liquidity Needs

We continue to have substantial liquidity needs in the operation of our business and face liquidity challenges. Our business depends upon our ability to obtain financing for the development of our residential communities and to provide bonds to ensure the completion of our projects. We expect to have sufficient resources and borrowing capacity to meet all of our commitments throughout the projected term of our Chapter 11 cases. However, the success of our business plan, including our restructuring program, and ultimately our plan of reorganization, will depend on our ability to achieve our budgeted operating results.

Contractual Obligations and Commitments

At December 31, 2007, the amount of our annual debt service payments was $173.9 million. This amount included annual debt service payments on the senior and senior subordinated notes of $91.2 million, interest payments on the Revolving Loan Facility of $19.0 million, interest payments on the First Lien Term Loan Facility of $19.5 million, interest payments on the Second Lien Term Loan Facility of $40.6 million and annual debt service on the Senior Subordinated PIK Notes of $3.1 million, and interest payments on the warehouse lines of credit of $0.5 million, based on the balances outstanding as of December 31, 2007. As of December 31, 2007, we had an aggregate of approximately $692.4 million drawn under our Revolving Loan Facility, term loans and warehouse lines of credit that are subject to changes in interest rates. An increase or decrease of 1% in interest rates will change our annual debt service payments by $6.9 million per year.

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The following summarizes our significant contractual obligations and commitments as of December 31, 2007 (dollars in millions):

	Payment Due by Period				
	Total	Less Than 1 Year	Between 1 and 3 Years	Between 3 and 5 Years	More Than 5 Years
Contractual Obligations[1]:					
Debt Obligations (Note 8)	$ 1,773.7	$ 1,773.7	$	$	$
Interest Payments (Note 8)[2]	909.2	179.6	363.9	265.2	100.5
Capital Lease Obligations					
Operating Lease Obligations (Note 10)	30.0	9.3	9.7	5.2	5.8
Purchase Obligations					
FIN 48 Unrecognized Tax Benefits, net (Note 9)	7.5	0.9	3.8	2.8	
Other Long-Term Liabilities Reflected on the Registrant s Statement of Financial Condition under GAAP					
Total	$ 2,720.4	$ 1,963.5	$ 377.4	$ 273.2	$ 106.3

(1) Does not include obligations for inventory not owned of $32.0 million at December 31, 2007. See Notes 2 and 3 to the consolidated financial statements included elsewhere in this Form 10-K for more information on obligations for inventory not owned.

(2) Although the Company is currently in default on its debt, for purposes of calculating interest payment obligations in the table above, it is assumed that the interest payments would be made at the regularly scheduled dates through maturity. Represents scheduled interest payments on fixed rate debt obligations. Estimates of future interest payments for variable rate debt are based on interest rates as of December 31, 2007.

Off-Balance Sheet Arrangements

Land and Homesite Option Contracts

In the ordinary course of business, we enter into option contracts to purchase homesites and land held for development. Under these option contracts, we have the right to buy homesites at predetermined prices on a predetermined takedown schedule anticipated to be commensurate with home starts. Option contracts generally require the payment of a cash deposit or the posting of a letter of credit, which is typically less than 20% of the underlying purchase price, and may require monthly maintenance payments. At December 31, 2007 we had non-refundable cash deposits aggregating $56.9 million. These option contracts are either with land sellers or third party financial entities who have acquired the land to enter into the option contract with us. Homesite option contracts are generally non-recourse, thereby limiting our financial exposure for non-performance to our cash deposits and/or letters of credit. In certain instances, we have entered into development agreements in connection with option contracts which require us to complete the development of the land, at a fixed reimbursable amount, even if we choose not to exercise our option and forfeit our deposit and even if our costs exceed the reimbursable amount. As of

December 31, 2007, we have abandoned our rights under option contracts that require us to complete the development of land for a fixed reimbursable amount. At December 31, 2007, we recorded a loss accrual of $10.3 million, in connection with the abandonment of these option contracts, for our obligations under the development agreements, based on our estimate of the excess of costs to complete the development of the land over the fixed reimbursable amounts. See Note 3 to our consolidated financial statements included herein.

In addition, certain of these option contracts give the other party the right to require us to purchase homesites or guarantee certain minimum returns. During the year ended December 31, 2007, we abandoned our rights under certain option contracts that give the other party the right to require us to purchase the homesites. Some of these parties have given notice exercising their right to require us to purchase the homesites. We do not have the ability to comply with these notices due to liquidity constraints. These option

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contracts were previously consolidated and the inventory was included in inventory not owned and the corresponding liability was included in obligations for inventory not owned. As we do not have the intent or the ability to comply with the requirement to purchase the property, we have deconsolidated these option contracts at December 31, 2007. Impairment charges related to capitalized pre-acquisition costs associated with these option contracts of $10.6 million were written off during the year ended December 31, 2007. In addition, at December 31, 2007, we recorded a loss accrual of $22.3 million, in connection with the abandonment of these option contracts, for our estimated obligations under these option contracts, including $10.5 million for letters of credit which we anticipated would be drawn due to nonperformance under such contracts, based on estimated deficiency between the fair value of the underlying inventory compared to our required purchase price under the option contract. As of December 31, 2007, the total required purchase price under these option contracts was $26.1 million.

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. Additionally, at December 31, 2007, we had letters of credit outstanding of approximately $70.6 million primarily related to land development activities. We are committed under various letters of credit and performance bonds which are required for certain development activities, deposits on land and deposits on homesite purchase contracts. Under these arrangements, we had total outstanding letters of credit of $115.5 million. As a result of abandoning our rights under option contracts, as of December 31, 2007, we accrued $43.6 million for letters of credits which we anticipated would be drawn due to nonperformance under such contracts. In addition, $98.5 million of letters of credit have been drawn at December 31, 2007, which increased our borrowings outstanding under our Revolving Loan Facility. Through June 30, 2008 an additional $72.8 million of letters of credit have been drawn related to the abandonment of option contracts.

At December 31, 2007, we have total outstanding performance/surety bonds of $207.3 million related to land development activities and have estimated our exposure on our outstanding surety bonds to be $116.9 million based on land development remaining to be completed. At December 31, 2007, we recorded an accrual totaling $48.0 million for surety bonds where we consider it probable that we will be required to reimburse the surety for amounts drawn related to defaulted agreements. We have been experiencing a reduction in availability of security bond capacity. If we are unable to secure such bonds, we may elect to post alternative forms of collateral with government entities or escrow agents. Other forms of collateral, if available, may result in higher costs to us.

Investments in Unconsolidated Joint Ventures

We have entered into strategic joint ventures that acquire and develop land for our Homebuilding operations and/or that also build and market homes for sale to third parties. Our partners in these joint ventures generally are unrelated homebuilders, land sellers, financial investors or other real estate entities. In some cases our Chapter 11 filings have constituted an event of default under the joint venture lender agreements which have resulted in the debt becoming immediately due and payable, limiting the joint ventures access to future capital. In joint ventures where the assets are being financed with debt, the borrowings are non-recourse to us except that we have agreed to complete certain property development commitments in the event the joint ventures default and to indemnify the lenders for losses resulting from fraud, misappropriation and similar acts. In some cases, we have agreed to make capital contributions to the joint venture sufficient to comply with a specified debt to value ratio. Our obligations become full recourse upon certain bankruptcy events with respect to the joint venture. At December 31, 2007 and 2006, we had investments in unconsolidated joint ventures of $9.0 million and $129.0 million, respectively. We account for these investments under the equity method of accounting. These unconsolidated joint ventures are limited liability companies or limited partnerships in which we have a limited partnership interest and a minority interest in the general partner. At December 31, 2007 and 2006, we had receivables of $0.3 million and $27.2 million, respectively, from these joint ventures due to loans and advances, unpaid management fees and other items.

We believe that the use of off-balance sheet arrangements enables us to acquire rights in land which we may not have otherwise been able to acquire at favorable terms. Although, we view the use of off-balance sheet arrangements as beneficial to our Homebuilding activities, as a result of our Chapter 11 cases and our reduced investments in joint ventures, we anticipate only limited use of joint ventures in the future.

Engle/Sunbelt Joint Venture

In December 2004, we entered into a joint venture agreement with Suntous Investors, LLC to form Engle/Sunbelt Holdings, LLC. Engle/Sunbelt was formed to develop finished homesites and to build and deliver homes in the Phoenix, Arizona market. Upon its inception, the venture acquired eight of our existing communities in Phoenix, Arizona. We and Suntous contributed capital of approximately $28.0 million and $3.2 million, respectively, and the joint venture itself obtained financing arrangements with an aggregate borrowing capacity of $180.0 million, of which $150.0 million related to a revolving loan and $30.0 million related to a mezzanine financing instrument.

In July 2005, we contributed assets to Engle/Sunbelt resulting in a net capital contribution by us of $5.4 million. At that time, Engle/Sunbelt amended its financing arrangements to increase the revolving loan to $250.0 million. On April 30, 2007, Engle/Sunbelt amended its revolving loan to reduce the aggregate commitment of the lenders from $250.0 million to $200.0 million and extended the maturity date to March 17, 2008. In addition, the amendment increased the minimum adjusted tangible net worth covenant and reduced the minimum interest coverage ratio covenant. On January 16, 2008, the facility was further amended to reduce the revolving loan limit to $115.0 million and terminate the mezzanine financing instrument. In addition, the amendment reduced the minimum interest coverage ratio covenant. While the borrowings by Engle/Sunbelt were non-recourse to us, we had obligations to complete construction of certain improvements and housing units in the event Engle/Sunbelt defaulted. Additionally, we agreed to indemnify the lenders for, among other things, potential losses resulting from fraud, misappropriation, bankruptcy filings and similar acts by Engle/Sunbelt.

In connection with the July 2005 contribution of assets to Engle/Sunbelt, we realized a gain of $42.6 million, of which $36.3 million was deferred due to our continuing involvement with these assets through our investment. In March 2006, we assigned to Engle/Sunbelt our rights under a contract to purchase approximately 539 acres of raw land for a price of $18.7 million with a corresponding gain of $15.8 million, of which $13.5 million was deferred. In January 2007, we assigned to Engle/Sunbelt our rights under an option contract for $5.1 million, all of which was deferred, payable in the form of a note with a one year term, bearing interest at 10% per annum. These deferrals were being recognized in the consolidated statements of operations as homes were delivered by the joint venture.

During the years ended December 31, 2007, 2006 and 2005, we recognized revenue previously of $5.7 million, $10.0 million and $2.7 million, respectively, related to these transactions which is included in cost of sales-other in the accompanying consolidated statements of operations. At December 31, 2006, $22.8 million was deferred and included in accounts payable and other liabilities in the accompanying consolidated statement of financial condition. There were no amounts deferred at December 31, 2007 due to the write-off of our investment in the joint venture as discussed below.

Although Engle/Sunbelt was not included in our Chapter 11 filings, our Chapter 11 filings constituted an event of default under the financing arrangements and Engle/Sunbelt s debt became immediately due and payable.

In April 2008, we entered into a settlement agreement with the lenders pursuant to which Engle/Sunbelt has agreed to the appointment of a receiver and further agreed to either, at the election of the lenders, deliver a deed in lieu of foreclosure to its assets or consent to a judicial foreclosure. We have also agreed to assist the lenders in their efforts to complete certain construction for which we will receive arm s length compensation. Upon transfer of title to the lenders, we will be relieved from our obligations under the completion and indemnity agreements. The Bankruptcy Court, in which our Chapter 11 cases are pending, entered an order approving the settlement agreement.

During the year ended December 31, 2007, we evaluated the recoverability of our investment in and receivables from Engle/Sunbelt for impairment under APB 18 and SFAS 114 respectively and recorded an impairment charge of $60.7 million representing the full value our investment in and receivables from Engle/Sunbelt, net of deferred gains of $22.5 million. No completion obligation accrual has been established at December 31, 2007 with respect to Engle/Sunbelt due to the settlement agreement reached with the lenders to the joint venture.

TOUSA/Kolter Joint Venture

In January 2005, we entered into a joint venture with Kolter Real Estate Group, LLC to form TOUSA/Kolter Holdings, LLC (TOUSA/Kolter) for the purpose of acquiring, developing and selling approximately 1,900 homesites and commercial property in a master planned community in South Florida. The joint venture obtained senior and senior subordinated term loans (the term loans) of which $47.0 million and $7.0 million, respectively, were outstanding as of December 31, 2007. We entered into a Performance and Completion Agreement in favor of the lenders under which we agreed, among other things, to construct and complete the horizontal development of the lots and commercial property and related infrastructure in accordance with certain agreed plans. The term loans required, among other things, TOUSA/Kolter to have completed the development of certain lots by January 7, 2007. Due to unforeseen and unanticipated delays in the entitlement process and additional development requests by the county and water management district, TOUSA/Kolter was unable to complete the development of these certain lots by the required deadline. On June 21, 2007, and in response to missing the development deadline, TOUSA/Kolter amended the existing term loan agreements and we amended the Performance and Completion Agreement to extend the Performance and Completion Agreement development deadline to May 31, 2008. The amendments to the term loan agreements increased the interest rate on the senior term loan by 100 basis points to LIBOR plus 3.25% and by 50 basis points to LIBOR plus 8.5% for the senior subordinated term loan. As a condition to the amendment, we agreed to be responsible for the additional 150 basis points; accordingly, this would be a cost of the lots we acquired from TOUSA/Kolter. The amendment also required us to increase the existing letter of credit by an additional $1.8 million to $12.1 million and place an additional $3.0 million cash deposit on the remaining lots under option. The $3.0 million was used by TOUSA/Kolter to pay down a portion of the senior term loan.

As we have abandoned our rights under the option contract due to non-performance, at December 31, 2007, we recorded an obligation of $12.1 million for the letter of credit we anticipated would be drawn, wrote-off the $3.0 million cash deposit and $1.0 million in capitalized pre-acquisition costs. These costs are included in inventory impairments and abandonment costs in the accompanying Consolidated Statements of Operations.

The lenders to the joint venture have declared the loan to the venture to be in default, but have not demanded performance of our obligations under either the Performance and Completion Agreement or the Remargining Agreement. The Remargining Agreement requires us to pay to the Administrative Agent, upon default of the joint venture, an amount necessary to decrease the principal balance of the loan so that the outstanding balance does not exceed 70% of the value of the joint venture s assets. Based on the estimated fair value of the assets of the joint venture, we recorded a $54.0 million obligation (which includes the $12.1 million letter of credit accrual), as of December 31, 2007, in connection with our obligation under the re-margining provisions of the loan agreement. We did not record any additional contingent liability under the completion guarantee as the $54.0 million accrual represents the full joint venture debt obligation of the joint venture.

During the year ended December 31, 2007, we evaluated the recoverability of our investment and receivables from TOUSA/Kolter for impairment under APB 18 and SFAS 114 respectively and recorded an impairment charge of $58.8 million representing the full value of our investment in and receivables from TOUSA/Kolter, net of deferred gains of $12.8 million which were deferred as a result of the contributed assets and contract assignments to TOUSA/Kolter. Additionally, we recorded an obligation of $18.9 million for performance bonds and letters of credit that we placed on behalf of the joint venture, as we consider it probable that we will be required to reimburse these amounts for development remaining to be completed.

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Centex/TOUSA at Wellington, LLC

In December 2005, we entered into a joint venture with Centex Corporation to form Centex/TOUSA at Wellington, LLC (Centex/TOUSA at Wellington) for the purpose of acquiring, developing and selling approximately 264 homesites in a community in South Florida. The joint venture obtained a term loan of which $31.0 million was outstanding as of December 31, 2007. The credit agreement requires us to construct and complete the horizontal development of the lots and related infrastructure in accordance with certain agreed upon plans. On August 31, 2007, Centex/TOUSA at Wellington received a notice from the lender requiring the joint venture members to contribute approximately $10.0 million to the joint venture to reduce the outstanding term loan in order to comply with the 60% loan-to-value ratio covenant. We have not made the required equity contribution.

We evaluated the recoverability of our investment in and receivables from Centex/TOUSA at Wellington for impairment under APB 18 and SFAS 114 respectively, and recorded an impairment of $11.6 million representing the full value of our investment in and receivables from Centex/TOUSA during the year ended December 31, 2007. Based on the estimated fair value of the assets of the joint venture, we recorded a $15.5 million obligation, as of December 31, 2007, in connection with our obligation under the re-margining provisions of the loan agreement which represents our portion of the joint venture s outstanding debt. We did not record any additional contingent liability under the completion guarantee as the $15.5 million accrual represents our portion of the full joint venture debt obligation.

Layton Lakes Joint Venture

In connection with our joint venture with Lennar Corporation (the Layton Lakes Joint Venture) to acquire and develop land, townhome properties and commercial property in Arizona, we entered into a Completion and Limited Indemnity Agreement for the benefit of the lender to the joint venture. The agreement required us to maintain a tangible net worth of $400.0 million. As a result of the decrease in our tangible net worth, this covenant has been breached and the outstanding $60.0 million loan to the joint venture is in default. The default has not been cured and the lender, in its discretion, may accelerate the loan, foreclose on its liens, and exercise all other contractual remedies, including our completion guaranty. In addition, the operating agreement of the joint venture states that a breach by a member of any covenant of such member contained in any loan agreement entered into in connection with the financing of the property is an event of default. Under the operating agreement, a defaulting member does not have the right to vote or otherwise participate in the management of the joint venture until the default is cured. A defaulting member may not take down any lots from the joint venture.

The joint venture s loan requires that the outstanding loan balance may not exceed 65% of the value of the joint venture s assets. Based on an appraisal obtained by the bank, the joint venture has been notified that a principal payment is required in order to maintain the specified loan to value ratio. The joint venture has failed to make such principal payment.

Additionally, we have not made the $1.0 million capital contribution to the joint venture required under the operating agreement and as a result Lennar Corporation made a member loan to the joint venture for $0.7 million. We have been informed by Lennar that the interest on the loan accrues at 20% and that the principal and the interest are due immediately. Under the operating agreement, the joint venture is not obligated to convey lots to us until the loan and related interest are repaid.

We evaluated the recoverability of our investment in and receivables from Layton Lakes Joint Venture for impairment under APB 18 and SFAS 114 respectively and recorded an impairment charge of $24.9 million representing the full value our investment in and receivables from Layton Lakes Joint Venture. Additionally, we recorded an obligation of $4.4 million for performance bonds that we placed on behalf of the joint venture, as we consider it probable that we will be required to reimburse these amounts for development remaining to be completed. We did not record any obligation under the re-margining provision as we are not a party to the re-margining agreement. We did not record any additional contingent liability under the completion guarantee as based on the estimated fair value of the assets of the joint venture, we do not believe that it is probable that we will called to perform under the completion obligation. Should we be called to perform under the completion agreement in the future, we estimate that our portion of the costs to be incurred approximate $26.6 million.

Transeastern JV

See discussion in Part I, Item 1 section of this Form 10-K.

Other

During the year ended December 31, 2007, we evaluated the recoverability of our investment in and receivables from an unconsolidated joint venture located in Colorado, under APB 18 and SFAS 114 respectively, and recorded an impairment of $2.8 million, which is included in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations.

Certain of our unconsolidated joint venture agreements require the ventures to allocate earnings to the members using preferred return levels based on actual and expected cash flows throughout the life of the venture. Accordingly, determination of the allocation of the members earnings in these joint ventures can only be certain at or near the completion of the project and upon agreement of the partners. In order to allocate earnings, the members of the joint venture must make estimates based on expected cash flows throughout the life of the venture. During the year ended December 31, 2006, two of our unconsolidated joint ventures neared completion, which allowed the joint venture to adjust the income allocation to its members based on the final cash flow projections. The reallocation of earnings resulted in the recognition of an additional $5.9 million in income from unconsolidated joint ventures during the year ended December 31, 2006. We have evaluated these revisions in earnings allocations under SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of Opinion No. 20 and FASB Statement No. 3,* and have appropriately accounted for this change in estimate in our December 31, 2006 consolidated financial statements.

On August 30, 2006, we terminated one of our unconsolidated joint ventures that was formed to purchase land, construct and develop a condominium project in Northern Virginia. As part of the agreement, we purchased our partner s interest in the venture for $32.6 million. After purchasing our partner s interest, we became the sole member of the entity as a consolidated subsidiary. The purchase price was allocated to the net assets of the venture, which were comprised primarily of inventory.

During the year ended December 31, 2006, we evaluated the recoverability of our investment in and receivables from an unconsolidated joint venture located in Southwest Florida, under APB 18 and SFAS 114 respectively, and recorded an impairment of $7.7 million, which is included in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements.

Seasonality of Operations

The homebuilding industry tends to be seasonal, as generally there are more homes sold in the spring and summer months when the weather is milder, although the number of sales contracts for new homes is highly dependent on the number of active communities and the timing of new community openings. Because new home deliveries trail new home contracts by a number of months, we typically have the greatest percentage of home deliveries in the fall and winter, and slow sales in the spring and summer months could negatively affect our full year results. We operate primarily in the Southwest and Southeast, where weather conditions are more suitable to a year-round construction process than in other parts of the country. Our operations in Florida and Texas are at risk of repeated and potentially prolonged disruptions during the Atlantic hurricane season, which lasts from June 1 until November 30.

ITEM 7A. *Quantitative and Qualitative Disclosures about Market Risk*

As a result of our senior and senior subordinated notes offerings, as of December 31, 2007, $1.1 billion of our outstanding borrowings are based on fixed interest rates. We are exposed to market risk primarily related to potential adverse changes in interest rates on our revolving credit facility, term loans and warehouse lines. The interest rates relative to these borrowings fluctuate with the prime, Federal Funds, LIBOR, and Eurodollar lending rates. As of December 31, 2007, we had an aggregate of approximately $692.4 million drawn under our Revolving Loan Facility, term loans and warehouse lines of credit that are subject to changes in interest rates. An increase or decrease of 1% in interest rates will change our annual debt service payments by $6.9 million per year.

On July 31, 2007, as part of the global settlement related to the Transeastern JV, we entered into (1) a new $200.0 million aggregate principal amount first lien term loan facility which expires on July 31, 2012 and (2) a new $300.0 million aggregate principal amount second lien term loan facility which expires on July 31, 2013. The interest rates relative to these borrowings fluctuate with the LIBOR or Federal Funds lending rate.

The failure to pay interest on certain notes and the filing of the Chapter 11 cases have constituted events of default or otherwise triggered repayment obligations under a number of instruments and agreements relating to our direct and indirect financial obligations. As a result of the events of default, all our obligations became automatically and immediately due and payable and have been reflected as such in the following table. We believe that any efforts to enforce the payment obligations are stayed as a result of the filing of the Chapter 11 cases.

The following table presents the future principal payment obligations and weighted average interest rates associated with our debt instruments assuming our actual level of indebtedness as of December 31, 2007 (dollars in millions):

	Expected Maturity Date						
Liabilities	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Fair Value**
Debt							
Fixed rate (71/2)%	$ 325.0						$ 13.0
Fixed rate (81/4)%	250.0						107.3
Fixed rate (9)%	300.0						124.3
Fixed rate (103/8)%	185.0						10.6
Fixed rate, Senior Subordinated PIK Notes (143/4%)	21.3						0.2
Variable rate, First Lien Term Loan Facility (9.8% at December 31, 2007)	199.0						199.0
Variable rate, Second Lien Term Loan Facility (12.8% at December 31, 2007)	317.1						317.1
Variable rate, credit facility (11.25% at December 31, 2007)	168.5						168.5
Variable rate, warehouse lines of credit (6.6% at December 31, 2007)	7.8						7.8

Our operations are interest rate sensitive as overall housing demand is adversely affected by increases in interest rates. If mortgage interest rates increase significantly, this may negatively affect the ability of homebuyers to secure adequate financing. Higher interest rates also increase our borrowing costs because, as indicated above, our bank loans will fluctuate with the prime, Federal Funds, LIBOR, and Eurodollar lending rates.

We may be adversely affected during periods of high inflation, primarily because of higher land and construction costs. In addition, inflation may result in higher interest rates. This may significantly affect the affordability of permanent mortgage financing for prospective purchasers, which in turn adversely affects overall housing demand. In addition, this may increase our interest costs. We attempt to pass through to our customers any increases in our costs through increased selling prices and, to date, inflation has not had a

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material adverse effect on our results of operations. However, there is no assurance that inflation will not have a material adverse impact on our future results of operations.

ITEM 8. ***Financial Statements and Supplementary Data***

Financial statements and supplementary data for us are on pages F-1 through F-66.

ITEM 9. ***Changes In and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

ITEM 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

To ensure that the information we must disclose in our filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, we have formalized our disclosure controls and procedures. Our principal executive officer and principal financial officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of December 31, 2007. Based on such evaluation, such officers have concluded that, as of December 31, 2007, our disclosure controls and procedures were effective. There has been no change in our internal control over financial reporting during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Management s Report on Internal Control over Financial Reporting is included on page F-2 of this Form 10-K. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst &Young LLP, an independent registered public accounting firm, as stated in their attestation report which is included on page F-3 of this Form 10-K.

ITEM 9B. ***Other Information***

None.

PART III

ITEM 10. ***Directors and Executive Officers of the Registrant***

On August 8, 2007, we submitted to the New York Stock Exchange an Annual CEO Certification, signed by our Chief Executive Officer, certifying that our Chief Executive Officer was not aware of any violation by the Company of the New York Stock Exchange s corporate governance listing standards. Additionally, we have filed as exhibits to this Form 10-K the CEO/CFO Certifications required under Section 302 of the Sarbanes-Oxley Act.

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Set forth in the table below is a list of the Company s directors and executive officers, serving at the time of the filing of this Report, together with certain biographical information, including their ages as of March 15, 2008:

Directors	Age	Principal Occupation
Konstantinos Stengos	71	Chairman of the Board, TOUSA, Inc. and President and Managing Director, Technical Olympic S.A.
Antonio B. Mon	62	Chief Executive Officer and Vice Chairman of TOUSA, Inc.
Andreas Stengos	45	Executive Vice President and General Manager, Technical Olympic S.A.
George Stengos	41	Managing Director, Mochlos S.A.
Marianna Stengou	30	Vice President, Porto Carras Campus Hospitality Studies S.A.
Larry D. Horner	74	Retired, Chairman and Chief Executive Officer of KPMG LLP
William A. Hasler	66	Private Investor
Tommy L. McAden	45	Executive Vice President and Chief Financial Officer, TOUSA, Inc.
Michael J. Poulos	77	Private Investor
Susan B. Parks	51	Chief Executive Officer, Walkstyles, Inc.
J. Bryan Whitworth	69	Of Counsel, Wachtell, Lipton, Rosen & Katz

Officers	Age	Principal Occupation
John Boken	45	Chief Restructuring Officer, TOUSA, Inc.
George Yeonas	53	Executive Vice President and Chief Operating Officer TOUSA, Inc.
Paul Berkowitz	59	Executive Vice President and Chief of Staff, TOUSA, Inc.
Michael Glass	49	President, Financial Services, TOUSA, Inc.
Angela Valdes	38	Vice President and Chief Accounting Officer, TOUSA, Inc.

Directors

Konstantinos Stengos has been the Chairman of our Board since December 15, 1999. Mr. Stengos has served as the President and Managing Director of Technical Olympic S.A. (TOSA), our parent company, since he formed TOSA in 1965. Mr. Stengos has also served as Director and President of Technical Olympic Services, Inc. (TOSI) since October 2003. Mr. Stengos has been the Chairman and President of Mochlos S.A., a subsidiary of TOSA, from December 2002 till June 2003 and from May 2004 till today. Mr. Stengos has been the Chairman, President and Managing Director of the same company from June 2003 till May 2004. Mr. Stengos served as Chairman, President and Managing Director of Porto Carras S.A. from December 1999 to June 2004 and as Chairman and President of the same company from June 2004 to October 2005 and from June 2007 till today.

Antonio B. Mon has been a director of the Company, and our Executive Vice Chairman, Chief Executive Officer, and President, since June 25, 2002. From October 2001 to June 2002, Mr. Mon served as the Chief Executive Officer of

Technical Olympic, Inc., our former parent company (TOI). From May 2001 to October 2001, Mr. Mon was a consultant to TOI. From 1997 to 2001, Mr. Mon was the Chairman of Maywood Investment Company, LLC, a private firm engaged in private equity investments and general consulting. In 1991, Mr. Mon co-founded Pacific Greystone Corporation, a west coast homebuilder that merged with Lennar Corporation in 1997, and served as its Vice Chairman from 1991 to 1997. Prior to 1991, Mr. Mon worked in various positions for The Ryland Group, Inc. (a national homebuilder), M.J. Brock Corporation (a California homebuilder), and Cigna Corporation (a financial services corporation).

Andreas Stengos has been a director of the Company since 1999 and Executive Vice President since May 2006. Since October 2003, Mr. Stengos has served as a director, Executive Vice President and Treasurer of TOSI. Mr. Stengos served as the Managing Director of TOSA from 1989 to 1995 and as General Manager and Technical Director of TOSA from 1995 through June 2004. Since June 2004, Mr. Stengos has served as the Executive Vice President and General Manager of TOSA, and as the General Manager and Executive Vice President of Mochlos, S.A.

George Stengos has been a director of the Company since 1999, and has served as our Executive Vice President since April 2004. Since October 2003, Mr. Stengos has served as a director, Vice President, and Secretary of TOSI. From 2001 to December 2002, Mr. Stengos served as President and Chairman of the Board of Mochlos S.A., a subsidiary of TOSA, and is currently Managing Director of Mochlos S.A. From 1993 to 2000, Mr. Stengos was Executive Vice President of Mochlos S.A. Mr. Stengos has also served as Managing Director of TOSA since June 30, 2004. Mr. Stengos was also charged relating to the 1999 sale of certain shares of TOSA discussed above and those charges were dismissed in January 2007.

Marianna Stengou has been a director of the Company since 2004. Ms. Stengou has served as Vice President of Porto Carras Campus Hospitality Studies S.A., an affiliate of TOSA, since April 2002. Ms. Stengou has served in a variety of positions at TOSA, including most recently as Director of Human Resources and Quality, from January 2000 to June 2006. Ms. Stengou served as President and Managing Director of Toxotis Construction S.A., a subsidiary of TOSA, from November 1997 to June 2004. Ms. Stengou has been a director of TOSA since June 2003. Ms. Stengou has also served as Executive Director of Mochlos S.A., a subsidiary of TOSA, from June 2005 to June 2006 and as Director of the same company from July 2006 till today.

Larry D. Horner has been a director of the Company since 1997. Mr. Horner served as Chairman of Pacific USA Holdings Corp., a subsidiary of Pacific Electric Wire and Cable Co., a cable manufacturer, from 1994 to 2001, and was Chairman of the Board of Asia Pacific Wire & Cable Corporation Limited, a manufacturer of copper wire, cable and fiber optic wire products, with operations in Southeast Asia, which was publicly traded on the New York Stock Exchange until 2001. He is also a former director of Atlantis Plastics, Inc. (a manufacturer of plastic films and plastic components), UT Starcom, Inc. (a provider of wireline, wireless, optical, and access switching solutions), Clinical Data, Inc.(a provider of biogenetics), and New River Pharmaceuticals, Inc. , Mr. Horner was formerly a director of ConocoPhillips (an energy company) and American General Corp. (an insurance company). Mr. Horner was formerly associated with KPMG LLP, a professional services firm, for 35 years, retiring as Chairman and Chief Executive Officer of both the U.S. and International firms in 1991. Mr. Horner is a certified public accountant.

William A. Hasler has been a director of the Company since 1998. Mr. Hasler served as Co-Chief Executive Officer of Aphton Corporation, a biopharmaceutical company, from July 1998 to January 2004. From August 1991 to July 1998, Mr. Hasler served as Dean of the Haas School of Business at the University of California at Berkeley. Prior to that, he was both Vice Chairman and a director of KPMG LLP, a professional services firm. Mr. Hasler also serves on the boards of Mission West Properties (a real estate investment trust), DiTech Networks (a global telecommunications equipment supplier for voice networks), Schwab Funds (a mutual fund company), Harris-Stratex Networks (a provider of high-speed wireless transmission solutions), and Genitope Corporation (a biopharmaceutical company), Mr. Hasler is a certified public accountant.

Tommy L. McAden has been a director of the Company since May 2005. Mr. McAden became our Chief Financial Officer on January 18, 2008. From April 2004 until then, Mr. McAden served as our Executive Vice President Strategy and Operations. Mr. McAden also served as our Vice President of Finance and Administration, Chief Financial Officer, and Treasurer from June 2002 to April 2004. Mr. McAden served as a director, Vice President, and Chief Financial Officer of TOI from January 2000 to June 2002. From 1994 to December 1999, Mr. McAden was Chief Accounting Officer of Pacific USA Holdings Corp. and Chief Financial Officer of Pacific Realty Group, Inc., which was our former 80% stockholder.

Michael J. Poulos has been a director of the Company since 2000. Mr. Poulos serves as a director of Forethought Financial Group, Inc., a privately-held life insurance company, headquartered in Indianapolis, Indiana. Mr. Poulos served as Chairman, President, and Chief Executive Officer of Western National Corporation, a life insurance holding company, from 1993 until 1998 when he retired. Mr. Poulos worked for American General Corporation, from 1970 to 1993, and served as its President from 1981 to 1991 and as its Vice Chairman from 1991 to 1993. He also served as a Director of American General Corporation from 1980 to 1993; and again from 1998 to 2001.

Susan B. Parks has been a director of the Company since 2004. She is the founder and, since September 2003, Chief Executive Officer of WalkStyles, Inc., a consumer products company. Prior to becoming an entrepreneur, Ms. Parks was with Kinko s, a multibillion dollar document solutions and business services company, from August 2002 until September 2003, where she served as the Executive Vice President of Operations. From August 2000 to January 2002, Ms. Parks was with Gateway, a personal computer and related products company, where she served as Senior Vice President of US Markets for Gateway, leading their US Market business unit, and Senior Vice President of the Gateway Business division. Ms. Parks also spent approximately five years with U.S. West, a telecommunications company, serving in a succession of senior positions and has served in various leadership positions at both Mead Corporation and Avery-Dennison.

J. Bryan Whitworth has been a director of the Company since January 2005. Mr. Whitworth has been Of Counsel at Wachtell, Lipton, Rosen & Katz, a leading corporate and securities law firm, since May 2003. Prior to joining Wachtell, Lipton, Rosen & Katz, Mr. Whitworth served as Executive Vice President of ConocoPhillips, a global integrated petroleum company, from September 2002 to March 2003. Mr. Whitworth joined ConocoPhillips in 2002, following the merger of Conoco Inc. and Phillips Petroleum Company. Prior to the merger, Mr. Whitworth spent more than 30 years with Phillips Petroleum Co., most recently serving as the Executive Vice President and Chief Administrative Officer of that company. Mr. Whitworth also served as Phillips Petroleum s Senior Vice President of Human Resources, Public Relations and Government Relations, as well as its General Counsel.

Officers

John R. Boken was appointed TOUSA s Chief Restructuring Officer in January 2008. Mr. Boken has been an employee of Kroll Zolfo Cooper LLC, an affiliate of KZC Services, LLC, (collectively, KZC) for over five years. Mr. Boken has been a managing director at Kroll Zolfo Cooper LLC since January 2004. He specializes in providing restructuring advisory and crisis management services to financially distressed companies and their creditors. As part of his employment at KZC, from May 2005 until October 2007, Mr. Boken was Chief Restructuring Officer of auto supplier Collins & Aikman Corporation during its chapter 11 proceeding. From May 2005 through December 2005, he was Chief Executive Officer of Entegra Power Group upon its emergence from bankruptcy. From May 2003 through December 2003, Mr. Boken was President and Chief Operating Officer of NRG Energy, Inc. in its Chapter 11 case. Prior to joining KZC in July 2002, Mr. Boken was the managing partner of the Los Angeles corporate restructuring practice of Arthur Andersen. Mr. Boken will become our Chief Executive Officer immediately after the filing of the Annual Report on Form 10K.

George Yeonas became our Executive Vice President and Chief Operating Officer of TOUSA, Inc. and President of TOUSA Homes, Inc. in January 2008. Prior to that, Mr. Yeonas was Executive Vice President of TOUSA Homes since May 2005. Between November 2004 and May 2005, Mr. Yeonas provided consulting services to the Company. Prior to joining TOUSA Homes, Mr. Yeonas was a partner and chief operating officer of Rocky Gorge Homes. From 1997 to 2002, he was Chief Operating Officer, a Board Director and Chief Executive Officer of The Fortress Group. Before The Fortress Group, he held executive level positions with Arvida, NVR, and Trammell Crow.

Paul Berkowitz became our Executive Vice President and Chief of Staff in January 2007. Before joining TOUSA, Mr. Berkowitz was a principal shareholder at Greenberg Traurig, LLP, a major international law firm, where he served a wide variety of clients. Mr. Berkowitz concentrated on corporate and securities law and has extensive experience in financing transactions, public and private offerings, and mergers and acquisitions.

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Michael Glass became our President of Financial Services in July 2006, overseeing the operations of Universal Land Title, Inc., Preferred Home Mortgage Company, and Alliance Insurance and Information Services, LLC each a subsidiary of TOUSA. Mr. Glass founded Universal Land Title in 1986. He is active in local, state, and national organizations to set industry standards. In addition, he headed the acquisition of Alliance Insurance and Information Services offering homeowner s insurance products to TOUSA homebuyers.

Angela Valdes became our Chief Accounting Officer in July 2007. Prior to that, Ms. Valdes served as TOUSA s Corporate Controller since 2002 and Vice President since July 2006. Ms. Valdes oversees TOUSA s accounting and financial reporting functions. Prior to joining TOUSA, Ms. Valdes spent 11 years in public accounting at Ernst & Young LLP, specializing in publicly-traded companies with a focus on the real estate industry. Ms. Valdes is a certified public accountant.

Certain Legal Proceedings

As a result of our Chapter 11 cases, Ms. Stengou, Ms. Parks and Messrs. Konstantinos Stengos, George Stengos, Andreas Stengos, Mon, Horner, Hasler, McAden, Poulos and Whitworth have each served as directors of a company that filed a petition under the federal bankruptcy laws within the last five years. Similarly, as officers or directors of TOUSA and/or certain of our subsidiaries, Ms. Valdes and Messrs. Boken, Yeonas, Berkowitz and Glass have served as directors or executive officers of a company that filed a petition under the federal bankruptcy laws within the last five years.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers, and persons who own more than 10% of our outstanding common stock to file with the Commission reports of changes in their ownership of common stock. Directors, officers, and greater than 10% stockholders are also required to furnish us with copies of all forms they file under this regulation. To our knowledge, based solely on a review of the copies of such reports furnished to us and representations that no other reports were required, during the year ended December 31, 2007, all Section 16(a) filing requirements applicable to our directors, officers, and greater than 10% stockholders were satisfied.

Stockholder Nominees to Board of Directors

We have not adopted procedures by which stockholders may recommend director candidates for consideration because we do not intend to hold annual meetings of stockholders during the pendency of our Chapter 11 cases.

Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics covers a wide range of business practices and procedures. The Code is just one part of our comprehensive compliance program. It is designed to supplement, not be a substitute for, other policy statements and compliance documents which may be published from time to time by TOUSA and its subsidiaries. The Code applies to all of our directors, the Principal Executive Officer, the Principal Financial Officer, the Principal Accounting Officer, the Controller, and any other officers, associates, agents and representatives, including consultants. The Code requires that each individual deal fairly, honestly and constructively with governmental and regulatory bodies, customers, suppliers, and competitors, and it prohibits any individual s taking unfair advantage through manipulation, concealment, abuse of privileged information, or misrepresentation of material fact. Further, it imposes an express duty to act in our best interests and to avoid influences, interests or relationships that could give rise to an actual or apparent conflict of interest. Conflicts of interest are prohibited as a matter of policy, except under guidelines approved by the Board of Directors. Conflicts of interest may not always be clear-cut, so if there is ever a question, associates are instructed to consult with higher levels of management or the Chief of Staff. There can be no waiver of any part of this Code for any director or officer except by a vote of the Board of Directors or a designated board committee that will ascertain whether a waiver is appropriate under all the circumstances. In case a waiver of this Code is granted to a director or officer, notice of such waiver will be posted on our website within five days of the Board of Director s vote or will be otherwise disclosed as required by applicable law. We granted no waivers under our Code in 2007. A copy of the Code is posted on our website at www.tousa.com.

Ethics Hotline

We strongly encourage our associates to raise possible ethical issues and offer several channels by which employees and others may report ethical concerns or incidents, including, without limitation, concerns about accounting, internal controls or auditing matters. We provide an Ethics Hotline that is available 24 hours a day, seven days a week. Individuals may choose to remain anonymous. We prohibit retaliatory actions against anyone who, in good faith, raises concerns or questions regarding ethics, discrimination or harassment matters, or reports suspected violations of other applicable laws, regulations or policies. Calls to the Ethics Hotline are received by a vendor, which reports the calls to our Assistant Vice President of Internal Audit and our Vice President of Human Resources for review and investigation.

Audit Committee and Designated Audit Committee Financial Experts

The Audit Committee consists of Messrs. Hasler, Poulos, and Whitworth. Our Board of Directors has determined that each of Messrs. Hasler and Poulos is an audit committee financial expert as defined by the rules promulgated by the Securities and Exchange Commission, and that, in the business judgment of the Board of Directors, Mr. Whitworth is financially literate. Mr. Hasler serves on the audit committees of three publicly traded companies in addition to serving as the chair of the Company s Audit Committee. The Board of Directors has determined that such simultaneous service by Mr. Hasler does not impair his ability to serve on the Company s Audit Committee.

The Audit Committee generally has responsibility for:

- appointing, overseeing, and determining the compensation of our independent registered public accounting firm;
- reviewing the plan and scope of the accountants audit;
- reviewing our audit and internal control functions;
- approving all permitted non-audit services provided by our independent registered public accounting firm; and
- reporting to our full Board of Directors regarding all of the foregoing.

The Audit Committee meets with the independent registered public accounting firm and our management in connection with its review and approval of the unaudited financial statements for inclusion in our Quarterly Reports on Form 10-Q and the annual audited financial statements for inclusion in our Annual Report on Form 10-K. Additionally, the Audit Committee provides our Board of Directors with such additional information and materials as it may deem necessary to make our Board of Directors aware of significant financial matters that require its attention. The Audit Committee held 8 meetings during the year ended December 31, 2007 and no actions in writing were taken. Although our shares are no longer listed on the New York Stock Exchange, we believe that our Audit Committee s financial experts are independent as defined in the New York Stock Exchange Listing Standards. The Audit Committee s goals and responsibilities are set forth in a written Audit Committee charter, a copy of which can be found on the Company s website, *www.tousa.com*, under Investor Information Corporate Governance.

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ITEM 11. ***Executive Compensation***

COMPENSATION COMMITTEE REPORT

The Compensation, Human Resources and Benefits Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this Annual Report on Form 10-K with members of senior management. Based on these reviews and discussions, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in TOUSA s Annual Report on Form 10-K.

Compensation, Human Resources and Benefits Committee

Michael J. Poulos Chairman
Larry D. Horner
Susan B. Parks

COMPENSATION DISCUSSION AND ANALYSIS

This discussion and analysis discusses and analyzes the objectives and manner of implementation of our executive compensation programs for our executive officers identified in the Summary Compensation Table below. This analysis should be read in conjunction with the compensation related tables that immediately follow this discussion and analysis. This discussion and analysis was prepared in cooperation with our Compensation Committee, the members of which have reviewed this discussion and analysis.

Compensation Philosophy

Guiding Principles. Our compensation philosophy was developed to balance and align the goals of stockholders and executive management. As noted below, our compensation philosophy has been modified as a result of the filing of our Chapter 11 cases. Because a given year s results are seldom the immediate or sole consequence of executive actions taken in that year, the Human Resources, Compensation and Benefits Committee pursues a compensation policy that recognizes efforts, results, and responsibilities over the long-term. In administering compensation policy, the Compensation Committee establishes executive officers base salaries and variable compensation, consisting of cash bonuses and various types of longer-term incentives.

Traditionally, the Compensation Committee s decision making process encompasses three underlying principles:

- compensation should be adequate to attract and retain qualified associates;
- compensation paid to such associates should be based on their individual duties and responsibilities and their relative contribution to overall results; and
- compensation should reflect remuneration levels for comparable positions inside and outside the organization. The Committee reviews the Company s compensation policies at least annually with its overall review of executive compensation.

Since the filing of our Chapter 11 cases, to assist in achieving our objectives, our Compensation Committee has been engaged in developing, with the assistance of Towers, Perin, compensation packages that are designed to reward not only individual contributions but also our corporate achievement of certain pre-determined milestones in our Chapter 11 restructuring. This program is designed to encourage our management team to pursue strategic opportunities in the design, building and marketing of our homes, while effectively managing the risks and challenges inherent to a company experiencing a Chapter 11 restructuring.

Our program is intended to attract, motivate, reward and retain the management talent required to achieve our corporate objectives. We analyze our competitors compensation principles. Our philosophy is that we need to pay our senior associates between the mean and 75th percentile in order to retain the senior associates in light of intense competition for senior managers in the homebuilding industry. Our compensation philosophy

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puts a strong emphasis on pay for performance to correlate the long-term growth of value with management s most significant compensation opportunities. In addition, we support a performance oriented environment that rewards achievement of both our internal goals and enhanced Company performance as measured against performance levels of comparable companies in the industry. Finally, we believe that the Company must have the flexibility to deal with market conditions which are outside the control of management and to establish a compensation program designed to attract, motivate and retain executive officers, particularly in light of the severe challenges currently facing the homebuilding industry. As such, the Company may elect to pay bonuses related to the achievement of goals that are not tied to arithmetic formulas.

In the past, the four primary components of compensation for our senior executives were base salary, annual cash incentive bonus, our performance unit program, and a stock option and restricted stock plan. None of the units granted pursuant to the performance unit program vested. Therefore all of the units automatically expired on December 31, 2007 and no units will be granted in the future.

The relative weighting of the four components was designed to strongly reward long-term performance. Base pay was targeted at or below median market levels and typically represents (12% to 15%) of total annual compensation. The annual cash incentive component is targeted at the 60th percentile of our peer group and depends on the achievement of annual performance objectives that are established in advance of the performance year being measured. If performance objectives are met, this component would represent approximately (20% to 30%) of total annual compensation. Finally, the long-term equity component was (55% to 60%) of total annual compensation.

Determination of Compensation. Our Compensation Committee is composed entirely of independent outside directors and is responsible for setting our compensation policy. The Compensation Committee has responsibility for setting each component of compensation for the chief executive officer and utilizes the services of Towers Perrin in developing the CEO Annual Incentive Bonus Plan described below. The Compensation Committee is also responsible for setting the total compensation of members of the Board of Directors. The chief executive officer and the vice president of human resources develop initial recommendations for all components of compensation for the direct reports of the chief executive officer and present their recommendations to the Compensation Committee for review and approval. Mr. Mon presents an evaluation of the executive officers who report directly to him to the Committee. The evaluation was based on performance by each of the executive officers against certain criteria. A primary measure was financial performance as against budget. Review of performance with respect to our strategic plans was also considered. Rather than employing strictly formulaic approaches, these factors were considered as a whole to determine compensation.

Tax Deductibility of Pay. Under Section 162(m) of the Internal Revenue Code, compensation in excess of $1 million that is not paid pursuant to a plan approved by stockholders and does not satisfy the performance-based exception of Section 162(m) is not deductible as a compensation expense by us. Compensation decisions for the executive officers are made with full consideration of the implications of Section 162(m). Although the Compensation Committee intends to structure arrangements in a manner that preserves deductibility under Section 162(m), it believes that maintaining flexibility is important and reserves the right to pay amounts or make awards that are nondeductible.

Recoupment of Annual Incentives. The Compensation Committee will evaluate the facts and circumstances surrounding any restatement of earnings (should one occur) and, in its sole discretion, may accordingly adjust compensation of the chief executive officer and others as it deems appropriate, especially related to annual cash incentive awards.

Components of Our Compensation Program

Base Pay. The base pay component of total compensation is paid in cash on a semi-monthly basis. The levels of base salaries are generally targeted at or below the median level of the peer group, typically around the 45th percentile. The individual s relative position of the median pay level is based on a variety of factors, including experience and tenure in a position, scope of responsibilities, individual performance and personal contributions to corporate performance. Annual increases, if any, are based on these same factors. Highly experienced and long-tenured executives would not typically receive an increase in base pay each year. The median pay levels are determined from survey information provided by nationally recognized consulting firms that gather compensation data from many companies. The specific companies included in the peer group are: WCI Communities, Jim Walter Homes, Taylor Morrison, Inc., NVR, Meritage, Kimball Hill Homes, DR Horton, Centex Homes, Pulte, Mercedes Homes, Lennar Homes, K. Hovnanian Enterprises, Inc. KB Home, M.D.C. Holdings, Inc., The Ryland Group, Inc., Standard Pacific Corporation and Taylor Woodrow, Inc.

Cash Incentive Bonus. The bonus formulas contained in the employment agreements of our senior officers are designed to reward personal contribution and performance, measured by reference to performance measures tailored to the particular responsibilities of the specific senior officer, such as achievement of specified targets for return on equity, net income, divisional profit goals, divisional contribution targets, customer service rankings, and/or overall performance. In the budgeting process, a profit goal contribution target is set and minimum threshold performance criteria for officers must be reached before any bonus awards will be granted. In addition, the individual performance of each senior officer and/or any extraordinary or unusual circumstances or events are taken into consideration in making bonus awards. As a result, the Compensation Committee has the discretion to and does, from time to time, grant discretionary bonuses in excess of the amounts resulting from the bonus formulae contained in the relevant employment agreements for our senior officers.

Executive Savings Plan. Effective December 1, 2004, the Company implemented the TOUSA, Inc. Executive Savings Plan (the Savings Plan). The Savings Plan allows a select group of management or highly compensated employees of the Company or certain of the Company s subsidiaries to elect to defer up to 90% of their salary and up to 100% of their bonus. The Company credits an amount equal to the compensation deferred by a participant to that participant s deferral account under the Savings Plan. Each participant s deferral account is credited with income, gains and losses based on the performance of investment funds selected by the participant from a list of funds designated by the Company. Participants are at all times 100% vested in the amounts that they choose to defer under the Savings Plan. The deferred compensation credited to a participant s account is payable in cash, commencing upon a date specified in advance by the participant pursuant to the terms of the Savings Plan or, if earlier, the termination of the participant s employment with the Company or its subsidiary, subject to certain provisions allowing accelerated distributions in the event of disability, certain changes of control of the Company and/or unforeseeable emergencies. The Company does not make any contributions under the Savings Plan and may terminate the Savings Plan and discontinue any further deferrals under the Savings Plan at any time. The obligation to make distributions from participant accounts under the Savings Plan is an unsecured, general obligation of the Company.

Health and Insurance Plans. The Named Executive Officers are eligible to participate in company-sponsored benefit programs on the same terms and conditions as those made available to salaried associates generally. Basic health benefits, life insurance, disability benefits and similar programs are provided to ensure that associates have access to healthcare and income protections for themselves and their family members. Under TOUSA s medical plans, higher paid associates are required to pay a significantly higher amount of the total premiums, while the premiums paid by lower paid associates receive a higher subsidy from TOUSA.

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Summary Compensation Table

The following tables present certain summary information concerning compensation earned for services rendered by (i) our Chief Executive Officer, Chief Financial Officer and our other three most highly compensated executive officers (the Named Executive Officers). The form of the tables is set by SEC regulations.

2007 EXECUTIVE COMPENSATION

e and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and NQDC Earnings ($)	All Other Compensation ($)	Total ($)
nio B. Mon	2007	1,288,408[1]	898,061[2]					654,864[3]	2,841,
f Executive Officer	2006	1,200,562	1,000,000					264,795[4]	2,465,
hen M. Wagman	2007	441,663	325,000					12,000[5]	778,
utive Vice President &	2006								
f Financial Officer									
ge C. Yeonas	2007	100,000	1,125,000					700,724[6]	1,925,
Vice President	2006	100,000						700,000[6]	800,
SA Homes									
Upton	2007[7]	450,973	2,156,495					7,200[5]	2,614,
Vice President	2006	420,000	1,229,900			770,100[8]		97,294[9]	2,517,
SA Homes									
Kraynick	2007[7]	544,891	1,530,000			1,343,727[10]		6,833[11]	3,425,
President	2006	500,000	640,000			1,760,000[10]			2,900,
y Engelstein	2007[7]	566,919	3,339,240					30,540[12]	3,936,
rman TOUSA	2006	500,000	1,550,000					104,940[13]	2,154,
es									

(1) Mr. Mon waived his contractual right to annual 10% salary increases effective October 1, 2007.

(2) Effective October 1, 2007, Mr. Mon waived his contractual right to an annual bonus of $1 million.

(3) This amount includes $60,000 paid for life insurance policies, $51,636 paid in tax gross-up payments on such premiums, $36,286 for personal use of a corporate automobile, $38,065 for personal rental of a corporate condominium, $422,500 representing the excess of the fair market value over the purchase price paid by Mr. Mon for the condominium pursuant to the terms of his amended and restated employment agreement dated January 27, 2004, $40,437 tax gross-up on the automobile and condominium, and the balance represents the taxable portion of premiums paid by the Company on group term life insurance and tax gross-up payments on them.

(4) This amount includes $60,000 paid for life insurance policies, $51,636 paid in tax gross-up payments on such premiums, $36,286 for personal use of a corporate automobile, $54,000 for personal use of a corporate apartment, $29,287 tax gross-up on the automobile and apartment, $25,646 for personal use of a corporate aircraft, and the balance represents the taxable portion of premiums paid by the Company on group term life insurance and tax gross-up payments on them.

(5) This amount is the annual auto allowance received in 2007.

(6) The $700,000 in 2006 and 2007 represent earnings from consultant services provided to the Company. The $724 is the taxable portion of premiums paid by the Company for group term life insurance in 2007.

(7) Employment with the Company terminated December 31, 2007.

(8) The annual bonus was based on the factors described in the Compensation and Discussion Analysis.

(9) This amount represents the taxable proceeds from exercise of Company options and sale of shares.

(10) The annual bonus was based on the factors described in the discussion of Mr. Kraynick s employment agreement below.

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(11) This amount represents $2,763 for personal use of Company automobile, $2,000 for TOUSA executive physical reimbursement and $2,070 the taxable portion of premiums paid by the Company on group term life Insurance.

(12) This amount represents the auto allowance, $12,000 and the taxable portion of premiums paid by the Company on group term life insurance, $18,540.

(13) This amount represents the taxable proceeds from exercise of Company options and sale of shares, $74,400, auto allowance, $12,000 and the taxable portion of premiums paid by the Company on group term life insurance, $18,540.

Outstanding Equity Awards at Fiscal Year-End

The following table shows the unexercised stock options and unvested restricted stock awards held at the end of fiscal year 2007 by the executive officers named in the Executive Compensation Table.

	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock Held That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Antonio B. Mon	246,001(1)(2)	643,160(1)(2)	9.16	12/31/2012		
	428,097(1)(3)		9.16	12/31/2012		
	658,636(1)(4)		10.08	12/31/2012		
	658,636(1)(5)		11.09	12/31/2012		
	658,639(1)(6)		12.20	12/31/2012		
	661,970		23.62	12/31/2017		
		661,970(7)	23.62	12/31/2018		
Stephen Wagman		16,666(8)	10.05	02/16/2017		
		16,666(8)	10.05	02/16/2018		
		16,667(8)	10.05	02/16/2019		
George Yeonas			n/a	n/a		
Mark Upton	9,375		10.08	03/03/2013		
	18,750		10.61	03/03/2013		
	18,750		11.14	03/03/2013		
	18,750		11.67	03/03/2013		
		18,750(9)	12.20	03/03/2013		

John Kraynick	9,375		17.25	03/03/2014
	9,375		18.98	03/03/2014
	9,375		20.88	03/03/2014
		9,375(9)	22.96	03/03/2014
		9,375(9)	25.25	03/03/2014
Harry Engelstein	7,500		10.61	03/03/2013
	7,500		11.14	03/03/2013
	7,500		11.67	03/03/2013
		7,500(9)	12.20	03/03/2013
	11,250		17.25	03/03/2014
	11,250		18.98	03/03/2014
	11,250		20.88	03/03/2014
		11,250(9)	22.96	03/03/2014
		11,250(9)	25.25	03/03/2014

(1) As a result of various gifts and transfers for estate planning purposes, Mr. Mon has transferred stock options to various family-controlled entities. The total set forth above includes (i) 622,749 shares issuable upon exercise of stock options that have already vested that are beneficially owned by Maywood Investment Company, LLC (MIC), (ii) 967,307 shares issuable upon exercise of stock options that have

already vested that are beneficially owned by a trust for the benefit of Mr. Mon s adult children (the Trust), and (iii) 1,059,953 shares issuable upon exercise of stock options that have already vested that are beneficially owned by Maywood Capital, LLC (MC). Mr. Mon is not the managing member of MIC, nor does he own or control majority of the membership interests in MIC, and, accordingly, he disclaims beneficial ownership of the stock options owned by MIC. Mr. Mon disclaims beneficial ownership of the stock options held by the Trust, and, although he has a pecuniary interest in MC, he also disclaims beneficial ownership of the stock options held by MC.

(2) These options fully vest on December 31, 2009. However, these options are subject to accelerated vesting, in accordance with the following schedule, depending on whether and to what extent the Company s common stock price exceeds the average common stock price of a specified peer group at the end of each performance period: 246,000 of 296,387 vested on December 31, 2004, none of 296,387 vested on December 31, 2005, and none of 296,387 vested on December 31, 2006.

(3) These non-qualified options were immediately available on the grant date of December 31, 2002.

(4) These non-qualified options vested on January 1, 2003.

(5) These non-qualified options vested on January 1, 2004.

(6) These non-qualified options vested on January 1, 2005.

(7) These non-qualified stock options vest on December 31, 2008.

(8) Mr. Wagman s employment was voluntarily terminated on January 18, 2008. None of Mr. Wagman s shares had vested as of the date of termination.

(9) Mr. Upton, Mr. Kraynick and Mr. Engelstein voluntarily terminated their employment on December 31, 2007. Pursuant to the Amended and Restated Annual Long-Term Incentive Plan, the terminated optionees have three months from the date of termination to exercise their vested options. Any unvested options are cancelled effective the date of termination.

Employment Agreements

Antonio B. Mon

Effective July 26, 2003, Antonio B. Mon and the Company entered into an Amended and Restated Employment Agreement with a term ending on December 31, 2008. Pursuant to that agreement, Mr. Mon serves as our Chief Executive Officer, President, and Executive Vice Chairman, as well as one of our directors. The agreement provides that Mr. Mon will receive an initial base salary of $968,000 with annual increases of a minimum of 10% per year. Effective October 1, 2007, Mr. Mon waived his right to these increases and also waived his right to the remaining balance of $250,000 of his annual bonus of $1,000,000. Mr. Mon has also agreed to limit his right to reimbursement for financial and estate planning, tax advice and related legal costs to $10,000 in 2008 as opposed to the $42,350 to which he was contractually entitled. The employment agreement also allows Mr. Mon to use a corporate automobile and a corporate apartment located in Fort Lauderdale, Florida. In October 2007, Mr. Mon exercised his option to purchase the apartment at the Company s original cost. On January 13, 2006, Mr. Mon s employment agreement was amended (the Amendment) to replace the provisions in Mr. Mon s then-existing employment agreement that granted Mr. Mon the right to receive an equity incentive compensation grant in each of 2007 and 2008 in an amount equal to one percent (1%) of the Company s then outstanding shares on a fully-diluted basis. Although the form of the equity incentive compensation was to be mutually agreed upon by Mr. Mon and the Company, the employment agreement provided that the equity incentive compensation grant was to be the economic equivalent of options to purchase shares of the Company s common stock with exercise prices (subject to specified adjustments) of $16.23 for the 2007 grant and $17.85 for the 2008 grant, vesting one year from the grant date and exercisable for ten years. If the equity incentive compensation contemplated in Mr. Mon s employment agreement were granted in the form of stock options having the terms described above, the Company s ability to deduct the compensation expense associated with such equity incentive compensation could be limited by the provisions of Section 162(m) of the Internal Revenue Code.

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In order to avoid the potential for a loss of deductibility to the Company, and to address the impact of the provisions of Section 409A of the Code (which was adopted subsequent to the Company s agreement to make the equity incentive compensation grants described above), the Amendment provides that in lieu of the foregoing equity incentive compensation, the Company granted Mr. Mon an option to purchase 1,323,940 shares of the Company s common stock (which equals approximately 2% of the Company s outstanding common stock on a fully-diluted basis as of December 31, 2005) (the 2006 Option Grant). The Company also agreed to pay Mr. Mon an additional cash bonus for 2006 of $8,711,525 (the Additional 2006 Bonus) upon satisfaction of certain criteria intended to satisfy the requirements of Section 162(m) of the Code. The criteria were not met and the payment was not made. The options have an exercise price of $23.62 per share (which was the closing price of a share of the Company s common stock on the New York Stock Exchange on January 13, 2006) and vest in equal installments on December 31, 2007 and December 31, 2008, subject to acceleration in the event that Mr. Mon is terminated by the Company for any reason other than cause or if Mr. Mon terminates his employment for good reason. The options are exercisable for ten years from the date of vesting.

On July 24, 2007, the Committee adopted the 2007 CEO Annual Incentive Bonus Plan which is applicable to Mr. Mon. The plan is designed to reward, through additional cash compensation, the CEO for his contributions related to the Company s recapitalization and restructuring of the Transeastern Joint Venture. Pursuant to the plan, the target annual incentive bonus for 2007 is $4.5 million (the Target Award). Fifty percent of the Target Award is earned if, and only if, the Committee in good faith determines that the Company (i) has completed the Transeastern transactions by December 31, 2007 and (ii) is not, as of December 31, 2007, in default of a financial covenant or other material provision under any financing arrangements to which we are a party as of July 24, 2007 (the Compliance Target). The other fifty percent of the Target Award (the EBITDA Target) is earned, if, and only if, the Committee in good faith determines that the Company has met a specified EBITDA target for calendar year 2007. In the event the Committee determines in good faith that the Company has exceeded the EBITDA Target for 2007, the CEO is entitled to an additional bonus payment in an amount equal to 1.5% of the amount by which the Company s EBITDA for 2007 exceeds the EBITDA Target.

Mr. Mon and the Company have agreed that the Compliance Target has not been met. The Committee has determined that the EBITDA target has been met and the Company has recorded the liability. However, the obligation is prepetition and any recovery will be part of the bankruptcy claims process.

On May 23, 2008, the Company and Mr. Mon entered into an Executive Vice Chairman Agreement. Subject to the terms of the agreement, effective with the filing of this Annual Report on Form 10-K, Mr. Mon has relinquished the position of Chief Executive Officer and President and will remain in his position as Executive Vice Chairman of TOUSA s Board of Directors for so long as he is a director of the Company and until the earliest to occur of December 31, 2008, the effective date of the Company s plan of reorganization submitted in connection with the Company s and its subsidiaries Chapter 11 cases and thirty (30) days following the delivery of written notice from the Company or Mr. Mon indicating an intention to terminate the Agreement. The agreement provides that Mr. Mon s current salary decreased to $300,000 per annum commencing August 1, 2008.

George Yeonas

Mr. Yeonas employment with the Company is governed by an employment agreement dated January 1, 2008. The agreement provides for an annual salary of seven hundred and fifty thousand dollars ($750,000) and an annual bonus of one hundred percent (100%) of Mr. Yeonas annual salary, subject to the approval of the Board of Directors or relevant Board Committee. If Mr. Yeonas employment is terminated by the Company without cause or by Mr. Yeonas for good reason, Mr. Yeonas will be entitled to receive (i) his base salary for the greater of one year or the remainder of the agreement term (as it may be extended from time to time), (ii) a bonus for the year of termination calculated in accordance with the terms of the employment agreement, (iii) an additional bonus for one year equal to the bonus paid pursuant to (ii) above, (iv) the value of any benefits and perquisites that would have been provided during the remainder of the agreement term, and (v) any Accrued Obligations. If Mr. Yeonas employment is terminated for cause or if Mr. Yeonas resigns, he is entitled to receive any Accrued Obligations. If Mr. Yeonas employment is terminated due to disability or death, he or his estate is entitled to receive any Accrued Obligations, plus a pro-rated bonus for the year of termination. In addition, the employment agreement provides Mr. Yeonas the right to terminate the employment agreement in the event of a change of control of the Company.

Stephen Wagman

Mr. Wagman entered into an agreement with the Company to terminate his existing employment agreement and to act as a consultant through the end of May 2008. The agreement provides for mutual releases (including certain amounts otherwise owed to Mr. Wagman), continuation of confidentiality requirements, a payment to Mr. Wagman of $212,333 and earned vacation pay, and COBRA reimbursement during the four month period.

John Kraynick

On January 13, 2006, the Company entered into a new employment agreement with John Kraynick pursuant to which he served as Senior Vice-President of Land for the Company s homebuilding operations. Pursuant to the agreement, Mr. Kraynick was entitled to receive an initial annual base salary of $500,000, subject to adjustment in subsequent years based on Mr. Kraynick s performance, Company operating results and industry practices, and was eligible to earn an annual performance-based bonus. The 2007 bonus target was $3.0 million comprised of the following four factors and one discretionary component each worth $600,000: (1) achieve 80% of annual business plan; (2) achieve 10% Return On Assets; (3) achieve 80% of 2006 sales in 2007; (4) reorganization incentive; and (5) receive 0.1% of pre-tax earnings. For 2006, Mr. Kraynick s bonus was calculated by multiplying a Bonus Percentage by a Bonus Factor. The Bonus Factor was determined by multiplying our annual net income by 0.45%. The Bonus Percentage was based on our Return on Equity (ROE). ROE was calculated by dividing our annual net income by the average of our total stockholder equity as of the beginning of the fiscal year and the end of each month of the fiscal year, excluding any amounts raised from a public offering during that year.

On December 31, 2007, the employment agreement with Mr. Kraynick was terminated. Mr. Kraynick received a severance payment in 2008 of $111,111 plus earned vacation pay. He also received title to a Company car with a book value of $10,000.

Mark Upton

Effective January 1, 2005 the Company and Mr. Upton entered an employment agreement pursuant to which he served as an Executive Vice President of our homebuilding operations. The agreement expired on, and Mr. Upton s employment with the Company terminated, December 31, 2007.

Harry Engelstein

Effective December 1, 2004, the Company and Mr. Engelstein entered into an employment agreement pursuant to which he served as Senior Executive Vice President of our homebuilding operations. The agreement expired on December 31, 2006 and was automatically renewed for one year on the same terms and conditions. Mr. Engelstein s employment with the Company terminated December 31, 2007. Mr. Engelstein received a severance payment in 2008 of $130,000 and earned vacation pay.

Provisions in the Employment Agreements Generally

Each of the employment agreements described above also contains non-compete and non-disclosure provisions in the event of the respective officer s termination of employment.

Potential Payments upon Termination or Change in Control

Upon a termination by Mr. Yeonas following a change of control, Mr. Yeonas will be entitled to receive a termination payment equal to (a) his base salary for the greater of one year or the remainder of the agreement

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term and (b) a bonus payment for the year of termination calculated in accordance with the terms of the employment agreement, (c) an additional bonus for one year equal to the bonus paid pursuant to (b) above, (d) the value of any benefits and perquisites that would have been provided during the remainder of the agreement term, and (e) any Accrued Obligations.

Equity Compensation Plan Information

The following table gives information about our common stock that may be issued upon the exercise of options, warrants, and rights under all existing equity compensation plans as of December 31, 2007.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders	7,620,019	$ 12.89	271,609
Equity compensation plans not approved by security holders			
Total	7,620,019	$ 12.89	271,609

Director Compensation

During 2007 our outside directors (which we consider to be those directors who are not officers of the Company, TOSA, or their affiliates), other than the Senior Outside Director, received an annual fee of $60,000, an annual equity award of either nonqualified stock options or restricted stock valued at $60,000, and reimbursement of reasonable out-of-pocket expenses incurred for attendance at Board and Board committee meetings. Effective January 1, 2008, each of our directors, other than Messrs. Mon and McAden, will receive all of their compensation in cash payable on a quarterly basis. Neither Mr. Mon nor Mr. McAden is paid any director s fees. Under our policy, Mr. Horner, our designated Senior Outside Director for 2007, received an annual cash retainer of $120,000, an annual equity award of either nonqualified stock options or restricted stock valued at $120,000, and reimbursement of reasonable out-of-pocket expenses incurred for attendance at Board and Board Committee meetings. Mr. Horner has been designated our Senior Outside Director for fiscal year 2008. As chairperson of the Audit Committee for 2007, Mr. Hasler received an additional annual fee of $20,000, and as chairperson of the Human Resources, Compensation, and Benefits Committee for 2007, Mr. Poulos received an additional annual fee of $10,000. The Company owned and maintained a condominium and leased a car in Miami, Florida for the exclusive use of the members of the Board of Directors of the Company in 2007. In 2008, the condominium and car were sold to an entity controlled by the Stengos family. The aggregate incremental cost to the Company in 2007 of providing the condominium and car was approximately $27,000.

The following table shows the compensation of the members of our Board of Directors during fiscal year 2007.

	Fees Earned or Paid in Cash(1)	Stock Awards(2)	Option Awards(3)	Total
William Hasler	$ 80,000		$ 60,000	$ 140,000
Larry D. Horner	$ 120,000		$ 120,000	$ 240,000
Susan B. Parks	$ 60,000	$ 59,992		$ 119,992
Michael Poulos	$ 70,000	$ 59,992		$ 129,992
J. Bryan Whitworth	$ 60,000		$ 60,000	$ 120,000

(1) With respect to Mr. Horner, includes $60,000 paid for services as Senior Outside Director of the Board. With respect to Messrs. Hasler and Poulos, includes $20,000 and $10,000, respectively, paid to each for service as a committee chairperson.

(2) Each of Susan B. Parks and Michael Poulos received 6,825 shares of restricted stock in 2007. Calculation was based on the $8.79 closing price of our Common Stock on March 2, 2007, the date of grant.

(3) Fair value of the stock option grants are estimated using the Black-Scholes option-pricing model. Mr. Horner received 44,776 options and each of J. Bryan Whitworth and William Hasler received 22,388 options based on a Black-Scholes value of $2.68 with an exercise price equal to the $8.79 closing price of our Common Stock on March 2, 2007, the date of grant. Each stock option grant vests ratably over a 12 month period beginning on the date of grant.

The directors held options as of December 31, 2007, as follows:

	Vested Options	Unvested Options
William Hasler	46,020	5,597
Larry D. Horner	33,582	11,194
Susan B. Parks		
Michael Poulos		
J. Bryan Whitworth	32,862	5,597

Compensation Committee Interlocks and Insider Participation

Messrs. Poulos and Horner, and Ms. Parks comprised the Human Resources, Compensation, and Benefits Committee during the fiscal year 2007. None of these persons is currently serving or has previously served as an officer or employee of ours or any of our subsidiaries. There were no material transactions between us and any of the members of the Human Resources, Compensation, and Benefits Committee during fiscal year 2007.

ITEM 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table sets forth certain information as of March 3, 2008, regarding beneficial ownership of our common stock by

each person (or group of affiliated persons) who we know to beneficially own more than 5% of the outstanding shares of our common stock;

each of our current directors and our Named Executive Officers (as defined below); and

all of our current executive officers and directors as a group.

The percentage of beneficial ownership is based on 59,604,169 shares of our common stock outstanding on March 3, 2008.

This table is based on information supplied to us by our executive officers, directors, and principal stockholders and information filed with the Commission.

Name and Address of Beneficial Owner:	Amount and Nature of Beneficial Ownership[(1)]	Percent Owned[(1)]
Common Stock:		
Technical Olympic S.A.[(2)]	39,899,975	66.94%
Konstantinos Stengos	338,124(3)	*
Antonio B. Mon	3,316,979(4)	5.27%
Andreas Stengos	291,249(3)	*
George Stengos	285,249(3)	*
Marianna Stengou	301,999(3)	*
Larry D. Horner	70,342(5)	*
William A. Hasler	54,167(6)	*
Michael J. Poulos	19,606	*
Susan B. Parks	13,148	*
J. Bryan Whitworth	40,709(7)	*
Tommy L. McAden	675,224(8)	1.12%
John Kraynick	37,500(9)	*
Mark Upton	37,500(9)	*
Harry Engelstein	75,000(9)	*
Stephen Wagman		*
All directors and executive officers as a group (19 persons)	5,579,088	8.12%

Except as otherwise indicated, the address of each person named in this table is c/o TOUSA, Inc., 4000 Hollywood Boulevard, Suite 500 N, Hollywood, Florida 33021.

* Less than one percent.

(1) The amounts and percentage of common stock beneficially owned are reported on the basis of regulations of the Commission. Under the rules of the Commission, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or direct the voting of the security, or investment power, which includes the power to dispose of or direct the disposition of the security. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. In addition, in determining the number and percentage of shares beneficially owned by each person, shares issuable pursuant to options exercisable within 60 days after April 9, 2007, are deemed outstanding for purposes of determining the total number outstanding for such person and are not deemed outstanding for such purpose for all other stockholders. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest.

(2) The principal business address of Technical Olympic S.A. is 20 Solomou Street, Alimos, Athens, Greece, 17456. Mr. Konstantinos Stengos owns more than 5% of the outstanding stock of Technical Olympic S.A.

(3) Includes 281,249 shares issuable upon exercise of stock options that have already vested.

(4) As a result of various gifts and transfers for estate planning purposes, Mr. Mon has transferred stock options to various family-controlled entities. The total set forth above includes (i) 622,749 shares issuable upon exercise of stock options that have already vested that are beneficially owned by Maywood Investment Company, LLC (MIC), (ii) 967,307 shares issuable upon exercise of stock options that have already vested that are beneficially owned by a trust for the benefit of Mr. Mon s adult children (the

Trust), (iii) 1,059,953 shares issuable upon exercise of stock options that have already vested that are beneficially owned by Maywood Capital, LLC (MC), and (iv) 661,970 shares issuable upon exercise of stock options that have already vested that are beneficially owned by Mr. Mon. Mr. Mon is not the managing member of MIC, nor does he own or control majority of the membership interests in MIC, and, accordingly, he disclaims beneficial ownership of the stock options owned by MIC. Mr. Mon disclaims beneficial ownership of the stock options held by the Trust, and, although he has a pecuniary interest in MC, he also disclaims beneficial ownership of the stock options held by MC.

(5) Includes 44,776 shares issuable upon exercise of stock options that have already vested.

(6) Includes 51,617 shares issuable upon exercise of stock options that have already vested.

(7) Includes 38,459 shares issuable upon exercise of stock options that have already vested.

(8) Includes 675,099 shares issuable upon exercise of stock options that have already vested.

(9) All shares issuable upon exercise of stock options that have already vested.

Security Ownership of Principal Stockholders

The following table sets forth information with respect to any person who is known to be the beneficial owner of more than 5% of the Company s Common Stock or 8% Series A Converitble Pay-in-Kind Preferred Stock on March 31, 2007.

Name and Address	**Number of Shares and Nature of Beneficial Ownership**	**Percent of Outstanding Shares**
Technical Olympic S.A. 20 Solomou Street Athens, Greece 17456	39,899,975 shares of Common Stock	66.94%
8% Series A Convertible Pay-In-Kind Preferred Stock:		
Deutsche Bank Trust Companies of America	77,200[1]	44.58%

(1) Represents 77,200 shares of 8% Series A Convertible Pay-In-Kind Preferred Stock which are convertible into, and have voting rights equivalent to 47,950,311 shares of our common stock.

ITEM 13. ***Certain Relationships and Related Transactions***

Management Services Agreement

In June 2003, we entered into an Amended and Restated Management Services Agreement with TOI, our former parent company, and in connection with an October 2003 restructuring transaction, TOI assigned its obligations and rights under the Amended and Restated Management Services Agreement to TOSI, a Delaware corporation wholly owned by TOSA. Under the Amended and Restated Management Services Agreement, TOSI provided consultation with and assistance to our Board of Directors and management in connection with issues involving our business, as well as other services requested from time to time by our Board of Directors. In consideration for providing such services, the agreement requires us to pay TOSI an annual management fee of $500,000 and, to the extent our net income for any fiscal year meets established targets, additional annual incentive fees, which may not exceed $3.0 million. Pursuant to the agreement, we have agreed to indemnify TOSI for any liability incurred by it as a result of the performance of its duties other than any liability resulting from TOSI s gross negligence or willful misconduct. We may terminate the agreement upon six months prior written notice. For the years ended December 31, 2006 and December 31, 2007, we have made payments of $500,000 and $500,000, respectively, to TOSI under this agreement. The agreement expired on December 31, 2007.

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Purchasing Agreements

In order to consolidate the purchasing function, we and our subsidiary TOUSA Homes, Inc. entered into non-exclusive purchasing agreements with TOSA in November 2000. Under the purchasing agreements, TOSA would purchase certain materials and supplies necessary for operations on our respective behalves and provide them to us at cost. No additional fees or other consideration are paid to TOSA. These agreements may be terminated upon 60 days prior notice. TOSA purchased an aggregate of $304.3 million of materials and supplies on our behalf for the year ended December 31, 2007.

Certain Land Bank Transactions

We have sold certain undeveloped real estate parcels to, and entered into a number of agreements (including option contracts and construction contracts) with, Equity Investments, LLC, a limited liability company controlled by Alec Engelstein, Harry Engelstein s brother. We made payments of approximately $8.47 million to Equity Investments, LLC pursuant to these agreements during the year ended December 31, 2007, and, as of December 31, 2007, had options to purchase from Equity Investments, LLC additional lots for a total aggregate sum of approximately $4.1 million. We believe that the terms of these various agreements approximate those that we would have received in transactions with unrelated third parties.

Other Transactions

During 2007, Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida have provided the Company with materials and interior design services for our model homes at a cost of $1,274,080. The owner of Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida is the daughter of Mr. Harry Engelstein, the former Chairman of TOUSA Homes, Inc. through December 31, 2007. We believe that all transactions with Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida have been on reasonable commercial terms.

Pursuant to the terms of his 2003 employment agreement, on October 17, 2007, Antonio B. Mon, our President and Chief Executive Officer, exercised his option to purchase the condominium in Fort Lauderdale, Florida that was provided to him under his agreement. The purchase price was $950,000, as set forth in his employment agreement.

On January 9, 2008, an entity controlled by the Stengos family, certain of whom are directors of our company, acquired a condominium owned by the Company in Miami, Florida. The condominium unit has an appraised value of $1.3 million. In light of the absence of any broker s commission and an immediate cash closing, we sold the condominium for $1.2 million.

Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics covers a wide range of business practices and procedures. The Code is just one part of our comprehensive compliance program. It is designed to supplement, not be a substitute for, other policy statements and compliance documents which may be published from time to time by TOUSA and its subsidiaries. The Code applies to all of our directors, the Principal Executive Officer, the Principal Financial Officer, the Principal Accounting Officer, the Controller, and any other officers, associates, agents and representatives, including consultants. The Code requires that each individual deal fairly, honestly and constructively with governmental and regulatory bodies, customers, suppliers, and competitors, and it prohibits any individual s taking unfair advantage through manipulation, concealment, abuse of privileged information, or misrepresentation of material fact. Further, it imposes an express duty to act in our best interests and to avoid influences, interests or relationships that could give rise to an actual or apparent conflict of interest. Conflicts of interest are prohibited as a matter of policy, except under guidelines approved by the Board of Directors. Conflicts of interest may not always be clear-cut, so if there is ever a question, associates are instructed to consult with higher levels of management or the Chief of Staff. There can be no waiver of any part of this Code for any director or officer except by a vote of the Board of Directors or a designated board committee that will ascertain whether a waiver is appropriate under all the circumstances. In case a waiver of this Code is granted to a director or officer, notice of such waiver will be posted on our website

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within five days of the Board of Director s vote or will be otherwise disclosed as required by applicable law. We granted no waivers under our Code in 2007. A copy of the Code is posted on our website at www.tousa.com.

Independence

As of the record date, TOSA owned 67% of our outstanding common stock. Although our securities will no longer list on the New York Stock Exchange as of May 13, 2008, under its corporate governance standards, we would be a controlled company. In the past, we elected to take advantage of the controlled company exemption as permitted under Section 303A.00 of the NYSE Listed Company Manual. As a controlled company, we were not currently required to have independent directors comprise a majority of our Board of Directors, nor were we required to have a nominating/corporate governance committee and compensation committee comprised entirely of independent directors. The Board of Directors has determined, however, that Messrs. Horner, Hasler, Poulos, and Whitworth, and Ms. Parks each meet the standards of independence set forth in the corporate governance standards of the NYSE.

Family Relationships

Konstantinos Stengos is the father of Andreas Stengos, George Stengos, and Marianna Stengou. We have no other familial relationships among the executive officers and directors.

ITEM 14. *Principal Accounting Fees and Services*

Independent Registered Public Accounting Firm Fees

The aggregate fees billed to TOUSA for the years ended December 31, 2006 and 2007, by our independent registered public accounting firm, Ernst & Young LLP, are as follows:

Audit Fees: The aggregate fees for professional services rendered by Ernst & Young LLP in connection with (i) the audit of our annual consolidated financial statements (Form 10-K), (ii) the audit of the Company s internal controls over financial reporting in compliance with Section 404 of the Sarbanes Oxley Act of 2002 (Section 404), (iii) reviews of our quarterly financial statements (Forms 10-Q), (iv) assisting us with the preparation and review of our various documents relating to securities offerings, including the preparation of comfort letters, (v) evaluating the effects of various accounting issues and changes in professional standards, (vi) statutory audit of a subsidiary and unconsolidated Engle/Sunbelt Holdings, LLC joint venture, and (vii) assistance with the review of documents filed with the Securities and Exchange Commission including staff comment letters and Securities and Exchange Act of 1934 amended filings were approximately $2.5 million and $3.8 million, respectively.

Audit Related Fees: The aggregate fees for professional services rendered by Ernst & Young LLP for services reasonably related to the performance of the audit and review of our financial statements, including (i) providing us accounting consultations and (ii) assisting us in documenting internal control policies with respect to information systems and other business processes during the years ended December 31, 2006 and 2007, were approximately $100,000 and $40,000, respectively.

Tax Fees: The aggregate fees for professional services rendered by Ernst & Young LLP for tax compliance, tax advice, and tax planning during the years ended December 31, 2006 and 2007 were approximately $500,000 and $1.4 million, respectively.

All Other Fees: No other fees for professional services, not included in audit fees, audit related fees and tax fees above, were paid to Ernst & Young LLP during the fiscal years ended December 31, 2006 and December 31, 2007.

Ernst & Young LLP advised the Audit Committee that it did not believe its independence was impaired by providing such services. As a result, Ernst & Young LLP confirmed that, as of December 31, 2007, it was independent with respect to the Company within the meaning of the Securities Act of 1933 and the requirements of the Independence Standards Board.

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Pre-Approval Policies and Procedures for Audit and Permitted Non-Audit Services

The Audit Committee has developed policies and procedures requiring the Audit Committee s pre-approval of all audit and permitted non-audit services to be rendered by Ernst & Young LLP. These policies and procedures are intended to ensure that the provision of such services does not impair Ernst & Young s independence. These services may include audit services, audit related services, tax services, and other services. Pre-approval is generally provided for a period of a fiscal year and any pre-approval is detailed as to the particular service or category of service approved and is generally subject to a specific cap on professional fees for such services.

The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve services to be rendered by Ernst & Young LLP and requires that the Chairman report to the Audit Committee any pre-approval decisions made by him at the next scheduled meeting of the Audit Committee. In connection with making any pre-approval decisions, the Audit Committee and the Chairman must consider whether the provision of such permitted non-audit services by Ernst & Young LLP is consistent with maintaining Ernst & Young s status as our independent registered public accounting firm.

Consistent with these policies and procedures, the Audit Committee approved all of the services rendered by Ernst & Young LLP during fiscal year 2007, as described above.

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

Documents filed as part of this report:

(1) *Financial Statements*

See Item 8. Financial Statements and Supplementary Data for Financial Statements included with this Annual Report on Form 10-K.

(2) *Financial Statement Schedules*

Schedules are omitted because they are not applicable; not required or the information required to be set forth therein is included in the consolidated financial statements referenced above in section (1) of this Item 15.

(3) *Exhibits*

Number	Exhibit Description
3.1	Certificate of Incorporation of Newark Homes Corp. (incorporated by reference to the Form 8-K, dated March 23, 2001, previously filed by the Registrant).
3.2	Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to the Registration Statement on Form S-4 previously filed by the Registrant (Registration Statement No. 333-100013)).
3.3	Amended and Restated Bylaws (incorporated by reference to the Registration Statement on Form S-4 previously filed by the Registrant. (Registration Statement No. 333-100013)).
3.4	Certificate of Amendment to the Certificate of Incorporation, dated April 28, 2004 (incorporated by reference to the Form 10-Q for the quarter ended March 31, 2004, previously filed by the Registrant).

3.5	Certificate of Amendment to the Certificate of Incorporation, dated July 30, 2007 (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
3.6	Certificate of Designation, Powers, Preferences and Rights of 8% Series A Convertible Pay-In-Kind Preferred Stock, dated as of July 31, 2007 (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
3.7	Amendment No. 1 to the Bylaws of TOUSA, Inc. (incorporated by reference to the Form 10-Q, for the quarter ended September 30, 2007, previously filed by the Registrant).

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Number	Exhibit Description
4.1	Indenture, dated as of June 25, 2002, by and among TOUSA, Inc. and the subsidiaries named therein and Wells Fargo Bank Minnesota, National Association, as Trustee covering up to $200,000,000 9% Senior Notes due 2010 (incorporated by reference to the Form 8-K, dated July 9, 2002, previously filed by the Registrant).
4.2	Indenture, dated as of June 25, 2002, by and among TOUSA, Inc., the subsidiaries name therein and Wells Fargo Bank Minnesota, National Association, as Trustee covering up to $150,000,000 103/8% Senior Subordinated Notes due 2012 (incorporated by reference to the Form 8-K, dated July 9, 2002, previously filed by the Registrant).
4.3	Form of TOUSA, Inc. 9% Senior Note due 2010 (included in Exhibit A to Exhibit 4.1) (incorporated by reference to the Form 8-K, dated July 9, 2002, previously filed by the Registrant).
4.4	Form of TOUSA, Inc. 103/8% Senior Subordinated Note due 2012 (included in Exhibit A of Exhibit 4.2) (incorporated by reference to the Form 8-K, dated July 9, 2002, previously filed by the Registrant).
4.6	Specimen of Stock Certificate of TOUSA, Inc. (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8 previously filed by the Registrant (Registration No. 333-99307)).
4.7	Indenture for the 9% Senior Notes due 2010, dated as of February 3, 2003, among TOUSA, Inc., the subsidiaries named therein, Salomon Smith Barney Inc., Deutsche Bank Securities Inc., Fleet Securities, Inc. and Credit Lyonnais Securities (USA) Inc. (incorporated by reference to Exhibit 4.13 to the Form 10-K for the year ended December 31, 2002, previously filed by the Registrant).
4.8	Form of TOUSA, Inc. 9% Senior Note due 2010 (included in Exhibit A to Exhibit 4.7) (incorporated by reference to Exhibit 4.13 to the Form 10-K for the year ended December 31, 2002, previously filed by the Registrant).
4.9	TOUSA, Inc. 103/8% Senior Subordinated Note due 2012, dated as of April 22, 2003, in the amount of $35,000,000 (incorporated by reference to Exhibit 4.19 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration Statement No. 333-106537)).
4.10	Indenture for the 71/2% Senior Subordinated Notes due 2011, dated as of March 17, 2004, among TOUSA, Inc., the subsidiaries named therein and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.24 to the Registration Statement on Form S-4 previously filed by the Registrant (Registration Statement No. 333-114587)).
4.11	Form of TOUSA, Inc. 71/2% Senior Subordinated Note due 2011 (included in Exhibit A to Exhibit 4.10) (incorporated by reference to Exhibit 4.24 to the Registration Statement on Form S-4 previously filed by the Registrant (Registration Statement No. 333-114587)).
4.12	Indenture for the 71/2% Senior Subordinated Notes due 2015, dated as of December 21, 2004, among TOUSA, Inc., the subsidiaries named therein and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to the Registration Statement on Form S-4 previously filed by the Registrant (Registration Statement No. 333-122450)).
4.13	Form of TOUSA, Inc. 71/2% Senior Subordinated Note due 2015 (included in Exhibit A to Exhibit 4.12) (incorporated by reference to the Registration Statement on Form S-4 previously filed by the Registrant (Registration Statement No. 333-122450)).
4.14	Indenture for the 14.75% Senior Subordinated PIK Election Notes due 2015, dated as of July 31, 2007, among TOUSA, Inc., the subsidiaries named therein and Wells Fargo Bank, N.A., as Trustee (included in Exhibit A to Exhibit 4.14) (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
4.15	Form of TOUSA, Inc. Senior Subordinated PIK Election Notes due 2015 (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
4.16	Stock Purchase Warrant dated July 31, 2007 (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).

4.17	Registration Rights Agreement dated July 31, 2007 (8% Series A Convertible Pay-In-Kind Preferred Stock) (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).

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Number	Exhibit Description
4.18	Registration Rights Agreement dated July 31, 2007 (14.75% Senior Subordinated PIK Election Notes due 2015) (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
4.19	Registration Rights Agreement dated July 31, 2007 (Stock Purchase Warrant) (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
10.1(1)	Form of Indemnification Agreement (incorporated by reference to the Form 10-K for the year ended December 31, 2003, previously filed by the Registrant).
10.2(1)	Amended and Restated Employment Agreement between TOUSA, Inc. and Antonio B. Mon dated January 27, 2004, effective as of July 26, 2003 (incorporated by reference to Exhibit 10.9 to the Form 10-K for the year ended December 31, 2003, previously filed by the Registrant).
10.3(1)	Employment Agreement between TOUSA, Inc. and Tommy L. McAden dated July 12, 2002, effective June 25, 2002 (incorporated by reference to Exhibit 10.10 to the Form 10-Q for the quarter ended June 30, 2002, previously filed by the Registrant).
10.4(1)	TOUSA, Inc. Annual and Long-Term Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.5 to the Form 10-K for the fiscal year ended December 31, 2004, previously filed by the Registrant).
10.5	Contractor Agreement, effective as of November 6, 2000, between TOUSA, Inc. (f/k/a Newmark Homes Corp.) and Technical Olympic S.A. (incorporated by reference to Exhibit 10.26 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration No. 333-106537)).
10.6	Supplemental Contractor Agreement, effective as of January 4, 2001, between TOUSA, Inc. (f/k/a Newmark Homes Corp.) and Technical Olympic S.A. (incorporated by reference to Exhibit 10.27 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration Statement No. 333-106537)).
10.7	Contractor Agreement, effective as of November 22, 2000, between TOUSA Homes, Inc. (f/k/a Engle Homes, Inc.) and Technical Olympic S.A. (incorporated by reference to Exhibit 10.28 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration Statement No. 333-106537)).
10.8	Supplemental Contractor Agreement, effective as of January 3, 2001, between TOUSA Homes, Inc. (f/k/a Engle Homes Inc.) and Technical Olympic S.A. (incorporated by reference to Exhibit 10.29 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration Statement No. 333-106537)).
10.9	Amended and Restated Management Services Agreement, dated as of June 13, 2003, between TOUSA, Inc. and Technical Olympic, Inc. (incorporated by reference to Exhibit 10.33 to the Registration Statement on Form S-1 previously filed by the Registrant (Registration Statement No. 333-106537)).
10.10(1)	Employment Agreement, dated as of May 1, 2004, between David J. Keller and TOUSA, Inc. (incorporated by reference to Exhibit 10.44 to the Form 10-Q for the quarter ended June 30, 2004, previously filed by the Registrant).
10.12	Revolving Credit and Security Agreement, dated as of October 22, 2004, among Preferred Home Mortgage Company and Countrywide Warehouse Lending (incorporated by reference to Exhibit 10.46 to the Form 10-Q for the quarter ended December 31, 2004, previously filed by the Registrant).
10.13(1)	TOUSA, Inc. Executive Savings Plan, effective as of December 1, 2004, comprised of the Basic Plan Document and the Adoption Agreement (incorporated by reference to Exhibit 99.1 to the Form 8-K, dated November 30, 2004, previously filed by the Registrant).
10.14(1)	

	Addendum to TOUSA, Inc. Executive Savings Plan, effective as of December 1, 2004 (incorporated by reference to Exhibit 99.2 to the Form 8-K, dated November 30, 2004, previously filed by the Registrant).
10.15[(1)]	Term Sheet for the Performance Unit Program under the TOUSA, Inc. Annual and Long-Term Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.21 to the Form 10-K, dated March 11, 2005, previously filed by the Registrant).

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Number	Exhibit Description
10.16[1]	Employment Agreement, dated as of February 16, 2005, by and between TOUSA Associates Services Company and Harry Engelstein (incorporated by reference to Exhibit 10.22 to the Form 8-K, dated February 16, 2005, previously filed by the Registrant).
10.17[1]	Employment Agreement, dated as of February 16, 2005, by and between TOUSA Associates Services Company and Mark Upton (incorporated by reference to Exhibit 10.23 to the Form 8-K, dated February 16, 2005, previously filed by the Registrant).
10.19[1]	Employment Agreement, dated as of January 1, 2004, between TOUSA Associates Services Company and John Kraynick (incorporated by reference to Exhibit 10.25 to the Form 10-K for the fiscal year ended December 31, 2004, previously filed by the Registrant).
10.20[1]	Form of Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.26 to the Form 8-K, dated March 3, 2005, previously filed by the Registrant).
10.21[1]	Form of Director Restricted Stock Grant Agreement (incorporated by reference to Exhibit 10.27 to the Form 10-K for the fiscal year ended December 31, 2004, previously filed by the Registrant).
10.22[1]	Form of Associate Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.28 to the Form 10-K for the fiscal year ended December 31, 2004, previously filed by the Registrant).
10.23[1]	Policy for Compensation of Outside Directors of TOUSA, Inc. (incorporated by reference to Exhibit 10.30 to the Form 10-Q for the quarter ended March 31, 2005, previously filed by the Registrant).
10.24	Asset Purchase Agreement, dated as of June 6, 2005, among EH/Transeastern, LLC, Transeastern Properties, Inc. and the other sellers identified therein, Arthur J. Falcone and Edward W. Falcone (incorporated by reference to Exhibit 10.31 to the Form 10-Q for the quarter ended June 30, 2005, previously filed by the Registrant).
10.26	Commitment Letter for Revolving Credit and Security Agreement, dated December 9, 2005, by and between Preferred Home Mortgage Company and Countrywide Warehousing Lending, amending that certain Revolving Credit and Security Agreement, dated as of October 22, 2004, by and between Preferred Home Mortgage Company and Countrywide Warehousing Lending (portions of this exhibit have been omitted pursuant to a request for confidential treatment).
10.27[1]	Amendment to the Amended and Restated Employment Agreement, dated January 13, 2006, by and between TOUSA, Inc. and Antonio B. Mon (incorporated by reference to Exhibit 10.27 to the Form 10-K for the fiscal year ended December 31, 2005, previously filed by the Registrant).
10.28[1]	Employment Agreement, dated as of January 13, 2006, by and between TOUSA, Inc. and Tommy L. McAden (incorporated by reference to Exhibit 10.28 to the Form 10-K for the fiscal year ended December 31, 2005, previously filed by the Registrant).
10.29[1]	Employment Agreement, dated as of January 13, 2006, by and between TOUSA, Inc. and John Kraynick (incorporated by reference to Exhibit 10.29 to the Form 10-Q for the fiscal year ended December 31, 2005, previously filed by the Registrant).
10.32	$450,000,000 Credit Agreement dated as of August 1, 2005, by and among EH/Transeastern, LLC and TE/TOUSA Senior, LLC, as the Borrowers, Deutsche Bank Trust Company Americas and the Institutions from time to time party thereto, as Lenders, Deutsche Bank Trust Company Americas, as Administrative Agent and Deutsche Bank Securities, Inc., as sole Lead Arranger and Sole Book Running Manager (incorporated by reference to Exhibit 10.2 to the Form 10-Q for the quarter ended December 31, 2006, previously filed by the Registrant).
10.33	$137,500,000 Senior Mezzanine Credit Agreement dated as of August 1, 2005, by and among EH/TOUSA Mezzanine, LLC, as the Borrowers, Deutsche Bank Trust Company Americas and the Institutions from time to time party thereto, as Lenders, Deutsche Bank Trust Company Americas, as Administrative Agent and Deutsche Bank Securities, Inc., as sole Lead Arranger and Sole Book

	Running Manager (incorporated by reference to Exhibit 10.3 to the Form 10-Q for the quarter ended December 31, 2006, previously filed by the Registrant).
10.34	$87,500,000 Junior Mezzanine Credit Agreement dated as of August 1, 2005, by and among EH/TOUSA Mezzanine Two, LLC, as the Borrowers, Deutsche Bank Trust Company Americas and the Institutions from time to time party thereto, as Lenders, Deutsche Bank Trust Company Americas, as Administrative Agent and Deutsche Bank Securities, Inc., as sole Lead Arranger and Sole Book Running Manager (incorporated by reference to Exhibit 10.4 to the Form 10-Q for the quarter ended December 31, 2006, previously filed by the Registrant).

Number	Exhibit Description
10.35	Completion Guaranty dated as of August 1, 2005, by and Tousa Homes, L.P. and TOUSA, Inc. in favor of Deutsche Bank Trust Company Americas, as Administrative Agent. (Additional guaranties of the same obligations in substantially identical forms were executed in connection with the $137,500,000 Senior Mezzanine Credit Agreement and the $87,500,000 Junior Mezzanine Credit Agreement) (incorporated by reference to Exhibit 10.5 to the Form 10-Q for the quarter ended December 31, 2006, previously filed by the Registrant).
10.36	Carve-out Guaranty dated as of August 1, 2005, made by Tousa Homes, L.P. and TOUSA, Inc. in favor of Deutsche Bank Trust Company Americas as Administrative Agent. (Additional guaranties of the same obligations in substantially identical forms were executed in connection with the $137,500,000 Senior Mezzanine Credit Agreement and the $87,500,000 Junior Mezzanine Credit Agreement) (incorporated by reference to Exhibit 10.6 to the Form 10-Q for the quarter ended December 31, 2006, previously filed by the Registrant).
10.37[1]	Employment Agreement, dated January 3, 2007, by and between TOUSA, Inc. and Stephen M. Wagman (incorporated by reference to Exhibit 10.1 to the Form 8-K dated as of January 4, 2007, previously filed by the Registrant).
10.38	Amended and Restated Credit Agreement dated as of January 30, 2007 among TOUSA, Inc., its subsidiaries parties thereto, the Lenders party thereto and Citicorp North America as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 1, 2007, previously filed by the Registrant).
10.39	Security Agreement dated October 23, 2006 among TOUSA, Inc., its subsidiaries parties thereto and Citicorp North America as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated February 1, 2007, previously filed by the Registrant).
10.40	Amendment No. 1 to Security Agreement dated January 30, 2007 among TOUSA, Inc., its subsidiaries parties thereto and Citicorp North America as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K dated February 1, 2007, previously filed by the Registrant).
10.41	Pledge and Security Agreement dated as of February 6, 2007 between TOUSA, Inc. and Citicorp North America, Inc. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated February 6, 2007, previously filed by the Registrant).
10.42	Amendment No. 1 to Amended and Restated Credit Agreement entered into among TOUSA, Inc., certain of its subsidiaries and the lenders parties thereto, dated as of March 13, 2007 (incorporated by reference to Exhibit 10.42 of the Annual Report on Form 10-K dated March 20, 2007, previously filed by the Registrant).
10.43	Settlement and Release Agreement dated as of May 30, 2007, by and among: (i) TOUSA, Inc., f/k/a Technical Olympic USA, Inc.; (ii) TOUSA LLC; (iii) TOUSA Homes, L.P.; (iv) TOI, LLC; (v) TE/TOUSA, LLC; (vi) TE/TOUSA Mezzanine Two, LLC; (vii) TE/TOUSA Mezzanine, LLC; (viii) TE/TOUSA Senior, LLC; (ix) EH/Transeastern, LLC; (x) Falcone/TEP Holdings, LLC, f/k/a Falcone/Ritchie LLC; (xi) TEP Holdings, Inc., f/k/a Transeastern Properties, Inc.; (xii) Arthur J. Falcone; (xiii) Edward W. Falcone; and (xiv) those certain entities identified and listed on Schedule 1 thereto (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
10.44	Mutual Release and Consent Agreement dated as of July 31, 2007, by and among EH/Transeastern, LLC, TE/TOUSA Senior, LLC, TOUSA, Inc. (f/k/a Technical Olympic USA, Inc.), TOUSA Homes, LP, TE/TOUSA LLC, TE/TOUSA Mezzanine Two, LLC, TE/TOUSA Mezzanine, LLC, the lenders party to that certain $450,000,000 Senior Credit Agreement dated as of August 1, 2005, by and among EH/Transeastern, LLC, and TE/TOUSA Senior, LLC, as Borrowers, CIT Group/Business

Credit, Inc., as successor Administrative Agent, and the lenders a party thereto (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).

Number	Exhibit Description
10.45	Settlement and Release Agreement dated as of June 29, 2007, by and among: (i) Technical Olympic S.A.; (ii) TOUSA, Inc. f/k/a Technical Olympic USA, Inc.; (iii) TOUSA, LLC; (iv) TOI, LLC.; (v) TOUSA Homes, L.P.; (vi) TE/TOUSA, LLC; (vii) TE/TOUSA Mezzanine Two, LLC; (viii) TE/TOUSA Mezzanine, LLC; (ix) TE/TOUSA Senior, LLC; (x) EH/Transeastern, LLC; and (xi) the lenders party to that certain $137,500,000 Senior Mezzanine Credit Agreement dated as of August 1, 2005, by and among TE/TOUSA Mezz, as Borrower, Deutsche Bank Trust Company Americas, as Administrative Agent, the lenders now or hereafter a party thereto, and Deutsche Bank Securities Inc., as Sole Lead Arranger and Sole Book Running Manager (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
10.46	Settlement and Release Agreement dated as of June 29, 2007, by and among: (i) Technical Olympic S.A.; (ii) TOUSA, Inc. f/k/a Technical Olympic USA, Inc.; (iii) TOUSA, LLC; (iv) TOI, LLC; (v) TOUSA Homes, L.P.; (vi) TE/TOUSA, LLC; (vii) TE/TOUSA Mezzanine Two, LLC; (viii) TE/TOUSA Mezzanine, LLC; (ix) TE/TOUSA Senior, LLC; (x) EH/Transeastern, LLC; and (xi) the lenders party to that certain $87,500,000 Junior Mezzanine Credit Agreement dated as of August 1, 2005, by and among TE/TOUSA Mezz Two, as Borrower, Deutsche Bank Trust Company Americas as Administrative Agent, the lenders party thereto, and Deutsche Bank Securities Inc., as Sole Lead Arranger and Sole Book Running Manager (incorporated by reference to the Form 10-Q for the quarter ended June 30, 2007, previously filed by the Registrant).
10.47	Intercreditor agreement among Citicorp North America, Inc. and itself in its capacity as agents for the lenders, dated July 31, 2007 (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K dated November 14, 2007, previously filed by the Registrant).
10.48	Instrument of Resignation, Appointment and Acceptance, dated November 15, 2007, among TOUSA, Inc., Wells Fargo Bank, National Association, and Wilmington Trust Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated November 15, 2007, previously filed by the Registrant).
10.49	Instrument of Resignation, Appointment and Acceptance, dated November 20, 2007, among TOUSA, Inc., Wells Fargo Bank, National Association, and HSBC Bank USA, National Association (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated November 21, 2007, previously filed by the Registrant).
10.50[1]	Amendment to Employment Agreement, dated December 10th, 2007, between TOUSA, Inc. and Stephen Wagman (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated December 10, 2007, previously filed by the Registrant).
10.51	Amendment No. 2 to the First Lien Term Loan Credit Agreement (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated December 11, 2007, previously filed by the Registrant).
10.52	Amendment No. 2 to the Second Amended and Restated Revolving Credit Agreement (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K dated December 14, 2007, previously filed by the Registrant).
10.53	Senior Secured Super-Priority Debtor In Possession Credit and Security Agreement, dated as of January 29, 2008, by and among TOUSA, Inc., and certain of its subsidiaries party thereto, and the Lenders and Issuers party thereto, Citicorp North America, Inc., as Administrative Agent and Citigroup Global Markets Inc. as Sole Lead Arranger and Bookrunner (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 5, 2008, previously filed by the Registrant).
10.54	Consent to Termination of Restructuring Support Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated February 13, 2008, previously filed by the

	Registrant).
10.55	Amendment No. 1 to Senior Secured Super-Priority Debtor In Possession Credit and Security Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated March 21, 2008, previously filed by the Registrant).
10.56(1)(2)	Employment Agreement, dated January 1, 2008, by and between TOUSA, Inc. and George Yeonas.

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Number	Exhibit Description
10.57[1][2]	Amendment to Employment Agreement, dated January 18, 2008, by and between TOUSA, Inc. and Tommy McAden.
10.58	Letter Agreement between TOUSA, Inc., as Administrative Borrower, and Citicorp North America, Inc., dated April 22, 2008 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated April 23, 2008, previously filed by the Registrant).
10.59	Amendment No. 1 to Senior Secured Super-Priority Debtor In Possession Credit and Security Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated May 5, 2008, previously filed by the Registrant).
10.60[1]	Executive Vice-Chairman Agreement, dated May 23, 2008, between TOUSA, Inc. and Antonio B. Mon (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated May 27, 2008, previously filed by the Registrant).
10.61	Order Further Extending Interim Termination Date Under the Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated May 28, 2008, previously filed by the Registrant).
10.62	Second Order Further Extending Interim Termination Date Under the Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated June 12, 2008, previously filed by the Registrant).
10.63	Third Order Further Extending Interim Termination Date Under the Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K dated June 17, 2008, previously filed by the Registrant).
10.64	Stipulated Final Order (I) Authorizing Limited Use of Cash Collateral Pursuant to Sections 105, 361 and 363 of the Bankruptcy Code, and (II) Granting Replacement Liens, Adequate Protection and Super Priority Administrative Expense priority to Secured Lenders (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated June 24, 2008, previously filed by the Registrant).
21.0[2]	Subsidiaries of the Registrant.
23.1[2]	Consent of Ernst & Young LLP Independent Registered Public Accounting Firm.
23.2[2]	Consent of Ernst & Young LLP Independent Certified Public Accountants.
31.1[2]	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2[2]	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1[2]	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2[2]	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1[2]	Consolidated financial statements of TE/TOUSA, LLC and Subsidiaries for the years ended November 30, 2006 and the period from inception (July 1, 2005) to November 30, 2005.
99.2[2]	Unaudited consolidated financial statements for TE/TOUSA, LLC and subsidiaries for the eight months ended July 30, 2007.
99.3[2]	Financial statements of Engle/Sunbelt Holdings, LLC for the years ended December 31, 2007 and 2006.

(1) Management contract or compensatory plan or arrangement.

(2) Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TOUSA, Inc.

By: /s/ Antonio B. Mon

Antonio B. Mon
President and Chief Executive Officer

Date: August 12, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Antonio B. Mon Antonio B. Mon	Executive Vice Chairman, President, Chief Executive Officer (Principal Executive Officer) and Director	August 12, 2008
/s/ Tommy L. McAden Tommy L. McAden	Executive Vice President and Director, Chief Financial Officer (Principal Financial Officer)	August 12, 2008
/s/ Angela F. Valdes Angela F. Valdes	Vice President & Chief Accounting Officer (Principal Accounting Officer)	August 12, 2008
/s/ Konstantinos Stengos Konstantinos Stengos	Chairman of the Board and Director	August 12, 2008
/s/ Andreas Stengos Andreas Stengos	Executive Vice President and Director	August 12, 2008
/s/ George Stengos George Stengos	Executive Vice President and Director	August 12, 2008
/s/ Marianna Stengou Marianna Stengou	Director	August 12, 2008

/s/ Larry D. Horner	Director	August 12, 2008
Larry D. Horner		
/s/ William A. Hasler	Director	August 12, 2008
William A. Hasler		

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Signature	Title	Date
/s/ Michael J. Poulos	Director	August 12, 2008
Michael J. Poulos		
/s/ Susan B. Parks	Director	August 12, 2008
Susan B. Parks		
/s/ J. Bryan Whitworth	Director	August 12, 2008
J. Bryan Whitworth		

TOUSA, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2007. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein. That report expresses an unqualified opinion on the effectiveness of our internal control over financial reporting.

TOUSA, Inc.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of TOUSA, Inc.

We have audited the accompanying consolidated statements of financial condition of TOUSA, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of TE/Tousa, LLC and Subsidiaries (a corporation in which the Company, through July 31, 2007, had a 50% interest and which was accounted for under the equity method), as of and for the year ended December 31, 2006, have been audited by other auditors whose report, which has been furnished to us, included an explanatory paragraph that, as more fully described in Note 4, there is substantial doubt about TE/Tousa, LLC and Subsidiaries ability to continue as a going concern. Our opinion on the consolidated financial statements, insofar as it relates to the amounts included for TE/Tousa, LLC and Subsidiaries as of and for the year ended December 31, 2006, is based solely on the report of the other auditors. In the consolidated financial statements, the Company s investment in TE/Tousa, LLC and Subsidiaries is stated at $0 at December 31, 2006, and the Company s equity in the net loss of TE/Tousa, LLC and Subsidiaries is stated at $145.1 million for the year then ended. On July 31, 2007, the Company consummated transactions to settle the disputes regarding the TE/Tousa, LLC and Subsidiaries which resulted in the TE/Tousa, LLC and Subsidiaries becoming a wholly-owned subsidiary of the Company by merger into one of its subsidiaries.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOUSA, Inc. as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that TOUSA, Inc. will continue as a going concern. As more fully described in Note 1, the Company filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code on January 29, 2008, which raises substantial doubt about the Company s ability to continue as a going concern. Management s plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. Also, the consolidated financial statements of TE/Tousa, LLC and Subsidiaries, as of and for the year ended December 31, 2006, have been audited by other auditors whose report, which has been furnished to us, included an explanatory paragraph that, as more fully described in Note 4, there is substantial doubt about TE/Tousa, LLC and Subsidiaries ability to continue as a going concern.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*. In addition, as discussed in Note 9 to the consolidated financial statements, effective January 1, 2007, the Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), TOUSA, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Certified Public Accountants

West Palm Beach, Florida
August 6, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of TOUSA, Inc.

We have audited TOUSA, Inc. s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). TOUSA, Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, TOUSA, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of TOUSA, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders equity (deficit), and cash flows for each of the three years in the period ended December 31, 2007 of TOUSA, Inc. and our report dated August 6, 2008 expressed an unqualified opinion thereon and included explanatory paragraphs related to (i) the Company s ability to continue as a going concern and (ii) changes in accounting for income taxes and share-based compensation.

/s/
Ernst & Young LLP
Certified Public Accountants

West Palm Beach, Florida
August 6, 2008

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TOUSA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2007	December 31, 2006
	(Dollars in millions, except par value)	
ASSETS		
HOMEBUILDING:		
Cash and cash equivalents:		
Unrestricted	$ 67.2	$ 47.4
Restricted	5.1	3.8
Inventory:		
Deposits	56.9	216.6
Homesites and land under development	633.0	725.6
Residences completed and under construction	555.9	835.7
Inventory not owned	26.0	300.6
	1,271.8	2,078.5
Property and equipment, net	24.6	28.5
Investments in unconsolidated joint ventures	9.0	129.0
Receivables from unconsolidated joint ventures, net of allowance of $0 and $54.8 million at December 31, 2007 and 2006, respectively	0.3	27.2
Other assets	330.0	236.6
Goodwill	11.2	100.9
Assets held for sale	6.1	124.8
	1,725.3	2,776.7
FINANCIAL SERVICES:		
Cash and cash equivalents:		
Unrestricted	9.3	6.8
Restricted	5.6	4.2
Mortgage loans held for sale	15.0	41.9
Other assets	6.8	12.6
	36.7	65.5
Total assets	$ 1,762.0	$ 2,842.2
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
HOMEBUILDING:		
Accounts payable and other liabilities	$ 401.8	$ 554.2
Customer deposits	33.9	62.6
Obligations for inventory not owned	32.0	300.6
Notes payable	1,585.3	1,060.7

Bank borrowings	168.5	
Liabilities associated with assets held for sale	0.9	47.8
	2,222.4	2,025.9
FINANCIAL SERVICES:		
Accounts payable and other liabilities	7.3	6.0
Bank borrowings	7.8	35.4
	15.1	41.4
Total liabilities	2,237.5	2,067.3
Commitments and contingencies		
Stockholders equity (deficit):		
Preferred stock $0.01 par value; 3,000,000 shares authorized; 117,500 and none issued and outstanding at December 31, 2007 and 2006, respectively	3.9	
Common stock $0.01 par value; 975,000,000 and 97,000,000 shares authorized and 59,604,169 and 59,590,519 shares issued and outstanding at December 31, 2007 and 2006, respectively	0.6	0.6
Additional paid-in capital	570.7	481.2
Retained earnings (accumulated deficit)	(1,050.7)	293.1
Total stockholders equity (deficit)	(475.5)	774.9
Total liabilities and stockholders equity (deficit)	$ 1,762.0	$ 2,842.2

See accompanying notes to consolidated financial statements.

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TOUSA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2007	2006	2005
	(Dollars in millions, except per share amounts)		
HOMEBUILDING:			
Revenues:			
Home sales	$ 2,049.4	$ 2,309.4	$ 2,174.4
Land sales	109.4	131.9	186.1
	2,158.8	2,441.3	2,360.5
Cost of sales:			
Home sales	1,681.8	1,745.1	1,622.4
Land sales	137.4	135.1	143.1
Inventory impairments and abandonment costs	852.7	153.2	6.7
Other	(5.7)	(10.0)	(2.7)
	2,666.2	2,023.4	1,769.5
Gross profit (loss)	(507.4)	417.9	591.0
Selling, general and administrative expenses	362.7	358.3	309.1
(Income) loss from unconsolidated joint ventures, net	14.9	(104.7)	(45.7)
Impairments of investments in and receivables from unconsolidated joint ventures and related accrued obligations	194.1	152.8	
Provision for settlement of loss contingency	151.6	275.0	
Goodwill impairments	89.7	5.7	
Interest expense	31.6	0.6	0.4
Other income, net	(2.7)	(4.7)	(8.9)
Homebuilding pretax income (loss)	(1,349.3)	(265.1)	336.1
FINANCIAL SERVICES:			
Revenues	36.5	63.3	47.5
Expenses	36.3	41.8	39.0
Goodwill impairment	3.9		
Financial Services pretax income (loss)	(3.7)	21.5	8.5
Income (loss) from continuing operations before income taxes	(1,353.0)	(243.6)	344.6
Provision (benefit) for income taxes	(33.3)	(42.8)	126.5
Income (loss) from continuing operations, net of taxes	(1,319.7)	(200.8)	218.1
Discontinued operations:			
Income (loss) from discontinued operations	(17.0)	(0.6)	0.3

Loss from disposal of discontinued operations		(13.6)				
Provision (benefit) for income taxes		(7.8)		(0.2)		0.1
Income (loss) from discontinued operations, net of taxes		(22.8)		(0.4)		0.2
Net income (loss)		(1,342.5)		(201.2)		218.3
Dividends and accretion of discount on preferred stock		4.7				
Net income (loss) available to common stockholders	$	(1,347.2)	$	(201.2)	$	218.3
EARNINGS (LOSS) PER COMMON SHARE, BASIC:						
Earnings (loss) from continuing operations (net of preferred stock dividends and accretion of discount)	$	(22.22)	$	(3.37)	$	3.82
Loss from discontinued operations		(0.38)		(0.01)		
Basic earnings (loss) per common share	$	(22.60)	$	(3.38)	$	3.82
EARNINGS (LOSS) PER COMMON SHARE, DILUTED:						
Earnings (loss) from continuing operations (net of preferred stock dividends and accretion of discount)	$	(22.22)	$	(3.37)	$	3.68
Loss from discontinued operations		(0.38)		(0.01)		
Diluted earnings (loss) per common share	$	(22.60)	$	(3.38)	$	3.68
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:						
Basic		59,601,887		59,582,697		57,120,031
Diluted		59,601,887		59,582,697		59,359,355
CASH DIVIDENDS PER COMMON SHARE	$		$	0.060	$	0.057

See accompanying notes to consolidated financial statements.

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TOUSA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Compensation	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity (Deficit)
				(Dollars in millions)				
Balance at January 1, 2005		$	**56,070,510**	**$ 0.6**	**$ 388.3**	**$ (9.0)**	**$ 282.8**	**$ 662.7**
Common stock issued to directors			10,842		0.3			0.3
Stock option exercises			115,625		1.9			1.9
Dividends paid							(3.2)	(3.2)
Sale of common stock			3,358,000		89.2			89.2
Unearned compensation					0.8	1.3		2.1
Net income							218.3	218.3
Balance at December 31, 2005			**59,554,977**	**0.6**	**480.5**	**(7.7)**	**497.9**	**971.3**
Common stock issued to directors			11,792		0.2			0.2
Stock option exercises			23,750		0.2			0.2
Excess income tax benefit from exercise of stock options					0.1			0.1
Transfer of unearned compensation upon adoption of SFAS 123(R)					(7.7)	7.7		
Modification of stock rights					4.1			4.1
Stock option compensation expense					3.8			3.8
Dividends paid							(3.6)	(3.6)
Net loss							(201.2)	(201.2)
Balance at December 31, 2006			**59,590,519**	**0.6**	**481.2**		**293.1**	**774.9**
Adoption of FIN 48							(1.3)	(1.3)
Common stock issued to directors			13,650		0.1			0.1
Stock option compensation expense					4.0			4.0
	117,500	81.7			7.6			89.3

Transeastern settlement, net of costs associated with issuance of equity instruments of $2.9 million								
Recognition of beneficial conversion feature of preferred stock		(82.5)			82.5			
Preferred stock dividends		3.9			(3.9)			
Accretion of discount on preferred stock		0.8			(0.8)			
Net loss							(1,342.5)	(1,342.5)
Balance at December 31, 2007	**117,500**	**$ 3.9**	**59,604,169**	**$ 0.6**	**$ 570.7**	**$**	**$ (1,050.7)**	**$ (475.5)**

See accompanying notes to consolidated financial statements.

TOUSA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Cash flows from operating activities:			
Net income (loss)	$ (1,342.5)	$ (201.2)	$ 218.3
(Income) loss from discontinued operations	22.8	0.4	(0.2)
Income (loss) from continuing operations	(1,319.7)	(200.8)	218.1
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities, net of effects of acquisitions and dispositions:			
Depreciation and amortization	14.8	13.8	12.7
Non-cash compensation expense	4.1	8.7	3.7
Non-cash interest expense	19.7		
Loss on early termination of debt	2.0		
Provision for settlement of loss contingency	151.6	275.0	
Inventory impairments and abandonment costs	852.7	153.2	6.7
Goodwill impairments	93.6	5.7	
Deferred income taxes	(160.6)	(155.6)	2.0
Equity in (earnings) losses from unconsolidated joint ventures	14.9	(59.8)	(18.5)
Distributions of earnings from unconsolidated joint ventures	0.9	73.9	0.4
Impairment of investments in/receivables from unconsolidated joint ventures and related accrued obligations	194.1	152.8	
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:			
Restricted cash	25.6	(1.8)	4.0
Inventory	(10.6)	(387.0)	(454.0)
Receivables from unconsolidated joint ventures	5.2	(10.2)	(37.1)
Other assets	99.0	52.1	(67.7)
Mortgage loans held for sale	26.9	2.0	31.9
Accounts payable and other liabilities	(63.0)	(53.1)	128.2
Customer deposits	(30.6)	(15.8)	9.9
Net cash used in operating activities	(79.4)	(146.9)	(159.7)
Cash flows from investing activities:			
Acquisitions, net of cash acquired	(7.6)		
Earn-out consideration paid for acquisitions		(0.9)	
Net additions to property and equipment	(8.9)	(16.4)	(13.0)
Loans to unconsolidated joint ventures		(11.3)	(20.0)
Investments in unconsolidated joint ventures	(31.8)	(32.1)	(176.1)
Capital distributions from unconsolidated joint ventures	14.3	52.9	9.9
Net cash used in investing activities	(34.0)	(7.8)	(199.2)

Cash flows from financing activities:			
Net borrowings from revolving credit facilities	168.5	(65.0)	65.0
Principal payments on notes payable	(1.0)		
Net proceeds from notes offering		248.8	
Net proceeds from (repayments of) Financial Services bank borrowings	(27.6)	0.3	(13.9)
Payments for deferred financing costs	(42.6)	(5.5)	(0.3)
Net proceeds from sale of common stock			89.2
Payments for issuance costs associated with convertible preferred stock and stock warrants	(2.9)		
Excess income tax benefit from exercise of stock options		0.1	
Proceeds from stock option exercises		0.2	1.8
Dividends paid		(3.6)	(3.2)
Net cash provided by financing activities	94.4	175.3	138.6
Net cash provided by (used in) continuing operations	(19.0)	20.6	(220.3)
Cash flows from discontinued operations:			
Net cash provided by (used in) operating activities	(15.2)	2.1	(14.7)
Net cash provided by (used in) financing activities	56.5	(0.8)	(1.2)
Net cash provided by (used in) discontinued operations	41.3	1.3	(15.9)
Increase (decrease) in cash and cash equivalents	22.3	21.9	(236.2)
Cash and cash equivalents at beginning of year	54.2	32.3	268.5
Cash and cash equivalents at end of year	$ 76.5	$ 54.2	$ 32.3
Supplemental disclosure of non-cash financing activities:			
Increase (decrease) in inventory not owned	$ (274.6)	$ 207.7	$ (34.0)
Increase (decrease) in obligations for inventory not owned	$ (268.6)	$ 207.7	$ (34.0)
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 20.2	$ 200.4	$ 61.4

Supplemental disclosure of non-cash activities:

Refer to Note 3 for the consolidation of other variable interest entities in accordance with FIN 46R

Refer to Note 4 for the settlement of the Transeastern JV and related acquisition of assets

See accompanying notes to consolidated financial statements.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

1. Business and Organization

Business

TOUSA, Inc. (hereinafter referred to as TOUSA , the Company , we , us and our) is a homebuilder with a geographically diversified national presence. We operate in various metropolitan markets in nine states, located in four major geographic regions: Florida, the Mid-Atlantic, Texas, and the West. We design, build, and market detached single-family residences, town homes and condominiums. We also provide title insurance and mortgage brokerage services to our homebuyers and others. Generally, we do not retain or service the mortgages that we originate but, rather, sell the mortgages and related servicing rights.

Organization

Technical Olympic S.A. owns approximately 67% of our outstanding common stock. Technical Olympic S.A. is a publicly-traded Greek company whose shares are traded on the Athens Stock Exchange. Our ownership could change if the holders of our convertible preferred stock exercise their conversion rights. Our equity structure is likely to change as a result of our Chapter 11 filings. See Note 12.

Chapter 11 Cases

On January 29, 2008, TOUSA, Inc. and certain of our subsidiaries (excluding our financial services subsidiaries and joint ventures) filed voluntary petitions for reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Florida, Fort Lauderdale Division. The Chapter 11 cases have been consolidated solely on an administrative basis and are pending as Case No. 08-10928-JKO.

We continue to operate our businesses and manage our properties as debtors and debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. As part of the first day relief, we sought from the Bankruptcy Court in the Chapter 11 cases, we obtained Bankruptcy Court approval to, among other things, continue to pay certain critical vendors and vendors with lien rights, meet our pre-petition payroll obligations, maintain our cash management systems, sell homes free and clear of liens, pay our taxes, continue to provide employee benefits and maintain our insurance programs. In addition, the Bankruptcy Court has approved certain trading notification and transfer procedures designed to allow us to restrict trading in our common stock (and related securities) and has also provided for potentially retroactive application of notice and sell-down procedures for trading in claims against the debtors estates (in the event that such procedures are approved in the future) which could negatively impact our accumulated net operating losses and other tax attributes. The Bankruptcy Court has also entered orders to establish procedures for the purchase and disposition of real property by us subject to certain monetary limits without specific approval for each transaction.

On February 5, 2008, pursuant to an interim order from the Bankruptcy Court dated January 31, 2008, we entered into the Senior Secured Super-Priority Debtor in Possession Credit and Security Agreement. The agreement provided for a first priority and priming secured revolving credit interim commitment of up to $134.6 million. The agreement was subsequently amended to extend it to June 19, 2008. No funds were drawn under the agreement. The agreement was subsequently terminated and we entered into an agreement with our secured lenders to use cash collateral on hand (cash generated by our operations, including the sale of excess inventory and the proceeds of our federal tax refund of $207.3 million received in April 2008). Under the Bankruptcy Court order dated June 20, 2008, we are authorized to use cash collateral of our first lien and second lien lenders (approximately $358.0 million at the time of the order) for a period of six months in a manner consistent with a budget negotiated by the parties. The order further provides for the paydown of

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$175.0 million to our first lien term loan facility secured lenders, subject to disgorgement provisions in the event that certain claims against the lenders are successful and repayment is required. The order also reserves our sole right to paydown an additional $15.0 million to our fist lien term loan facility secured lenders. We are permitted under the order to incur liens and enter into sale/leaseback transactions for model homes subject to certain limitations. As part of the order, we have granted the prepetition agents and the lenders various forms of protection, including liens and claims to protect against any diminution of the collateral value, payment of accrued, but unpaid interest on the first priority indebtedness at the non-default rate and the payment of reasonable fees and expenses of the agents under our secured facilities.

We have the exclusive right to file a Chapter 11 plan or plans prior to October 25, 2008 and the exclusive right to solicit acceptance thereof until December 24, 2008. Pursuant to section 1121 of the Bankruptcy Code, the exclusivity periods may be expanded or reduced by the Bankruptcy Court, but in no event can the exclusivity periods to file and solicit acceptance of a plan or plans of reorganization be extended beyond 18 months and 20 months, respectively.

As a result of our Chapter 11 cases and other matters described herein, including uncertainties related to the fact that we have not yet had time to complete and obtain confirmation of a plan or plans of reorganization, there is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern, including our ability to meet our ongoing operational obligations, is dependent upon, among other things:

- our ability to generate and maintain adequate cash;
- the cost, duration and outcome of the restructuring process;
- our ability to comply with the terms of our cash collateral order and, if necessary, seek further extensions of our ability to use cash collateral;
- our ability to achieve profitability following a restructuring given housing market challenges; and
- our ability to retain key employees.

These challenges are in addition to those operational and competitive challenges that we face in connection with our business. In conjunction with our advisors, we are implementing strategies to aid our liquidity and our ability to continue as a going concern. However, such efforts may not be successful.

We have taken and will continue to take aggressive actions to maximize cash receipts and minimize cash expenditures with the understanding that certain of these actions may make us less able to take advantage of future improvements in the homebuilding market. We continue to take steps to reduce our general and administrative expenses by streamlining activities and increasing efficiencies, which have led and will continue to lead to major reductions in the workforce. However, much of our efforts to reduce general and administrative expenses are being offset by professional and consulting fees associated with our Chapter 11 cases. In addition, we are working with our existing suppliers and seeking new suppliers, through competitive bid processes, to reduce construction material and labor costs. We have and will continue to analyze each community based on anticipated sales absorption rates, net cash flows and financial returns taking into consideration current market factors in the homebuilding industry such as the oversupply of homes available for sale in most of our markets, less demand, decreased consumer confidence, tighter mortgage loan underwriting criteria and higher foreclosures. In order to generate cash and to reduce our inventory to levels consistent with our business plan, we have taken and will continue to take the following actions, to the extent possible given the limitations resulting from our Chapter 11 cases:

limiting new arrangements to acquire land (by submitting proposals to increased review);

engaging in bulk sales of land and unsold homes;

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reducing the number of unsold homes under construction and limiting and/or curtailing development activities in any development where we do not expect to deliver homes in the near future;

renegotiating terms or abandoning our rights under option contracts;

considering other asset dispositions including the possible sale of underperforming assets, communities, divisions and joint venture interests (see Note 15 regarding the June 2007 sale of our Dallas/Fort Worth division and Note 14 regarding the September 2007 bulk sale of homesites in our Mid-Atlantic (excluding Nashville) region);

reducing our speculative home levels; and

pursuing other initiatives designed to monetize our assets.

The foregoing discussion provides general background information regarding our Chapter 11 Cases, and is not intended to be an exhaustive description. Additional information regarding our Chapter 11 Cases, including access to court documents and other general information about the Chapter 11 Cases, is available at www.kccllc.net/tousa. Financial information on the website is prepared according to requirements of federal bankruptcy law and the local Bankruptcy Court. While such financial information accurately reflects information required under federal bankruptcy law, such information may be unconsolidated, unaudited and prepared in a format different than that used in our consolidated financial statements prepared in accordance with generally accepted accounting principles in the United States and filed under the securities laws. Moreover, the materials filed with the Bankruptcy Court are not prepared for the purpose of providing a basis for investment decisions relating to our stock or debt or for comparison with other financial information filed with the Securities and Exchange Commission.

Mortgage Joint Venture

On January 28, 2008, Preferred Home Mortgage Company, our wholly-owned residential mortgage lending subsidiary, entered into an Amended and Restated Agreement of Limited Liability Company with Wells Fargo Ventures, LLC. The limited liability company is known as PHMCWF, LLC but does business as Preferred Home Mortgage Company, an affiliate of Wells Fargo. Preferred Home Mortgage Company owns 49.9% of the venture with the balance owned by Wells Fargo. Effective April 1, 2008, the venture began to carry on the mortgage business of Preferred Home Mortgage Company. The venture is managed by a committee composed of six members, three from Preferred Home Mortgage Company and three from Wells Fargo. The venture entered into a revolving credit agreement with Wells Fargo Bank, N.A. providing for advances of up to $20.0 million. Wells Fargo Home Mortgage provides the general and administrative support (as well as all loan related processing, underwriting and closing functions), and is the end investor for the majority of the loans closed through the joint venture. Prior to the joint venture, Preferred Home Mortgage Company had a centralized operations center that provided those support functions. The majority of these support functions ceased in June 2008.

2. Summary of Significant Accounting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States and general practices within the homebuilding industry. The following summarizes the more significant of these policies.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. For the

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

year ended December 31, 2007, 2006, and 2005, we have eliminated inter-segment Financial Services revenues of $15.1 million, $4.8 million, and $9.8 million, respectively.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) on a going concern basis. This contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. Accordingly, we do not include any adjustments relating to the recoverability of assets and classification of liabilities that might be necessary should we be unable to continue as a going concern.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Those estimates and assumptions which, in the opinion of management, are both significant to the underlying amounts included in the financial statements and as to which future events or information could change those estimates include:

impairment assessments of investments in unconsolidated joint ventures, long-lived assets, including our inventory, and goodwill;

loss exposures associated with the abandonment of our rights under option contracts, the relinquishment of our rights under certain joint ventures and obligations under joint venture debt agreements and under performance bonds;

realization of amounts due from unconsolidated joint ventures;

insurance and litigation related contingencies;

realization of deferred income tax assets and liability for unrecognized tax benefits; and

estimated costs associated with construction and development activities in connection with our homebuilding operations.

The accompanying consolidated financial statements do not purport to reflect or provide for the consequences of our Chapter 11 cases. In particular, the financial statements do not purport to show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to stockholders equity accounts, the effect of any changes that may be made in our capitalization; or (3) as to operations, the effect of any changes that may be made to our business. In addition, the financial statements do not reflect the amounts that may be allowed with respect to prepetition claims and liabilities which may, as a result of the filing of proofs of claims by our creditors, result in liabilities in excess of those estimated by us in preparing the accompanying consolidated financial statements.

Due to our normal operating cycle being in excess of one year, we present unclassified consolidated statements of financial condition.

Certain amounts in the consolidated financial statements of prior periods have been reclassified to conform to current year classifications. Certain operations have been classified as discontinued. Associated results of operations and financial position are separately reported for all periods presented. For additional information, refer to Note 15. Information in these notes to consolidated financial statements, unless otherwise noted, does not include the accounts of discontinued operations.

Homebuilding

Inventory

Inventory is stated at the lower of cost or fair value. Inventory under development or held for development is stated at an accumulated cost unless such cost would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are recorded at fair value. Inventory to be

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

disposed of is carried at the lower of cost or fair value less cost to sell. We utilize the specific identification method of charging construction costs to cost of sales as homes are delivered. Common construction project costs are allocated to each individual home in the various communities based upon the total number of homes to be constructed in each community. Interest, real estate taxes, and certain development costs are capitalized to land and construction costs during the development and construction period and are amortized to costs of sales as deliveries occur.

Inventory Not Owned and Obligations for Inventory Not Owned

Homebuilders may enter into option contracts for the purchase of land or homesites with land sellers and third-party financial entities, some of which qualify as Variable Interest Entities (VIEs) under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* (FIN 46(R)). FIN 46(R) addresses consolidation by business enterprises of VIEs in which an entity absorbs a majority of the expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Obligations for inventory not owned in our consolidated statements of financial condition represent liabilities associated with our land banking and similar activities, including obligations in VIEs which have been consolidated by us and in which we have a less than 50% ownership interest, and the creditors have no recourse against us. As a result, the obligations have been specifically excluded from the calculation of leverage ratios pursuant to the terms of our revolving credit facility.

In applying FIN 46(R) to our homesite option contracts and other transactions with VIEs, we make estimates regarding cash flows and other assumptions. We believe that our critical assumptions underlying these estimates are reasonable based on historical evidence and industry practice. Based on our analysis of transactions entered into with VIEs, we determined that we are the primary beneficiary of certain of these homesite option contracts. Consequently, FIN 46(R) requires us to consolidate the assets (homesites) at their fair value, although (1) we have no legal title to the assets; (2) our maximum exposure to loss is generally limited to the deposits or letters of credits placed with these entities; and (3) creditors, if any, of these entities have no recourse against us.

In addition to land options recorded pursuant to FIN 46(R), we evaluate land options in accordance with the provisions of SFAS No. 49, *Product Financing Arrangements*. When our deposits and pre-acquisition development costs exceed certain thresholds, or we have determined that we are compelled to exercise our option, we record the remaining purchase price of the land in the consolidated statements of financial condition under inventory not owned and obligations for inventory not owned .

Investments in Joint Ventures

We analyze our homebuilding and land development joint ventures under FIN 46(R) and Emerging Issues Task Force (EITF) Issue No. 04-5, *Determining Whether a General Partner, or General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (EITF 04-5). The scope of EITF 04-5 is limited to limited partnerships or similar entities (such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership) that are not VIEs under FIN 46(R) and provides a framework for addressing when a general partner in a limited partnership, or managing member in the case of a limited liability company, controls the entity. EITF 04-5 was effective after June 29, 2005 for new entities formed after such date and for existing entities for which agreements were subsequently modified and was effective for us on January 1, 2006 for all other entities. The adoption of EITF 04-5 did not have a material effect on our consolidated financial statements.

Investments in our unconsolidated homebuilding and land development joint ventures are accounted for under the equity method of accounting. Under the equity method, we recognize our proportionate share of earnings and losses generated by the joint venture upon the delivery of homes or homesites to third parties.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

All joint venture profits generated from land sales to us are deferred and recorded as a reduction of the cost basis in the homesites purchased until the homes are ultimately sold by us to third parties. Our ownership interests in our unconsolidated joint ventures vary, but are generally less than or equal to 50%. We account for these investments under the equity method because: (1) the entities are not VIEs in accordance with FIN 46(R); (2) for those entities determined to be VIEs, we are not considered the primary beneficiary; (3) we do not have the voting control, and/or, in the case of joint ventures where we are the general partner or managing member, the limited partners (or non-managing members) have substantive participatory rights in accordance with EITF 04-5.

We evaluate our investments in and receivables from our unconsolidated joint ventures in accordance with the provisions of Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, and Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for Impairment of a Loan*. Recoverability of our investments in and receivables from unconsolidated joint ventures are measured by comparing the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. These evaluations for impairment are significantly impacted by estimates of future revenues, costs and expenses and other factors involving some amount of uncertainty. Therefore, due to uncertainties in the estimation process, actual results could differ from such estimates.

In some instances, we are liable under the joint venture credit agreements and we have agreed to: complete certain property development commitments in the event the joint ventures default; pay an amount necessary to decrease the principal balance of the joint ventures loans to achieve a certain loan to value ratio; and, to indemnify the lenders for losses resulting from fraud, misappropriation and similar acts. We evaluate our obligations related to these commitments under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. Because of the high degree of judgment required in determining these estimated obligations, actual amounts could differ from our current estimates.

Revenue Recognition

Our primary source of revenue is the sale of homes to homebuyers. To a lesser degree, we engage in the sale of land to other homebuilders. Revenue is recognized on home sales and land sales at closing when title passes to the buyer and all of the following conditions are met: a sale is consummated, a significant down payment is received, the earnings process is complete and the collection of any remaining receivables is reasonably assured.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 66, *Accounting for the Sales of Real Estate* (SFAS 66), at December 31, 2007 and 2006, we deferred approximately $1.0 million and $1.7 million, respectively, in profit related to certain homes that were delivered for which our mortgage subsidiary originated interest-only loans or loans with high loan-to-value ratios which did not meet the initial and continuing investment requirements under SFAS 66, and the loans were still held for sale at the respective balance sheet dates. This profit will be recognized upon the sale of the loans to a third party, with non-recourse provisions (except for customary early payment default provisions), which generally occurs within 30 days from the date the loan is originated.

Warranty Costs

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 the subcontractors for claims relating to workmanship and materials. We also provide up to a ten-year homebuyer s warranty which covers major structural defects. Estimated warranty costs are recorded at the time of sale based on historical experience and current factors, and are included in cost of sales in the accompanying consolidated statements of operations.

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

To address homebuyer concerns regarding our fulfillment of warranty obligations at the inception of our Chapter 11 cases, we entered into an agreement with an affiliate of Zurich Financial Services Group, which guarantees our warranty obligations for the first ten years and assumes all liability for structural claims in years three through ten. The agreement covered all homes in backlog on January 21, 2008 and homes sold or delivered between January 21, 2008 and June 30, 2008.

Advertising Costs

Advertising costs, consisting primarily of newspaper and trade publications, and the cost of maintaining an internet web-site, are expensed as incurred. Advertising expense included in selling, general and administrative expenses for the years ended December 31, 2007, 2006, and 2005 were $23.5 million, $19.7 million, and $9.1 million, respectively.

Financial Services

Title Company Escrow Deposits

As a service to its customers, our title company subsidiary, Universal Land Title, administers escrow and trust deposits which totaled approximately $27.7 million and $102.1 million at December 31, 2007 and 2006, respectively, representing undisbursed amounts received for settlements of mortgage loans, payments on mortgage loans, and indemnities against specific title risks. These escrow funds are not considered our assets and, therefore, are excluded from the accompanying consolidated statements of financial condition.

Mortgage Loans Held for Sale

Mortgage loans held for sale are stated at the lower of aggregate cost or fair value based upon such commitments for loans to be delivered or prevailing market rates for uncommitted loans. The estimated fair value is determined on a loan by loan basis based on the coupon rate and underlying characteristics of each loan. Substantially all of the loans originated by us are sold to private investors within 30 days of origination. In addition, the Company has the ability to sell mortgage loans under an early purchase program based on the delivery of mortgage collateral, which is generally less than five days from closing.

Interest Rate Lock Commitments

Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS No. 133), requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been properly designated by a company as a hedging relationship and is determined to qualify for hedge accounting. To qualify for hedge accounting under SFAS No. 133, at the inception of a hedge, a company must formally document the relationship between the derivative instrument and the hedged item, as well as the risk management objective, the strategy for undertaking the hedge transactions, and the method the company will use to assess the hedge s effectiveness in achieving offsetting changes in fair value. In addition, the company must document the results of the method used to assess hedge effectiveness on an ongoing basis.

If a company either does not properly designate the hedging relationship or subsequently determines that the derivative instruments do not qualify for hedge accounting, the derivative instruments are considered free standing derivatives. Free standing derivatives are marked-to-market and included in the balance sheet as either derivative assets or liabilities with corresponding changes in fair value recorded in income as they occur.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We utilize certain derivative instruments in the normal course of operations. These instruments include private investor sales commitments and commitments to originate mortgage loans (interest rate lock commitments or locked pipeline), all of which typically are short-term in nature. Private investor sales commitments are utilized to hedge changes in fair value of mortgage loan inventory and commitments to originate mortgage loans.

We did not designate our derivatives as hedging instruments and applied the lower-of-cost-or-market method to account for mortgage loan inventory in accordance with SFAS No. 65, *Accounting for Certain Mortgage Banking Activities.*

Staff Accounting Bulletin 105, *Application of Accounting Principles to Loan Commitments* (SAB 105) provides guidance regarding interest rate lock commitments (IRLCs) that are accounted for as derivative instruments under SFAS 133. In SAB 105, the SEC stated that the value of expected future cash flows related to servicing rights and other intangible components should be excluded when determining the fair value of the derivative IRLCs and such value should not be recognized until the underlying loans are sold. Our IRLCs were directly offset by forward trades and the valuation of the derivatives did not have a material impact on the Company s financial position or results of operations.

We entered into three separate builder forward commitments in 2007 for an option to fill a commitment of up to $75.0 million of loans at agreed-upon rates. The purpose of these builder forward commitments was to increase the volume of customers by offering below market mortgage interest rates. The builder forward commitments were accounted for as a reduction of revenue and were immaterial to the consolidated financial statements. The total commitment fee paid for the year ended December 31, 2007 was $0.6 million.

Early Payment Default Reserve

At December 31, 2007, we are obligated under loan purchase agreements (LPAs) with third-party investors to repurchase loans if certain terms and conditions defined in the LPAs are not met, and that repurchase risk is primarily related to early payment default. It is our policy to provide for estimated losses related to repurchase risk based on delinquency trends and historical experience. At December 31, 2007 and 2006, we recorded a $0.6 million and $0.1 million, respectively, early payment default reserve. During the year ended December 31, 2007 and 2006, we made indemnification payments of $0.5 million and $0.1 million, respectively. No indemnification payments were made during 2005. In July 2008, we entered into a settlement agreement whereby we paid $2.9 million to be released from all current and future LPA obligations.

Revenue Recognition

Loan origination revenues, net of direct origination costs, and loan discount points are deferred and recorded as an adjustment to the carrying value of the related mortgage loans held for sale, and are recognized as income when the related loans are sold to third-party investors. Gains and losses from the sale of loans are recognized to the extent that the sales proceeds exceed, or are less than, the carrying value of the loans. The Company sells all loans on a servicing released basis. Mortgage interest income is earned during the interim period before mortgage loans are sold and is accrued as earned.

Fees derived from our title services are recognized as revenue in the month of closing of the underlying sale transaction.

General

Cash and Supplemental Cash Flow Information

Cash includes amounts in transit from title companies for home deliveries and highly liquid investments with an initial maturity of three months or less.

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted cash consists of amounts held in escrow as required by purchase contracts and reserve requirements of certain debt facilities.

Accounting for the Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), we carry long-lived assets at the lower of the carrying amount or fair value. Impairment is evaluated by estimating future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the assets, an impairment loss is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During the years ended December 31, 2007, 2006, and 2005, we recorded impairment losses on active communities of $180.8 million, $81.9 million and $6.5 million, respectively. In addition, during the years ended December 31, 2007, 2006, and 2005, we also recorded a charges of $671.9 million, $71.3 million and $0.2 million, respectively, for deposits and abandonment costs related to land that we no longer intend to purchase or build on. These losses are included in cost of sales inventory impairments and abandonment costs in the accompanying consolidated statements of operations.

Concentration of Credit Risk

We conduct business primarily in four geographical regions: Florida, the Mid-Atlantic, Texas, and the West. Accordingly, the market value of our inventory is susceptible to changes in market conditions that may occur in these locations. With regards to the mortgage loans held for sale, we will generally only originate loans which have met underwriting criteria required by purchasers of our loan portfolios. Additionally, we generally sell our mortgage loans held for sale within 30 days which minimizes our credit risk. We are exposed to credit risk as our mortgage loans held for sale are sold primarily to one investor.

Property and Equipment

Property and equipment, consisting primarily of office premises, transportation equipment, office furniture and fixtures, capitalized software costs, and model home furniture, are stated at cost net of accumulated depreciation. Repairs and maintenance are expensed as incurred.

Depreciation generally is provided using the straight-line method over the estimated useful life of the asset, which ranges from 3 to 31 years. At December 31, 2007 and 2006, accumulated depreciation approximated $35.5 million and $28.3 million, respectively.

Deferred Finance Costs

Costs incurred in connection with the issuance of our borrowings are capitalized and amortized using the effective interest method over the life of the related borrowing.

Goodwill

Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. Additional consideration paid in subsequent periods under the terms of purchase agreements is included as acquisition costs.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we test goodwill for impairment annually or more frequently if certain impairment indicators are present. For purposes of the impairment test, we consider each homebuilding and financial services entity a reporting unit. Our impairment test is based on discounted cash flows derived from internal projections. This process requires us to make assumptions on future revenues, costs, and timing of expected cash flows. Due to the degree of judgment

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

required and uncertainties surrounding such estimates, actual results could differ from such estimates. To the extent additional information arises or our strategies change, it is possible that our conclusion regarding goodwill impairment could change, which could have a material adverse effect on our financial position and results of operations.

During the years ending December 31, 2007 and 2006, we determined that the challenging housing market and the asset impairments taken in certain of our homebuilding divisions were indicators of impairment. We performed our interim impairment tests during 2007 and 2006, and our annual impairment tests as of December 31, 2007 and 2006. As a result, we recorded homebuilding goodwill impairment charges of $89.7 million and $5.7 million for the years ended December 31, 2007 and 2006, respectively.

The change in homebuilding goodwill for the years ended December 31, 2007 and 2006 is as follows (dollars in millions):

	Year Ended December 31,	
	2007	2006
Balance at January 1	$ 100.9	$ 105.7
Earn-out consideration paid on acquisitions		0.9
Impairments:		
Florida	(45.9)	
Mid-Atlantic	(27.6)	
Texas[1]	(0.8)	
West	(15.4)	(5.7)
Total impairments	(89.7)	(5.7)
Balance at December 31[2]	$ 11.2	$ 100.9

(1) The Texas Region excludes the Dallas division, which is now classified as a discontinued operation.

(2) The balance at December 31, 2007 consists of $1.6 million related to the Mid-Atlantic region and $9.6 million related to the Texas region.

Additionally, during the year ended December 31, 2007, we wrote-off $3.9 million of goodwill associated with our Financial Services subsidiaries and $3.1 million of goodwill related to our former Dallas division that has been accounted for as discontinued operations.

Insurance and Litigation Reserves

Insurance and litigation reserves have been established for estimated amounts based on an analysis of past history of claims. We have, and require the majority of our subcontractors to have, general liability insurance that protects us against a portion of our risk of loss from construction-related claims. We reserve for costs to cover our self-insured retentions and deductible amounts under these policies and for any costs in excess of our coverage limits. Because of the high degree of judgment required in determining these estimated reserve amounts, actual future claim costs could differ from our currently estimated amounts.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS 109), as interpreted by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), whereby, income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. FIN 48, which became effective for us on January 1, 2007, prescribed the minimum threshold a tax position is required to meet before being recognized in the consolidated financial statements and provided guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, transition and disclosures. See Note 9, Income Taxes, for additional discussion.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options or other common stock equivalents that are freely exercisable into common stock at less than market prices or otherwise dilute earnings if converted. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share.

The following table represents a reconciliation of the weighted average shares outstanding:

	Year Ended December 31,		
	2007	**2006**	**2005**
Basic weighted average shares outstanding	59,601,887	59,582,697	57,120,031
Net effect of common stock equivalents assumed to be exercised			2,239,324
Diluted weighted average shares outstanding	59,601,887	59,582,697	59,359,355

The shares issued and outstanding and the earnings per share amounts in the consolidated financial statements have been adjusted to reflect a five-for-four stock split affected in the form of a 25% stock dividend paid on March 31, 2005.

On September 13, 2005, pursuant to an underwritten public offering, we sold 3,358,000 shares of our common stock at a price of $28.00 per share. The net proceeds of the offering to us were $89.2 million, after deducting offering costs and underwriting fees of $4.8 million. The offering proceeds were used to pay outstanding indebtedness under our revolving credit facility.

For the year ended December 31, 2007 and 2006, the convertible preferred stock, stock warrants, stock options and restricted stock, as applicable, have not been included in diluted earnings per share as their effect is anti-dilutive (see Note 12).

Stock-Based Compensation

Prior to January 1, 2006, we accounted for stock option awards granted under our share-based payment plan in accordance with the recognition and measurement provisions of Accounting Principles Board Opinions No. 25, *Accounting for Stock Issued to Employees* (APB 25) and related Interpretations, as permitted by SFAS 123, *Accounting for Stock-Based Compensation*. Share-based employee compensation expense was not recognized in our consolidated statement of operations prior to January 1, 2006, except for certain options with performance-based accelerated vesting criteria and certain outstanding common stock purchase rights, as all other stock option awards granted under the plan had an exercise price equal to or greater than the market value of the common stock on the date of the grant.

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Effective January 1, 2006, we adopted the provisions of SFAS 123(R), *Share-Based Payment*, including Staff Accounting Bulletin No. 107 (SAB 107), which provided supplemental implementation guidance for SFAS 123(R), using the modified-prospective-transition method. Under this transition method, compensation expense recognized for the year ended December 31, 2006 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123 and (b) compensation expense for all share-based awards granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). In accordance with the modified-prospective-transition method, results for prior periods were not restated. Additionally, in connection with the adoption of SFAS 123(R) we recognized a cumulative change in accounting principle of $2.0 million, net of tax, related to certain common stock purchase rights that were accounted for under the variable accounting method. The pre-tax cumulative effect of the change in accounting principle of $3.2 million was not material and therefore was included in selling, general and administrative expenses with the related tax effect of $1.2 million included in the provision for income taxes rather than displayed separately as a cumulative change in accounting principle in the consolidated statement of operations. The adoption of SFAS 123(R) resulted in a charge of $11.3 million and $7.4 million to income (loss) before provision for income taxes and net income, respectively, for the year ended December 31, 2006. The impact of adopting SFAS 123(R) on both basic and diluted earnings was $0.13 per share.

Under the provisions of SFAS 123(R), the unearned compensation caption in our consolidated statement of financial condition, a contra-equity caption representing the amount of unrecognized share-based compensation costs, is no longer presented. The amount that had been previously shown as unearned compensation was reversed through the additional paid-in capital caption in our consolidated statement of financial condition.

In accordance with SFAS 123(R), we present the tax benefits resulting from the exercise of share-based awards as financing cash flows. Prior to the adoption of SFAS 123(R), we reported the tax benefits resulting from the exercise of share-based awards as operating cash flows. The effect of this change was not material to our consolidated statement of cash flows.

If the methodologies of SFAS 123(R) were applied to determine compensation expense for our stock options based on the fair value of our common stock at the grant dates for awards under our option plan, our net income and earnings per share for the year ended December 31, 2005 would have been adjusted to the pro forma amounts indicated below (dollars in millions, except per share amounts):

	Year Ended December 31, 2005
Net income as reported	$ 218.3
Add: Stock-based employee compensation included in reported net income, net of tax	2.2
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax	(2.7)
Pro forma net income	$ 217.8

Reported basic earnings per share	$	3.82
Pro forma basic earnings per share	$	3.81
Reported diluted earnings per share	$	3.68
Pro forma diluted earnings per share	$	3.67

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Expected volatility	0.33 to 0.42
Expected dividend yield	0.00%
Risk-free interest rate	1.47% - 4.85%
Expected life	3 - 10 years

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires companies to disclose the estimated fair value of their financial instrument assets and liabilities. Fair value estimates are made at a specific point in time, based upon relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time our entire holdings of a particular instrument. The carrying values of cash and mortgage loans held for sale approximate their fair values due to their short-term nature. The fair value of mortgage loans held for sale approximates $15.0 million which includes the unpaid balance, net of loan loss reserves, and the service release premium that is received when the loans are sold. The carrying value of the financial services borrowings, the revolving loan facility, first and second lien term facilities and obligations for inventory not owned approximate their fair value as substantially all have a fluctuating interest rate based upon current market indices. The fair value of the $20.0 million Senior Subordinated PIK Notes is $0.2 million at December 31, 2007, as estimated by reference to similar instruments with quoted market prices. The fair value of the $550.0 million senior notes and $510.0 million senior subordinated notes at December 31, 2007 is $231.6 million and $23.6 million, respectively, as determined by quoted market prices.

Recent Accounting Pronouncements

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156), which provides an approach to simplify efforts to obtain hedge-like (offset) accounting. This new statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. SFAS 156 is effective for all separately recognized servicing assets and liabilities as of the beginning of an entity s fiscal year that begins after September 15, 2006, with earlier adoption permitted in certain circumstances. We adopted SFAS 156 effective January 1, 2007. Due to the short period of time our servicing rights are held, the adoption did not have a significant impact on our consolidated financial statements.

We adopted FIN 48 effective January 1, 2007. See Note 9 of the consolidated financial statements for discussion of income taxes.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 (our fiscal year beginning January 1, 2008), and interim periods within those fiscal years. In February 2008, the FASB issued a final Staff

Position to allow a one-year deferral of adoption of SFAS 157 for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also decided to amend SFAS 157 to exclude SFAS 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions. We are currently reviewing the effect of this statement on our consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In November 2006, the FASB issued EITF No. 06-8, *Applicability of the Assessment of a Buyers Continuing Investment under FASB Statement No. 66, Accounting for Sales of Real Estate, for Sales of Condominiums* , (EITF 06-8). EITF 06-8 establishes that a company should evaluate the adequacy of the buyer s continuing investment in determining whether to recognize profit under the percentage-of-completion method. EITF 06-8 is effective for the first annual reporting period beginning after March 15, 2007 (January 1, 2008 for us). The effect of EITF 06-8 is not expected to be material to our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (SFAS 159). SFAS 159 permits companies to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007 (January 1, 2008 for us). The adoption of SFAS 159 is not expected to be material to our consolidated financial statements.

EITF Topic D-109, *Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133*, addresses the determination of whether the characteristics of a host contract related to a hybrid financial instrument issued in the form of a share are more akin to a debt instrument or more akin to an equity instrument. EITF D-109 indicates that the determination of the nature of the host contract for a hybrid financial instrument issued in the form of a share (that is, whether the nature of the host contract is more akin to a debt instrument or more akin to an equity instrument) should be based on a consideration of economic characteristics and risks of the host contract including all of the stated or implied substantive terms and features of the hybrid financial instrument. Although the consideration of an individual term or feature may be weighted more heavily in the evaluation, judgment is required based upon an evaluation of all the relevant terms and features. The application of this guidance was considered and evaluated in light of the Preferred Stock issued by us on July 31, 2007 (refer to Note 12) but did not have a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141(R)). SFAS No. 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, and the goodwill acquired. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective, and early adoption is not permitted. Adoption of SFAS 141(R) will apply to any business combination beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of retained, noncontrolling equity investments when a subsidiary is deconsolidated. SFAS No. 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. We are currently reviewing the effect of this statement on our consolidated financial statements.

On February 20, 2008, the FASB issued FASB Staff Position (FSP) SFAS No. 140-3*, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*. The FSP addresses whether there are circumstances that would permit a transferor and a transferee to evaluate the accounting for the transfer of a financial asset separately from a repurchase financing when the counterparties to the two transactions are the same. The FSP presumes that the initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement (a linked transaction) under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS No. 140). However, if certain

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

criteria specified in the FSP are met, the initial transfer and repurchase financing may be evaluated separately under SFAS No. 140. The FSP is effective for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Earlier application is not permitted. Adoption of the FSP is not expected to have a material effect on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, (SFAS No. 161). SFAS No. 161 requires enhanced disclosures regarding derivative instruments and hedging activities to enable investors to better understand their effects on a company s financial position, financial performance and cash flows. These requirements include the disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. We are currently evaluating the impact SFAS No. 161 will have on our consolidated financial statements.

3. Inventory

A summary of homebuilding interest capitalized in inventory is as follows (dollars in millions):

	Year Ended December 31,		
	2007	2006	2005
Interest capitalized, beginning of period	$ 68.7	$ 44.2	$ 32.6
Interest incurred[(1)]	154.8	98.5	79.3
Less interest included in:			
Cost of sales	112.8	72.6	63.0
Interest expense	31.6	0.6	0.4
Other adjustments[(2)]	1.3	0.8	4.3
Interest capitalized, end of period	$ 77.8	$ 68.7	$ 44.2

(1) Included in interest incurred is the amortization of deferred finance costs which totaled $11.0 million, $3.7 million and $3.3 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(2) Included in other adjustments above for the year ended December 31, 2005 is interest which was capitalized to inventory that was subsequently contributed to an unconsolidated joint venture.

In the ordinary course of business, we enter into option contracts to purchase homesites and land held for development. At December 31, 2007 and 2006, we had non-refundable cash deposits totaling $56.9 million and $216.6 million, respectively, included in inventory in the accompanying consolidated statements of financial condition. Under these option contracts, we have the right to buy homesites at predetermined prices on a predetermined takedown schedule anticipated to be commensurate with home starts. Option contracts generally require the payment of a cash deposit and/or the posting of a letter of credit, which is typically less than 20% of the underlying purchase price, and may require monthly maintenance payments. These option contracts are either with land sellers or third party financial entities who have acquired the land to enter into the option contract with us. Homesite option contracts are generally non-recourse, thereby limiting our financial exposure for non-performance to our cash deposits and/or letters of credit. In certain instances, we have entered into development agreements in connection with option contracts which require us to complete the development of the land, at a fixed reimbursable amount, even if we choose not to exercise our option and forfeit our deposit and even if our costs exceed the reimbursable amount. During the year ended December 31, 2007, we abandoned our rights under certain option contracts that require us to complete the development of land for a fixed reimbursable amount. We recorded losses totaling $10.3 million for our estimated obligations under these development agreements which are included in accounts payable and other liabilities at December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, certain of these option contracts give the other party the right to require us to purchase homesites or guarantee certain minimum returns. During the year ended December 31, 2007, we abandoned our rights under certain option contracts that give the other party the right to require us to purchase the homesites. Some of these parties have given notice exercising their right to require us to purchase the homesites. We do not have the ability to comply with these notices due to liquidity constraints. These option contracts were previously consolidated and the inventory was included in inventory not owned and the corresponding liability was included in obligations for inventory not owned. As we do not have the intent or the ability to comply with the requirement to purchase the property, we have deconsolidated these option contracts at December 31, 2007. Impairment charges related to capitalized pre-acquisition costs associated with these option contracts of $10.6 million were written off during the year ended December 31, 2007. In addition, at December 31, 2007, we recorded a loss accrual of $20.1 million, in connection with the abandonment of these option contracts, for our estimated obligations under these option contracts, including $10.5 million for letters of credit which we anticipated would be drawn due to nonperformance under such contracts. This amount was computed based on estimated deficiency between the fair value of the underlying inventory compared to our required purchase price under the option contract. This accrual is included in accounts payable and other liabilities in the accompanying consolidated statement of financial condition at December 31, 2007. As of December 31, 2007, the total required purchase price under these option contracts was $25.0 million.

Some of these option contracts for the purchase of land or homesites are with land sellers and third party financial entities, which qualify as variable interest entities (VIEs) under FASB Interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities* (FIN 46(R)). FIN 46(R) addresses consolidation by business enterprises of VIEs in which an entity absorbs a majority of the expected losses, receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Obligations for inventory not owned in our consolidated statements of financial condition represent liabilities associated with our land banking and similar activities, including obligations in VIEs which have been consolidated by us and in which we have a less than 50% ownership interest, and the creditors have no recourse against us. As a result, the obligations have been specifically excluded from the calculation of leverage ratios pursuant to the terms of our revolving credit facility.

In applying FIN 46(R) to our homesite option contracts and other transactions with VIEs, we make estimates regarding cash flows and other assumptions. We believe that our critical assumptions underlying these estimates are reasonable based on historical evidence and industry practice. Based on our analysis of transactions entered into with VIEs, we determined that we are the primary beneficiary of certain of these homesite option contracts. Consequently, FIN 46(R) requires us to consolidate the assets (homesites) at their fair value, although (1) we have no legal title to the assets, (2) our maximum exposure to loss is generally limited to the deposits or letters of credit placed with these entities, and (3) creditors, if any, of these entities have no recourse against us.

The effect of FIN 46(R) at December 31, 2007 was to increase inventory by $16.2 million, excluding cash deposits of $3.8 million, which had been previously recorded, with a corresponding increase to obligations for inventory not owned of $16.2 million in the accompanying consolidated statement of financial condition. Additionally, we have entered into arrangements with VIEs to acquire homesites in which our variable interest is insignificant and, therefore, we have determined that we are not the primary beneficiary and are not required to consolidate the assets of such VIEs. Our potential exposure to loss in VIEs where we are not the primary beneficiary would primarily be the forfeiture of our deposit and/or letters of credit placed on land purchase and option contracts. At December 31, 2007 and December 31, 2006, our non-refundable cash deposits placed on land purchase and option contracts amounted to $56.9 million and $216.6 million, respectively, and our letters of credit placed on land purchase and option contracts amounted to $44.9 million and $257.8 million, respectively.

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From time to time, we transfer title to certain parcels of land to unrelated third parties and enter into options with the purchasers to acquire fully developed homesites. As we have continuing involvement in these properties, in accordance with SFAS 66, we have accounted for these transactions as financing arrangements. At December 31, 2007, $9.8 million (net of $6.0 million in impairments) of inventory not owned and $15.8 million of obligations for inventory not owned relates to sales where we have continuing involvement.

During the year ended December 31, 2007, additional equity contributions in the form of gap loans were made to an unconsolidated joint venture, which was a VIE. The additional equity contributions constituted reconsideration events under FIN 46(R). Based on an analysis under FIN 46(R), we absorb the majority of expected losses and are the primary beneficiary of this entity. Therefore, in accordance with FIN 46(R), we consolidated this entity as of the period beginning October 1, 2007, resulting in additional revenue of $4.0 million in our consolidated statement of operations. The consolidation also resulted in additional assets of $5.7 million and liabilities of $0.7 million in our consolidated statement of financial condition as of December 31, 2007.

In accordance with SFAS No. 144, we carry long-lived assets held for sale at the lower of the carrying amount or fair value. For active communities (communities under development and construction), we evaluate an asset for impairment when events and circumstances indicate that they may be impaired. Impairment is evaluated by estimating future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected undiscounted future cash flows is less than the carrying amount of the assets, an impairment loss is recognized. Fair value, for purposes of calculating impairment, is measured based on estimated future cash flows, discounted at a market rate of interest. During the years ended December 31, 2007, 2006 and 2005, we recorded impairment losses of $180.8 million, $81.9 million and $6.5 million, respectively, on active communities, which are included in cost of sales inventory impairments and abandonment costs in the accompanying consolidated statements of operations. Included in the impairment charges on active communities for years ended December 31, 2007 is $6.0 million of inventory impairments recognized on properties accounted for as financing arrangements under SFAS 66 for which we do not have title to the underlying asset.

In accordance with SFAS No. 144, we performed an evaluation of impairment on a large land parcel with a carrying value of $92.3 million as of December 31, 2007. As of December 31, 2007, this parcel is not impaired as the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition exceed the carrying value. Changes in the timing or amounts of these cash flows could result in a material impairment charge.

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During the years ended December 31, 2007, 2006 and 2005, we also recorded charges of $671.9 million, $71.3 million and $0.2 million, respectively, in write-offs of deposits and abandonment costs which is included in cost of sales inventory impairments and abandonment costs in the accompanying consolidated statements of operations, related to land that we have determined is not probable that we will purchase or build on. The following table summarizes information related to impairment charges on active communities and write-offs of deposits and abandonment costs by region (dollars in millions):

	Year Ended December 31,		
	2007	2006	2005
Impairment charges on active communities:			
Florida	$ 95.8	$ 13.2	$ 1.8
Mid-Atlantic	16.0	26.2	0.8
Texas[1]	1.0	0.6	
West	68.0	41.9	3.9
	180.8	81.9	6.5
Write-offs of deposits and abandonment costs:			
Florida	370.1	8.3	
Mid-Atlantic	63.3	11.8	
Texas[1]	5.3	0.2	0.2
West	233.2	51.0	
	671.9	71.3	0.2
Inventory impairments and abandonment costs	$ 852.7	$ 153.2	$ 6.7

(1) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

4. Transeastern Joint Venture Settlement and Acquisition

We acquired our 50% interest in the Transeastern Joint Venture (Transeastern JV) on August 1, 2005, when the Transeastern JV acquired substantially all of the homebuilding assets and operations of Transeastern Properties, Inc. including work in process, finished lots and certain land option rights. The Transeastern JV paid approximately $826.2 million for these assets and operations (which included the assumption of $127.1 million of liabilities and certain transaction costs, net of $30.1 million of cash). The other member of the joint venture was an entity controlled by the former majority owners of Transeastern Properties, Inc. We functioned as the managing member of the Transeastern JV through a wholly-owned subsidiary.

When the Transeastern JV was initially formed, it had more than 3,000 homes in backlog and projected 2006 deliveries of approximately 3,500 homes. While management of the Transeastern JV began to curtail sales in its communities at the end of 2005, these actions were taken not in anticipation of a declining home sales market but rather in an attempt to address the Transeastern JV s backlog until there was a balance among sales, construction and deliveries. Both our management and the management of the Transeastern JV anticipated increased sales by the close of the summer of 2006.

After experiencing several months of continuous declines in deliveries as compared to forecasted amounts due to higher than expected cancellations and lower than expected gross sales, in early September 2006, management of the Transeastern JV finalized and distributed to its members six-year financial projections based on the build-out and sale of its current controlled land positions. These revised projections from the Transeastern JV indicated that the joint venture would report a loss in the fourth quarter and would not have the liquidity to meet its debt obligations. As a result of these and other factors, in September 2006, we

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evaluated the recoverability of our investment in the joint venture under APB 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18), and determined our investment to be fully impaired. As of September 30, 2006, we wrote off $143.6 million related to our investment in the Transeastern JV, which included $35.0 million of our member loans receivable and $16.2 million of receivables for management fees, advances and interest due to us from the joint venture.

On October 31, 2006 and November 1, 2006, we received demand letters from the administrative agent for the lenders to the Transeastern JV demanding payment under certain guarantees. The demand letters alleged that potential defaults and events of default had occurred under the credit agreements and that such potential defaults or events of default had triggered our obligations under the guarantees. The lenders claimed that our guarantee obligations equaled or exceeded all of the outstanding obligations under each of the credit agreements and that we were liable for default interest, costs and expenses.

On July 31, 2007, we consummated transactions to settle the disputes regarding the Transeastern JV with the lenders to the Transeastern JV, its land bankers and our joint venture partner in the Transeastern JV. Pursuant to the settlement, among other things,

- the Transeastern JV became a wholly-owned subsidiary of ours by merger into one of our subsidiaries, which became a guarantor on our credit facilities and note indentures (the acquisition was accounted for using the purchase method of accounting and results of operations have been included in our consolidated results beginning on July 31, 2007);

- the senior secured lenders of the Transeastern JV were repaid in full, including accrued interest (approximately $400.0 million in cash);

- the senior mezzanine lenders to the Transeastern JV received $20.0 million in aggregate principal amount of 14.75% Senior Subordinated PIK Election Notes due 2015 and $117.5 million in initial aggregate liquidation preference of 8% Series A Convertible Preferred PIK Preferred Stock;

- the junior mezzanine lenders to the Transeastern JV received warrants to purchase shares of our common stock which had an estimated fair value of $8.2 million at issuance (based on the Black-Scholes option pricing model and before issuance costs);

- we entered into settlement and release agreements with the senior mezzanine lenders and the junior mezzanine lenders to the Transeastern JV which released us from our potential obligations to them; and

- we entered into a settlement and mutual release agreement with Falcone/Ritchie LLC and certain of its affiliates (the Falcone Entities) concerning the Transeastern JV, one of which owned 50% of the equity interests in the Transeastern JV and, among other things, released the Falcone Entities from claims under the 2005 asset purchase agreement pursuant to which we acquired our interest in the Transeastern JV. Pursuant to the settlement agreement, we remain obligated on certain indemnification obligations, including, without limitation, related to certain land bank arrangements.

To effect the settlement of the Transeastern JV dispute, on July 31, 2007, we also entered into:

an amendment to our $800.0 million revolving loan facility, dated January 30, 2007;

a new $200.0 million aggregate principal amount first lien term loan facility; and

a new $300.0 million aggregate principal amount second lien term loan facility.

The proceeds from the first and second lien term loans were used to satisfy claims of the senior secured lenders against the Transeastern JV, and to pay related expenses. Our existing $800.0 million revolving loan facility was amended and restated to reduce the revolving commitments thereunder by $100.0 million and permit the incurrence of the first and second lien term loan facilities (and make other conforming changes

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relating to the facilities). Net proceeds from these financings at closing were $470.6 million which is net of a 1% discount and transaction costs.

We also paid:

$50.2 million in cash to purchase land under existing land bank arrangements with the former Transeastern JV partner; and

$33.5 million in interest and expenses.

Additional descriptions of the facilities, preferred stock and the warrants are provided in Notes 8 and 12 to the consolidated financial statements.

In accordance with SFAS No. 5, Accounting for Contingencies (SFAS 5), and other authoritative guidance, through June 30, 2007, we accrued $385.9 million for settlement of loss contingency (determined by computing the difference between the estimated fair market value of the consideration paid in connection with the global settlement less the estimated fair market value of the business we acquired) of which, $275.0 million was accrued at December 31, 2006 (included in accounts payable and other liabilities in our consolidated statement of financial condition) and $110.9 million was accrued during the six months ended June 30, 2007 based on the final settlement terms. During the three months ended September 30, 2007 we recorded an additional $40.7 million upon completion of the purchase price allocation based on the estimated fair market of the consideration paid and the net assets acquired.

In connection with the Transeastern JV settlement, we recognized a loss of $426.6 million, of which $151.6 million was recognized during the year ended December 31, 2007 and $275.0 million was recognized during the year ended December 31, 2006.

The consideration paid by us in connection with the TE Acquisition approximated $586.8 million, at the time of settlement, which included (dollars in millions):

Purchase price:	
Cash consideration paid to Senior Lenders of the Transeastern JV	$ 400.0
Fair value of convertible preferred stock issued	84.0
Fair value of senior subordinated notes issued	10.9
Fair value of common stock warrants issued	8.2
Payment to purchase land under existing land bank arrangements	50.2
Transaction costs including accrued interest paid to the Senior Lenders	33.5
Total estimated purchase price	$ 586.8
Allocation of purchase consideration:	
Cash and cash equivalents	$ 10.3
Restricted cash	28.4
Inventory[1]	149.8

Property and equipment	1.0
Accounts payable and other liabilities	(27.4)
Customer deposits	(1.9)
Previously accrued loss contingency[(2)]	385.9
Additional loss on TE Acquisition[(3)]	40.7
	$ 586.8

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(1) The fair value of the inventory was determined by estimating future cash flows expected to result from the use of the asset and its eventual disposition, discounted at a market rate of interest.

(2) In accordance with SFAS 5 and other authoritative guidance, as of June 30, 2007, the Company accrued $385.9 million for settlement of a loss contingency (determined by computing the difference between the estimated fair market value of the consideration paid in connection with the global settlement less the estimated fair market value of the business acquired).

(3) There were no identifiable intangible assets or goodwill associated with the TE Acquisition.

The following unaudited pro forma consolidated results of operations assume that the acquisition of Transeastern was completed as of January 1 for each of the periods shown below (in millions):

	Year Ended December 31, 2007	Year Ended December 31, 2006
Homebuilding revenues	$ 2,333.6	$ 3,088.6
Loss from continuing operations	(1,379.6)	(638.8)
Net loss available to common stockholders	(1,390.0)	(648.4)
EARNINGS (LOSS) PER COMMON SHARE, DILUTED:		
Earnings (loss) from continuing operations, net of preferred stock dividends and accretion of discount	(23.32)	(10.88)
Earnings (loss) from discontinued operations	(0.38)	(0.01)
Diluted earnings (loss) per common share	$ (23.70)	$ (10.89)

Pro forma data may not be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented, nor does it intend to be a projection of future results.

5. Investments in Unconsolidated Joint Ventures

We have entered into strategic joint ventures that acquire and develop land for our Homebuilding operations and/or that also build and market homes for sale to third parties. Our partners in these joint ventures generally are unrelated homebuilders, land sellers, financial investors or other real estate entities. In some cases our Chapter 11 filings have constituted an event of default under the joint venture lender agreements which have resulted in the debt becoming immediately due and payable, limiting the joint ventures access to future capital. In joint ventures where the assets are being financed with debt, the borrowings are non-recourse to us except that in certain instances we have agreed to complete certain property development commitments in the event the joint ventures default and to indemnify the lenders for losses resulting from fraud, misappropriation and similar acts. In some cases, we have agreed to make capital contributions to the joint venture sufficient to comply with a specified debt to value ratio. Our obligations become full recourse upon certain bankruptcy events with respect to the joint venture. At December 31, 2007 and 2006, we had investments in unconsolidated joint ventures of $9.0 million and $129.0 million, respectively. We account for these investments under the equity method of accounting. These unconsolidated joint ventures are limited liability companies or limited partnerships in which we have a limited partnership interest and a minority interest in the general partner. At December 31, 2007 and 2006, we had receivables of $0.3 million and $27.2 million net of allowances, respectively, from these joint ventures due to loans and advances, unpaid management fees and other items.

In many instances, we are appointed as the day-to-day manager of the unconsolidated entities and receive management fees for performing this function. We earned management fees from these unconsolidated entities of $9.9 million, $32.1 million, and $25.3 million for the years ended December 31, 2007, 2006, and 2005,

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respectively. These fees are included in income (loss) from unconsolidated joint ventures in the accompanying consolidated statements of operations. In the aggregate, these joint ventures delivered 927, 1,778, and 1,319 homes for the years ended December 31, 2007, 2006 and 2005, respectively.

As further discussed in Note 4 and below, we evaluated the recoverability of our investments in and receivables from unconsolidated joint ventures under APB 18 and SFAS 114, and recorded total impairments of investments in unconsolidated joint ventures of $194.1 million and $152.8 million during the years ended December 31, 2007 and 2006, respectively.

Engle/Sunbelt Joint Venture

In December 2004, we entered into a joint venture agreement with Suntous Investors, LLC (Suntous) to form Engle/Sunbelt Holdings, LLC (Engle/Sunbelt). Engle/Sunbelt was formed to develop finished homesites and to build and deliver homes in the Phoenix, Arizona market. Upon its inception, the venture acquired eight of our existing communities in Phoenix, Arizona. We and Suntous contributed capital of approximately $28.0 million and $3.2 million, respectively, and the joint venture itself obtained financing arrangements with an aggregate borrowing capacity of $180.0 million, of which $150.0 million related to a revolving loan and $30.0 million related to a mezzanine financing instrument.

In July 2005, we contributed assets to Engle/Sunbelt resulting in a net capital contribution by us of $5.4 million. At that time, Engle/Sunbelt amended its financing arrangements to increase the revolving loan to $250.0 million. On April 30, 2007, Engle/Sunbelt amended its revolving loan to reduce the aggregate commitment of the lenders from $250.0 million to $200.0 million and extended the maturity date to March 17, 2008. In addition, the amendment increased the minimum adjusted tangible net worth covenant and reduced the minimum interest coverage ratio covenant. On January 16, 2008, the facility was further amended to reduce the revolving loan limit to $115.0 million and terminate the mezzanine financing instrument. In addition, the amendment reduced the minimum interest coverage ratio covenant. While the borrowings by Engle/Sunbelt were non-recourse to us, we had obligations to complete construction of certain improvements and housing units in the event Engle/Sunbelt defaults. Additionally, we agreed to indemnify the lenders for, among other things, potential losses resulting from fraud, misappropriation, bankruptcy filings and similar acts by Engle/Sunbelt.

In connection with the July 2005 contribution of assets to Engle/Sunbelt, we realized a gain of $42.6 million, of which $36.3 million was deferred due to our continuing involvement with these assets through our investment. In March 2006, we assigned to Engle/Sunbelt our rights under a contract to purchase approximately 539 acres of raw land for a price of $18.7 million with a corresponding gain of $15.8 million, of which $13.5 million was deferred. In January 2007, we assigned to Engle/Sunbelt our rights under an option contract for $5.1 million, all of which was deferred, payable in the form of a note with a one year term, bearing interest at 10% per annum. These deferrals were being recognized in the consolidated statement of operations as homes were delivered by the joint venture. During the years ended December 31, 2007, 2006 and 2005, we recognized revenue previously of $5.7 million, $10.0 million and $2.7 million, respectively, related to these transactions which is included in cost of sales-other in the accompanying consolidated statements of operations. At December 31, 2006, $22.8 million was deferred and included in accounts payable and other liabilities in the accompanying consolidated statement of financial condition. There were no amounts deferred at December 31, 2007 due to the write-off of our investment in the joint venture as discussed below.

Although Engle/Sunbelt was not included in our Chapter 11 filings, our Chapter 11 filings constituted an event of default under the financing arrangements and Engle/Sunbelt s debt became immediately due and payable.

In April 2008, we entered into a settlement agreement with the lenders pursuant to which Engle/Sunbelt has agreed to the appointment of a receiver and further agreed to either, at the election of the lenders, deliver

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a deed in lieu of foreclosure to its assets or consent to a judicial foreclosure. We have also agreed to assist the lenders in their efforts to complete certain construction for which we will receive arm s length compensation. Upon transfer of title to the lenders, we will be relieved from our obligations under the completion and indemnity agreements. The Bankruptcy Court entered an order approving the settlement agreement.

During the year ended December 31, 2007, we evaluated the recoverability of our investment in and receivables from Engle/Sunbelt for impairment under APB 18 and SFAS 114 respectively, and recorded an impairment charge of $60.7 million representing the full carrying value our investment in and receivables from Engle/Sunbelt, net of deferred gains of $22.5 million. No completion obligation accrual has been established at December 31, 2007 with respect to Engle/Sunbelt due to the settlement agreement reached with the lenders to the joint venture.

Summarized in the tables below is condensed combined financial information of Engle/Sunbelt (dollars in millions).

	December 31,	
	2007	2006
Assets:		
Cash and cash equivalents	$ 3.5	$ 22.5
Inventories	193.2	246.6
Other assets	2.3	2.8
Total assets	$ 199.0	$ 271.9
Liabilities and equity:		
Accounts payable and other liabilities	$ 70.2	$ 44.8
Notes payable	85.4	161.3
Equity of:		
TOUSA, Inc.	37.6	56.6
Others	5.8	9.2
Total equity	43.4	65.8
Total liabilities and equity	$ 199.0	$ 271.9

	Year Ended December 31,	
	2007	2006
Revenues	$ 230.1	$ 511.1
Costs and expenses	252.4	449.2

Net income (loss)	$ (22.3)	$ 61.9

TOUSA/Kolter Joint Venture

In January 2005, we entered into a joint venture with Kolter Real Estate Group LLC to form TOUSA/Kolter Holdings, LLC (TOUSA/Kolter) for the purpose of acquiring, developing and selling approximately 1,900 homesites and commercial property in a master planned community in South Florida. The joint venture obtained senior and senior subordinated term loans (the term loans) of which $47.0 million and $7.0 million, respectively, were outstanding as of December 31, 2007. We entered into a Performance and Completion Agreement in favor of the lenders under which we agreed, among other things, to construct and complete the horizontal development of the lots and commercial property and related infrastructure in accordance with certain agreed plans. The term loans required, among other things, TOUSA/Kolter to have

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

completed the development of certain lots by January 7, 2007. Due to unforeseen and unanticipated delays in the entitlement process and additional development requests by the county and water management district, TOUSA/Kolter was unable to complete the development of these certain lots by the required deadline. On June 21, 2007, and in response to missing the development deadline, TOUSA/Kolter amended the existing term loan agreements and we amended the Performance and Completion Agreement to extend the Performance and Completion Agreement development deadline to May 31, 2008. The amendments to the term loan agreements increased the interest rate on the senior term loan by 100 basis points to LIBOR plus 3.25% and by 50 basis points to LIBOR plus 8.5% for the senior subordinated term loan. As a condition to the amendment, we agreed to be responsible for the additional 150 basis points; accordingly, this would be a cost of the lots we acquired from TOUSA/Kolter. The amendment also required us to increase the existing letter of credit by an additional $1.8 million to $12.1 million and place an additional $3.0 million cash deposit on the remaining lots under option. The $3.0 million was used by TOUSA/Kolter to pay down a portion of the senior term loan.

As we have abandoned our rights under the option contract due to non-performance, at December 31, 2007, we recorded an obligation of $12.1 million for the letter of credit we anticipated would be drawn, wrote-off the $3.0 million cash deposit and $1.0 million in capitalized pre-acquisition costs. These costs are included in inventory impairments and abandonment costs in the accompanying consolidated statements of operations.

The lenders to the joint venture have declared the loan to the venture to be in default, but have not demanded performance of our obligations under either the Performance and Completion Agreement or the Remargining Agreement. The Remargining Agreement requires us to pay to the Administrative Agent, upon default of the joint venture, an amount necessary to decrease the principal balance of the loan so that the outstanding balance does not exceed 70% of the value of the joint venture s assets. Based on the estimated fair value of the assets of the joint venture, we recorded a $54.0 million obligation (which includes the $12.1 million letter of credit accrual), as of December 31, 2007, in connection with our obligation under the re-margining provisions of the loan agreement. We did not record any additional contingent liability under the completion guarantee as the $54.0 million accrual represents the full debt obligation of the joint venture.

During the year ended December 31, 2007, we evaluated the recoverability of our investment and receivables from TOUSA/Kolter for impairment under APB 18 and SFAS 114 respectively, and recorded an impairment charge of $58.8 million representing the full carrying value of our investment in and receivables from TOUSA/Kolter, net of deferred gains of $12.8 million, which were deferred as a result of the contributed assets and contract assignments to TOUSA/Kolter. Additionally, we recorded an obligation of $18.9 million for performance bonds and letters of credit that we placed on behalf of the joint venture, as we consider it probable that we will be required to reimburse these amounts for development remaining to be completed.

Centex/TOUSA at Wellington, LLC

In December 2005, we entered into a joint venture with Centex Corporation to form Centex/TOUSA at Wellington, LLC (Centex/TOUSA at Wellington) for the purpose of acquiring, developing and selling approximately 264 homesites in a community in South Florida. The joint venture obtained a term loan of which $31.0 million was outstanding as of December 31, 2007. The credit agreement requires us to construct and complete the horizontal development of the lots and related infrastructure in accordance with certain agreed upon plans. On August 31, 2007, Centex/TOUSA at Wellington received a notice from the lender requiring the joint venture members to contribute approximately $10.0 million to the joint venture to reduce the outstanding term loan in order to comply with the 60% loan-to-value ratio covenant. We have not made the required equity contribution.

We evaluated the recoverability of our investment in and receivables from Centex/TOUSA at Wellington for impairment under APB 18 and SFAS 114 respectively, and recorded an impairment of $27.0 million

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

representing the full carrying value of our investment in and receivables from Centex/TOUSA during the year ended December 31, 2007. Based on the estimated fair value of the assets of the joint venture, we recorded a $15.5 million obligation, as of December 31, 2007, in connection with our obligation under the re-margining provisions of the loan agreement which represents our portion of the joint venture s outstanding debt. We did not record any additional contingent liability under the completion guarantee as the $15.5 million accrual represents our portion of the full joint venture debt obligation.

Layton Lakes Joint Venture

In connection with our joint venture with Lennar Corporation (the Layton Lakes Joint Venture) to acquire and develop land, townhome properties and commercial property in Arizona, we entered into a Completion and Limited Indemnity Agreement for the benefit of the lender to the joint venture. The agreement required us to maintain a tangible net worth of $400.0 million. As a result of the decrease in our tangible net worth, this covenant has been breached and the outstanding $60.0 million loan to the joint venture is in default. The default has not been cured and the lender, in its discretion, may accelerate the loan, foreclose on its liens, and exercise all other contractual remedies, including our completion guaranty. In addition, the operating agreement of the joint venture states that a breach by a member of any covenant of such member contained in any loan agreement entered into in connection with the financing of the property is an event of default. Under the operating agreement, a defaulting member does not have the right to vote or otherwise participate in the management of the joint venture until the default is cured. A defaulting member may not take down any lots from the joint venture.

Additionally, the joint venture s loan requires that the outstanding loan balance may not exceed 65% of the value of the joint venture s assets. Based on an appraisal obtained by the bank, the joint venture has been notified that a principal payment is required in order to maintain the specified loan to value ratio. The joint venture has failed to make such principal payment.

We evaluated the recoverability of our investment in and receivables from Layton Lakes Joint Venture for impairment under APB 18 and SFAS 114 respectively, and recorded an impairment charge of $24.9 million representing the full carrying value our investment in and receivables from Layton Lakes Joint Venture during the year ended December 31, 2007. We did not record any obligation under the re-margining provision as we are not a party to the re-margining agreement. Additionally, we recorded an obligation of $4.4 million for performance bonds that we placed on behalf of the joint venture, as we consider it probable that we will be required to reimburse these amounts for development remaining to be completed. We did not record any additional contingent liability under the completion guarantee as based on the estimated fair value of the assets of the joint venture, we do not believe that it is probable that we will called to perform under the completion obligation. Should we be called to perform under the completion agreement in the future, we estimate that our portion of the costs to be incurred approximate $26.6 million.

Other

During the year ended December 31, 2007, we evaluated the recoverability of our investment in and receivables from an unconsolidated joint venture located in Colorado, under APB 18 and SFAS 114 respectively, and recorded an impairment of $2.8 million, which is included in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations.

Certain of our unconsolidated joint venture agreements require the ventures to allocate earnings to the members using preferred return levels based on actual and expected cash flows throughout the life of the venture. Accordingly, determination of the allocation of the members earnings in these joint ventures can only be certain at or near the completion of the project and upon agreement of the partners. In order to allocate earnings, the members of the joint venture must make estimates based on expected cash flows throughout the life of the venture. During the year ended December 31, 2006, two of our unconsolidated joint ventures neared

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

completion, which allowed the joint venture to adjust the income allocation to its members based on the final cash flow projections. The reallocation of earnings resulted in the recognition of an additional $5.9 million in income from unconsolidated joint ventures during the year ended December 31, 2006. We have evaluated these revisions in earnings allocations under SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of Opinion No. 20 and FASB Statement No. 3,* and have appropriately accounted for this change in estimate in our December 31, 2006 consolidated financial statements.

On August 30, 2006, we terminated one of our unconsolidated joint ventures that was formed to purchase land, construct and develop a condominium project in Northern Virginia. As part of the agreement, we purchased our partner s interest in the venture for $32.6 million. After purchasing our partner s interest, we became the sole member of the entity as a consolidated subsidiary. The purchase price was allocated to the net assets of the venture, which were comprised primarily of inventory.

During the year ended December 31, 2006, we evaluated the recoverability of our investment in and receivables from an unconsolidated joint venture located in Southwest Florida, under APB 18 and SFAS 114 respectively, and recorded an impairment of $7.7 million, which is included in loss from unconsolidated joint ventures in the accompanying consolidated statements of operations.

Summarized in the tables below is condensed combined financial information related to our ongoing unconsolidated land development joint ventures, for which we have investments that are accounted for under the equity method of accounting, excluding those joint ventures discussed above in which we have written off our investment (dollars in millions):

	December 31,	
	2007	**2006**
Assets:		
Cash and cash equivalents	$ 3.2	$ 0.9
Inventories	39.0	46.4
Other assets	0.9	0.3
Total assets	$ 43.1	$ 47.6
Liabilities and equity:		
Accounts payable and other liabilities	$ 5.1	$ 2.1
Notes payable	20.6	24.3
Equity of:		
TOUSA, Inc.	7.9	10.7
Others	9.5	10.5
Total equity	17.4	21.2
Total liabilities and equity	$ 43.1	$ 47.6

	Year Ended December 31, 2007	2006
Revenues	$ 29.0	$ 19.3
Costs and expenses	27.7	17.4
Net income	$ 1.3	$ 1.9
Our share of net income	$ 1.1	$

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Assets

Other assets consist of the following (dollars in millions):

	December 31, 2007	December 31, 2006
Homebuilding:		
Deferred income taxes, net	$	$ 160.6
Income taxes receivable	218.4	12.9
Accounts receivable	34.7	37.0
Deferred finance costs, net	55.8	16.1
Prepaid expenses	20.3	7.4
Other assets	0.8	2.6
Total other assets	$ 330.0	$ 236.6

7. Accounts Payable and Other Liabilities

Accounts payable and other liabilities consist of the following (dollars in millions):

	December 31, 2007	December 31, 2006
Homebuilding:		
Accrual for settlement of loss contingency (Note 4)	$	$ 275.0
Accounts payable	41.8	70.2
Interest	48.4	39.4
Compensation	14.8	27.8
Taxes, including income and real estate	22.6	10.4
Accrual for unpaid invoices on delivered homes	27.9	23.6
Accrued expenses	90.7	42.4
Community development district bond obligations	29.6	7.3
Obligations related to unconsolidated joint ventures	74.6	
Accrued letters of credit expected to be drawn	43.6	
Warranty costs	5.0	7.4
Deferred revenue	2.8	50.7
Total accounts payable and other liabilities	$ 401.8	$ 554.2

In connection with the development of certain of our communities, community development or improvement districts may utilize tax-exempt bond financing to fund construction or acquisition of certain on-site and off-site infrastructure improvements. Some bonds are repaid directly by us while other bonds only require us to pay non-ad valorem assessments related to lots not yet delivered to residents. These bonds are typically secured by the property and are repaid from assessments levied on the property over time. We also guarantee district shortfalls under certain bond debt service agreements when the revenues, fees and assessments, which are designed to cover principal, interest and other operating costs of the bonds that are insufficient. In accordance with EITF 91-10, *Accounting for Special Assessments and Tax Increment Financing*, we record a liability for future assessments, which are fixed and determinable for a fixed or determinable period. In addition and in accordance with SFAS No. 5, we evaluate whether it is contingently liable for any of the debt

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related to the bond issuance. Community development district bond obligations were $29.6 million and $7.3 million at December 31, 2007 and 2006, respectively.

At December 31, 2007, we have total outstanding performance / surety bonds of $207.3 million related to land development activities and have estimated our exposure on our outstanding surety bonds to be $116.9 million based on land development remaining to be completed. At December 31, 2007, we recorded an accrual totaling $48.0 million for surety bonds where we consider it probable that we will be required to reimburse the surety for amounts drawn related to defaulted agreements.

8. Homebuilding and Financial Services Borrowings

Homebuilding Borrowings

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

	December 31,	
	2007	2006
Revolving Loan Facility (11.25% at December 31, 2007)	$ 168.5	$
First Lien Term Loan Facility due 2012 (9.81% at December 31, 2007)	199.0	
Discount on First Lien Term Loan Facility	(1.8)	
Second Lien Term Loan Facility due 2013 (12.81% at December 31, 2007)	317.1	
Discount on Second Lien Term Loan Facility	(2.8)	
Senior notes due 2010, at 9%	300.0	300.0
Senior notes due 2011, at 81/4%	250.0	250.0
Discount on senior notes	(2.5)	(3.5)
Senior subordinated notes due 2012, at 103/8%	185.0	185.0
Senior subordinated notes due 2011, at 71/2%	125.0	125.0
Senior subordinated notes due 2015, at 71/2%	200.0	200.0
Premium on senior subordinated notes	3.7	4.2
Senior Subordinated PIK Notes due 2015, at 143/4%	21.3	
Discount on Senior Subordinated PIK Notes	(8.7)	
	$ 1,753.8	$ 1,060.7

The filing of the Chapter 11 cases triggered repayment obligations under a number of instruments and agreements relating to our direct and indirect financial obligations. As a result, all our obligations under the notes became automatically and immediately due and payable. We believe that any efforts to enforce the payment obligations are stayed as a result of the filing of the Chapter 11 cases in the Bankruptcy Court.

On February 5, 2008, pursuant to an interim order from the Bankruptcy Court dated January 31, 2008, we entered into the Senior Secured Super-Priority Debtor in Possession Credit and Security Agreement. The agreement provided for a first priority and priming secured revolving credit interim commitment of up to $134.6 million. The agreement was subsequently amended to extend it to June 19, 2008. No funds were drawn under the agreement. The agreement was subsequently terminated and we entered into an agreement with our secured lenders to use cash collateral on hand (cash generated by our operations, including the sale of excess inventory and the proceeds of our federal tax refund of $207.3 million received in April 2008). Under the Bankruptcy Court order dated June 20, 2008, we are authorized to use cash collateral of our first lien and second lien lenders (approximately $358.0 million at the time of the order) for a period of six months in a manner consistent with a budget negotiated by the parties. The order further provides for the paydown of $175.0 million to our first lien term loan facility secured lenders, subject to disgorgement provisions in the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

event that certain claims against the lenders are successful and repayment is required. The order also reserves our sole right to paydown an additional $15.0 million to our fist lien term loan facility secured lenders. We are permitted under the order to incur liens and enter into sale/leaseback transactions for model homes subject to certain limitations. As part of the order, we have granted the prepetition agents and the lenders various forms of protection, including liens and claims to protect against any diminution of the collateral value, payment of accrued, but unpaid interest on the first priority indebtedness at the non-default rate and the payment of reasonable fees and expenses of the agents under our secured facilities.

Revolving Loan Facility and First and Second Lien Term Loan Facilities

To effect the TE Acquisition, on July 31, 2007, we entered into (1) the $200.0 million aggregate principal amount first lien term loan facility (the First Lien Term Loan Facility) and (2) the $300.0 million aggregate principal amount second lien term loan facility (the Second Lien Term Loan Facility), (First and Second Lien Term Loan Facilities taken together, the Facilities). The proceeds from the credit facilities were used to satisfy claims of the senior lenders against the Transeastern JV. Our existing $800.0 million revolving loan facility (the Revolving Loan Facility) was amended and restated to (1) reduce the revolving commitments thereunder by $100.0 million and (2) permit the incurrence of the Facilities (and make other conforming changes relating to the Facilities). Collectively, these transactions are referred to as the Financing. Net proceeds from the Financing at closing were $470.6 million which is net of a 1% discount and transaction costs. The Revolving Loan Facility expires on March 9, 2010. The First Lien Term Loan Facility expires on July 31, 2012 and the Second Lien Term Loan Facility expires on July 31, 2013.

On October 25, 2007, our Revolving Loan Facility was amended by Amendment No. 1 to the Second Amended and Restated Revolving Credit Agreement. Among other things, the existing agreement was amended with respect to (1) the pricing of loans, (2) limiting the amounts which may be borrowed prior to December 31, 2007 to $130.0 million, including draws under outstanding letters of credit, (3) modifying the definition of a Material Adverse Effect, (4) waiving compliance with certain representations and financial covenants, (5) establishing minimum operating cash flow requirements, (6) requiring compliance with weekly budgets, (7) inclusion of a five week operating cash flow covenant at the end of November, (8) requiring the payment of certain fees, and (9) reducing the Lenders commitments by $50.0 million.

On October 25, 2007, the First Lien Term Loan Facility was also amended by Amendment No. 1 to the First Lien Term Loan Credit Agreement to amend certain terms including (1) the pricing of loans, (2) the definition of Material Adverse Effect, and (3) waiving compliance with certain financial covenants.

On December 14, 2007, we entered into further amendments to our First Lien Term Loan Credit Agreement and our Revolving Loan Facility to, among other things, (1) extend through February 1, 2008, the waiver of the financial covenants set forth in Amendment No. 1 to the First Lien Term Loan Credit Agreement and the Revolving Loan Facility, (2) revise the material adverse change representation with respect to matters disclosed in our quarterly report on Form 10-Q for the nine months ended September 30, 2007, (3) modify a provision regarding the obligation to pay amounts owed in connection with certain land banking arrangements, and (4) seek waivers of the cross-default provision resulting from any breach of a covenant regarding the matters described in (3) above. In addition, the amendments require us to adhere to a cash flow budget, which has been prepared by us, which does not provide for current payments on our long-term indebtedness including the interest payment due on January 1, 2008 with respect to our 103/8% Senior Subordinated Notes due 2012.

The interest rates on the Facilities and the Revolving Loan Facility are based on LIBOR plus a margin or an alternate base rate plus a margin, at our option. For the Revolving Loan Facility, the LIBOR rates are increased by between 2.50% and 5.25% depending on our leverage ratio (as defined in the Agreement) and credit ratings. Loans bearing interest at the base rate (the rate announced by Citibank as its base rate or 0.50% above the Federal Funds Rate) increase between 1.00% and 5.25% in accordance with the same criteria. Based on our current leverage ratio and credit ratings, our LIBOR loans bear interest at LIBOR plus 5.25% and our

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

base rate loans bear interest at the Federal Funds Rate plus 5.25%. For the First Lien Term Loan Facility, the interest rate is LIBOR plus 5.00% or base rate plus 4.00%. For the Second Lien Term Loan Facility, the interest rate is LIBOR plus 7.25% or base rate plus 6.25%. The Second Lien Term Loan Facility allows us to pay interest, at our option, (1) in cash, (2) entirely by increasing the principal amount of the Second Lien Term Loan Facility, or (3) a combination thereof. The Facilities and the New Revolving Loan Facility are guaranteed by substantially all of our domestic subsidiaries (the Guarantors). The obligations are secured by substantially all of our assets, including those of our Guarantors. Our mortgage and title subsidiaries are not Guarantors.

Senior Notes and Senior Subordinated Notes

Our outstanding senior notes are guaranteed, on a joint and several basis, by the Guarantor Subsidiaries, which are all of our material domestic subsidiaries, other than our mortgage and title subsidiaries (the Non-Guarantor Subsidiaries). Our outstanding senior subordinated notes are guaranteed on a senior subordinated basis by all of 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 senior subordinated notes rank *pari passu* in right of payment with all of our existing and future unsecured senior subordinated debt. The indentures governing the senior notes and senior subordinated notes generally require us to maintain a minimum consolidated net worth and place 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, invest in joint ventures above specified amounts, and merge or consolidate with other entities. Interest on our outstanding senior notes and senior subordinated notes is payable semi-annually.

Special Interest

On April 12, 2006, we issued $250.0 million of the 81/4% senior notes due 2011 for net proceeds of $248.8 million. 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 their terms, 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. For the year ended December 31, 2007, we incurred $2.0 million of additional interest expense as a result of such default. In addition, we accrued a contingency reserve of $2.5 million for such interest expected to be incurred in future periods.

Senior Subordinated PIK Notes

As part of the transactions to settle the disputes regarding the Transeastern JV, on July 31, 2007, the senior mezzanine lenders to the Transeastern JV received $20.0 million in aggregate principal amount of 14.75% Senior Subordinated PIK Election Notes (PIK Notes) due 2015.

Interest on the PIK Notes is payable semi-annually. The PIK Notes are unsecured senior subordinated obligations of ours, and are guaranteed on an unsecured senior subordinated basis by each of our existing and future subsidiaries that guarantee our 7.5% Senior Subordinated Notes due 2015 (the Existing Notes). We are required to pay 1% of the interest in cash and the remaining 13.75%, at our option, (i) in cash, (ii) entirely by increasing the principal amount of the PIK Notes or issuing new notes, or (iii) a combination thereof. The PIK Notes will mature on July 1, 2015. The indenture governing the PIK Notes contains the same covenants

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as contained in the indenture governing the Existing Notes and is subject, in most cases, to any change to such covenants made to the indenture governing the Existing Notes. The PIK Notes are redeemable by us at redemption prices greater than their principal amount. The PIK Notes contain an optional redemption feature that allows us to redeem up to a maximum of 35% of the aggregate principal amount of the PIK Notes using the proceeds of subsequent sales of its equity interest at 114.75% of the aggregate principal amount of the PIK Notes then outstanding, plus accrued and unpaid interest. Additionally, after July 1, 2012, subject to certain terms of our other debt agreements, we may redeem the PIK Notes at a premium to the principal amount as follows: 2012 107.375%; 2013 103.688%; 2014 and thereafter 100.000%. The call options exercisable at anytime after July 1, 2012 at a premium do not require bifurcation under SFAS 133 because they are only exercisable by us and they are not contingently exercisable. The redemption option conditionally exercisable based on the proceeds raised from an equity offering at 114.75% of up to 35% of the aggregate outstanding PIK Notes principal represents an embedded call option that must be bifurcated from the PIK Notes; however, the fair value of this call option is not material and has not been bifurcated from the host instrument at December 31, 2007.

The PIK Notes provide for registration rights for the holders whereby the interest rate shall increase by 0.25% per annum for the first 90 days of a registration default, as defined, which amount shall increase by an additional 0.25% every 90 days a registration default is continuing, not to exceed 1.0% in the aggregate, from and including the date of the registration default to and excluding the date on which the registration default is cured. Registration default payments shall be paid, at our option, in (i) cash, (ii) additional Notes, or (iii) a combination thereof.

Financial Services Borrowings

Our mortgage subsidiary has two warehouse lines of credit in place to fund the origination of residential mortgage loans. The revolving warehouse line of credit (the Warehouse Line of Credit), which was entered into on December 5, 2007, provides for revolving loans of up to $25.0 million. The Warehouse Line of Credit replaced the $100.0 million revolving warehouse line of credit that expired on December 8, 2007. From January 25, 2008 through December 4, 2008, the availability under the Warehouse Line of Credit is reduced to $15.0 million. The $150.0 million mortgage loan purchase facility (Purchase Facility) was amended to decrease the size of the facility to $75.0 million. From January 25, 2008 through December 4, 2008 the availability under the Purchase Facility is reduced to $40.0 million. At no time may the amount outstanding under the Warehouse Line of Credit and the purchased loans pursuant to the Purchase Facility exceed $55.0 million. Both the Warehouse Line of Credit and Purchase Facility expire on December 4, 2008. The Warehouse Line of Credit bears interest at the 30-day LIBOR rate plus a margin of 2.0%, and is secured by funded mortgages, which are pledged as collateral, and requires our mortgage subsidiary to maintain certain financial ratios and minimums. The Warehouse Line of Credit also places certain restrictions on, among other things, our mortgage subsidiary s ability to incur additional debt, create liens, pay or make dividends or other distributions, make equity investments, enter into transactions with affiliates, and merge or consolidate with other entities. Our mortgage subsidiary was in compliance with all covenants and restrictions at December 31, 2007. At December 31, 2007, our mortgage subsidiary had $7.8 million in borrowings under its Warehouse Line of Credit, and had the capacity to borrow an additional $17.2 million, subject to our mortgage subsidiary satisfying the relevant borrowing conditions. As discussed above, the borrowing capacity changed on January 25, 2008.

On January 28, 2008, Preferred Home Mortgage Company, our wholly-owned residential mortgage lending subsidiary, entered into an Amended and Restated Agreement of Limited Liability Company with Wells Fargo Ventures, LLC. The limited liability company is known as PHMCWF, LLC but does business as Preferred Home

Mortgage Company, an affiliate of Wells Fargo. Preferred Home Mortgage Company owns 49.9% of the venture with the balance owned by Wells Fargo. Effective April 1, 2008, the venture began to carry on the mortgage business of Preferred Home Mortgage Company. The venture is managed by a

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committee composed of six members, three from Preferred Home Mortgage Company and three from Wells Fargo. The venture entered into a revolving credit agreement with Wells Fargo Bank, N.A. providing for advances of up to $20.0 million. Wells Fargo Home Mortgage provides the general and administrative support (as well as all loan related processing, underwriting and closing functions), and is the end investor for the majority of the loans closed through the joint venture. Prior to the joint venture, Preferred Home Mortgage Company had a centralized operations center that provided those support functions. The majority of these support functions ceased in June 2008.

9. Income Taxes

Components of income tax expense (benefit) attributable to continuing operations consist of the following (dollars in millions):

	Year Ended December 31,		
	2007	**2006**	**2005**
Current:			
Federal	$ (195.1)	$ 106.5	$ 119.9
State	1.2	6.3	4.6
	(193.9)	112.8	124.5
Deferred:			
Federal	159.2	(150.6)	2.0
State	1.4	(5.0)	
	160.6	(155.6)	2.0
Total income tax expense (benefit)	$ (33.3)	$ (42.8)	$ 126.5

The difference between total reported income taxes and expected income tax expense (benefit) attributable to continuing operations computed by applying the federal statutory income tax rate of 35% and our effective income tax rate of 2.4% for 2007, 17.6% for 2006, and 36.7% for 2005, respectively, to income before provision for income taxes is reconciled as follows (dollars in millions):

	Year Ended December 31,		
	2007	**2006**	**2005**
Computed income tax expense (benefit) at statutory rate	$ (473.5)	$ (85.3)	$ 120.0
State income taxes	(31.1)	1.2	5.8
Change in valuation allowance	463.5	42.1	
Liability for unrecognized tax benefits (FIN 48)	2.4		
Non-deductible items	6.6		

Other, net	(1.2)	(0.8)	0.7
Total income tax expense (benefit)	$ (33.3)	$ (42.8)	$ 126.5

Primarily as a result of the change in our valuation allowance during the year ended December 31, 2007, the effective tax rate applied to our losses is below the federal statutory rate of 35%.

We have a federal net operating loss of $83.5 million which will expire in 2027. We also have various state net operating losses that expire in years 2022 through 2027.

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Significant temporary differences that give rise to the deferred tax assets and liabilities are as follows (dollars in millions):

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Property and equipment	$ 4.4	$
Warranty, legal and insurance reserves	6.6	6.7
Inventory	384.9	48.6
Goodwill write-off	15.2	
Accrued compensation	12.0	7.9
Investments in unconsolidated entities	13.5	150.6
Federal and state net operating loss carryforwards	57.1	2.7
Alternative minimum tax carryforwards	12.5	
Other	3.9	3.6
Total deferred tax assets	510.1	220.1
Deferred tax liabilities:		
Property and equipment		(1.8)
Amortizable intangibles		(13.1)
Prepaid expenses	(3.8)	(0.1)
Prepaid commissions and differences in reporting selling and marketing	(0.7)	(2.4)
Investment in unconsolidated entities		
Total deferred tax liabilities	(4.5)	(17.4)
Valuation allowance	(505.6)	(42.1)
Net deferred tax asset	$	$ 160.6

The net deferred tax assets included in other assets in the accompanying consolidated statements of financial condition at December 31, 2006 was $160.6 million (net of valuation allowances) and resulted primarily from deductible temporary differences. There were no net deferred tax assets at December 31, 2007. Valuation allowances are established and maintained for deferred tax assets on a more likely than not threshold. We have considered the following possible sources of taxable income when assessing the realization of the deferred tax assets: (1) future reversals of existing taxable temporary differences; (2) taxable income in prior carryback years; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards. The valuation allowance at December 31, 2007 primarily relates to inventory impairments recognized during the year ended December 31, 2007. The majority of the valuation allowance at December 31, 2006 relates to a portion of the settlement offer in connection with the $275.0 million loss contingency recognized (see Note 4 to the consolidated financial statements). The net change in the valuation allowance for the years ended December 31, 2007 and 2006 was $463.5 million and $42.1 million, respectively, with the majority at December 31, 2007 relating to inventory impairments.

As a result of generating taxable income during 2005 and 2006, we have carried back $643.4 million in taxable losses to prior years and have recognized the portion of our deferred tax assets which we have realized through the carrybacks. Due to our cumulative losses in recent years, we have not relied upon future taxable income exclusive of reversing temporary differences and carryforwards for the realization of any of our deferred tax assets. Reliance on future taxable income as a source is difficult when there is negative evidence such as in our situation where we have cumulative losses. Cumulative losses weigh heavily in our overall assessment. We determine cumulative losses on a rolling twelve-quarter basis. Income forecasts were

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

considered in conjunction with other positive and negative evidence, including our current financial performance, the financial impact of the Transeastern JV settlement, our market environment and other factors. As a result, the conclusion was made that there was not sufficient positive evidence to enable us to conclude that it was more likely than not that the remaining deferred tax assets, after reduction through carrybacks, would be realized. Therefore, we have provided a valuation allowance on our net deferred tax assets. This assessment will continue to be undertaken in the future. Our results of operations may be impacted in the future by our inability to realize a tax benefit for future tax losses or for items that will generate additional deferred tax assets. Our results of operations might be favorably impacted in the future by reversals of valuation allowances if we are able to demonstrate sufficient positive evidence that our deferred tax assets will be realized. In addition, there could be restrictions on the amount of the carryforwards that can be utilized if certain changes in our ownership should occur. In light of the above, we believe that it is more likely than not that we will not realize our net deferred tax asset of $505.6 million.

We are subject to U.S. federal income tax as well as to income tax in multiple state jurisdictions. We have effectively closed all U.S. federal income tax matters for years through 2004. The Internal Revenue Service has concluded its examination of our consolidated tax return for fiscal year 2004, resulting in insignificant changes to our tax liability. Management believes that the tax liabilities recorded for the remaining open periods are adequate and the tax receivables recorded properly reflect the amounts due to us from the applicable taxing authorities. However, a significant assessment against us for additional tax liabilities or reduction of tax refunds received could have a material adverse effect on our financial position, results of operations or cash flows.

As a result of the implementation of FIN 48, we recognized an increase of approximately $1.3 million in the liability for unrecognized tax benefits which was accounted for as a reduction to retained earnings at January 1, 2007. After this adjustment, we had a $5.1 million liability recorded for unrecognized tax benefits as of January 1, 2007, which included interest and penalties of $0.4 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (exclusive of interest and penalties) is as follows (dollars in millions):

	2007
Balance at January 1	$ 4.7
Additions based on tax positions related to the current year	2.7
Additions for tax positions of prior years	2.5
Reductions for tax positions of prior years	(1.2)
Settlements	(1.7)
Lapse of statute of limitations	(0.4)
Balance at December 31	$ 6.6

As of December 31, 2007, we have accumulated interest and penalties associated with these unrecognized tax benefits of $0.9 million, of which $0.5 million of interest was accrued during the year ended December 31, 2007. The gross unrecognized tax benefits, interest and penalties, is $7.5 million, which if resolved favorably (in whole or in part) would reduce our effective tax rate. The unrecognized tax benefits, associated interest, penalties, and deferred tax asset are included as components of other assets and accounts payable and other liabilities in the consolidated statements of financial condition.

It is our continuing policy to account for interest and penalties associated with income tax obligations as a component of income tax expense. During the year ended December 31, 2007, we recognized $0.5 million of interest and no penalties as part of the provision for income taxes in the consolidated statements of operations.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the twelve months beginning January 1, 2008, it is reasonably possible that we will reduce unrecognized tax benefits, including interest and penalties by approximately $0.8 million to $0.9 million primarily as a result of the expiration of certain statutes of limitations.

In April 2008, we received a $207.3 million refund of previously paid income taxes for 2005 and 2006 through the carryback of our taxable loss from 2007. As with any refund in excess of $2.0 million, this refund is subject to review by the Joint Committee on Taxation of Congress.

10. 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 are 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 trends. Warranty costs are included in accounts payable and other liabilities in the accompanying consolidated statements of financial condition.

During the year ended December 31, 2007 and 2006, the activity in our warranty cost accrual consisted of the following (dollars in millions):

	Year Ended December 31, 2007	Year Ended December 31, 2006
Accrued warranty costs at January 1	$ 7.4	$ 6.6
Liability recorded for warranties issued during the period	4.8	6.9
Warranty work performed	(9.5)	(8.4)
Transeastern warranty obligation acquired	2.0	
Adjustments	0.3	2.3
Accrued warranty costs at December 31	$ 5.0	$ 7.4

Letters of Credit and Performance Bonds

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 deposits on homesite purchase contracts. Under these arrangements, we had total outstanding letters of credit of $115.5 million as of December 31, 2007. As a result of abandoning our rights under option contracts, as of December 31, 2007, we accrued $43.6 million for letters of credit which we anticipated would be drawn due to nonperformance under such contracts. In addition, $98.5 million of letters of credit were drawn as of December 31, 2007 and have increased our borrowings outstanding under our Revolving Loan Facility. Through June 30, 2008 an additional $72.8 million of letters of credit have been drawn related to the abandonment of option contracts. In certain instances, we have entered into development agreements in connection with option contracts which require us to complete the development of the land, at a fixed

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reimbursable amount, even if we choose not to exercise our option and forfeit our deposit and even if our costs exceed the reimbursable amount.

At December 31, 2007, we have total outstanding performance/surety bonds of $207.3 million and have estimated our exposure on our outstanding surety bonds to be $116.9 million based on development remaining to be completed. At December 31, 2007, we recorded an accrual totaling $48.0 million for surety bonds where we consider it probable that we will be required to reimburse the surety for amounts drawn related to defaulted agreements. We have been experiencing a reduction in availability of security bond capacity. If we are unable to secure such bonds, we may elect to post alternative forms of collateral with government entities or escrow agents, including letters of credit. Other forms of collateral, if available, may result in higher costs to us.

Exposure on Abandoned Homesite Option Contracts

As of December 31, 2007, we have abandoned our rights under option contracts that require us to complete the development of land for a fixed reimbursable amount. At December 31, 2007, we recorded a loss accrual of $10.3 million, in connection with the abandonment of these option contracts, for our estimated obligations under the development agreements. This accrual is included in accounts payable and other liabilities in the accompanying consolidated statement of financial condition at December 31, 2007.

In addition, certain of these option contracts give the other party the right to require us to purchase homesites or guarantee certain minimum returns. As of December 31, 2007, we have abandoned our rights under option contracts that give the other party the right to require us to purchase the homesites. On some of these option contracts, we have received notices in which the other party is exercising their right to require us to purchase the homesites under this provision of the option contracts. We do not have the ability to comply with these notices due to liquidity constraints. These option contracts were previously consolidated and the inventory was included in inventory not owned and the corresponding liability was included in obligations for inventory not owned. As we do not have the intent or the ability to comply with the requirement to purchase the property, we have deconsolidated these option contracts at December 31, 2007. Capitalized pre-acquisition costs associated with these option contracts are impaired and $10.6 million was written off during the year ended December 31, 2007. In addition, at December 31, 2007, we recorded a loss accrual of $20.1 million, in connection with the abandonment of these option contracts, for our estimated obligations under these option contracts.

Chapter 11 Cases

On January 29, 2008, TOUSA, Inc. and certain of our subsidiaries (excluding our financial services subsidiaries and joint ventures) filed voluntary petitions for reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Florida, Fort Lauderdale Division. The Chapter 11 cases have been consolidated solely on an administrative basis and are pending as Case No. 08-10928-JKO. See Note 1 of the consolidated financial statements for additional discussion.

Pursuant to an order of the Bankruptcy Court, our creditors were required to file proofs of claim with the Bankruptcy Court by May 19, 2008 with respect to and all claims that arose before the Petition Date against any of the debtors. The process of reviewing these claims is on-going. These claims may result in future obligations to the Company.

Class Action Lawsuit

TOUSA, Inc. is a defendant in a class action lawsuit pending in the United States District Court for the Southern District of Florida. The name and case number of the class action suit is Durgin, et al., v. TOUSA, Inc., et al., No. 06-61844-CIV.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Beginning in December 2006, various stockholder plaintiffs brought lawsuits seeking class action status in the U.S. District Court for the Southern District of Florida. At a hearing held on March 29, 2007, the Court consolidated the actions and heard arguments on the appointment of lead plaintiff and counsel. On September 7, 2007, the Court appointed Diamondback Capital Management, LLC as the lead plaintiff and approved Diamondback s selection of counsel. Pursuant to a scheduling order, the lead plaintiff filed a Consolidated Complaint on November 2, 2007.

The Consolidated Complaint names TOUSA, all of TOUSA s directors, David Keller, Randy Kotler, Beatriz Koltis, Lonnie Fedrick, Technical Olympic, S.A., UBS Securities LLC, Citigroup Global Markets Inc., Deutsche Bank Securities Inc. and JMP Securities LLC as defendants. The alleged class period is August 1, 2005 to March 19, 2007. The Consolidated Complaint alleges that TOUSA s public filings and other public statements that described the financing for the Transeastern Joint Venture as non-recourse to TOUSA were false and misleading. The Consolidated Complaint also alleges that certain public filings and statements were misleading or suffered from material omissions in failing to fully disclose or describe the Completion and Carve-Out Guaranties that TOUSA executed in support of the Transeastern Joint Venture financing. The Consolidated Complaint asserts claims under Section 11 of the Securities Act against all defendants other than Ms. Koltis for strict liability and negligence regarding the registration statements and prospectus associated with the September 2005 offering of 4 million shares of stock. Plaintiffs contend that the registration statements and prospectus contained material misrepresentations and suffered from material omissions in the description of the Transeastern Joint Venture financing and TOUSA s related obligations. The Consolidated Complaint asserts related claims against Technical Olympic, S.A. and Messrs. Konstantinos Stengos, Antonio B. Mon, David Keller and Tommy L. McAden as controlling persons responsible for the statements in the registration statements and prospectus. The Consolidated Complaint also alleges claims under Section 10(b) of the Exchange Act for fraud with respect to various public statements about the non-recourse nature of the Transeastern debt and alleged omissions in disclosing or describing the Guaranties. These claims are alleged against TOUSA, Messrs. Mon, McAden, Keller and Kotler and Ms. Koltis. Finally, the Consolidated Complaint asserts related claims against Messrs. Mon, Keller, Kotler and McAden as controlling persons responsible for the various alleged false disclosures. Plaintiffs seek compensatory damages, plus fees and costs, on behalf of themselves and the putative class of purchasers of TOUSA common stock and purchasers and sellers of options on TOUSA common stock.

On January 30, 2008 TOUSA filed a Motion to Dismiss Plaintiffs Consolidated Complaint. TOUSA moved to dismiss plaintiffs claims on the grounds that plaintiffs: (a) could not establish materially false or misleading statements or omissions; (b) could not establish loss causation; (c) failed to plead with particularity facts giving rise to a strong inference of scienter; and (d) lacked standing to pursue a section 11 claim. Many of the other defendants also filed motions to dismiss and/or signed on to TOUSA s Motion to Dismiss.

On February 4, 2008 TOUSA filed a Notice of Suggestion of Bankruptcy notifying the Court that TOUSA filed for bankruptcy on January 29, 2008. On February 5, 2008 the Court entered an order staying the action as to TOUSA pursuant to Section 362 of the United States Bankruptcy Code. The action continues with respect to defendants other than TOUSA.

On April 30, 2008, lead plaintiff Diamondback Capital Management moved to withdraw as lead plaintiff. On May 22, 2008, the Court entered an order: granting Diamondback Capital Management s motion to withdraw as lead plaintiff; establishing a procedure pursuant to which a new lead plaintiff will be appointed; extending the time for plaintiffs to respond to the motions to dismiss until a new lead plaintiff is selected; and acknowledging that the Court may need to set a time for the filing of an amended complaint, if requested by the new lead plaintiff.

On June 6, 2008, two prospective lead plaintiffs filed motions to be appointed the new lead plaintiff. On July 15, 2008, the Court entered an Order appointing the Bricklayers & Trowel Trades International Pension Fund as the new lead plaintiff. The Court further ordered that, within 15 days of the entry of the Order, the

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

new plaintiff must either respond to the previously filed Motions to Dismiss, or file a notice of intent to file an amended complaint. On July 30, 2008, the new plaintiff filed a notice of intent to file an amended complaint. On July 31, 2008, following the notice of intent to file an amended complaint, the Court denied as moot, without prejudice, the defendants previously filed motion to dismiss the consolidated complaint. Under the current schedule set by the Court, the plaintiff must file its amended complaint by August 29, 2008.

Based upon the early stage of the litigation we are unable to evaluate the likelihood of an unfavorable outcome or the range of liability in such event.

Proceeding by Official Committee of Unsecured Creditors

In re TOUSA, Inc., Docket No. 08-10928-JKO; Adv. Pro No. 08-1435-JKO. TOUSA and certain of our subsidiaries are non-parties in an adversary proceeding brought as part of our Chapter 11 proceedings. This adversary proceeding was brought by the Official Committee of Unsecured Creditors of TOUSA, Inc. on behalf of our bankruptcy estates. The adversary proceeding seeks to avoid certain allegedly fraudulent and preferential pre-petition transfers of up to $800.0 million made in connection with the settlement of litigation related to the Transeastern Joint Venture (the Transeastern Settlement), and further seeks to avoid as a preferential transfer any security interest that may have been granted to certain lenders in a tax refund of approximately $210.0 million that the Debtors received in June 2008. The Committee s complaint names over 60 defendants including the lenders under the credit agreements funding the Transeastern Joint Venture as well as the original lenders (and their successors and assigns) and administrators under the credit agreements entered into as a result of the Transeastern Settlement. We are not defendants in the adversary proceeding.

The complaint alleges that, in order to resolve certain prepetition litigation regarding the Transeastern Joint Venture, the parties to that litigation entered into a series of settlement agreements releasing all claims relating to the Transeastern acquisition. The complaint alleges that, as part of these settlement agreements, certain TOUSA entities agreed to pay over $420.0 million to the administrator of the Transeastern loans and to issue approximately $135.0 million in notes and warrants. The complaint further alleges that to fund these payments, TOUSA, TOUSA Homes, LP and certain of their subsidiaries (the Conveying Subsidiaries) entered into the three new credit agreements. According to the complaint, the loans issued under these new credit agreements were secured by liens on the property and assets of all of the debtors, including the Conveying Subsidiaries. The complaint alleges that the Conveying Subsidiaries were not defendants in the prepetition Transeastern litigation and were not obligated on the Transeastern debt that was released in connection with the Transeastern Settlement. Therefore, the complaint alleges, the Conveying Subsidiaries did not receive reasonably equivalent value for the secured debt obligations that they incurred. The complaint also alleges that the Conveying Subsidiaries were either insolvent at the time of the Transeastern Settlement or became insolvent as a result of it, and that the Conveying Subsidiaries were left with unreasonably small capital as a result of the new credit agreements. Based on these allegations, the Committee seeks to have the liens established under the new credit agreements voided and all amounts already repaid under the new credit agreements returned. The Committee also seeks to have the security interest granted on the Debtors tax refund voided and the new lenders claims seeking allowance of the full amount of the new loans disallowed in their entirety or reduced.

Proofs of Claims

The Bankruptcy Court established May 19, 2008 as the bar date for filing proofs of claim against the Debtors relating to obligations arising before January 29, 2008. To date, approximately 4,130 claims have been filed against us totaling approximately $7.0 billion in asserted liabilities. These claims are comprised of approximately $1.0 million in administrative claims, $182.0 million in secured claims, $73.0 million in priority claims and $6.7 billion in unsecured claims. There are many claims (at least 1,418) that have been asserted in unliquidated amounts or that contain an unliquidated component. Notably, among the unliquidated claims

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

are the claims of our secured first and second lien lenders. In addition, the indenture trustees under our approximately $1.1 billion of our unsecured debentures each filed an unliquidated claim with respect to such obligations.

Vista Lakes

Plaintiffs, purchasers of homes in the Vista Lakes community near Orlando, filed a class action complaint alleging that their homes were built on the site of a former bombing range. The plaintiffs seek recovery under theories of fraud, breach of contract, strict liability, negligence, and civil conspiracy. Because the plaintiffs named debtor defendants Tousa, Inc., Tousa Homes, Inc., d/b/a Engle Homes Orlando and Tousa Homes, LP as defendants in this action, the action was removed to federal court. The plaintiffs then agreed to dismiss the debtor defendants and the parties entered into a stipulation for remand. The state court case has been re-opened and the parties still remaining as defendants include Tousa Financial Services (which has not been served) and Universal Land Title, Inc.

Plaintiffs have granted an extension on the response to the complaint and the discovery requests up to and including August 18, 2008 in order to re-evaluate their claims against the defendants and amend their complaint.

Based upon the early stage of the litigation we are unable to evaluate the likelihood of an unfavorable outcome or the range of liability in such event.

Other Litigation

We are also involved in various other claims and legal actions arising in the ordinary course of business. We do not believe that the ultimate resolution of these other matters will have a material adverse effect on our financial condition or results of operations. As of the date of the Chapter 11 filing, then pending litigation was generally stayed, and absent further order of the Bankruptcy Court, most parties may not take any action to recover on prepetition claims against us.

Unresolved Staff Comments

In the Matter of TOUSA, Inc. SEC Inquiry, File No. FL-3310. In June of 2007, the Company was contacted by the Miami Regional Office of the SEC requesting the voluntary provision of documents, and other information from the Company, relating primarily to corporate and financial information and communications related to the Transeastern JV. The SEC has advised the Company that this inquiry should not be construed as an indication that any violations of law have occurred, nor should it be considered a reflection upon any person, entity, or security. The Company is cooperating with the inquiry.

One-Time Termination Benefits

During the year ended December 31, 2007 and 2006, we recorded $0.6 million and $11.5 million, respectively, 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 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.

PHMC Settlement

On July 10, 2008, PHMC entered into a settlement agreement with one of its primary purchasers of its mortgage loans for $2.9 million. The settlement agreement releases PHMC of all its known and unknown obligations under the Loan Purchase Agreement.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operating Leases

At December 31, 2007, we are obligated under non-cancellable operating leases of office space, model homes and equipment. For the years ended December 31, 2007, 2006, and 2005 rent expense under operating leases was $25.0 million, $17.5 million, and $13.6 million, respectively. Certain of our leases have renewal periods and/or escalation clauses. Minimum annual lease payments under these leases at December 31, 2007 are as follows (dollars in millions):

2008	$ 9.3
2009	5.7
2010	4.0
2011	3.0
2012	2.2
Thereafter	5.8
	$ 30.0

11. Related Party Transactions

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 $304.3 million, $366.9 million, and $347.1 million of materials and supplies on our behalf during the years ended December 31, 2007, 2006, and 2005, 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. provided 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, 2007, 2006, and 2005, charges totaled $0.5 million, $0.5 million, and $3.5 million, respectively. These expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The agreement expired on December 31, 2007.

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 $8.5 million $15.1 million and $11.8 million to this entity pursuant to these agreements during the years ended December 31, 2007, 2006, and 2005, respectively and, as of

December 31, 2007, had options to purchase from Equity Investments LLC additional lots for a total aggregate sum of approximately $4.1 million. 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 was a related entity of our former joint venture partner in the Transeastern JV. We paid a net $7.8 million assignment fee to Transeastern for this right. We subsequently exercised our option and purchased the property for $78.2 million.

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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. We are no longer making payments under these agreements.

During November 2006, we purchased homes in backlog inventory with a total sales value of approximately $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.

During 2007, Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida have provided the Company with materials and interior design services for our model homes at a cost of $1.3 million. The owner of Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida is the daughter of Mr. Harry Engelstein, the former Chairman of TOUSA Homes, Inc. through December 31, 2007. We believe that all transactions with Design Center, Inc., Coverall Interiors, LLC and Coverall of North Florida have been on reasonable commercial terms.

Pursuant to the terms of his employment agreement, on October 17, 2007, Antonio B. Mon, our President and Chief Executive Officer, exercised his option to purchase the condominium in Fort Lauderdale, Florida that was provided to him under his agreement. The purchase price was $1.0 million, as set forth in his employment agreement.

On January 9, 2008, an entity controlled by the Stengos family, certain of whom are directors of our company, acquired a condominium owned by the Company in Miami, Florida. The condominium unit has an appraised value of $1.3 million. In light of the absence of any broker s commission and an immediate cash closing, we sold the condominium for $1.2 million.

12. Stockholders Equity (Deficit)

On September 13, 2005, pursuant to an underwritten public offering, we sold 3,358,000 shares of our common stock at a price of $28.00 per share. The net proceeds of the offering to us were $89.2 million, after deducting offering costs and underwriting fees of $4.8 million. The offering proceeds were used to pay outstanding indebtedness under our revolving credit facility.

At December 31, 2005, our chief executive officer had the right to purchase 1% of our outstanding common stock on January 1, 2007 for $16.23 per share and an additional 1% on January 1, 2008 for $17.85 per share. These rights were being accounted for under the variable accounting method as provided by APB No. 25. In connection with these rights, we recognized compensation expense of $1.3 million during the year ended December 31, 2005 which is included in selling, general and administrative expenses in the accompanying consolidated statement of operations.

On January 13, 2006, our chief executive officer s employment agreement was amended to grant him 1,323,940 options at an exercise price of $23.62 per share and provide for a bonus award of $8.7 million in lieu of the common stock purchase rights described above (see Note 13 to consolidated financial statements).

Convertible PIK Preferred Stock

The preferred stock ranks senior to all of our capital stock with respect to liquidation and dividends and has an initial aggregate liquidation preference of $117.5 million and accrues dividends semi-annually at 8% per annum as follows: (i) 1% payable in cash; (ii) the remaining 7% payable, at our option, in cash, additional

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

preferred stock, or a combination thereof. The preferred stock is mandatorily redeemable on July 1, 2015 in, at our option, cash, common stock or a combination thereof. The preferred stock is convertible into our common stock, at a conversion price which initially equals the 20-trading day average common stock closing price commencing 60 days immediately after the closing of the settlement (the Measurement Period) multiplied by 1.40. The Measurement Period has ended and the resulting conversion price is $1.61 per share. As a result, if all of the holders of the preferred stock exercised the conversion feature, the Company would have to issue approximately 73.0 million shares of its common stock. The conversion price of the preferred stock will be adjusted for certain anti-dilution events including below market price or below the conversion price issuances by us of our common stock, subject to certain exceptions. We believe the preferred stock conversion feature is substantive. The fair value of the preferred stock was $84.0 million on the date of issuance.

Since the redemption of the preferred stock is contingently or optionally redeemable and therefore not certain to occur and the conversion feature is substantive, the preferred stock is not required to be classified as a liability under SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. The preferred stock is redeemable in cash solely at the Company s option, except in normal liquidation. As there are no situations whereby this option is outside of the Company s control, we believe that the preferred stock meets the requirements of permanent equity classification pursuant to Accounting Series Releases 268. While the preferred stock is redeemable for cash, redemption is not (1) at a fixed or determinable price on a fixed or determinable date, (2) at the option of the holder, or (3) upon the occurrence of an event that is not solely within our control. We believe that cash would only be required to be paid to the preferred stock in a liquidation event and, therefore, the criteria for permanent equity classification pursuant to EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, have been met. In addition, based on analyses of the requirements of paragraphs 12 through 32 of EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock,* the settlement of the conversion and redemption features in shares are within the Company s control. Therefore, the preferred stock has been classified as a component of stockholders equity.

As of December 31, 2007, the preferred stock redemption amount includes amounts representing dividends not currently declared or paid but which will be payable under the redemption features. The preferred stock is currently redeemable because redemption of the instrument, absent the existence of the share settled conversion option, is certain to occur at maturity. As of December 31, 2007, $0.8 million of the redemption amount was accreted to the Preferred Stock and recognized as a reduction to additional paid-in capital, consistent with EITF Topic D-98.

The preferred stock contains a contingent dividend feature, which provides for an increase in the dividend rate of 0.25% during the period in which the Company fails to register the underlying common stock. This increase in the dividend rate becomes effective after 270 days. The contingent dividend feature constitutes an obligation to make future payments or otherwise transfer consideration under a registration payment arrangement. In accordance with FSP EITF 00-19-2, *Accounting for Registration Payment Arrangements*, the contingent dividend feature should be separately recognized and measured in accordance with SFAS 5. As of December 31, 2007, there was no amount accrued for the Company s obligation under the registration payment arrangement.

In accordance with EITF 98-5, the intrinsic value of the beneficial conversion feature required measurement at the commitment date by comparing the Company s stock price at date of closing to the conversion price, which is determinable at the end of the 20 trading days commencing 60 calendar days after closing. The value attributable to the beneficial conversion features has been recognized and measured by allocating a portion of the proceeds to additional paid-in-capital (since there are no retained earnings) and a discount to the preferred stock. In accordance with EITF 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*, $84.0 million, representing the maximum intrinsic value of the beneficial conversion feature, is amortized from additional-paid in capital to preferred stock from October 26, 2007 to July 1, 2015.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dividends and amortization of the discount of the preferred stock are recorded as charges to retained earnings or additional paid in capital, if no retained earnings, and reduce net income in the determination of income available to shareholders for the purposes of computing basic and diluted earnings per share.

We will determine and, if required, measure a beneficial conversion feature based on the fair value of our stock price on the date dividends are declared on the convertible preferred shares and will be recognized as a reduction to retained earnings (or additional paid in capital if no retained earnings) and the convertible preferred shares newly issued if the fair value of the stock on the declaration date is below the contractual conversion price. The discount on the convertible preferred shares issued as PIK dividends will then be accreted through the contractual maturity of the instrument.

The preferred stock is not a participating security, as defined in SFAS 128, *Earnings per Share*, and EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128*, and, therefore, does not require the two-class method of calculating EPS. The preferred stock provides for the adjustment to the conversion price for common stock dividends declared. The common shares underlying the convertible preferred stock have not been included in diluted EPS as its effect is anti-dilutive.

Warrants

The warrants are exercisable for a term of five years from the date of issuance. The warrants had an estimated fair value of $8.2 million at issuance (based on the Black-Scholes option pricing model and certain agreed upon inputs). The warrants were issued in two tranches with exercise prices to be based on the Measurement Period multiplied by 1.25 or 1.50, respectively. The Measurement Period has ended. As a result, the warrants are exercisable as follows (i) 5,045,662 shares of common stock can be purchased at $5.31 per share, and (ii) 5,045,662 shares of common stock can be purchased at $6.38 per share. The exercise prices of the warrants will be adjusted for certain anti-dilution events including below market price or below the conversion price issuances by the Company of its common stock, subject to certain exceptions. Upon exercise of the warrants by the holders thereof, we may, in our sole discretion, satisfy our obligations under any warrant being exercised by: (i) paying the holder the value of the common stock to be delivered in cash less the exercise price; (ii) paying such amount in common stock rather than cash; (iii) delivering shares of common stock upon receiving the cash exercise price therefore; or (iv) any combination of the foregoing.

The Charter Amendment

In connection with the closing of the Transeastern JV settlement, we increased the authorized shares of common stock in our Certificate of Incorporation to 975,000,000 to provide sufficient shares for, among other things, the maximum amount of shares of common stock to be delivered upon full exercise of the warrants and full conversion of shares of the preferred stock. We currently have approximately 60 million shares of common stock outstanding. We made the amendment pursuant to the written consent of our controlling stockholder, which was effective on July 30, 2007.

NYSE Delisting

Effective November 19, 2007, NYSE Regulation, Inc. suspended our common stock and debt securities from trading on the NYSE. We appealed the suspension. Following our suspension from the NYSE, we began trading on the Pink Sheet Electronic Quotation Service. On February 15, 2008, the NYSE denied our appeal and affirmed the decision to suspend trading in our common stock and debt securities on the NYSE and commenced delisting procedures. On March 3, 2008, the NYSE filed Forms 25, Notification of Removal of Listing and/or Registration under Section 12(b) of the Securities Exchange Act of 1934, with the SEC of its intention to remove our common stock, 9% Senior Notes due July 1, 2010, 9% Senior Notes due July 1, 2010, 71/2% Senior Subordinated Notes due March 15, 2011, 71/2% Senior Subordinated Notes due January 15, 2015 and the 103/8% Senior Subordinated Notes due July 1, 2012 at the opening of business May 13, 2008.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Stock-Based Compensation

Under the TOUSA, Inc. Annual and Long-Term Incentive Plan (the Plan) employees, consultants and directors of ours, our subsidiaries and affiliated entities, (as defined in the Plan), are eligible to receive options to purchase shares of common stock. Each stock option expires on a date determined when the options are granted, but not more than ten years after the date of grant. Stock options granted have a vesting period ranging from immediate vesting to a graded vesting over five years. Under the Plan, subject to adjustment as defined, the maximum number of shares with respect to which awards may be granted is 8,250,000.

Activity under the Plan for the years ended December 31, 2007, 2006, and 2005 was as follows:

	Year Ended December 31,					
	2007		2006		2005	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of year	7,712,574	$ 13.04	6,606,611	$ 11.06	6,827,755	$ 11.12
Granted	189,552	$ 9.45	1,339,708	$ 23.58	16,374	$ 24.19
Exercised			(23,750)	$ 10.84	(115,625)	$ 10.43
Expired						
Forfeited	(147,250)	$ 17.30	(209,995)	$ 18.37	(121,893)	$ 16.47
Options outstanding at end of year	7,754,876	$ 12.87	7,712,574	$ 13.04	6,606,611	$ 11.06
Options exercisable at end of year	6,428,847	$ 13.51	4,964,676	$ 10.83	4,881,757	$ 10.76
Options available for grant at end of year	271,609		327,561		719,061	
Weighted average fair market value per share of options granted during the year under SFAS No. 123(R)	$ 3.40		$ 7.90		$ 7.33	

There was no aggregate intrinsic value of options outstanding and exercisable at December 31, 2007 since the stock was trading at less than the exercise price.

The following table summarizes information about stock options outstanding at December 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Options**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Options**	**Weighted Average Exercise Price**
$8.33 - $10.08	3,710,203	5.21	$ 9.47	2,454,298	$ 9.59
$10.61 - $12.20	2,519,842	5.01	$ 11.61	2,490,967	$ 11.61
$17.25 - $19.35	84,375	6.17	$ 18.13	84,375	$ 18.13
$20.35 - $21.29	58,893	6.50	$ 20.74	58,893	$ 20.74
$22.96 - $25.25	1,381,563	2.22	$ 23.64	1,340,314	$ 23.63

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of non-vested stock option transactions is as follows for 2007:

	Shares	Weighted Average Granted-Date Fair Value (Per Share)
Nonvested at January 1, 2007	2,747,898	$ 5.92
Granted	189,552	$ 9.45
Vested	(1,497,046)	$ 7.51
Forfeited	(114,375)	$ 5.72
Nonvested at December 31, 2007	1,326,029	$ 3.78

During the years ended December 31, 2007 and 2006, we recognized compensation expense related to stock options of $3.9 million (no tax impact) and $11.3 million ($7.4 million net of taxes), respectively. As of December 31, 2007, we had $2.7 million of total unrecognized compensation expense related to unvested stock option awards. This expense is expected to be recognized over a weighted average period of 1.2 years. The aggregate grant date fair market value of options vested during the year ended December 31, 2007 was $11.2 million.

We use the Black-Scholes valuation model to determine compensation expense and amortize compensation expense over the requisite service period of the grants on a straight-line basis. The following table summarizes the assumptions used:

Expected volatility	0.33 - 0.42
Expected dividend yield	0.00%
Risk-free interest rate	1.47% - 4.85%
Expected life	3 - 10 years

The risk-free interest rate is based on the U.S. Treasury yield curve at the time of the grant. The expected term of stock options granted is derived from historical data and represents the period of time that stock options are expected to be outstanding. The expected volatility is based on historical volatility, implied volatility, and other factors impacting us.

Our chief executive officer had the right to purchase 1% of our outstanding common stock on January 1, 2007 for $16.23 per share and an additional 1% on January 1, 2008 for $17.85 per share. On January 13, 2006, our chief executive officer s employment agreement was amended primarily to grant him 1,323,940 options at an exercise price of $23.62 per share and provided for a special bonus award of $8.7 million in lieu of the common stock purchase rights provided certain performance criteria were met as of December 31, 2006. The criteria were not met and no amounts were paid.

14. Operating and Reportable Segments

Our operating segments are aggregated into reportable segments in accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, based primarily upon similar economic characteristics, product type, geographic areas, and information used by the chief operating decision maker to allocate resources and assess performance. Our reportable segments consist of our four major Homebuilding geographic regions (Florida, Mid-Atlantic, Texas and West) and our Financial Services operations.

Through our four homebuilding regions, we design, build and market detached single-family residences, town homes and condominiums in various metropolitan markets in nine states, located as follows:

Florida: Central Florida, Jacksonville, Southeast Florida, Southwest Florida, Tampa/St. Petersburg

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Mid-Atlantic: Baltimore / Southern Pennsylvania, Nashville, Northern Virginia (on September 25, 2007 we sold in bulk, home sites in our Mid-Atlantic (excluding Nashville) and Virginia divisions)

Texas: Austin, Houston, San Antonio (on June 6, 2007, we sold substantially all of our Dallas/Fort Worth division)

West: Colorado, Las Vegas, Phoenix

Evaluation of segment performance is based on the segment s results of operations without consideration of income taxes. Results of operations for our four homebuilding segments consist of revenues generated from the sales of homes and land, equity in earnings from unconsolidated joint ventures, and other income / expense less the cost of homes and land sold and selling, general and administrative expenses. The results of operations for our Financial Services segment consists of revenues generated from mortgage financing, title insurance and other ancillary services less the cost of such services and certain selling, general and administrative expenses.

The operational results of each of our segments are not necessarily indicative of the results that would have occurred had each segment been an independent, stand-alone entity during the periods presented. The following tables set forth the financial information relating to our operations, presented by segment (dollars in millions).

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Year Ended December 31, 2007	2006	2005
Revenues:			
Homebuilding:			
Florida	$ 891.9	$ 1,018.0	$ 859.2
Mid-Atlantic	265.0	306.0	290.9
Texas[1]	635.0	602.3	415.4
West	366.9	515.0	795.0
Total Homebuilding	2,158.8	2,441.3	2,360.5
Financial Services	36.5	63.3	47.5
Total revenues	$ 2,195.3	$ 2,504.6	$ 2,408.0

[1] The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

	2007	2006	2005
(Income) loss from unconsolidated joint ventures:			
Florida	$ 2.1	$ (9.7)	$ 7.2
Mid-Atlantic	(2.2)	(7.4)	(5.8)
Texas	(0.5)	(1.2)	(0.4)
West	15.5	(86.4)	(46.7)
	$ 14.9	$ (104.7)	$ (45.7)
Impairments on unconsolidated joint ventures and related accrued obligations:			
Florida	$ 90.6	$ 152.8	$
Mid-Atlantic	1.6		
Texas	2.0		
West	99.9		
	$ 194.1	$ 152.8	$
(Income) Loss from unconsolidated joint ventures after impairments and related accrued obligations	$ 209.0	$ 48.1	$ (45.7)
Results of Operations:			
Homebuilding:			
Florida	$ (543.6)	$ 11.8	$ 138.1
Mid-Atlantic	(119.0)	(20.9)	38.1

Texas[1]	52.4	59.4	33.6
West	(473.1)	26.4	186.4
Total Homebuilding	(1,083.3)	76.7	396.2
Financial Services	(0.8)	21.5	8.5
Corporate and unallocated	(268.9)	(341.8)	(60.1)
Total income (loss) from continuing operations before income taxes	$ (1,353.0)	$ (243.6)	$ 344.6

[1] The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2007	December 31, 2006
Assets:		
Homebuilding:		
Florida	$ 631.3	$ 892.9
Mid-Atlantic	73.0	230.4
Texas[(1)]	220.0	210.6
West	381.3	721.4
Assets held for sale[(1)]	6.1	124.8
Financial Services	36.7	65.5
Corporate and unallocated	413.6	596.6
Total assets	$ 1,762.0	$ 2,842.2
Investments in Unconsolidated Joint Ventures:		
Florida	$	$ 29.4
Mid-Atlantic	0.1	5.3
Texas	8.6	6.8
West	0.3	87.5
Total Investments in Unconsolidated Joint Ventures	$ 9.0	$ 129.0

(1) The Texas region excludes the Dallas division, which is now classified as a discontinued operation.

As part of our asset management initiatives, on September 25, 2007, we sold 317 homesites to an unrelated homebuilder. Additionally, as part of the transaction, in the fourth quarter of 2007, the unrelated homebuilder purchased an option interest to acquire 250 homesites as well as 34 owned homesites. The total purchase price for these transactions was $31.3 million and we realized a pre-tax loss of $12.5 million. In July 2008, we received a letter of intent from a party interested in purchasing the remaining assets in our Pennsylvania, Maryland, Delaware and Virginia divisions. The letter of intent is subject to a number of conditions.

15. Discontinued Operations

On June 6, 2007, we sold substantially all of our Dallas/Fort Worth division to an unrelated third-party for $56.5 million and realized a pre-tax loss on disposal of $13.6 million. Certain communities were not part of the sale. We are actively marketing these communities for sale and it is our intention to exit these communities within a year.

During the three months ended March 31, 2007, we determined that the pending sale of our Dallas/Fort Worth division at a price below the carrying value was an indicator of impairment. We performed an interim goodwill impairment test as of March 31, 2007 and, at that time, determined that the goodwill recorded in our Dallas/Fort Worth division was impaired; accordingly, we wrote off $3.1 million of goodwill which is included in loss from discontinued operations for the year ended December 31, 2007.

In accordance with SFAS 144, results of our Dallas/Fort Worth division have been classified as discontinued operations, and prior periods have been restated to be consistent with the December 31, 2007, presentation. Discontinued operations include Dallas/Fort Worth division revenues of $47.9 million, $132.7 million, and $101.0 million for the years ended December 31, 2007, 2006, and 2005, respectively. For the year ended December 31, 2007, the Dallas/Fort Worth division had a net loss of $22.8 million (including

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

an $13.6 million after-tax loss on disposal) as compared to a net loss of $0.4 million and net income of $0.2 for the years ended December 31, 2006 and 2005, respectively. Included in the net loss of the Dallas/Fort Worth division for the year ended December 31, 2007 is $9.5 million of inventory impairments and abandonment costs and a $3.1 million of goodwill impairment.

Assets held for sale, as shown on the consolidated statements of financial condition, consist primarily of $6.1 million and $124.8 million of inventory at December 31, 2007 and 2006, respectively.

16. Employee Benefit Plans

We have a defined contribution plan established pursuant to Section 401(k) of the Internal Revenue Code. Employees contribute to the plan a percentage of their salaries, subject to certain dollar limitations, and we match a portion of the employees contributions. Our contributions to the plan for the years ended December 31, 2007, 2006, and 2005, amounted to $2.2 million, $2.7 million, and $2.7 million, respectively.

As a result of the reduction of the Company s workforce, there will be a deemed partial termination of the plan in 2008 as required by the IRS which will result in the acceleration of benefit vesting. The additional cost to the Company of the acceleration is estimated to be approximately $0.1 million.

17. Quarterly Results (Unaudited)

The homebuilding industry tends to be seasonal, as generally there are more homes sold in the spring and summer months when the weather is milder, although the number of sales contracts for new homes is highly dependent on the number of active communities and the timing of new community openings. Because new home deliveries trail new home contracts by a number of months, we typically have the greatest percentage of home deliveries in the fall and winter, and slow sales in the spring and summer months could negatively affect our full year results.

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Quarterly results for the years ended December 31, 2007 and 2006, which have been restated for discontinued operations in conformity with the year end presentation, are reflected below (dollars in millions, except per share amounts):

	First	Second	Third	Fourth
2007:				
Total revenue	$ 572.7	$ 576.7	$ 501.2	$ 544.7
Inventory impairments and abandonment costs[1]	$ (39.1)	$ (84.8)	$ (504.5)	$ (224.3)
Homebuilding gross margin (loss)	$ 79.9	$ 17.8	$ (437.4)	$ (167.7)
Provision for settlement of loss contingency related to Transeastern JV	$ (78.9)	$ (32.0)	$ (40.7)	$
Net loss	$ (66.0)	$ (132.0)	$ (619.7)	$ (524.8)
Net loss available to common stockholders[2]	$ (66.0)	$ (132.0)	$ (621.9)	$ (527.3)
Basic loss per common share from continuing operations	$ (1.05)	$ (2.04)	$ (10.36)	$ (8.76)
Diluted loss per common share from continuing operations	$ (1.05)	$ (2.04)	$ (10.36)	$ (8.76)
2006:				
Total revenue	$ 598.6	$ 638.8	$ 592.6	$ 674.6
Inventory impairments and abandonment costs[1]	$ (5.8)	$ (1.8)	$ (49.8)	$ (95.8)
Homebuilding gross margin	$ 145.8	$ 159.2	$ 79.7	$ 33.2
Provision for settlement of loss contingency related to Transeastern JV	$	$	$	$ (275.0)
Net income (loss)	$ 55.0	$ 67.6	$ (80.0)	$ (243.8)
Basic earnings (loss) per common share from continuing operations	$ 0.91	$ 1.12	$ (1.34)	$ (4.07)
Diluted earnings (loss) per common share from continuing operations	$ 0.89	$ 1.09	$ (1.35)	$ (4.06)

(1) Inventory impairments and abandonment costs are a component of cost of sales.

(2) Net of preferred stock dividends starting in the third quarter of 2007.

Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with the per share amounts for the year.

During the fourth quarter of 2007 and 2006, we recognized $463.5 million and $42.1 million of valuation allowances, respectively, for deferred tax assets that we do not believe are more likely than not that we will realize the benefit.

18. Summarized Financial Information

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

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Financial Condition
December 31, 2007

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	$ 81.3	$ (9.0)	$	$	$ 72.3
Inventory		1,271.8			1,271.8
Property and equipment, net	3.3	21.3			24.6
Investments in unconsolidated joint ventures		9.0			9.0
Receivables from unconsolidated joint ventures, net		0.3			0.3
Investments in/advances to consolidated subsidiaries	989.7	(372.5)	(5.5)	(611.7)	
Other assets	287.7	42.3			330.0
Goodwill		11.2			11.2
Assets held for sale		6.1			6.1
	1,362.0	980.5	(5.5)	(611.7)	1,725.3
FINANCIAL SERVICES:					
Cash and cash equivalents			14.9		14.9
Mortgage loans held for sale			15.0		15.0
Other assets			6.8		6.8
			36.7		36.7
Total assets	$ 1,362.0	$ 980.5	$ 31.2	$ (611.7)	$ 1,762.0
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)					
HOMEBUILDING:					
Accounts payable and other liabilities	$ 83.7	$ 318.1	$	$	$ 401.8
Customer deposits		33.9			33.9
Obligations for inventory not owned		32.0			32.0
Notes payable	1,585.3				1,585.3
Bank borrowings	168.5				168.5
Liabilities associated with assets held for sale		0.9			0.9
	1,837.5	384.9			2,222.4

FINANCIAL SERVICES:					
Accounts payable and other liabilities			8.0	(0.7)	7.3
Bank borrowings			7.8		7.8
			15.8	(0.7)	15.1
Total liabilities	1,837.5	384.9	15.8	(0.7)	2,237.5
Total stockholders equity (deficit)	(475.5)	595.6	15.4	(611.0)	(475.5)
Total liabilities and stockholders equity (deficit)	$ 1,362.0	$ 980.5	$ 31.2	$ (611.7)	$ 1,762.0

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Financial Condition
December 31, 2006

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
ASSETS					
HOMEBUILDING:					
Cash and cash equivalents	$ 53.6	$ (2.4)	$	$	$ 51.2
Inventory		2,078.5			2,078.5
Property and equipment, net	6.5	22.0			28.5
Investments in unconsolidated joint ventures		129.0			129.0
Receivables from unconsolidated joint ventures, net		27.2			27.2
Investments in/advances to consolidated subsidiaries	1,933.4	(188.9)	8.2	(1,752.7)	
Other assets	190.1	46.5			236.6
Goodwill		100.9			100.9
Assets held for sale		124.8			124.8
	2,183.6	2,337.6	8.2	(1,752.7)	2,776.7
FINANCIAL SERVICES:					
Cash and cash equivalents			11.0		11.0
Mortgage loans held for sale			41.9		41.9
Other assets			12.6		12.6
			65.5		65.5
Total assets	$ 2,183.6	$ 2,337.6	$ 73.7	$ (1,752.7)	$ 2,842.2
LIABILITIES AND STOCKHOLDERS EQUITY					
HOMEBUILDING:					
Accounts payable and other liabilities	$ 348.0	$ 206.2	$	$	$ 554.2
Customer deposits		62.6			62.6
Obligations for inventory not owned		300.6			300.6
Notes payable	1,060.7				1,060.7
Bank borrowings					
Liabilities associated with assets held for sale		47.8			47.8
	1,408.7	617.2			2,025.9

FINANCIAL SERVICES:					
Accounts payable and other liabilities			6.0		6.0
Bank borrowings			35.4		35.4
			41.4		41.4
Total liabilities	1,408.7	617.2	41.4		2,067.3
Total stockholders equity	774.9	1,720.4	32.3	(1,752.7)	774.9
Total liabilities and stockholders equity (deficit)	$ 2,183.6	$ 2,337.6	$ 73.7	$ (1,752.7)	$ 2,842.2

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Operations
Year Ended December 31, 2007

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
HOMEBUILDING:					
Revenues	$	$ 2,158.8	$	$	$ 2,158.8
Cost of sales		2,666.2			2,666.2
Gross profit (loss)		(507.4)			(507.4)
Selling, general and administrative expenses	91.2	286.6		(15.1)	362.7
Loss from unconsolidated joint ventures, net		14.9			14.9
Impairments of investments in and receivables from unconsolidated joint ventures and related accrued obligations		194.1			194.1
Provision for settlement of loss contingency	151.6				151.6
Goodwill impairments		89.7			89.7
Interest expense	31.1	0.5			31.6
Other (income) expenses, net	1,078.5	55.6		(1,136.8)	(2.7)
Homebuilding pretax income (loss)	(1,352.4)	(1,148.8)		1,151.9	(1,349.3)
FINANCIAL SERVICES:					
Revenues			51.6	(15.1)	36.5
Expenses			41.2	(4.9)	36.3
Goodwill Impairment			3.9		3.9
Financial Services pretax income (loss)			6.5	(10.2)	(3.7)
Income (loss) from continuing operations before income taxes	(1,352.4)	(1,148.8)	6.5	1,141.7	(1,353.0)
Provision (benefit) for income taxes	(9.9)	(29.8)	6.4		(33.3)
Income (loss) from continuing operations, net of taxes	(1,342.5)	(1,119.0)	0.1	1,141.7	(1,319.7)
Discontinued operations:					
		(17.0)			(17.0)

Income (loss) from discontinued operations					
Loss from disposal of discontinued operations		(13.6)			(13.6)
Provision (benefit) for income taxes		(7.8)			(7.8)
Income (loss) from discontinued operations, net of taxes		(22.8)			(22.8)
Net income (loss)	(1,342.5)	(1,141.8)	0.1	1,141.7	(1,342.5)
Dividends and accretion of discount on preferred stock	4.7				4.7
Net income (loss) available to common stockholders	$ (1,347.2)	$ (1,141.8)	$ 0.1	$ 1,141.7	$ (1,347.2)

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Operations
Year Ended December 31, 2006

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 2,441.3	$	$	$ 2,441.3
Cost of sales		2,023.4			2,023.4
Gross profit		417.9			417.9
Selling, general and administrative expenses	71.2	291.9		(4.8)	358.3
Income from unconsolidated joint ventures, net		(104.7)			(104.7)
Impairments of investments in and receivables from unconsolidated joint ventures and related accrued obligations		152.8			152.8
Provision for settlement of loss contingency	275.0				275.0
Goodwill impairments		5.7			5.7
Interest expense	0.3	0.3			0.6
Other (income) expenses, net	(79.3)	28.2		46.4	(4.7)
Homebuilding pretax income (loss)	(267.2)	43.7		(41.6)	(265.1)
FINANCIAL SERVICES:					
Revenues			68.1	(4.8)	63.3
Expenses			50.9	(9.1)	41.8
Financial Services pretax income			17.2	4.3	21.5
Income (loss) from continuing operations before income taxes	(267.2)	43.7	17.2	(37.3)	(243.6)
Provision (benefit) for income taxes	(66.0)	15.1	8.1		(42.8)
Income (loss) from continuing operations, net of taxes	(201.2)	28.6	9.1	(37.3)	(200.8)
Discontinued operations:					
Loss from discontinued operations		(0.6)			(0.6)
Benefit for income taxes		(0.2)			(0.2)

Loss from discontinued operations, net of taxes		(0.4)			(0.4)
Net income (loss)	(201.2)	28.2	9.1	(37.3)	(201.2)
Dividends and accretion of discount on preferred stock					
Net income (loss) available to common stockholders	$ (201.2)	$ 28.2	$ 9.1	$ (37.3)	$ (201.2)

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Operations
Year Ended December 31, 2005

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
HOMEBUILDING:					
Revenues	$	$ 2,360.5	$	$	$ 2,360.5
Cost of sales		1,769.5			1,769.5
Gross profit		591.0			591.0
Selling, general and administrative expenses	75.3	243.6		(9.8)	309.1
Income from unconsolidated joint ventures, net		(45.7)			(45.7)
Interest (income) expense	(0.1)	0.5			0.4
Other (income) expenses, net	(281.7)	29.9		242.9	(8.9)
Homebuilding pretax income	206.5	362.7		(233.1)	336.1
FINANCIAL SERVICES:					
Revenues			57.3	(9.8)	47.5
Expenses			44.8	(5.8)	39.0
Financial Services pretax income			12.5	(4.0)	8.5
Income from continuing operations before income taxes	206.5	362.7	12.5	(237.1)	344.6
Provision (benefit) for income taxes	(11.8)	133.4	4.9		126.5
Income from continuing operations, net of taxes	218.3	229.3	7.6	(237.1)	218.1
Discontinued operations:					
Income from discontinued operations		0.3			0.3
Provision for income taxes		0.1			0.1
Income from discontinued operations, net of taxes		0.2			0.2
Net income	218.3	229.5	7.6	(237.1)	218.3
Dividends and accretion of discount on preferred stock					

Net income (loss) available to common stockholders	$	218.3	$	229.5	$	7.6	$	(237.1)	$	218.3

TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Cash Flows
Year Ended December 31, 2007

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
Net cash provided by (used in) operating activities	$ (1,037.3)	$ (200.5)	$ 17.4	$ 1,141.0	$ (79.4)
Cash flows from investing activities:					
Acquisitions, net of cash acquired		(7.6)			(7.6)
Earn-out consideration paid for acquisitions					
Net additions to property and equipment	0.1	(8.0)	(1.0)		(8.9)
Loans to unconsolidated joint ventures					
Investments in unconsolidated joint ventures		(31.8)			(31.8)
Capital distributions from unconsolidated joint ventures		14.3			14.3
Net cash provided by (used in) investing activities	0.1	(33.1)	(1.0)		(34.0)
Cash flows from financing activities:					
Net borrowings from revolving credit facilities	168.5				168.5
Principal payments on notes payable	(1.0)				(1.0)
Net proceeds from notes offering					
Net repayments of Financial Services bank borrowings			(27.6)		(27.6)
Payments for deferred financing costs	(42.6)				(42.6)
Payments for issuance of convertible preferred stock and warrants	(2.9)				(2.9)
Proceeds from stock option exercises					
Dividends paid					
Increase (decrease) in intercompany transactions	943.7	183.6	13.7	(1,141.0)	
Net cash provided by (used in) financing activities	1,065.7	183.6	(13.9)	(1,141.0)	94.4
	28.5	(50.0)	2.5		(19.0)

Net cash provided by (used in) continuing operations					
Net cash provided by (used in) discontinued operations		(41.3)			(41.3)
Increase (decrease) in cash and cash equivalents	28.5	(8.7)	2.5		22.3
Cash and cash equivalents at beginning of year	50.6	(3.2)	6.8		54.2
Cash and cash equivalents at end of year	$ 79.1	$ (11.9)	$ 9.3	$	$ 76.5

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Cash Flows
Year Ended December 31, 2006

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
	(Dollars in millions)				
Net cash provided by (used in) operating activities	$ (155.4)	$ 34.2	$ 11.6	$ (37.3)	$ (146.9)
Cash flows from investing activities:					
Earn-out consideration paid for acquisitions		(0.9)			(0.9)
Net additions to property and equipment	(2.6)	(12.0)	(1.8)		(16.4)
Loans to unconsolidated joint ventures		(11.3)			(11.3)
Investments in unconsolidated joint ventures		(32.1)			(32.1)
Capital distributions from unconsolidated joint ventures		52.9			52.9
Net cash provided by (used in) investing activities	(2.6)	(3.4)	(1.8)		(7.8)
Cash flows from financing activities:					
Net borrowings from revolving credit facilities	(65.0)				(65.0)
Net proceeds from notes offering	248.8				248.8
Net proceeds from Financial Services bank borrowings			0.3		0.3
Payments for deferred financing costs	(5.5)				(5.5)
Excess income tax benefit from exercise of stock options	0.1				0.1
Proceeds from stock option exercises	0.2				0.2
Dividends paid	(3.6)				(3.6)
Increase (decrease) in intercompany transactions	13.4	(38.7)	(12.0)	37.3	
Net cash provided by (used in) financing activities	188.4	(38.7)	(11.7)	37.3	175.3
Net cash provided by (used in) continuing operations	30.4	(7.9)	(1.9)		20.6
Net cash provided by discontinued operations		1.3			1.3

Increase (decrease) in cash and cash equivalents	30.4	(6.6)	(1.9)		21.9
Cash and cash equivalents at beginning of year	20.2	3.4	8.7		32.3
Cash and cash equivalents at end of year	$ 50.6	$ (3.2)	$ 6.8	$	$ 54.2

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TOUSA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Statement of Cash Flows
Year Ended December 31, 2005

	TOUSA, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Intercompany Eliminations	Total
			(Dollars in millions)		
Net cash provided by (used in) operating activities	$ 309.7	$ (272.9)	$ 40.6	$ (237.1)	$ (159.7)
Cash flows from investing activities:					
Net additions to property and equipment	(4.4)	(6.7)	(1.9)		(13.0)
Loans to unconsolidated joint ventures		(20.0)			(20.0)
Investments in unconsolidated joint ventures		(176.1)			(176.1)
Capital distributions from unconsolidated joint ventures		9.9			9.9
Net cash used in investing activities	(4.4)	(192.9)	(1.9)		(199.2)
Cash flows from financing activities:					
Net borrowings from revolving credit facilities	65.0				65.0
Net repayments of Financial Services bank borrowings			(13.9)		(13.9)
Payments for deferred financing costs	(0.3)				(0.3)
Net proceeds from sale of common stock	89.2				89.2
Proceeds from stock option exercises	1.8				1.8
Dividends paid	(3.2)		(8.0)	8.0	(3.2)
Increase (decrease) in intercompany transactions	(596.9)	426.8	(59.0)	229.1	
Net cash provided by (used in) financing activities	(444.4)	426.8	(80.9)	237.1	138.6
Net cash used in continuing operations	(139.1)	(39.0)	(42.2)		(220.3)
Net cash used in discontinued operations		(15.9)			(15.9)
Decrease in cash and cash equivalents	(139.1)	(54.9)	(42.2)		(236.2)
Cash and cash equivalents at beginning of year	159.3	58.3	50.9		268.5

Cash and cash equivalents at end of year	$ 20.2	$ 3.4	$ 8.7	$	$ 32.3