

LEVITT CORP  
Form 10-K/A  
July 05, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K/A  
Amendment No. 2**

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Year Ended December 31, 2006**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number  
001-31931  
Levitt Corporation  
(Exact name of registrant as specified in its Charter)**

**Florida**  
(State or other jurisdiction of  
incorporation or organization)

**11-3675068**  
(I.R.S. Employer  
Identification No.)

**2200 West Cypress Creek Road  
Ft. Lauderdale, Florida**  
(Address of principal executive offices)

**33309**  
(Zip Code)

**(954) 958-1800**

(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**Class A Common Stock, Par Value \$0.01 Per Share**  
(Title of Each Class)

**New York Stock Exchange**  
(Name of Each Exchange on Which  
Registered)

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$263.0 million based on the \$15.92 closing sale price as reported on the New York Stock Exchange. The number of shares outstanding for each of the Registrant's classes of common stock, as of June 27, 2007 is as follows:

<b>Class of Common Stock</b>	<b>Shares Outstanding</b>
Class A common stock, \$0.01 par value	18,616,665
Class B common stock, \$0.01 par value	1,219,031

**DOCUMENTS INCORPORATED BY REFERENCE**

The restated financial statements of Bluegreen Corporation are incorporated in Part II of this report and are filed as an exhibit to this report.

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**EXPLANATORY NOTE**

We are filing this Amendment No. 2 to Form 10-K for the year ended December 31, 2006 for the purpose of revising the disclosure in Item 1. Business, Item 6. Selected Financial Data, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements Notes 1, 7, 11 and 21. The items have been revised to correctly present all information required by SFAS 131 in our Segment Disclosures by including Tennessee Homebuilding as a reportable operating segment, add additional disclosure in the critical accounting policy section relating to the assumptions used in the inventory impairment analysis and include restated financial statements of Bluegreen Corporation which are incorporated by reference in Part II of this report and are filed as an exhibit. Subsequent to the issuance of our audited consolidated financial statements for the year ended December 31, 2006, we revised our disclosure of reportable operating segments by adding Tennessee Homebuilding as a reportable operating segment. Additionally, we provided more specific disclosure on our methodology for evaluating projects for impairment and the factors influencing the assumptions utilized by us in that analysis. These additional disclosures were added to Management's Discussion and Analysis of Financial Condition and Results of Operations and the Notes to the Financial Statements. Lastly, we included as an exhibit the restated financial statements of Bluegreen which were filed by Bluegreen in its Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2006 to restate Bluegreen's Consolidated Statements of Cash Flows and corresponding financial information for the years ended December 31, 2004, 2005 and 2006 with conforming changes to Bluegreen's Management's Discussion and Analysis of Financial Condition and Results of Operations.

Neither the restatement by Bluegreen nor the changes contained in this Amendment No. 2 affect our consolidated financial condition at December 31, 2006, 2005, or 2004 or results of operations and related earnings per share amounts or cash flows for the years ended December 31, 2006 or 2005.

This Amendment No. 2 on Form 10-K/A does not reflect events occurring after the filing of the Company's Annual Report on Form 10-K on March 16, 2007 or include, or otherwise modify or update the disclosures contained therein in any way other than to reflect the additional disclosures as described above. Accordingly, this Amendment No. 2 should be read in conjunction with our filings made with the SEC subsequent to the filing of our original Form 10-K on March 16, 2007.

In addition, in accordance with Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, this Amendment No. 2 also includes current dated certifications from the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer are attached to this Form 10-K/A as Exhibits 31.1 and 32.1, 31.2 and 32.2, and 31.3 and 32.3, respectively.

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Levitt Corporation  
Annual Report on Form 10-K/A Amendment No. 2  
for the year ended December 31, 2006  
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**PART I**

Some of the statements contained or incorporated by reference herein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), that involve substantial risks and uncertainties. Some of the forward-looking statements can be identified by the use of words such as anticipate, believe, estimate, may, intend, expect, will, should, seek or other similar expressions. Forward-looking statements are based on management's expectations and involve inherent risks and uncertainties described in this report. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements in the original Form 10-K filed on March 16, 2007, including those identified under Item 1A. Risk Factors. These risks are subject to change based on factors which are, in many instances, beyond the Company's control. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors could cause actual results to differ materially from those in the forward-looking statements including: the impact of economic, competitive and other factors affecting the Company and its operations; the market for real estate in the areas where the Company has developments, including the impact of market conditions on the Company's margins and the fair value of our real estate inventory; the accuracy of the estimated fair value of our real estate inventory and the potential for further impairment charges; the need to offer additional incentives to buyers to generate sales; the effects of increases in interest rates; cancellations of existing sales contracts and the ability to consummate sales contracts included in the Company's backlog; the Company's ability to realize the expected benefits of its expanded platform, technology investments, growth initiatives and strategic objectives; the Company's ability to timely deliver homes from backlog, shorten delivery cycles and improve operational and construction efficiency; the realization of cost savings associated with reductions of workforce and the ability to limit overhead and costs commensurate with sales; the Company's ability to maintain sufficient liquidity in the event of a prolonged downturn in the housing market and the Company's success at managing the risks involved in the foregoing. Many of these factors are beyond our control. The Company cautions that the foregoing factors are not exclusive.

**ITEM 1. BUSINESS**

**General Description of Business**

We are a homebuilding and real estate development company with activities throughout the Southeastern United States. We were organized in December 1982 under the laws of the State of Florida.

Our principal real estate activities are primarily conducted through our wholly owned subsidiaries Levitt and Sons, LLC, ( Levitt and Sons ) and Core Communities, LLC ( Core Communities ), which operate our Homebuilding Division and Land Division, respectively. At December 31, 2006 our Homebuilding Division consisted of two reportable operating segments, the Primary Homebuilding segment and the Tennessee Homebuilding segment which report on our business of developing single and multi-family homes. In our single-family home communities, we specialize in serving active adults and families. The standard base price for the homes we sell varies by location and ranges between \$110,000 and \$650,000. For 2006, the average closing price of the homes we delivered was \$302,000. The Land Division which is treated as one reportable operating segment, develops master-planned communities, generates revenue from developing, marketing and selling large acreage and raw and finished lots to third-party residential, commercial and industrial developers and internally developing certain commercial projects for leasing. The Land Division also sells land to our Primary Homebuilding segment, which develops both active adult and family communities in our master-planned communities. We are also engaged in commercial real estate activities through our wholly owned subsidiary, Levitt Commercial, LLC ( Levitt Commercial ), and we invest in other real estate projects through subsidiaries and various joint ventures. In addition, we own approximately 31% of the outstanding common stock of Bluegreen Corporation ( Bluegreen , NYSE: BXG), which acquires, develops, markets and sells vacation ownership

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interests in drive-to vacation resorts as well as residential home sites around golf courses or other amenities.

Our Homebuilding Division, comprised of our wholly owned subsidiary Levitt and Sons, is primarily a real estate developer of single and multi-family home and townhome communities specializing in both active adult and family communities in Florida, Georgia, South Carolina and Tennessee. The Primary Homebuilding segment, which operates in Florida, Georgia and South Carolina, and the Tennessee Homebuilding segment, which consists of the acquired entity Bowden Building Corporation ( Bowden ) and all operations in Tennessee, both operate within Levitt and Sons. Levitt and Sons and its predecessors have built more than 200,000 homes since 1929. It has strong brand awareness as America's oldest homebuilder and is recognized nationally for having built the Levittown communities in New York, New Jersey and Pennsylvania. We acquired Levitt and Sons in December 1999 and Bowden was acquired in May 2004. In the second quarter of 2006 we conducted an impairment review to determine whether the decline in profitability and cash flows in our Tennessee Homebuilding operations had reached a level where the carrying value of the assets exceeded their estimated fair value. As a result of this review, the \$1.3 million of goodwill recorded in connection with the Bowden acquisition was fully written off in 2006.

Our Land Division, comprised of our wholly-owned subsidiary Core Communities, develops master-planned communities and is currently developing Tradition , Florida, which is located in Port St. Lucie, Florida and Tradition, South Carolina, which is located in Hardeeville, South Carolina. Our original community is St. Lucie West. Substantially completed in 2006, it is a 4,600 acre community located in Port St. Lucie, Florida consisting of approximately 6,000 built and occupied homes, numerous businesses, a university campus and the New York Mets spring training facility. Our second master-planned community, Tradition, Florida also located in Port St. Lucie, Florida, encompasses more than 8,200 total acres, including approximately five miles of frontage on Interstate 95 and will have approximately 18,000 residential units and 8.5 million square feet of commercial space. Our Tradition, South Carolina development consists of approximately 5,400 acres, and is currently entitled for up to 9,500 residential units, with 1.5 million square feet of commercial space, in addition to recreational areas, educational facilities and emergency services. Land sales commenced in Tradition, South Carolina in the fourth quarter 2006.

**Recent Developments**

*Merger Agreement with BFC*

On January 31, 2007, we announced that we had entered into a definitive merger agreement with BFC Financial Corporation, a Florida corporation ( BFC ) which owns shares representing approximately 17% of our total equity and 53% of our total voting power, pursuant to which we would, upon consummation of the merger, become a wholly owned subsidiary of BFC. Under the terms of the merger agreement, holders of our Class A Common Stock (other than BFC) will be entitled to receive 2.27 shares of BFC Class A Common Stock for each share of our Class A Common Stock held by them and cash in lieu of any fractional shares of BFC Class A Common Stock that they otherwise would be entitled to receive. Further, under the terms of the merger agreement, options to purchase shares, and restricted stock awards, of our Class A Common Stock will be converted into options to purchase, and restricted stock awards, as applicable, of shares of BFC Class A Common Stock with appropriate adjustments to reflect the exchange ratio. BFC Class A Common Stock is listed for trading on the NYSE Arca Stock Exchange under the symbol BFF, and on January 30, 2007, its closing price on such exchange was \$6.35. The merger agreement contains certain customary representations, warranties and covenants on the part of us and BFC, and the consummation of the merger is subject to a number of customary closing and termination conditions as well as the approval of both the Company's and BFC's shareholders. Further, in addition to the shareholder approvals required by Florida law, the merger will also be subject to the approval of the holders of our Class A Common Stock other than BFC and certain other shareholders. The merger is subject to a number of risks and uncertainties, including, without limitation, the risk that the market price of BFC Class A Common Stock as quoted on the NYSE Arca Stock Exchange might decrease during the interim period between the date of the merger agreement and the date on which the merger is completed, thereby decreasing the value of the consideration to be received by holders of our Class A Common Stock in connection with the merger, and the risk that the merger may not be completed as contemplated, or at all.

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The merger is currently expected to close during 2007. If the merger is completed, all of our common stock will be canceled and our Class A Common Stock will no longer be listed on the New York Stock Exchange. While we are optimistic that the merger will be approved, the merger is subject to a number of conditions, including shareholder approval. In the event that the merger is not approved by shareholders, or not consummated for any other reason, it is our current intention to pursue a rights offering to holders of Levitt's Class A Common Stock.

*Impairment charges*

The trends in the homebuilding industry were unfavorable in 2006. Demand has slowed significantly as evidenced by fewer new orders, lower conversion rates and higher cancellations in the markets in which we operate. Market conditions have been particularly difficult in Florida, which we believe are the result of changing homebuyer sentiment, reluctance of buyers to commit to a new home purchase because of uncertainty in their ability to sell their existing home, few homebuyers purchasing properties as investments, rising mortgage financing expenses, and an increase in both existing and new homes available for sale. In addition, higher sales prices, increases in property taxes and higher insurance rates in Florida have impacted affordability for buyers. As a result of these market conditions, we evaluated the real estate inventory reflected on our balance sheet for impairment on a project by project basis throughout 2006. Based on this assessment, we recorded \$36.8 million of impairment charges for the year ended December 31, 2006 which are included in cost of sales in the consolidated statements of operations. Included in this amount are pretax charges of approximately \$28.9 million and \$5.4 million for inventory impairments relating to the Primary Homebuilding segment and Tennessee Homebuilding segment, respectively, and \$2.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase, \$2.2 million of which related to the Primary Homebuilding segment and \$300,000 of which related to the Tennessee Homebuilding segment.

*Reduction in Force*

Based on an ongoing evaluation of costs in view of current market conditions, we reduced our headcount in February by 89 employees resulting in a \$440,000 severance charge to be recorded in the first quarter of 2007. It is expected that annual cash savings from the reduction in force will be approximately \$3.9 million.

**Business Strategy**

Our business strategy involves the following principal goals:

*Implement initiatives to increase sales and focus on improving customer service and quality control.* Currently, we sell homes throughout Florida, Georgia, South Carolina and Tennessee. While the trends in the homebuilding industry were unfavorable in 2006, management is focused on cost control and initiatives to improve sales. Costs are being reviewed on an ongoing basis to align spending with new orders and home closings. We are also attempting to reduce our costs from our subcontractors and contain costs by using fixed price contracts. However, we remain committed to our strategic initiatives including our focus on customer service, marketing initiatives, and improvements in quality and construction cycle time. Advertising, outside broker commissions and other marketing costs have increased as competition for buyers has intensified. Continued aggressive marketing expenditures and customer incentives are expected to continue until the market stabilizes. We believe that these initiatives will prove advantageous in the current market as well as contribute to achieving long term profitability when the market returns to normal levels of growth.

*Operate more efficiently and effectively.* We have recently taken steps which we believe will improve our operating efficiencies. We are working diligently to align our staffing levels with current and anticipated future market conditions and will continue to focus on implementing expense management initiatives throughout the organization. We have hired additional experienced operating and financial professionals throughout the organization, increased accountability throughout the organization and implemented a new technology platform for all of our operating entities, other than our Tennessee



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Homebuilding operations. We intend to continue our focus on improving our operating effectiveness in 2007 by continuing programs such as reducing our construction cycle time.

*Continue to develop master-planned communities in desirable markets for sale and leasing.* The Land Division is actively developing and marketing its master-planned communities in Florida and South Carolina. In addition to sales of parcels to homebuilders, the Land Division continues to expand its commercial operations through sales to developers and through its efforts to internally develop certain projects for leasing to third parties. In 2006 we expanded our commercial development and leasing activities with the construction and development of a Power Center at Tradition, Florida. The Power Center is substantially leased primarily to several big box retailers and is expected to open in the fall of 2007. We view our commercial projects opportunistically and intend to periodically evaluate the short and long term benefits of retention or disposition. Historically, land sale revenues have been sporadic and fluctuated more dramatically than home sale revenues, but land sale transactions result in higher margins, which historically have varied between 40% and 60%. However, margins on land sales and the many factors which impact the margin may not remain at these levels given the current downturn in the real estate markets where we own properties. Our land development activities in our master-planned communities complement our homebuilding activities by offering a source of land for future homebuilding. At the same time, our homebuilding activities have complemented our master-planned community development activities since we believe that Levitt and Sons' strong merchandising and quality developments have tended to support future land sales in our master-planned communities. Much of our master-planned community acreage is under varying development orders and is not immediately available for construction or sale to third parties at prices that maximize value. As these parcels become available for sale, Levitt and Sons will have an opportunity to develop them. Our strategy is to review whether the allocation of the land to Levitt and Sons maximizes both the community as a whole and our overall business goals. In December 2006, Levitt and Sons acquired the first 150 acres in Tradition South Carolina from our Land Division and currently plans to acquire an additional 312 acres in stages through 2009. Third-party homebuilder sales remain an important part of our ongoing strategy to generate cash flow, maximize returns and diversify risk, as well as to create appropriate housing alternatives for different market segments in our master-planned communities. Therefore, we will review each parcel as it is ready for development to determine if it should be developed by Levitt and Sons, sold to a third party, or internally developed for leasing.

*Improve our financial strength.* We are focusing our efforts on improving our financial condition including enhancing our liquidity, preserving our borrowing capacity, and monitoring expenses. In addition to expense management, we are reviewing our land positions to ensure that our land portfolio is fairly valued and appropriately aligned with our expectations of future housing demand. Further, in January 2007, we announced that we entered into a definitive merger agreement pursuant to which we will become a wholly-owned subsidiary of BFC. We believe this merger, if consummated, will provide opportunities to strengthen our balance sheet as BFC has no debt at the holding company level and we believe is better positioned to access other financial resources. We are currently reviewing and in the process of selling certain of our land inventory. We suspended additional land acquisitions in the year ended December 31, 2006 and we wrote off approximately \$2.5 million of pre-acquisition costs and deposits relating to properties that we decided not to acquire. Our current inventory is expected to yield sufficient usable homesites for the next five to six years and could last longer if current absorption levels persist.

*Maintain a conservative risk profile.* Our goal is to maintain a disciplined risk management approach to our business activities. Other than our model homes, the majority of our homes are pre-sold before construction begins. We generally require customer deposits of 5% to 10% of the base sales price of our homes, and we require a higher percentage deposit for design customizations and upgrades in order to minimize the risk of cancellations. We continue to seek to maintain our homebuilding land inventory at levels that can be absorbed within five to six years. Our master planned communities are long term projects with development cycles in excess of 10 years. We believe that we mitigate the risk inherent in our investments in our planned communities through careful site selection and market research in collaboration with our Homebuilding Division. We periodically sell both raw and developed parcels to our Homebuilding Division as well as other commercial and residential developers.

*Utilize community development districts to fund development costs.* We establish community



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development districts to access tax-exempt bond financing to fund infrastructure and other projects at our master-planned community developments which is a common practice among land developers in Florida. The ultimate owners of the property within the district are responsible for amounts owed on these bonds which are funded through annual assessments. Generally, in Florida, no payments under the bonds are required from property owners during the first two years after issuance as a result of capitalized interest built into the bond proceeds. While we are responsible for any assessed amounts until the underlying property is sold, this strategy allows us to more effectively manage the cash required to fund infrastructure at the project in the short term. If the property is not sold prior to the assessment date we will be required to pay the full amount of the annual assessment on the property owned by us.

**Business Segments**

Management reports results of operations through four segments: Primary Homebuilding, Tennessee Homebuilding, Land Division and Other Operations. The presentation and allocation of the assets, liabilities and results of operations of each segment may not reflect the actual economic costs of the segment as a stand-alone business. If a different basis of allocation were utilized, the relative contributions of the segment might differ but, in management's view, the relative trends in segments would not likely be impacted. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements Note 21 to our audited consolidated financial statements for discussion of trends, results of operations and further discussion on each segment.

**Homebuilding Division Primary Homebuilding Segment**

The Primary Homebuilding segment of our Homebuilding Division develops both active adult and family planned communities in Florida, Georgia and South Carolina. Our average contract price for new home orders in 2006, which includes the base price and buyer selected options and upgrades, was approximately \$383,000. The communities currently under development or under contract and relevant data as of December 31, 2006 are as follows:

	Number of Communities	Planned Units (a)	Closed Units	Inventory	Sold Backlog	Net Units Available
<b>Active Adult Communities</b>						
Current Developments (includes optioned lots)	15	10,629	3,262	7,367	767	6,600
Properties Under Contract to be Acquired (b)	1	690	0	690	0	690
<b>Total Active Adult</b>	<b>16</b>	<b>11,319</b>	<b>3,262</b>	<b>8,057</b>	<b>767</b>	<b>7,290</b>
<b>Family Communities</b>						
Current Developments (includes optioned lots)	11	4,268	1,675	2,593	359	2,234
Properties Under Contract to be Acquired (b)	0	0	0	0	0	0
<b>Total Family</b>	<b>11</b>	<b>4,268</b>	<b>1,675</b>	<b>2,593</b>	<b>359</b>	<b>2,234</b>
<b>Total</b>						
Current Developments (includes optioned lots)	26	14,897	4,937	9,960	1,126	8,834
Property Under Contract to be Acquired (b)	1	690	0	690	0	690
<b>TOTAL PRIMARY HOMEBUILDING</b>	<b>27</b>	<b>15,587</b>	<b>4,937</b>	<b>10,650</b>	<b>1,126</b>	<b>9,524</b>

(a)

Actual number of units may vary from original project plan due to engineering and architectural changes.

- (b) There can be no assurance that the current property under contract will be acquired.

The property under contract listed above represents a property for which due diligence had been completed as of December 31, 2006. Our Primary Homebuilding operation has the right to acquire the property at an aggregate purchase price of \$14.2 million. Management will continue to evaluate market conditions and decide whether it is prudent to acquire this property in 2007, if at all. If a decision is made not to purchase this property amounts deposited or expended for due diligence will be written off. At December 31, 2006, we had \$400,000 in deposits securing this purchase obligation and we are currently

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evaluating this obligation and intend to acquire the land associated with this purchase obligation.

At December 31, 2006, our Primary Homebuilding segment's backlog was 1,126 units, valued at \$411.6 million. Backlog represents the number of units subject to pending sales contracts. Homes in backlog include homes that have been completed, but on which title has not been transferred, homes not yet completed and homes on which construction has not begun. There is no assurance that buyers will choose to complete the purchase of homes under contract and our remedy upon such failure to close is generally limited to retaining the buyers' deposits or seeking specific performance of the sales contracts.

**Homebuilding Division - Tennessee Homebuilding Segment**

Our Tennessee Homebuilding segment of our Homebuilding Division develops family communities in Tennessee. Our average contract price for new home orders in 2006, which includes the base price and buyer selected options and upgrades, was approximately \$215,000. Our communities are designed to serve families of various ranges of incomes. The communities currently under development or under contract and relevant data as of December 31, 2006 are as follows:

	Number of Communities	Planned Units (a)	Closed Units	Inventory	Sold Backlog	Net Units Available
<b>Family Communities</b>						
Current Developments (includes optioned lots)	22	3,003	1,525	1,478	122	1,356
Properties Under Contract to be Acquired	0	0	0	0	0	0
<b>Total Family</b>	<b>22</b>	<b>3,003</b>	<b>1,525</b>	<b>1,478</b>	<b>122</b>	<b>1,356</b>
<b>Total</b>						
Current Developments (includes optioned lots)	22	3,003	1,525	1,478	122	1,356
Properties Under Contract to be Acquired	0	0	0	0	0	0
<b>TOTAL TENNESSEE HOMEBUILDING</b>	<b>22</b>	<b>3,003</b>	<b>1,525</b>	<b>1,478</b>	<b>122</b>	<b>1,356</b>

(a) Actual number of units may vary from original project plan due to engineering and architectural changes.

Tennessee Homebuilding operations have no properties under contract.

At December 31, 2006, our Tennessee Homebuilding segment's backlog was 122 units, valued at \$26.7 million. Backlog represents the number of units subject to pending sales contracts. Homes in backlog include homes that have been completed, but on which title has not been transferred, homes not yet completed and homes on which construction has not begun. There is no assurance that buyers will choose to complete the purchase of homes under contract and our remedy upon such failure to close is generally limited to retaining the buyers' deposits or seeking specific performance of the sales contracts.

**Land Division**

Core Communities was founded in May 1996 to develop a master-planned community in Port St. Lucie, Florida now known as St. Lucie West. It is currently developing master-planned communities in Tradition, Florida and in Tradition, South Carolina. As a master-planned community developer, Core Communities engages in four primary activities: (i) the acquisition of large tracts of raw land; (ii) planning, entitlement and infrastructure development; (iii) the sale of entitled land and/or developed lots to homebuilders (including Levitt and Sons) and commercial, industrial and institutional end-users; and (iv) the development and leasing of commercial space to commercial, industrial and institutional end-users.

Our completed development, St. Lucie West is a 4,600 acre master-planned community located in St. Lucie County, Florida. It is bordered by Interstate 95 to the west and Florida's Turnpike to the east. St. Lucie West contains residential, commercial and industrial developments. Within the community, residents are close to recreational and entertainment facilities, houses of worship, retail businesses, medical facilities and schools. PGA of America owns and operates a golf course and a country club on an adjacent parcel.

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The community's baseball stadium, Tradition Field, serves as the spring training headquarters for the New York Mets professional baseball team and a minor league affiliate. There are more than 6,000 homes in St. Lucie West housing nearly 15,000 residents.

Tradition, Florida, located approximately two miles south of St. Lucie West, includes approximately five miles of frontage on I-95, and encompasses more than 8,200 total acres (with approximately 5,800 saleable acres of which approximately 1,800 acres have been sold). Tradition, Florida is planned to include a corporate park, educational and health care facilities, commercial properties, residential homes and other uses in a series of mixed-use parcels. Community Development District special assessment bonds are being utilized to provide financing for certain infrastructure developments when applicable.

We acquired our newest master-planned community, Tradition, South Carolina, in 2005. It consists of approximately 5,400 total acres, including approximately 3,000 saleable acres of which 160 acres were sold in 2006. 150 of these acres were sold to the Homebuilding Division. This community is currently entitled for up to 9,500 residential units and 1.5 million square feet of commercial space, in addition to recreational areas, educational facilities and emergency services. Development commenced in the first quarter of 2006 and land sales commenced in South Carolina in the fourth quarter of 2006.

At December 31, 2006, our Land Division owned approximately 6,500 gross acres in Tradition, Florida including approximately 4,100 saleable acres. Through December 31, 2006, Core Communities had entered into contracts for the sale of a total of 1,794 acres in the first phase residential development at Tradition, Florida of which 1,757 acres had been delivered at December 31, 2006. Our backlog contains contracts for the sale of 37 acres, although there is no assurance that the consummation of those transactions will occur. Delivery of these acres is expected to be completed in 2007. At December 31, 2006, our Land Division additionally owned approximately 5,230 gross acres in Tradition, South Carolina including approximately 2,800 saleable acres. Through December 31, 2006, Core Communities had entered into a contract with Levitt and Sons for the sale of a total of 462 acres in the first phase residential development at Tradition, South Carolina of which 150 acres had been delivered at December 31, 2006. Our third party backlog in Tradition South Carolina contains contracts for the sale of 37 acres.

Our Land Division's land in development and relevant data as of December 31, 2006 were as follows:

	Date	Acres	Closed	Current	Non-Saleable	Saleable	Third party Backlog	Acres
	Acquired	Acquired	Acres	Inventory	Acres (a)	Acres (a)	(b)	Available
<b>Currently in Development</b>								
Tradition, Florida	1998 2004	8,246	1,757	6,489	2,431	4,058	37	4,021
Tradition, South Carolina	2005	5,390	160	5,230	2,417	2,813	37	2,776
<b>Total Currently in Development</b>		<b>13,636</b>	<b>1,917</b>	<b>11,719</b>	<b>4,848</b>	<b>6,871</b>	<b>74</b>	<b>6,797</b>

(a) Actual saleable and non-saleable acres may vary over time due to changes in zoning, project design, or other factors.  
Non-saleable

acres include,  
but are not  
limited to, areas  
set aside for  
roads, parks,  
schools, utilities  
and other public  
purposes.

- (b) Acres under  
contract to  
Third Parties

**Other Operations**

Other operations consist of Levitt Commercial, our investment in Bluegreen Corporation, investments in joint ventures, other real estate interests, and holding company operations.

*Levitt Commercial*

Levitt Commercial was formed in 2001 to develop industrial, commercial, retail and residential properties. As of December 31, 2006 Levitt Commercial has one remaining flex warehouse project with a total of 17 units in the sales backlog which closed in the first quarter of 2007.



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### *Investment in Bluegreen Corporation*

We own approximately 9.5 million shares of the outstanding common stock of Bluegreen, which represents approximately 31% of that company's issued and outstanding common stock. Bluegreen is a leading provider of vacation and residential lifestyle choices through its resorts and residential community businesses. Bluegreen is organized into two divisions: Bluegreen Resorts and Bluegreen Communities.

Bluegreen Resorts acquires, develops and markets vacation ownership interests ( VOIs ) in resorts generally located in popular high-volume, drive-to vacation destinations. Bluegreen Communities acquires, develops and subdivides property and markets residential land homesites, the majority of which are sold directly to retail customers who seek to build a home in a high quality residential setting, in some cases on properties featuring a golf course and related amenities

Bluegreen also generates significant interest income through its financing of individual purchasers of VOIs and, to a nominal extent, homesites sold by its Bluegreen Communities division.

### *Other Investments and Joint Ventures*

In October 2004, we acquired an 80,000 square foot office building to serve as our home office in Fort Lauderdale, Florida for \$16.2 million. The building was fully leased and occupied during the year ended December 31, 2005 and generated rental income. On November 9, 2005 the lease was modified and two floors of the building were vacated in January 2006. The Company moved the senior management of Levitt and Sons and all Other Operations employees into this building in 2006, and it now serves as the Corporate Headquarters for Levitt Corporation and Levitt and Sons.

From time to time, we seek to mitigate the risk associated with certain real estate projects by entering into joint ventures. Our investments in joint ventures and the earnings recorded on these investments were not significant for the year ended December 31, 2006.

We entered into an indemnity agreement in April 2004 with a joint venture partner at Altman Longleaf, relating to, among other obligations, that partner's guarantee of the joint venture's indebtedness. Our liability under the indemnity agreement is limited to the amount of any distributions from the joint venture which exceeds our original capital and other contributions. Levitt Commercial owns a 20% partnership interest in Altman Longleaf, LLC, which owns a 20% interest in this joint venture. This venture is developing a 298-unit apartment complex in Melbourne, Florida. An affiliate of our joint venture partner is the general contractor. Construction commenced on the development in 2004 and was completed in 2006. Our original capital contributions were approximately \$585,000. In 2004, we received an additional distribution that totaled approximately \$1.1 million. In January 2006, we received a distribution of approximately \$138,000. Accordingly, our potential obligation of indemnity after the January 2006 distribution is approximately \$664,000. Based on the joint venture assets that secure the indebtedness, we do not believe it is likely that any payment will be required under the indemnity agreement.

### **Information Technologies**

We continue to seek to improve the efficiency of our field and corporate operations in an effort to plan appropriately for the construction of our homes under contract. In the fourth quarter of 2006, we implemented a fully integrated operating and financial system in order to have all operating entities, with the exception of the Tennessee Homebuilding operations, on one platform and to have all field personnel use a standardized construction scheduling system that aims to improve the management of cycle time, subcontractor relationships and efficiencies throughout the field operations. These systems are expected to enable information to be shared and utilized throughout our company and enable us to better manage, optimize and leverage our employees and management.

### **Seasonality**

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We have historically experienced volatility but not necessarily seasonality, in our results of operations from quarter-to-quarter due to the nature of the homebuilding business. We are focusing our efforts on our homebuilding sales and construction process with the overall objective of achieving more consistent levels of production. Our new financial systems improved our capabilities in construction scheduling and homebuilding operations which should assist us in managing and improving cycle times. However, due to the uncertainty in the homebuilding market, we expect to continue to experience high volatility in our starts and deliveries throughout 2007.

**Competition**

The real estate development and homebuilding industries are highly competitive and fragmented. Overbuilding and excess supply conditions could, among other competitive factors, materially adversely affect homebuilders in the affected market and our ability to sell homes. Further, if our competitors lower prices or offer incentives, we may be required to do so as well to maintain sales and in such case our margins and profitability would be impacted. We have begun to offer sales incentives to attract buyers which include price reductions, option discounts, closing costs reduction programs and mortgage fee incentives and these programs will adversely affect our margins. Homebuilders compete for financing, raw materials and skilled labor, as well as for the sale of homes. We also compete with third parties in our efforts to sell land to homebuilders. We compete with other local, regional and national real estate companies and homebuilders, often within larger subdivisions designed, planned and developed by such competitors. Some of our competitors have greater financial, marketing, sales and other resources than we do.

In addition, there are relatively low barriers to entry into our business. There are no required technologies that would preclude or inhibit competitors from entering our markets. Our competitors may independently develop land and construct products that are superior or substantially similar to our products. A substantial portion of our operations are in Florida, where some of the most attractive markets in the nation have historically been located, and therefore we expect to continue to face additional competition from new entrants into our markets.

**Employees**

As of December 31, 2006, we employed a total of 666 full-time employees and 32 part-time employees. The breakdown of employees by segment was as follows:

	Full Time	Part Time
Primary Homebuilding	512	24
Tennessee Homebuilding	32	1
Land	59	7
Other Operations	63	
Total	666	32

Our employees are not represented by any collective bargaining agreements and we have never experienced a work stoppage. We believe our employee relations are satisfactory.

**Additional Information**

Our Internet website address is [www.levittcorporation.com](http://www.levittcorporation.com). Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through our website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Our Internet website and the information contained in or connected to our website are not incorporated into this Form 10-K/A.

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Our website also includes printable versions of our Corporate Governance Guidelines, our code of Business Conduct and Ethics and the charters for each of our Audit, Compensation and Nominating Committees of our Board of Directors.

**Table of Contents****PART II****ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected consolidated financial data as of and for the years ended December 31, 2006 through 2002. Certain selected financial data presented below as of December 31, 2006, 2005, 2004, 2003 and 2002 and for each of the years in the five-year period ended December 31, 2006, are derived from our audited consolidated financial statements. This table is a summary and should be read in conjunction with the consolidated financial statements and related notes thereto which are included elsewhere in this report.

	<b>For the Year Ended December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	(Dollars in thousands, except per share, unit and average price data)				
<b>Consolidated Operations:</b>					
Revenues from sales of real estate	\$ 566,086	558,112	549,652	283,058	207,808
Cost of sales of real estate (a)	482,961	408,082	406,274	209,431	159,675
Margin (a)	83,125	150,030	143,378	73,627	48,133
Earnings from Bluegreen Corporation	9,684	12,714	13,068	7,433	4,570
Selling, general & administrative expenses	121,151	87,639	71,001	42,027	30,549
Net (loss) income	\$ (9,164)	54,911	57,415	26,820	19,512
Basic (loss) earnings per share	\$ (0.46)	2.77	3.10	1.81	1.32
Diluted (loss) earnings per share (b)	\$ (0.47)	2.74	3.04	1.77	1.30
Basic weighted average common shares outstanding (thousands)	19,823	19,817	18,518	14,816	14,816
Diluted weighted average common shares outstanding (thousands)	19,823	19,929	18,600	14,816	14,816
Dividends declared per common share	\$ 0.08	0.08	0.04		
<b>Key Performance Ratios:</b>					
Margin percentage (c)	14.7%	26.9%	26.1%	26.0%	23.2%
SG&A expense as a percentage of total revenues	21.1%	15.5%	12.8%	14.7%	14.6%
Return on average shareholders' equity, annualized (d)	(2.6%)	17.0%	27.3%	23.0%	22.0%
Ratio of debt to shareholders' equity	179.4%	116.6%	91.0%	138.8%	137.1%
Ratio of debt to total capitalization (e)	64.2%	53.8%	47.6%	58.1%	57.8%
Ratio of net debt to total capitalization (e)(f)	59.2%	38.9%	25.3%	46.1%	51.5%
<b>Consolidated Balance Sheet Data:</b>					
Cash	\$ 48,391	113,562	125,522	35,965	16,014
Inventory of real estate	\$ 822,040	611,260	413,471	254,992	198,126
Investment in Bluegreen Corporation	\$ 107,063	95,828	80,572	70,852	57,332
Total assets	\$ 1,090,666	895,673	678,467	393,505	295,461
Total debt	\$ 615,703	407,970	268,226	174,093	147,445
Total liabilities	\$ 747,427	545,887	383,678	268,053	187,928
Shareholders' equity	\$ 343,239	349,786	294,789	125,452	107,533

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	<b>For the Year Ended December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	(Dollars in thousands, except per share, unit and average price data)				
<b>Primary Homebuilding (g):</b>					
Revenues from sales of real estate	\$ 424,420	352,723	418,550	222,257	162,359
Cost of sales of real estate (a)	367,252	272,680	323,366	173,072	131,281
Margin (a)	\$ 57,168	80,043	95,184	49,185	31,078
Margin percentage (c)	13.5%	22.7%	22.7%	22.1%	19.1%
Construction starts	1,445	1,212	1,893	1,593	796
Homes delivered	1,320	1,338	1,783	1,011	740
Average selling price of homes delivered	\$ 322,000	264,000	235,000	220,000	219,000
Net orders (units)	847	1,289	1,378	2,240	980
Net orders (value)	\$ 324,217	448,207	376,435	513,436	204,730
Backlog of homes (units)	1,126	1,599	1,648	2,053	824
Backlog of homes (sales value)	\$ 411,578	512,140	416,656	458,771	167,526
<b>Tennessee Homebuilding (j):</b>					
Revenues from sales of real estate	\$ 76,299	85,644	53,746		
Cost of sales of real estate (a)	72,807	74,328	47,731		
Margin (a)	\$ 3,492	11,316	6,015		
Margin percentage (c)	4.6%	13.2%	11.2%		
Construction starts	237	450	401		
Homes delivered	340	451	343		
Average selling price of homes delivered	\$ 224,000	190,000	157,000		
Net orders (units)	269	478	301		
Net orders (value)	\$ 57,776	98,838	51,481		
Backlog of homes (units)	122	193	166		
Backlog of homes (sales value)	\$ 26,662	45,185	31,991		
<b>Land Division (h):</b>					
Revenues from sales of real estate	\$ 69,778	105,658	96,200	55,037	53,919
Cost of sales of real estate	42,662	50,706	42,838	31,362	28,722
Margin (a)	\$ 27,116	54,952	53,362	23,675	25,197
Margin percentage (c)	38.9%	52.0%	55.5%	43.0%	46.7%
Acres sold	371	1,647	1,212	1,337	1,715
Inventory of real estate (acres) (i)	6,871	7,287	5,965	6,837	5,853
Inventory of real estate (book value)	\$ 176,356	150,686	122,056	43,906	59,520
	74	246	1,833	1,433	1,845

Acres subject to sales contracts Third parties					
Aggregate sales price of acres subject to sales contracts to third parties	\$ 21,124	39,283	121,095	103,174	72,767

(a) Margin is calculated as sales of real estate minus cost of sales of real estate. Included in cost of sales of real estate for the year ended December 31, 2006 are homebuilding inventory impairment charges and write-offs of deposits and pre-acquisition costs of \$31.1 million in our Primary Homebuilding segment and \$5.7 million in the Tennessee Homebuilding segment.

(b) Diluted (loss) earnings per share takes into account the dilutive effect of our stock options and restricted stock using the treasury stock method and the dilution in earnings we recognize as a result of outstanding

Bluegreen securities that entitle the holders thereof to acquire shares of Bluegreen's common stock.

- (c) Margin percentage is calculated by dividing margin by sales of real estate.
- (d) Calculated by dividing net (loss) income by average shareholders equity. Average shareholders equity is calculated by averaging beginning and end of period shareholders equity balances.
- (e) Total capitalization is calculated as total debt plus total shareholders equity.
- (f) Net debt is calculated as total debt minus cash.
- (g) Excludes joint ventures.
- (h) Revenues and costs of sales of real estate include land

sales to Levitt and Sons, if any. These inter-segment transactions are eliminated in consolidation.

- (i) Estimated net saleable acres (subject to final zoning, permitting, and other governmental regulations / approvals).
- (j) Bowden was acquired in May 2004. The Company had no homebuilding operations in Tennessee in 2003 and 2002.



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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Executive Overview**

Our operations are concentrated in the real estate industry, which is cyclical by nature. In addition, the majority of our assets are located in the State of Florida. Our homebuilding operations sell residential housing, while our land development business sells land to residential builders as well as commercial developers, and on occasion internally develops commercial real estate and enters into lease arrangements. The homebuilding industry is going through a dramatic slowdown after years of strong growth. Excess supply, particularly in previously strong markets like Florida, in part driven by speculative activity by investors, has led to downward pressure on pricing for residential homes and land. Accordingly, we have increased our focus on alternative strategies under various economic scenarios with a view to maintaining sufficient liquidity to withstand a prolonged downturn. Capital for land development and community amenities is being closely monitored and we are attempting to pace expenditures in line with current absorption rates.

**Outlook**

During 2006, management continued to focus on improving organizational and infrastructure processes and procedures. We made substantial investments in our information systems, personnel and practices to strengthen the management team, increase field construction capacity and competency and standardize policies and procedures to enhance operational efficiency and consistency. While we made these organizational changes, the market conditions in the homebuilding industry deteriorated and we have not yet seen meaningful evidence of any improvement to date in 2007. As a result of these deteriorating conditions, we incurred higher selling expenses for advertising, outside broker commissions and other sales and marketing incentives in an effort to remain competitive and attract buyers during 2006 and expect to continue to do so in 2007.

Our Land Division entered the year with three active projects, St. Lucie West, Tradition, Florida and Tradition, South Carolina. During 2006, we finished development in St. Lucie West, continued our development and sales activities in Tradition, Florida, and started our development in Tradition, South Carolina. As a result, we incurred higher general and administrative expenses in the Land Division due to this expansion into the South Carolina market. In addition, the overall slowdown in the homebuilding market had an effect on demand for residential land in our Land Division which was partially mitigated by increased commercial sales and commercial leasing revenue. Traffic at the Tradition, Florida information center slowed in connection with the overall slowdown in the homebuilding market.

As we enter 2007, our strategy will focus on our balance sheet, including efforts to enhance our liquidity and preserve our borrowing capacity, as well as to bring costs in line with our orders, closings and strategic objectives. We have been taking steps to align our staffing levels with current and anticipated future market conditions and will continue to focus on implementing expense management initiatives throughout the organization. We have reviewed and continue to review our land positions to align our position with our requirements and expectations of future demand. In order to remain competitive in our markets, we are aggressively offering sales incentives to customers while working to preserve the conversion rate in our backlog. These initiatives will lead to lower gross margins on home sales. We are attempting to mitigate the impact of this margin compression by reducing general and administrative expenses, shortening cycle time to lower construction and carry costs, negotiating lower prices from our suppliers and in the short term curtailing land acquisitions in most of our markets. While there is clearly a slowdown in the homebuilding sector, interest in commercial property in our Land Division has remained strong, and interest in the South Carolina market does not appear to be impacted as severely as the Florida residential market. The Land Division expects to continue developing and selling land in its master-planned communities in South Carolina and Florida. In addition to sales of parcels to homebuilders, the Land Division plans to continue to expand its commercial operations through sales to developers and to internally develop certain projects for leasing to third parties. In addition to sales to third party homebuilders and commercial developers, the Land Division anticipates that it will continue to periodically sell residential land to Levitt and Sons.

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### **Financial and Non-Financial Metrics**

We evaluate our performance and prospects using a variety of financial and non-financial metrics. The key financial metrics utilized to evaluate historical operating performance include revenues from sales of real estate, margin (which we measure as revenues from sales of real estate minus cost of sales of real estate), margin percentage (which we measure as margin divided by revenues from sales of real estate), (loss) income before taxes, net (loss) income and return on equity. We also continue to evaluate and monitor selling, general and administrative expenses as a percentage of revenue. Non-financial metrics used to evaluate historical performance include the number and value of new orders executed, the number of cancelled contracts and resulting spec inventory, the number of housing starts and the number of homes delivered. In evaluating our future prospects, management considers non-financial information such as the number of homes and acres in backlog (which we measure as homes or land subject to an executed sales contract) and the aggregate value of those contracts as well as cancellation rates of homes in backlog. Additionally, we monitor the number of properties remaining in inventory and under contract to be purchased relative to our sales and construction trends. Our ratio of debt to shareholders' equity and cash requirements are also considered when evaluating our future prospects, as are general economic factors and interest rate trends. Each of the above metrics is discussed in the following sections as it relates to our operating results, financial position and liquidity. These metrics are not an exhaustive list, and management may from time to time utilize different financial and non-financial information or may not use all of the metrics mentioned above.

### **Critical Accounting Policies and Estimates**

Management views critical accounting policies as accounting policies that are important to the understanding of our financial statements and also involve estimates and judgments about inherently uncertain matters. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated statements of financial condition and assumptions that affect the recognition of revenues and expenses on the statements of operations for the periods presented. Material estimates that are particularly susceptible to significant change in subsequent periods relate to revenue recognition on percent complete projects, reserves and accruals, impairment of assets, determination of the valuation of real estate and estimated costs to complete of construction, litigation and contingencies and the amount of the deferred tax asset valuation allowance. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates if conditions change or if certain key assumptions used in making these estimates ultimately prove to be materially incorrect.

We have identified the following accounting policies that management views as critical to the accurate portrayal of our financial condition and results of operations.

#### *Inventory of Real Estate*

Inventory of real estate includes land, land development costs, interest and other construction costs and is stated at accumulated cost or, when circumstances indicate that the inventory is impaired, at estimated fair value. Due to the large acreage of certain land holdings and the nature of our project development life cycles, disposition of our inventory in the normal course of business is expected to extend over a number of years.

Land and indirect land development costs are allocated to various parcels or housing units using either the specific identification method or appropriate apportionment factors, including the relative sales values and unit counts. Direct construction costs are assigned to housing units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead.

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Other costs are comprised of tangible selling costs, prepaid local government fees and capitalized real estate taxes. Tangible selling costs are capitalized by project and represent costs incurred throughout the selling period to aid in the sale of housing units, such as model furnishings and decorations, sales office furnishings and facilities, exhibits, displays and signage. These tangible selling costs are capitalized and expensed to selling, general and administrative expense at the time the revenue associated with the benefited home is recorded. Start-up costs and other selling costs are expensed as incurred.

The expected future costs of development in our Land Division are analyzed at least annually to determine the appropriate allocation factors to charge to cost of sales when such inventory is sold. During the long term project development cycles in our Land Division, which can approximate 12-15 years, such development costs are subject to more relative volatility than similar costs in homebuilding, where projects typically last between four and seven years. Costs in the Land Division to complete infrastructure will be influenced by changes in direct costs associated with labor and materials, as well as changes in development orders and regulatory compliance.

We review real estate inventory for impairment on a project-by-project basis in accordance with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144). The homebuilding industry is currently experiencing a slowdown after years of strong growth. Excess supply, particularly in previously strong markets like Florida has led to downward pressure on pricing for residential homes and land. As of December 31, 2006, we assessed all of our projects, which included housing projects and land held for development and sale, to identify underperforming projects and land investments that may not be recoverable through future cash flows. We measure the recoverability of assets by comparing the carrying amount of an asset to the estimated future undiscounted net cash flows.

Each project was assessed individually and as a result, the assumptions used to derive future cash flows varied by project. For land held for sale that is being remarketed, we used contract proposals from third parties or market assessments. For homebuilding projects, we used a variety of assumptions. These key assumptions are dependent on project-specific conditions and are inherently uncertain. Local market and project-specific factors that may influence our assumptions include:

- historical project performance, including traffic trends and conversions rates, sales, selling prices, including incentive and discount programs, and cancellation trends,

- competitors presence and their competitive actions,

- project specific attributes such as location desirability, market segment (active adult vs. family) and product type (single family detached vs. town home), and

- current local market economic and demographic conditions, including interest rates, in-migration trends and job growth, and related trends and forecasts.

After considering these factors and based on specific assumptions, we project future cash flows for the project until the project is expected to be sold out. If the resulting carrying amount of the project exceeds the estimated undiscounted cash flows from the project, an impairment charge is recognized to reduce the carrying value of the project to fair value. Fair value is determined by applying a risk based discount rate, currently 15%, to the future estimated cash flows for a project. Assumptions are updated on a quarterly basis to reflect current market trends as well as updated pricing information including any sales incentives or discounts.

We had 22 projects in the Tennessee Homebuilding segment with inventory available for sale at December 31, 2006 that are generally smaller and of a shorter duration than projects in the Primary Homebuilding segment. The projects in Tennessee are expected to sell out over the next two years. Levitt used certain assumptions in its impairment evaluation for the Tennessee projects at December 31, 2006. For Tennessee projects with less than 25 units remaining to be sold, a total of 13 projects, our assumptions regarding projected sales prices, unit sales and margin percentage resulted in projected negative margins ranging between 10% and 15%, and for Tennessee projects with more than 25 units remaining to be sold, which represented 9 projects, our assumptions regarding projected sales prices, unit sales and margin percentage resulted in projected negative margins ranging between 12.5% and 20%.



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The homebuilding projects outside of Tennessee are generally larger and many are in the early stages of development. Accordingly the projections extend for 4-7 years into the future, inherently increasing the uncertainty involved in the projections.

Specific assumptions for projected unit sales and margin percentage on delivered units for homebuilding projects outside of Tennessee include:

estimates of average future selling prices based on current selling prices and speculative inventory with average sales price declines in 2007 and 2008, followed by average sales price increases ranging from 2% to 13% in 2009 and beyond;

estimates of future construction and land development costs were kept relatively consistent throughout the entire project;

estimates of average (unweighted) gross margin percentages ranging between 2% and 5% in the early years and approximately 15% in 2010 and beyond; and

estimated future sales rates resulted in a decline in 2007 which projected sales at over 75% of projects averaging less than 80 units per year; improvement in 2008 but 50% of projects are projected to have sales of less than 80 units per year; and continued improvement in 2009 with only 25% of projects having projected sales of less than 80 units per year. Sales are projected to flatten beyond 2009 based on project completions.

During the year ended December 31, 2006, we recorded impairments on 5 projects in Florida and on 14 projects in Tennessee because the undiscounted cash flows were less than the carrying value of those assets. These impaired projects resulted in \$34.3 million of impairment charges. An additional \$2.5 million of write-offs of deposits and pre-acquisition costs related to land under option that we do not intend to purchase was also recorded. At December 31, 2006 we had total homebuilding inventory of \$664.6 million, of which \$113.6 million, or 17.1%, was recorded at fair value, which was less than cost. The balance was recorded at cost.

The assumptions developed and used by management are subjective and involve significant estimates, and are subject to increased volatility due to the uncertainty of the current market environment. As a result, actual results could differ materially from management's assumptions and estimates and may result in future material inventory impairment charges to be recorded in the future. For example, if the assumed revenue per unit in each project was reduced by 10% for each year through 2009, impairment charges for the year ended December 31, 2006 would have increased by approximately \$73 million.

*Investments in Unconsolidated Subsidiaries*

We follow the equity method of accounting to record our interests in subsidiaries in which we do not own the majority of the voting stock and to record our investment in variable interest entities in which we are not the primary beneficiary. These entities consist of Bluegreen Corporation, joint ventures and statutory business trusts. The statutory business trusts are variable interest entities in which the Company is not the primary beneficiary. Under the equity method, the initial investment in a joint venture is recorded at cost and is subsequently adjusted to recognize our share of the joint venture's earnings or losses. Distributions received reduce the carrying amount of the investment. We evaluate our investments in unconsolidated entities for impairment during each reporting period in accordance with Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*. These investments are evaluated annually or as events or circumstances warrant for other than temporary declines in value. Evidence of other than temporary declines includes the inability of the joint venture or investee to sustain an earnings capacity that would justify the carrying amount of the investment and consistent joint venture operating losses. The evaluation is based on available information including condition of the property and current and anticipated real estate market conditions.

*Homesite Contracts and Consolidation of Variable Interest Entities*

In the ordinary course of business we enter into contracts to purchase homesites and land held for

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development. Option contracts allow us to control significant homesite positions with minimal capital investment and substantially reduce the risks associated with land ownership and development. Our liability for nonperformance under such contracts is typically only the required deposits, which are usually less than 20% of the underlying purchase price. We do not have legal title to these assets. However, if certain conditions are met under the requirements of FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities*, the Company's land contracts may create a variable interest for the Company, with the Company being identified as the primary beneficiary. If these conditions are met, Interpretation No. 46 requires us to consolidate the assets (homesites) at their fair value. At December 31, 2006 there were no assets under these contracts consolidated in our financial statements.

*Revenue Recognition*

Revenue and all related costs and expenses from house and land sales are recognized at the time that closing has occurred, when title and possession of the property and the risks and rewards of ownership transfer to the buyer, and we do not have a substantial continuing involvement in accordance with SFAS No. 66, *Accounting for Sales of Real Estate*. In order to properly match revenues with expenses, we estimate construction and land development costs incurred but not paid at the time of closing. Estimated costs to complete are determined for each closed home and land sale based upon historical data with respect to similar product types and geographical areas. We monitor the accuracy of estimates by comparing actual costs incurred subsequent to closing to the estimate made at the time of closing and make modifications to the estimates based on these comparisons. We do not expect the estimation process to change in the future.

Revenue is recognized from certain land sales on the percentage-of-completion method when the land sale takes place prior to all contracted work being completed. Pursuant to the requirements of SFAS 66, if the seller has some continuing involvement with the property and does not transfer substantially all of the risks and rewards of ownership, profit shall be recognized by a method determined by the nature and extent of the seller's continuing involvement. In the case of our land sales, this involvement typically consists of final development activities. We recognize revenue and related costs as work progresses using the percentage of completion method, which relies on contract revenue and estimates of total expected costs to complete required work. Revenue is recognized in proportion to the percentage of total costs incurred in relation to estimated total costs at the time of sale. Actual revenues and costs to complete construction in the future could differ from our current estimates. If our estimates of development costs remaining to be completed are significantly different from actual amounts, then our revenues, related cumulative profits and costs of sales may be revised in the period that estimates change.

Effective January 1, 2006, Bluegreen adopted AICPA Statement of Position 04-02 *Accounting for Real Estate Time-Sharing Transactions* (SOP 04-02). This Statement also amends FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-02. The adoption of SOP 04-02 resulted in a one-time, non-cash, cumulative effect of change in accounting principle charge of \$4.5 million to Bluegreen for the year ended December 31, 2006, and accordingly reduced the earnings in Bluegreen recorded by us by approximately \$1.4 million for the same period.

*Capitalized Interest*

Interest incurred relating to land under development and construction is capitalized to real estate inventories during the active development period. Interest is capitalized as a component of inventory at the effective rates paid on borrowings during the pre-construction and planning stage and during the periods that projects are under development. Capitalization of interest is discontinued if development ceases at a project. Interest is amortized to cost of sales on the relative sales value method as related homes and land are sold.

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*Income Taxes*

The Company utilizes the asset and liability method to account for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. 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 of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the statutory enactment date. A deferred tax asset valuation allowance is recorded when it is more likely than not that all or a portion of the deferred tax asset will not be realized.

*Stock-based Compensation*

The Company adopted SFAS 123R as of January 1, 2006 and elected the modified-prospective method, under which prior periods are not restated. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

We currently use the Black-Scholes option-pricing model to determine the fair value of stock options. The fair value of option awards on the date of grant using the Black-Scholes option-pricing model is determined by the stock price and assumptions regarding expected stock price volatility over the expected term of the awards, risk-free interest rate, expected forfeiture rate and expected dividends. If factors change and we use different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the amounts recorded in future periods may differ significantly from the amounts recorded in the current period and could affect net income and earnings per share.

*Goodwill*

Goodwill acquired in a purchase business combination and determined to have an indefinite useful life is not amortized, but instead tested for impairment at least annually. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* we conduct a review of our goodwill on at least an annual basis to determine whether the carrying value of goodwill exceeds the fair market value using a discounted cash flow methodology. Should this be the case, the value of our goodwill may be impaired and written down. In the year ended December 31, 2006, we conducted an impairment review of the goodwill related to our Tennessee Homebuilding operations associated with our acquisition of Bowden in 2004. The profitability and estimated cash flows of Bowden were determined to have declined to a point where the carrying value of the assets exceeded their estimated fair market value. We used a discounted cash flow methodology to determine the amount of impairment which resulted in the complete write-off of the \$1.3 million of goodwill in the year ended December 31, 2006. The write-off is included in other expenses in the consolidated statements of operations in the year ended December 31, 2006.

**Table of Contents****Consolidated Results of Operations**

	Year Ended December 31,			2006	2005
	2006	2005	2004	vs. 2005 Change	vs. 2004 Change
(In thousands, except per share data)					
<b>Revenues</b>					
Sales of real estate	\$ 566,086	558,112	549,652	7,974	8,460
Other revenues (b)	9,241	6,772	6,184	2,469	589
Total revenues	575,327	564,884	555,836	10,443	9,049
<b>Costs and expenses</b>					
Cost of sales of real estate	482,961	408,082	406,274	74,879	1,808
Selling, general and administrative expenses	121,151	87,639	71,001	33,512	16,638
Other expenses	3,677	4,855	7,600	(1,178)	(2,745)
Total costs and expenses	607,789	500,576	484,875	107,213	15,701
Earnings from Bluegreen Corporation	9,684	12,714	13,068	(3,030)	(354)
(Loss) earnings from joint ventures	(416)	69	6,050	(485)	(5,981)
Interest and other income (b)	8,260	10,256	3,233	(1,996)	7,023
(Loss) income before income taxes	(14,934)	87,347	93,312	(102,281)	(5,965)
Benefit (provision) for income taxes	5,770	(32,436)	(35,897)	38,206	3,461
<b>Net (loss) income</b>	\$ (9,164)	54,911	57,415	(64,075)	(2,504)
Basic (loss) earnings per share	\$ (0.46)	\$ 2.77	\$ 3.10	\$ (3.23)	\$ (0.33)
Diluted (loss) earnings per share (a)	\$ (0.47)	\$ 2.74	\$ 3.04	\$ (3.21)	\$ (0.30)
Basic weighted average shares outstanding	19,823	19,817	18,518	6	1,299
Diluted weighted average shares outstanding	19,823	19,929	18,600	(106)	1,329
(a) Diluted (loss) earnings per share takes into account (i) the dilution in earnings we recognize from Bluegreen as a					



result of  
outstanding  
securities issued  
by Bluegreen  
that enable the  
holders thereof  
to acquire  
shares of  
Bluegreen's  
common stock  
and (ii) the  
dilutive effect of  
our stock  
options and  
restricted stock  
using the  
treasury stock  
method.

- (b) The years ended  
December 31,  
2005 and 2004  
reflect the  
reclassification  
of irrigation,  
leasing and  
marketing  
revenue to  
Other revenues  
from Interest  
and other  
income. See  
Note 1  
Consolidation  
Policy.

*For the Year Ended December 31, 2006 Compared to the Same 2005 Period*

We incurred a consolidated net loss of \$9.2 million for the year ended December 31, 2006 which represented a decrease in consolidated net income of \$64.1 million, or 116.7%, for the year ended December 31, 2006 compared to the same period in 2005. This decrease was the result of decreased margins on sales of real estate across all Divisions due to increased cost of sales, and inventory impairments recorded in the year ended December 31, 2006 in the amount of \$36.8 million, and higher selling and administrative expenses. There was no inventory impairments recorded in the prior year, although we did write-off \$467,000 in deposits. These increases in expenses were offset in part by an increase in sales of real estate. Further, Bluegreen Corporation experienced a decline in earnings in the year ended December 31, 2006 compared to the same period in 2005.

Revenues from sales of real estate increased slightly from \$558.1 million to \$566.1 million for the year ended December 31, 2006 as compared to the same period in 2005. The increase was primarily attributable to an increase in the average selling prices of homes delivered by both segments of our Homebuilding Division offset in part by decreases in the sales of real estate for the Land Division and Other Operations for the year ended December 31, 2006. Homebuilding Division revenues increased from

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\$438.4 million for the year ended December 31, 2005 to \$500.7 million for the same period in 2006. During the year ended December 31, 2006, 1,660 homes were delivered compared to 1,789 homes delivered during the same period in 2005, however the average selling price of deliveries increased to \$302,000 for the year ended December 31, 2006 from \$245,000 for the same period in 2005. The increase in the average price of our homes delivered was the result of price increases initiated throughout 2005 due to strong demand, particularly in Florida. In the year ended December 31, 2005, the Land Division recorded land sales of \$105.7 million compared to land sales of \$69.8 million for the same period in 2006. The large decrease is attributable to a bulk land sale of 1,294 acres for \$64.7 million recorded by the Land Division in the year ended December 31, 2005 compared to 371 total acres sold by the Land Division for the same period in 2006. Revenues for 2005 also reflect sales of flex warehouse properties as Levitt Commercial delivered 44 flex warehouse units at two of its development projects, generating revenues of \$14.7 million. Levitt Commercial delivered 29 units during the year ended December 31, 2006 recording \$11.0 million in revenues.

Other Revenues increased from \$6.8 million during the year ending December 31, 2005 to \$9.2 million during the same period in 2006. This change was primarily related to an increase in lease and irrigation revenue associated with our Land Division's Tradition, Florida master planned community.

Cost of sales increased 18.4% to \$483.0 million during the year ended December 31, 2006, as compared to the same period in 2005. The increase in cost of sales was due to increased revenues from real estate. In addition, the increase was due to impairment charges and inventory related valuation adjustments in the amount of \$36.8 million in our Homebuilding Division. Projections of future cash flows related to the remaining assets were discounted and used to determine the estimated impairment charge. These adjustments were calculated based on current market conditions and assumptions made by our management, which may differ materially from actual results. In the second quarter of 2006, we recorded inventory impairment charges related to the Tennessee Homebuilding operations which have consistently delivered lower than expected margins. In the second quarter of 2006, key management personnel resigned and we faced increased start-up costs in the Nashville market. We also experienced a downward trend in home deliveries in our Tennessee Homebuilding operations during the second quarter and as a result of these factors, we recorded an impairment charge of approximately \$4.7 million. In the fourth quarter of 2006, we recorded additional impairment charges of \$29.7 million in both segments of the Homebuilding Division due to the continued downward trend in these homebuilding markets. In addition to impairment charges, cost of sales increased due to higher construction costs. The increase in cost of sales in the Homebuilding Division was partially offset by lower cost of sales in the Land Division and Other Operations, based on the decrease in land sales recorded. Consolidated cost of sales as a percentage of related revenue was approximately 85.3% for the year ended December 31, 2006, as compared to approximately 73.1% for the same period in 2005. This increase adversely affected gross margin percentages across all business segments. This decrease in margin was attributable to the impairment charges, higher construction costs as well as lower land revenues recognized associated with pricing pressure on sales of land.

Selling, general and administrative expenses increased \$33.5 million to \$121.2 million during the year ended December 31, 2006 compared to \$87.6 million during the same period in 2005 as a result of higher employee compensation and benefits, advertising costs and professional services expenses. Employee compensation and benefits expense increased by approximately \$7.1 million, from \$42.5 million during the year ended December 31, 2005 to \$49.6 million for the same period in 2006. This increase relates to the number of employees increasing from 668 at December 31, 2005 to 698 at December 31, 2006. The employee count was as high as 765 as of June 30, 2006. These increases were primarily a result of the continued expansion of the Primary Homebuilding segment and Land Division activities into new geographic areas and enhanced support functions. Further, approximately \$3.1 million of the increase in compensation expense was associated with non-cash stock-based compensation for which no expense was recorded in the same period in 2005. Additionally, other charges of \$1.0 million consisted of employee related costs, including severance and retention payments relating to our Homebuilding Division. Advertising and outside broker expense increased approximately \$8.6 million in the year ended December 31, 2006 compared to the same period in 2005 due to increased advertising costs for new communities opened during 2006 and increased advertising and increased costs to outside brokers associated with efforts



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to attract buyers in a challenging homebuilding market. Lastly, we experienced an increase in administrative costs of \$2.8 million due to non-capitalizable consulting services performed during the year ended December 31, 2006 related to our financial systems implementation of a new technology and data platform for all of our operating entities. Effective October 2006, our segments excluding our Tennessee Homebuilding segment began utilizing one system platform. The system implementation costs consisted of training and other validation procedures that were performed in the year ended December 31, 2006. Similar professional services costs were not incurred during the year ended December 31, 2005. As a percentage of total revenues, selling, general and administrative expenses increased to 21.1% during the year ended December 31, 2006, from 15.5% during the same period in 2005, due to the increases in overhead spending noted above, coupled with the decline in total revenues generated in our Land Division with no corresponding decrease in overhead costs. Management continues to evaluate overhead spending in an effort to align costs with backlog, sales and deliveries.

Interest incurred and capitalized totaled \$42.0 million for the year ended December 31, 2006 compared to \$19.3 million for the same period in 2005. Interest incurred was higher due to higher outstanding debt balances, as well as an increase in the average interest rate on our variable-rate debt and new borrowings. At the time of home closings and land sales, the capitalized interest allocated to such inventory is charged to cost of sales. Cost of sales of real estate for the year ended December 31, 2006 and 2005 included previously capitalized interest of approximately \$15.4 million and \$9.0 million, respectively.

Other expenses decreased to \$3.7 million during the year ended December 31, 2006 from \$4.9 million for the year ended December 31, 2005. The decrease was primarily attributable to a decrease of \$677,000 in debt prepayment penalties that were incurred in 2005, a \$830,000 litigation reserve recorded in 2005, and hurricane related expenses incurred during the year ended December 31, 2005 while no hurricane expenses were incurred in 2006. The decrease in other expenses was partially offset by goodwill impairment charges recorded in the year ended December 31, 2006 of approximately \$1.3 million related to our Tennessee Homebuilding operations. In the second quarter of 2006, we determined the profitability and estimated cash flows of the reporting entity declined to a point where the carrying value of the assets exceeded their estimated fair market value resulting in a write-off of goodwill.

Bluegreen reported net income for the year ended December 31, 2006 of \$29.8 million, as compared to net income of \$46.6 million for the same period in 2005. Our interest in Bluegreen's earnings, net of purchase accounting adjustments, was \$9.7 million for the 2006 period compared to \$12.7 million for the same period in 2005, net of purchase accounting adjustments and cumulative effect of 2005 restatement.

Interest and other income decreased from \$10.3 million during the year ending December 31, 2005 to \$8.3 million during the same period in 2006. This change was primarily related to certain one time income items recorded in 2005 in the amount of \$7.3 million, including a contingent gain receipt and the reversal of a \$6.8 million construction related obligation which were not realized in 2006. These decreases were partially offset by higher income in 2006 related to a \$1.3 million gain on sale of fixed assets from our Land Division, higher interest income generated by our various interest bearing deposits, and a \$2.6 million increase in forfeited deposits realized by our Homebuilding Division.

Provision for income taxes reflects an effective rate of 38.6% in the year ended December 31, 2006 compared to 37.1% in the year ended December 31, 2005. The change in the effective rate is due to the temporary differences created due to impairment of goodwill for the year ended December 31, 2006. Additionally, we recognized an adjustment of an over accrual of income tax expense in the amount of approximately \$262,000, which is immaterial to the current and prior period financial statements to which it relates.

*For the Year Ended December 31, 2005 Compared to the Same 2004 Period*

Consolidated net income decreased \$2.5 million, or 4.4%, for the year ended December 31, 2005 as compared to 2004. The decrease in net income primarily resulted from an increase in overall selling, general and administrative expenses in all segments associated with our expansion into new markets, increased headcount, and our

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efforts to improve our organizational structure, production and operational practices. The impact of lower homebuilding revenue, higher spending on overhead, technology, training and infrastructure and lower earnings from joint ventures was partially mitigated by increases in sales by our Land Division and Levitt Commercial, as well as an increase in interest and other income.

Our consolidated revenues from sales of real estate increased 1.5% to \$558.1 million for the year ended December 31, 2005 from \$549.7 million for the same 2004 period. This increase was attributable primarily to an increase in consolidated revenue from the Land Division which increased to \$105.7 million in 2005 and an increase at Levitt Commercial from \$5.6 million in 2004 to \$14.7 million in 2005. These increases were partially offset by a decrease of \$33.9 million in Homebuilding Division revenues as a result of fewer deliveries. The Land Division's segment revenues of \$96.2 million in 2004 included \$24.4 million of sales to the Homebuilding Division which were eliminated in consolidation because they represent inter-company sales. The increase in the Land Division revenue was attributable primarily to the first quarter 2005 bulk sale for \$64.7 million of five non-contiguous parcels of land consisting of 1,294 acres adjacent to our Tradition, Florida master-planned community.

Selling, general and administrative expenses increased 23.4% to \$87.6 million during 2005 compared to \$71.0 million for the same 2004 period primarily as a result of higher employee compensation and benefits expenses and an increase in professional fees. As a percentage of total revenues, our selling, general and administrative expenses increased to 15.5% for 2005 from 12.8% for the year ended December 31, 2004. The increase in compensation expense was attributable to an increase in employee headcount associated with new hires in Central and South Florida (including the Company's headquarters) and the continued expansion of homebuilding activities into North Florida, Georgia and South Carolina. Further, we incurred start-up costs such as advertising and administrative expenses associated with launching new projects in Atlanta, Georgia, Myrtle Beach, South Carolina and Nashville, Tennessee. The number of our employees increased to 668 at December 31, 2005, from 559 as of December 31, 2004. In addition, expenses incurred during the year ended December 31, 2005 reflected a full year of Bowden's operations which was acquired in May 2004. In connection with our initiatives to improve infrastructure, we incurred expenses associated with technology upgrades, training and human resource development and communications.

We engaged consultants in 2005 to assist us in a detailed operational and organizational review. Following that detailed evaluation, we concluded that additional infrastructure investment and organizational change would be necessary in order to support growth objectives of the Homebuilding Division. As a result, we were organizationally restructured into regional teams with matrixed, multi-functional relationships. At the same time, we implemented numerous initiatives to support the increased infrastructure investment, which included recruiting additional managers, particularly in field operations; the evaluation, documentation, and implementation of industry best practices; the selection and implementation of a common technology platform; the development of curriculum and training programs; and formalized management communications relating to strategies and priorities. Overhead expense associated with this broad range of organizational and operational initiatives increased, reflecting higher employee headcount, retention of outside consultants and other direct program costs.

Interest incurred totaled \$19.3 million and \$11.1 million for 2005 and 2004, respectively. Interest incurred was higher due to higher outstanding balances of notes and mortgage notes payable related to increases in our inventory of real estate and to an increase in interest rates associated with rising interest rate indices which impacted our variable rate indebtedness. Interest capitalized was \$19.3 million for 2005 and \$10.8 million for 2004. Cost of sales of real estate for the year ended December 31, 2005 and 2004 included previously capitalized interest of approximately \$9.0 million and \$9.9 million, respectively.

The decrease in other expenses was primarily attributable to a decrease in hurricane expenses, net of insurance recoveries. Expenses associated with the estimated costs of remediating hurricane-related damage were \$572,000 in 2005 compared with \$4.4 million in 2004. This decrease in expense was partially offset by a one time additional reserve recorded to account for our share of costs associated with a litigation settlement, and a debt prepayment penalty incurred during the first quarter of 2005 at our Land Division.

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We recorded \$12.7 million of earnings relating to our ownership interest in Bluegreen during the year ended December 31, 2005 as compared to \$13.1 million for the year ended December 31, 2004.

Bluegreen restated its financial statements for the first three quarters of fiscal 2005 and the fiscal years ended December 31, 2004 and 2003 due to certain misapplications of GAAP in the accounting for sales of Bluegreen's vacation ownership notes receivable and other related matters. The restatement accounts for the sales of notes receivable as on-balance sheet financing transactions as opposed to off-balance sheet sales transactions as Bluegreen had originally accounted for these transactions. The cumulative effect of the restatement is reflected in our financial statements for the year ended December 31, 2005. This cumulative adjustment resulted in a \$2.4 million reduction of our earnings from Bluegreen and a \$1.1 million increase in our pro-rata share of unrealized gains recognized by Bluegreen. These adjustments resulted in a \$1.3 million reduction to our investment in Bluegreen.

Earnings from real estate joint ventures were \$69,000 during 2005 compared to earnings of \$6.0 million for 2004. In 2004, earnings from real estate joint ventures included the sale of an apartment complex and deliveries of homes and condominium units. During the year ended December 31, 2005, there were no unit deliveries by the Company's joint ventures which were winding down operations.

The increase in interest and other income of \$7.0 million for the 2005 year was primarily related to higher balances of interest-earning deposits at various financial institutions, a non-recurring contingent termination payment received from a previously dissolved partnership, and the reversal of a \$6.8 million construction related obligation associated with certain future infrastructure development requirements in our Land Division. The total increase in these items of approximately \$8.5 million was offset by the absence of a one time \$1.4 million reduction of a litigation reserve which was recorded in 2004. The \$1.4 million reduction of a litigation reserve was the result of our successful appeal of a 2002 judgment which reversed the damages awarded by the trial jury and ordered a new trial to determine damages. The litigation reserve was reduced based on our assessment of the potential liability.

**Table of Contents****Primary Homebuilding Segment Results of Operations**

	Year Ended December 31,			2006	2005
	2006	2005	2004	vs. 2005	vs. 2004
	(Dollars in thousands, except average price data)			Change	Change
<b>Revenues</b>					
Sales of real estate	\$ 424,420	352,723	418,550	71,697	(65,827)
Other revenues	4,070	3,750	4,798	320	(1,048)
Total revenues	428,490	356,473	423,348	72,017	(66,875)
<b>Costs and expenses</b>					
Cost of sales of real estate	367,252	272,680	323,366	94,572	(50,686)
Selling, general and administrative expenses	65,052	46,917	44,421	18,135	2,496
Other expenses	2,362	3,606	6,817	(1,244)	(3,211)
Total costs and expenses	434,666	323,203	374,604	111,463	(51,401)
(Loss) earnings from joint ventures	(279)	104	3,535	(383)	(3,431)
Interest and other income	3,261	535	1,776	2,726	(1,241)
(Loss) income before income taxes	(3,194)	33,909	54,055	(37,103)	(20,146)
Benefit (provision) for income taxes	1,508	(12,270)	(20,819)	13,778	8,549
<b>Net (loss) income</b>	<b>\$ (1,686)</b>	<b>21,639</b>	<b>33,236</b>	<b>(23,325)</b>	<b>(11,597)</b>
<b>Operational data:</b>					
Homes delivered	1,320	1,338	1,783	(18)	(445)
Construction starts	1,445	1,212	1,893	233	(681)
Average selling price of homes delivered	\$ 322,000	264,000	235,000	58,000	29,000
Margin percentage on homes delivered (a)	13.5%	22.7%	22.7%	(9.2)%	
Gross sales contracts (units)	1,108	1,398	1,490	(290)	(92)
Sales contracts cancellations (units)	261	109	112	152	(3)
Net orders (units)	847	1,289	1,378	(442)	(89)
Net orders (value)	\$ 324,217	448,207	376,435	(123,990)	71,772
Backlog of homes (units)	1,126	1,599	1,648	(473)	(49)
Backlog of homes (value)	\$ 411,578	512,140	416,656	(100,562)	95,484
<b>Joint Ventures (excluded from above):</b>					
Homes delivered			146		(146)
Construction starts					
Net orders (units)			42		(42)

Net orders (value)	\$	13,967	(13,967)
Backlog of homes (units)			
Backlog of homes (value)	\$		

- (a) Margin percentage is calculated by dividing margin (sales of real estate minus cost of sales of real estate) by sales of real estate.

In the year ended December 31, 2006 the Primary Homebuilding segment incurred a net loss of \$1.7 million compared to net income of \$21.6 million in 2005, primarily due to \$31.1 million of inventory impairment charges and inventory related valuation adjustments which were included in cost of sales. Increased cost of sales resulted in a gross margin of 13.5% for the year ended December 31, 2006 compared to 22.7% in 2005. There were no impairment charges recorded in 2005, although we did write-off \$457,000 in deposits. Excluding homebuilding inventory impairment charges, gross margin would have declined from 22.7% in 2005 to 20.8% in 2006. The decline was associated with higher construction costs in 2006 compared to 2005, as well as a shift in geographic mix resulting in a higher proportion of units



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delivered from lower margin communities. Due to the Company's sales performance in Florida in 2004 and 2005 and production issues associated with our expansion, our delivery cycle in 2005 and 2006 extended beyond our 12-month target, and the number of homes we closed in 2006 remained relatively flat as compared to 2005. We have implemented changes to our organizational structure, production and operational practices in an attempt to shorten cycle times to enable us to deliver homes within 12 months. We believe that shorter delivery cycles will increase customer satisfaction and the productivity of our overall construction practices and reduce our vulnerability to rising costs.

At December 31, 2006, our Primary Homebuilding operations had a delivery backlog of 1,126 homes representing \$411.6 million of future sales. The average sales price of the homes in backlog at December 31, 2006 of \$366,000 is approximately 14.1% higher than the average sales price of the homes in backlog at December 31, 2005. This increase is attributable to the particular markets generating the backlog, and the Primary Homebuilding operations current pricing, which has held consistent with the price increases implemented in 2005. We do not believe that we will be able to maintain these prices in 2007 due to current market conditions, and that more aggressive pricing will be necessary to generate future sales and reduce spec inventory. While we believe that our management team, information systems and practices and procedures have been effectively strengthened to allow us to compete in the current market, the condition in the homebuilding industry, adverse trends in the broader economy, continued inflationary pressures and labor shortages could adversely impact our Primary Homebuilding operations in future periods. Our pricing of homes is limited by the current market demand, and the sales prices of homes in our backlog cannot be maintained. As such, we expect that the margins on the delivery of homes in 2007 will continue to reflect downward pressure.

Our Primary Homebuilding operating results reflect the deterioration of conditions in the homebuilding industry characterized by record levels of new and existing homes available for sale, reduced affordability and diminished buyer confidence. The slowdown in the housing market has led to increased sales incentives, increased pressure on margins, higher cancellation rates, increased advertising expenditures, increased broker commissions and increased inventories. As a result, we expect our gross margin on home sales to be negatively impacted until market conditions stabilize.

*For the Year Ended December 31, 2006 Compared to the Same 2005 Period*

Revenues from home sales in our Primary Homebuilding operations increased 20.3% to \$424.4 million during the year ended December 31, 2006, from \$352.7 million during the same period in 2005. The increase was the result of an increase in average sale prices on home deliveries, which increased to \$322,000 for the year ended December 31, 2006, compared to \$264,000 during the same period in 2005. Since our typical sale to delivery cycle lasts between 12 and 15 months, much of the increase in average sales price on deliveries was attributable to the price increases in 2005 which we were able to maintain through the first half of 2006. The increase in sales prices was partially offset by a decrease in the number of deliveries which declined slightly to 1,320 homes during the year ended December 31, 2006 from 1,338 homes during the same period in 2005.

The value of net orders in our Primary Homebuilding operations decreased to \$324.2 million during the year ended December 31, 2006, from \$448.2 million during the same period in 2005. During the year ended December 31, 2006, net unit orders decreased to 847 units, from 1,289 units during the same period in 2005 as a result of reduced traffic and lower conversion rates as well as an increase in order cancellations. The decrease in net orders was partially offset by the average sales price increasing 10.1% during the year ended December 31, 2006 to \$383,000, from \$348,000 during the same period in 2005. Higher average selling prices are primarily a reflection of price increases that were implemented in 2005 and maintained in the first half of 2006, as well as the product mix of sales being generated from projects with higher average sales prices. In 2006, Primary Homebuilding had 1,108 gross sales contracts with 261 cancellations (a 24% cancellation rate) compared to 1,398 gross sales contracts with 109 cancellations (a 8% cancellation rate) for the 2005 period. The increase in cancellations is pervasive in our Florida markets and can be attributed to the current market conditions in Florida and the overall residential market.

Cost of sales in our Primary Homebuilding operations increased \$94.6 million to \$367.3 million

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during the year ended December 31, 2006, from \$272.7 million during the same period in 2005. The increase in cost of sales is due to the increase in revenue from home sales as well as impairment charges and inventory related valuation adjustments recorded in the amount of \$31.1 million. Cost of sales also increased due to higher construction costs related to longer cycle times and increased carrying costs.

Margin percentages declined in the Primary Homebuilding segment during the year ended December 31, 2006 to 13.5%, from 22.7% during the same period in 2005. There were no impairment charges recorded in 2005, although we did write-off \$457,000 in deposits. Gross margin excluding inventory impairments was 20.8% compared to a gross margin of 22.7% for the same period in 2005. The decline was associated with higher construction costs in 2006 compared to 2005.

Selling, general and administrative expenses in our Primary Homebuilding operations increased 38.7% to \$65.1 million during the year ended December 31, 2006, as compared to \$46.9 million during the same period in 2005 primarily as a result of higher employee compensation and benefits expense, recruiting costs, higher outside sales commissions, increased advertising, and costs of expansion throughout Florida, Georgia and South Carolina. Employee compensation costs increased by approximately \$4.5 million, from \$26.1 million during the year ended December 31, 2005 to \$30.6 million for the same period in 2006 mainly attributable to higher average headcount, which reached 581 employees as of June 30, 2006, before totaling 536 employees as of December 31, 2006. There were 506 employees at December 31, 2005. During the year we reduced headcount throughout the Primary Homebuilding operations and in connection with these reductions we incurred charges for employee related costs, including severance and retention payments. Employee cost increases were offset in part by a reduction in incentive compensation in 2006 associated with the decrease in profitability in the year ended December 31, 2006 as compared to the same period in 2005. Selling costs were higher in 2006 by \$8.8 million, primarily associated with higher broker commissions earned, increased sales expenses associated with efforts to attract buyers in a challenging homebuilding market and increased headcount associated with the expansion into new markets discussed above. Additionally, legal fees associated with litigation in our various locations increased for the year ended December 31, 2006 as compared to the same period in 2005. As a percentage of total revenues, selling, general and administrative expense was approximately 15.2% for the year ended December 31, 2006 compared to 13.2% for the same period in 2005.

Other expenses decreased 34.6% to \$2.4 million during the year ended December 31, 2006 from \$3.6 million in the same period in 2005. The decrease in other expenses related to a \$830,000 reserve recorded in 2005 to account for our share of costs associated with a litigation settlement and a decrease in title and mortgage expense of approximately \$414,000 compared to 2005.

Interest incurred and capitalized on notes and mortgages payable totaled \$27.2 million during the year ended December 31, 2006, compared to \$11.0 million during the same period in 2005. Interest incurred increased as a result of an increase in the average interest rate on our variable-rate borrowings as well as a \$149.6 million increase in our borrowings from December 31, 2005. Cost of sales of real estate associated with previously capitalized interest totaled \$9.7 million during the year ended December 31, 2006 as compared to \$4.7 million for the same period in 2005.

*For the Year Ended December 31, 2005 Compared to the Same 2004 Period*

The value of net orders in our Primary Homebuilding operations increased to \$448.2 million for 2005 from \$376.4 million in 2004 as a result of higher average sales prices partially offset by a decreased number of orders. Higher selling prices were primarily a reflection of the continued strength of the Florida market during the period. Net unit orders modestly decreased to 1,289 units in 2005, from 1,378 units during 2004. Due in large part to stronger than expected sales of new homes in 2004, we experienced production challenges in some of our homebuilding projects and our inventory of homes available for sale was diminished. The increased 2004 sales led to extended delivery cycles in 2004 and 2005 beyond our 12-month target. As a result of the extended delivery cycles and our depleted inventory levels, we slowed the pace of sales and therefore starts throughout our projects in the Primary Homebuilding segment beginning in late 2004 and extending through 2005, and focused on acquiring land to develop for future projects. Cancellations for the year ended December 31, 2005 totaled 109 units compared to 112 in the same 2004 period.

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Revenues from home sales decreased 15.7% to \$352.7 million in 2005 from \$418.6 million in 2004, due primarily to decreased home deliveries, which decreased from 1,783 units delivered to 1,338 units during the same 2004 period. The decrease in deliveries was attributable to the lower backlog at December 31, 2004, an increased emphasis on quality and customer service which delayed closings, as well as a reduction in construction starts as discussed above. Construction cycle times generally improved, although some projects continued to experience subcontractor delays and project-related management issues.

Cost of sales decreased by approximately 15.7% to \$272.7 million in 2005 from \$323.4 million in 2004. The decrease in cost of sales was attributable to fewer deliveries as margin remained consistent at 22.7% for 2004 and 2005.

Selling, general and administrative expenses increased 5.6% to \$46.9 million in 2005 from \$44.4 million for 2004. In connection with our detailed operational and organizational review, we made significant expenditures during 2005 for infrastructure investment which we believed necessary to support growth objectives. We increased headcount and continued a plan towards market expansion. As a percentage of total revenues, our selling, general and administrative expense was approximately 13.2% during the twelve months ended December 31, 2005, compared to 10.5% during the same 2004 period. The increase was specifically attributable to increased employee compensation and benefits costs associated with new hires in Central and South Florida, and the continued expansion of homebuilding activities into the Jacksonville, Atlanta, and Myrtle Beach markets, incurring administrative start-up costs, including advertising.

Interest incurred and capitalized on notes and mortgages payable totaled \$11.0 million during 2005, compared to \$5.3 million during the same 2004 period. Interest incurred increased as a result of an increase in the average interest rate on our variable-rate borrowings and an increase in borrowings in 2005 associated with the Company's purchases of land to replenish its inventory of homesites. At the time of a home sale, the related capitalized interest is charged to cost of sales. Cost of sales of real estate during 2005 and 2004 included previously capitalized interest of \$4.7 million and \$7.2 million, respectively.

The decrease in other expenses of \$3.2 million was primarily attributable to certain non-recurring expenses recorded in 2004, including a charge of \$3.9 million, net of insurance recoveries, to account for the costs of remediating hurricane related damage in the Primary Homebuilding segment. In 2005, the Primary Homebuilding operations did not incur any hurricane related expense. For 2005, other expenses were comprised of mortgage operations expense and an additional reserve recorded for our share of costs associated with a litigation settlement reached in a matter in which we were a joint venture partner.

The decrease in interest and other income in 2005 was primarily related to a \$1.4 million reduction of a litigation reserve recorded in 2004 as a result of our successful appeal of a 2002 judgment. The appellate court reversed the damages awarded by the trial jury and ordered a new trial to determine damages. The litigation reserve was reduced based on the final settlement liability.

We did not enter into any new joint venture development or other joint venture agreements in 2005. The decrease in earnings in joint ventures resulted primarily from the completion of unit deliveries in 2004 by a joint venture developing a condominium complex in Boca Raton, Florida. That joint venture delivered the final 146 condominium units during 2004. The final 4,100 square feet of commercial space in the project was delivered during the year ended December 31, 2005.

**Table of Contents****Tennessee Homebuilding Segment Results of Operations**

	Year Ended December 31,			2006	2005
	2006	2005	2004	vs. 2005 Change	vs. 2004 Change
(Dollars in thousands, except average price data)					
<b>Revenues</b>					
Sales of real estate	\$ 76,299	85,644	53,746	(9,345)	31,898
Total revenues	76,299	85,644	53,746	(9,345)	31,898
<b>Costs and expenses</b>					
Cost of sales of real estate	72,807	74,328	47,731	(1,521)	26,597
Selling, general and administrative expenses	12,806	10,486	6,385	2,320	4,101
Other expenses	1,307		198	1,307	(198)
Total costs and expenses	86,920	84,814	54,314	2,106	30,500
Loss from joint ventures			(17)		17
Interest and other income	127	188	168	(61)	20
(Loss) income before income taxes	(10,494)	1,018	(417)	(11,512)	1,435
Benefit (provision) for income taxes	3,241	(421)	161	3,662	(582)
<b>Net (loss) income</b>	<b>\$ (7,253)</b>	<b>597</b>	<b>(256)</b>	<b>(7,850)</b>	<b>853</b>
<b>Operational data:</b>					
Homes delivered	340	451	343	(111)	108
Construction starts	237	450	401	(213)	49
Average selling price of homes delivered	\$ 224,000	190,000	157,000	34,000	33,000
Margin percentage on homes delivered (a)	4.6%	13.2%	11.2%	(8.6)%	2.0%
Gross sales contracts (units)	412	641	492	(229)	149
Sales contracts cancellations (units)	143	163	191	(20)	(28)
Net orders (units)	269	478	301	(209)	177
Net orders (value)	\$ 57,776	98,838	51,481	(41,062)	47,357
Backlog of homes (units)	122	193	166	(71)	27
Backlog of homes (value)	\$ 26,662	45,185	31,991	(18,523)	13,194

(a) Margin percentage is calculated by dividing margin (sales of real

estate minus  
cost of sales of  
real estate) by  
sales of real  
estate.

During the year ended December 31, 2006 our Tennessee Homebuilding segment delivered lower than expected margins, had key management personnel leave the Company and continued to experience significant start-up costs associated with expansion from the Memphis to the Nashville market. These issues, in the face of a general downward trend in home deliveries, caused management to evaluate various strategies for our assets in our Tennessee Homebuilding segment.

In the year ended December 31, 2006, the Tennessee Homebuilding operations incurred a net loss of \$7.3 million compared to net income of \$597,000 in 2005, primarily due to \$5.7 million of inventory impairment charges and inventory related valuation adjustments which were included in cost of sales. Increased cost of sales resulted in a gross margin of 4.6% for the year ended December 31, 2006 compared to 13.2% in 2005. There were no impairment charges recorded in 2005, although we did write-off \$10,000 in deposits. Excluding inventory impairment charges, gross margin still would have declined from 13.2% in 2005 to 12.0% in 2006, due to increased construction costs and construction related delays encountered in 2006.

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At December 31, 2006, our Tennessee Homebuilding operations had a delivery backlog of 122 homes which decreased 36.8% from the 193 units for the year ended December 31, 2005. The value of the backlog as of December 31, 2006 was \$26.7 million, decreasing 41.0% from \$45.2 million for the same period in 2005. This decrease is attributable in part to the market conditions present in the Tennessee markets where there were lower demand levels. We anticipate similar declines in 2007 due to current market conditions, and that more aggressive pricing will be necessary to generate future sales and reduce inventory.

Our Tennessee Homebuilding operations reflect the deterioration of conditions in the homebuilding industry characterized by record levels of new and existing homes available for sale, reduced affordability and diminished buyer confidence. Similar to the slowdown in the overall housing market, the current market conditions in Tennessee have led to increased sales incentives, increased pressure on margins, higher cancellation rates and longer delivery cycles. As we expect this trend to continue in the Tennessee market for the near term, we expect our gross margin on home sales to be negatively impacted until market conditions stabilize.

*For the Year Ended December 31, 2006 Compared to the Same 2005 Period*

Revenues from home sales decreased 10.9% to \$76.3 million during the year ended December 31, 2006, from \$85.6 million during the same period in 2005. The decrease is the result of a decrease in the number of deliveries which declined to 340 homes during the year ended December 31, 2006 from 451 homes during the same period in 2005 partially offset by an increase in average sales prices on homes delivered, which increased to \$224,000 for the year ended December 31, 2006, compared to \$190,000 during the same period in 2005.

The value of net orders decreased to \$57.8 million during the year ended December 31, 2006, from \$98.8 million during the same period in 2005. During the year ended December 31, 2006, net unit orders decreased to 269 units, from 478 units during the same period in 2005 as a result of reduced traffic and lower conversion rates. The decrease in net orders was partially offset by the average sales price on new orders increasing 3.9% during the year ended December 31, 2006 to \$215,000, from \$207,000 during the same period in 2005. Higher average selling prices are primarily a reflection of the homes sold in certain projects in 2006. In 2006, Tennessee Homebuilding operations had 412 gross sales contracts with 143 cancellations (a 35% cancellation rate) compared to 641 gross sales contracts with 163 cancellations (a 25% cancellation rate) for the 2005 period.

Cost of sales decreased \$1.5 million to \$72.8 million during the year ended December 31, 2006, from \$74.3 million during the same period in 2005. The decrease in cost of sales is due to the decreased number of deliveries, offset in part by an increase in impairment charges and inventory related valuation adjustments in the amount of \$5.7 million.

Margin percentage declined during the year ended December 31, 2006 to 4.6%, from 13.2% during the same period in 2005. There were no impairment charges recorded in 2005, although we did write-off \$10,000 in deposits. Gross margin excluding inventory impairments was 12.0% compared to a gross margin of 13.2% for the same period in 2005. The decline was associated with higher construction costs in 2006 compared to 2005.

Selling, general and administrative expenses increased 22.1% to \$12.8 million during the year ended December 31, 2006, as compared to \$10.5 million during the same period in 2005 primarily as a result of higher employee compensation and benefits expense, costs of expansion into the Nashville market and increased marketing and selling costs. During the year we reduced headcount in the Tennessee Homebuilding operations and in connection with these reductions we incurred charges for employee related costs, including severance and retention payments. As a percentage of total revenues, selling, general and administrative expense was approximately 16.8% for the year ended December 31, 2006 compared to 12.2% for the same period in 2005.

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Other expense of \$1.3 million for the year ended December 31, 2006 related to the goodwill write-off on the Bowden acquisition as compared to no expense recorded in 2005.

Interest incurred and capitalized on notes and mortgages payable totaled \$2.7 million during the year ended December 31, 2006, compared to \$1.1 million during the same period in 2005. Interest incurred increased as a result of an increase in the average interest rate on our variable-rate borrowings. Cost of sales of real estate associated with previously capitalized interest totaled \$2.1 million during the year ended December 31, 2006 as compared to \$1.6 million for the same period in 2005.

*For the Year Ended December 31, 2005 Compared to the Same 2004 Period*

The value of net orders increased to \$98.8 million for 2005 from \$51.5 million in 2004 as a result of higher average sales prices and an increased number of orders. Higher selling prices were primarily a reflection of a shift away from the first-time entry level buyer to a higher end customer. Net unit orders increased to 478 units in 2005, from 301 units during 2004 as additional inventory became available for sale and reflecting a full year of activity in 2005. Further, our expanded presence in Tennessee contributed to new order flow. Construction starts increased in 2005 primarily due to the increase in sales activity.

Revenues from home sales increased 59.4% to \$85.6 million in 2005 from \$53.7 million in 2004, primarily due to increased home deliveries. Home deliveries increased to 451 units delivered from 343 units delivered during 2004, reflecting a full year of operations in 2005, as compared to only eight months in 2004.

Cost of sales increased by approximately 55.7% to \$74.3 million in 2005 from \$47.7 million in 2004. The increase in cost of sales was attributable to increased deliveries. Cost of sales as a percentage of related revenue was approximately 86.8% for the year ended December 31, 2005, as compared to approximately 88.8% for the year ended December 31, 2004. The slight increase in margins was attributable to the shift away from the first-time entry level buyer to a higher end customer. We also shifted our strategy in the Tennessee Homebuilding operations from acquiring finished lots for smaller subdivisions to acquiring and developing raw land for signature projects which resemble our projects in our Primary Homebuilding operations.

Selling, general and administrative expenses increased 64.2% to \$10.5 million in 2005 from \$6.4 million for 2004. The higher expenses reflect a full year of operations in 2005 compared with only eight months in 2004, and the higher costs associated with increased headcount and expansion into the Nashville market. As a percentage of total revenues, our selling, general and administrative expense was approximately 12.2% during the year ended December 31, 2005, compared to 11.9% during the same 2004 period. The increase was specifically attributable to increased employee compensation and benefits costs associated with new hires and the continued expansion into the Nashville market, incurring certain administrative start-up costs.

Interest incurred and capitalized on notes and mortgages payable totaled \$1.1 million during 2005, compared to \$1.2 million incurred and \$1.0 million capitalized during the same 2004 period. Interest incurred increased as a result of an increase in the average interest rate on our variable-rate borrowings and an increase in borrowings in 2005 associated with our purchases of land to replenish our inventory of homesites. At the time of a home sale, the related capitalized interest is charged to cost of sales. Cost of sales of real estate during 2005 and 2004 included previously capitalized interest of \$1.6 million and \$827,000, respectively.

**Table of Contents****Land Division Results of Operations**

	Year Ended December 31,			2006	2005
	2006	2005	2004	Vs. 2005	vs. 2004
	(Dollars in thousands)			Change	Change
<b>Revenues</b>					
Sales of real estate	\$ 69,778	105,658	96,200	(35,880)	9,458
Other revenues (b)	3,816	1,111	927	2,705	184
Total revenues	73,594	106,769	97,127	(33,175)	9,642
<b>Costs and expenses</b>					
Cost of sales of real estate	42,662	50,706	42,838	(8,044)	7,868
Selling, general and administrative expenses	15,119	12,395	10,373	2,724	2,022
Other expenses		1,177	561	(1,177)	616
Total costs and expenses	57,781	64,278	53,772	(6,497)	10,506
Interest and other income (b)	2,650	7,897	744	(5,247)	7,153
Income before income taxes	18,463	50,388	44,099	(31,925)	6,289
Provision for income taxes	(6,936)	(18,992)	(17,031)	12,056	(1,961)
<b>Net income</b>	<b>\$ 11,527</b>	<b>31,396</b>	<b>27,068</b>	<b>(19,869)</b>	<b>4,328</b>
<b>Operational data:</b>					
Acres sold	371	1,647	1,212	(1,276)	435
Margin percentage (a)	38.9%	52.0%	55.5%	(13.1)%	(3.5)%
Unsold saleable acres	6,871	7,287	5,965	(416)	1,322
Acres subject to sales contracts					
Third parties	74	246	1,833	(172)	(1,587)
Aggregate sales price of acres subject to sales contracts to third parties	21,124	39,283	121,095	(18,159)	(81,812)

(a) Margin percentage is calculated by dividing margin (sales of real estate minus cost of sales of real estate) by sales of real estate.



- (b) The years ended December 31, 2005 and 2004 reflect the reclassification of irrigation, leasing and marketing revenue to Other revenues from Interest and other income. See Note 1 Consolidation Policy.

Due to the nature and size of individual land transactions, our Land Division results are subject to significant volatility. We have historically realized between 40.0% and 60.0% margin on Land Division sales. However, in 2006 our margin percentage was 38.9%, which is indicative of the margin percentage we expect in the next 12-18 months based on current market conditions. Margins were higher in the past because of the St. Lucie West commercial land which generated higher margins. Margins will fluctuate based upon changing sales prices and costs attributable to the land sold, as well as the potential impact of revenue deferrals associated with percentage of completion accounting. The sales price of land sold varies depending upon: the location; the parcel size; whether the parcel is sold as raw land, partially developed land or individually developed lots; the degree to which the land is entitled; and whether the designated use of land is residential or commercial. The cost of sales of real estate is dependent upon the original cost of the land acquired, the timing of the acquisition of the land, and the amount of land development, interest and real estate tax costs capitalized to the particular land parcel during active development. Allocations to costs of sales involve management judgments and an estimate of future costs of development, which can vary over time due to labor and material cost increases, master plan design changes and regulatory modifications. Accordingly, allocations are subject to change based on factors which are in many instances beyond management's control. Future margins will continue to vary based on these and other market factors.

The value of acres subject to third party sales contracts decreased from \$39.3 million at December

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31, 2005 to \$21.1 million at December 31, 2006. This backlog consists of executed contracts and provides an indication of potential future sales activity and value per acre. However, the backlog is not an exclusive indicator of future sales activity. Some sales involve contracts executed and closed in the same quarter and therefore will not appear in the backlog. In addition, contracts in the backlog are subject to cancellation.

*For the Year Ended December 31, 2006 Compared to the Same 2005 Period*

Revenues decreased 34.0% to \$69.8 million during the year ended December 31, 2006, from \$105.7 million during the same period in 2005. During the year ended December 31, 2006, we sold 371 acres at an average margin of 38.9% as compared to 1,647 acres sold at an average margin of 52.0% for the same 2005 period. The decrease in revenue was primarily attributable to a large bulk sale of land adjacent to Tradition, Florida consisting of a total of 1,294 acres for \$64.7 million, which occurred in the year ended December 31, 2005. Included in the 371 acres sold in 2006 are 150 acres sold to the Homebuilding Division. Profits recognized by the Land Division from sales to the Homebuilding Division are deferred until the Homebuilding Division delivers homes on those properties to third parties, at which time the deferred profit is applied against consolidated cost of sales. During the year ended December 31, 2006, the Land Division's sales to the Homebuilding Division amounted to \$18.8 million, of which the \$3.3 million profit was deferred at December 31, 2006, as compared to no sales between the divisions in the year ended December 31, 2005.

The increase in other revenues from \$1.1 million for the year ended December 31, 2005 to \$3.8 million for the same period in 2006 related to increased marketing fees associated with cooperative marketing agreements with homebuilders and lease and irrigation income.

Cost of sales decreased \$8.0 million to \$42.7 million during the year ended December 31, 2006, as compared to \$50.7 million for the same period in 2005. The decrease in cost of sales was directly related to the decrease in revenues from the Land Division in 2006. This decrease was slightly offset by an increase in cost of sales due to lower margin sales in 2006. The large bulk sale that took place in 2005, which represented the majority of the sales activity in 2005, generated higher than normal margins for the year ended December 31, 2005. Cost of sales as a percentage of related revenue was approximately 61.1% for the year ended December 31, 2006 compared to 48.0% for the same period in 2005.

Selling, general and administrative expenses increased 22.0% to \$15.1 million during the year ended December 31, 2006, from \$12.4 million during the same period in 2005. The increase primarily was a result of increases in compensation and other administrative expenses attributable to increased headcount in support of our expansion into the South Carolina market, and commercial development, commercial leasing and irrigation activities. Additionally we incurred increases in Florida property taxes, advertising and marketing costs, and depreciation associated with commercial projects being developed internally. These increases were slightly offset by lower incentive compensation associated with the decrease in profitability in the year ended December 31, 2006 compared to the same period in 2005. As a percentage of total revenues, our selling, general and administrative expenses increased to 20.5% during the year ended December 31, 2006, from 11.6% during the same period in 2005. The large variance is attributable to the large land sale that occurred in the year ended December 31, 2005 which resulted in a large increase in revenue without a corresponding increase in selling, general and administrative expenses due to the fixed nature of many of the Land Division's expenses.

Interest incurred and capitalized during the year ended December 31, 2006 and 2005 was \$6.7 million and \$2.8 million, respectively. Interest incurred was higher due to higher outstanding balances of notes and mortgage notes payable, as well as increases in the average interest rate on our variable-rate debt. Cost of sales of real estate during the year ended December 31, 2006 included previously capitalized interest of \$443,000, compared to \$743,000 during the same period in 2005.

The decrease in interest and other income from \$7.9 million for the year ended December 31, 2005 to \$2.7 million for the same period in 2006 is related to a reversal of a construction related obligation recorded in 2005 in the amount of \$6.8 million. This item was not present in 2006. This decrease was partially offset by a \$1.3 million gain on sale of fixed assets and higher interest income generated by our various interest bearing deposits.

**Table of Contents***For the Year Ended December 31, 2005 Compared to the Same 2004 Period*

Revenues from land sales increased 9.8% to \$105.7 million in 2005 from \$96.2 million in 2004. Margin on land sales in 2005 was approximately \$55.0 million as compared to \$53.4 million in 2004. During 2005, 1,647 acres were sold with an average margin of 52.0%, as compared to 1,212 acres sold with an average margin of 55.5% in 2004. The decline in average selling price per acre is attributable to the stage of entitlements of the parcels sold. We sold a greater percentage of undeveloped and unentitled land in 2005 relative to 2004. The decrease in margin is also attributable to the mix of acreage sold, with a decrease in commercial property sales at St. Lucie West. The margin percentage on the Tradition, Florida acreage tends to be lower due to the stage of the development and the higher proportion of residential sales (which generally have a lower margin) to commercial sales in the same period. While yielding a slightly lower margin percentage, the Land Division generated increased revenue which enhanced overall profitability. The most notable transaction during 2005 was the bulk sale for \$64.7 million in the first quarter of five non-contiguous parcels of land adjacent to Tradition, Florida consisting of a total of 1,294 acres. During 2004, the Company sold 448 acres in Tradition, Florida to the Homebuilding Division which generated revenue of \$23.4 million and margin of \$14.4 million. This transaction, which is included in the above table for 2004, was eliminated in consolidation, and the associated profit was deferred. There were no land sales to the Homebuilding Division in 2005.

Selling, general and administrative expenses increased 19.5% to \$12.4 million during the year ended December 31, 2005 compared to \$10.4 million for the same 2004 period. As a percentage of total revenues, selling, general and administrative expenses remained relatively flat increasing to 11.6% in 2005 from 10.7% in 2004. The slight increase was due to increased headcount as the number of Land Division employees increased to 48 in 2005 from 35 as of December 31, 2004 largely associated with our expansion at both Tradition, Florida and Tradition, South Carolina.

Interest incurred for 2005 and 2004 was approximately \$2.8 million and \$2.0 million, respectively. The increase in interest incurred was primarily due to an increase in outstanding borrowings related to acquisition of land for Tradition, South Carolina. During 2005, interest capitalized was approximately \$2.8 million, as compared with \$1.9 million for 2004. At the time of land sales, the related capitalized interest is charged to cost of sales. Cost of sales of real estate for 2005 and 2004 included previously capitalized interest of approximately \$743,000 and \$87,000, respectively.

The increase in other expenses was primarily attributable to a \$677,000 pre-payment penalty on debt repayment incurred during the first quarter of 2005. We repaid indebtedness under a line of credit using a portion of the proceeds of the bulk sale described above.

The increase in interest and other income of \$7.2 million was primarily related to the reversal of certain accrued construction obligations. During the fourth quarter of 2005, we reversed approximately \$6.8 million in accrued construction obligations. These accrued construction obligations were recorded as property was sold to recognize our obligations to comply with future infrastructure development requirements of governmental entities. The reversal of these construction obligations was the result of changes made to the infrastructure development requirements by such governmental entities for certain projects. All payments and obligations related to the infrastructure development requirements for these projects were fulfilled as of December 31, 2005.

**Table of Contents****Other Operations Results of Operations**

	Year Ended December 31,			2006	2005
	2006	2005	2004	Vs. 2005	Vs. 2004
				Change	Change
	(Dollars in thousands)				
<b>Revenues</b>					
Sales of real estate	\$ 11,041	14,709	5,555	(3,668)	9,154
Other revenues (a)	1,435	1,963	459	(528)	1,504
Total revenues	12,476	16,672	6,014	(4,196)	10,658
<b>Costs and expenses</b>					
Cost of sales of real estate	11,649	12,520	6,255	(871)	6,265
Selling, general and administrative expenses	28,174	17,841	9,822	10,333	8,019
Other expenses	8	72	24	(64)	48
Total costs and expenses	39,831	30,433	16,101	9,398	14,332
Earnings from Bluegreen Corporation	9,684	12,714	13,068	(3,030)	(354)
(Loss) earnings from joint ventures	(137)	(35)	2,532	(102)	(2,567)
Interest and other income (a)	4,196	2,143	545	2,053	1,598
(Loss) income before income taxes	(13,612)	1,061	6,058	(14,673)	(4,997)
Benefit (provision) for income taxes	5,639	(378)	(2,198)	6,017	1,820
<b>Net (loss) income</b>	<b>\$ (7,973)</b>	<b>683</b>	<b>3,860</b>	<b>(8,656)</b>	<b>(3,177)</b>

(a) The years ended December 31, 2005 and 2004 reflect the reclassification of leasing revenue to Other revenues from Interest and other income. See Note 1 Consolidation Policy.

Other Operations include all other Company operations, including Levitt Commercial, Parent Company general and administrative expenses, earnings from our investment in Bluegreen and earnings (loss) from investments in various real estate projects and trusts. We currently own approximately 9.5 million shares of the common stock of

Bluegreen, which represented approximately 31% of Bluegreen's outstanding shares as of December 31, 2006. Under equity method accounting, we recognize our pro-rata share of Bluegreen's net income (net of purchase accounting adjustments) as pre-tax earnings. Bluegreen has not paid dividends to its shareholders; therefore, our earnings represent only our claim to the future distributions of Bluegreen's earnings. Accordingly, we record a tax liability on our portion of Bluegreen's net income. Our earnings in Bluegreen increase or decrease concurrently with Bluegreen's reported results. Furthermore, a significant reduction in Bluegreen's financial position could potentially result in an impairment charge on our investment against our future results of operations. For a complete discussion of Bluegreen's results of operations and financial position, we refer you to Bluegreen's Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC.

*For the Year Ended December 31, 2006 Compared to the Same 2005 Period*

During the year ended December 31, 2006, Levitt Commercial delivered 29 flex warehouse units at two of its projects, generating revenues of \$11.0 million as compared to 44 flex warehouse units in 2005, generating revenues of \$14.7 million. Deliveries of individual flex warehouse units by Levitt Commercial generally occur in rapid succession upon the completion of a warehouse building. As of December 31, 2006 Levitt Commercial has one remaining flex warehouse project with a total of 17 units in the sales backlog which closed in the first quarter of 2007.

Cost of sales of real estate in Other Operations includes the expensing of interest previously capitalized, as well as the costs of development associated with the Levitt Commercial projects. Interest in Other Operations is capitalized and amortized to cost of sales in accordance with the relief rate used in our operating segments. This capitalization is for Other Operations debt where interest is allocated to inventory in the other operating segments. Cost of sales of real estate decreased \$871,000 from \$12.5 million in the

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year ended December 31, 2005 to \$11.6 million in the year ended December 31, 2006. The primary reason for the decrease in cost of sales is due to fewer sales at Levitt Commercial partially offset by increased cost of sales associated with previously capitalized interest related to corporate debt.

Bluegreen reported net income for the year ended December 31, 2006 of \$29.8 million, as compared to net income of \$46.6 million for the same period in 2005. Our interest in Bluegreen's earnings, net of purchase accounting adjustments, was \$9.7 million for the year ended December 31, 2006 compared to \$12.7 million for the same period in 2005.

Selling, general and administrative expense increased 57.9% to \$28.2 million during the year ended December 31, 2006, from \$17.8 million during the same period in 2005. The increase is a result of higher employee compensation and benefits, recruiting expenses, and professional services expenses. Employee compensation costs increased by approximately \$4.4 million from \$7.4 million during the year ended December 31, 2005 to \$11.8 million for the same period in 2006. The increase relates to the increase in the number of full time employees to 63 at December 31, 2006 from 46 at December 31, 2005. Additionally, approximately \$3.1 million of the increase in compensation expense was associated with non-cash stock-based compensation for which no expense was recorded in the same period in 2005. We experienced an increase in professional services due to non-capitalizable consulting services performed in the year ended December 31, 2006 related to our financial systems implementation. The system implementation costs and merger related costs did not exist in the year ended December 31, 2005. These increases were partially offset by decreases in bonus expense of approximately \$1.0 million or 56.1% from the year ended December 31, 2005 due to decreased profitability.

Interest incurred and capitalized on notes and mortgage notes payable totaled \$7.4 million during the year ended December 31, 2006, compared to \$4.4 million during the same period in 2005. The increase in interest incurred was attributable to an increase in junior subordinated debentures and an increase in the average interest rate on our borrowings. Cost of sales of real estate includes previously capitalized interest of \$3.6 million and \$2.0 million during the year ended December 31, 2006 and 2005, respectively. Those amounts include adjustments to reconcile the amount of interest eligible for capitalization on a consolidated basis with the amounts capitalized in our other business segments.

*For the Year Ended December 31, 2005 Compared to the Same 2004 Period*

During the year ended 2005, Levitt Commercial delivered 44 flex warehouse units at two of its projects, generating revenues of \$14.7 million as compared to 18 flex warehouse units in 2004, generating revenues of \$5.6 million.

We recorded \$12.7 million of earnings relating to our ownership interest in Bluegreen during the year ended December 31, 2005 as compared to \$13.1 million for the year ended December 31, 2004.

Bluegreen restated its financial statements for the first three quarters of fiscal 2005 and the fiscal years ended December 31, 2004 and 2003 due to certain misapplications of GAAP in the accounting for sales of the Company's vacation ownership notes receivable and other related matters. The restatement accounts for the sales of notes receivable as on-balance sheet financing transactions as opposed to off-balance sheet sales transactions as Bluegreen had originally accounted for these transactions. We recorded the cumulative effect of the restatement in the year ended December 31, 2005. This cumulative adjustment was recorded as a \$2.4 million reduction of our earnings from Bluegreen and a \$1.1 million increase in our pro-rata share of unrealized gains recognized by Bluegreen. These adjustments resulted in a \$1.3 million reduction to our investment in Bluegreen.

Selling, general and administrative and other expenses increased to \$17.8 million during the year ended December 31, 2005 as compared to \$9.8 million during the year ended December 31, 2004. In 2005, we incurred professional fees associated with the organizational review of production and operational practices and procedures as previously discussed. Also contributing to the increase in selling, general and administrative expenses during the year ended 2005 were additional audit fees associated with Sarbanes Oxley. The increase in selling, general and administrative expenses is also attributable to increased compensation expense resulting from an increase from 22 employees in this segment at year end 2004 to 46

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employees at year end 2005. The increased headcount was primarily related to parent company staffing in Human Resources, Project Management and administrative functions in preparation for our implementation of the Company's strategic initiatives. In addition, incentives for all employees associated with achieving identified customer service goals were accrued in the fourth quarter of 2005. Finally, in the fourth quarter of 2005, we incurred expenses associated with several company-wide information meetings regarding the various organizational, information system, and operational changes scheduled to occur in 2005 and 2006.

Losses from real estate joint ventures in 2005 were \$35,000 as compared to \$2.5 million of earnings in 2004. The earnings during 2004 were primarily related to the gain recognized by the sale of Grand Harbor, a rental apartment property in Vero Beach, Florida and earnings associated with the delivery of homes by a joint venture project in West Palm Beach, Florida. During 2005, the joint ventures in which this operating segment participates had essentially completed their operations and were winding down as discussed above.

Interest incurred in other operations was approximately \$4.4 million and \$2.6 million for the year ended December 31, 2005 and 2004, respectively. The increase in interest incurred was primarily associated with an increase in debentures at the parent company associated with our trust preferred securities offerings and an increase in the average interest rate on our borrowings. Interest capitalized for this business segment totaled \$4.4 million and \$2.6 million for the year ended December 31, 2005 and 2004, respectively. Those amounts include adjustments to reconcile the amount of interest eligible for capitalization on a consolidated basis with the amounts capitalized in our other business segments.

**FINANCIAL CONDITION**

We are taking steps to address the current challenging residential real estate environment and are working to improve operational cash flows and increase our sources of financing. We believe that our current financial condition and credit relationships, together with anticipated cash flows from operations and other sources of funds, which may include proceeds from the disposition of certain properties or investments, joint ventures, and issuances of debt or equity, will provide for our current liquidity.

Our total assets at December 31, 2006 and 2005 were \$1.1 billion and \$895.7 million, respectively. The increase in total assets primarily resulted from:

- a net increase in inventory of real estate of approximately \$210.8 million, which includes approximately \$64.8 million in land acquisitions;

- an increase of \$34.4 million in property and equipment associated with increased investment in commercial properties under construction by our Land Division, support for infrastructure in our master planned communities, and \$3.5 million in hardware and software acquired for our implementation of our new financial and operating system ;

- a net increase of approximately \$11.2 million in our investment in Bluegreen Corporation associated primarily with \$9.7 million of earnings from Bluegreen (net of purchase accounting adjustments), \$1.3 million from our pro rata share of unrealized gains associated with Bluegreen's other comprehensive income and \$287,000 associated with Bluegreen's capital transactions; and

- the above increases in assets were partially offset by a net decrease in cash and cash equivalents of \$65.2 million, which resulted from cash used in operations and investing activities of \$268.3 million, partially offset by an increase in cash provided by financing activities of \$203.1 million.

Total liabilities at December 31, 2006 and December 31, 2005 were \$747.4 million and \$545.9 million, respectively. The material changes in the composition of total liabilities primarily resulted from:

- a net increase in notes and mortgage notes payable of \$176.8 million, primarily related to project debt associated with 2006 land acquisitions and land development activities;

- an increase of \$30.9 million in junior subordinated debentures ;





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a decrease of \$9.0 million in customer deposits due to a smaller backlog at December 31, 2006;

an increase of \$18.5 million in accruals as a result of increased construction costs, accrued professional services related to our systems implementation and legal and valuation services accruals related to the proposed merger with BFC; and

a decrease in tax liability of approximately \$7.0 million relating primarily to our pre-tax loss and the timing of estimated tax payments.

**LIQUIDITY AND CAPITAL RESOURCES**

We assess our liquidity in terms of our ability to generate cash to fund our operating and investment activities. During the year ended December 31, 2006, our primary sources of funds were proceeds from the sale of real estate inventory, the issuance of trust preferred securities and borrowings from financial institutions. These funds were utilized primarily to acquire, develop and construct real estate, to service and repay borrowings and to pay operating expenses. As of December 31, 2006 and December 31, 2005, we had cash and cash equivalents of \$48.3 million and \$113.6 million, respectively. Our cash declined \$65.2 million during the year ended December 31, 2006 primarily as a result of our continued investment in inventory, principally in the Primary Homebuilding segment and Land Division, in combination with a decline in operating performance. The Company primarily utilized borrowings to finance the growth in inventory. Total debt increased to \$615.7 million at December 31, 2006 compared with \$407.8 million at December 31, 2005. Debt to total capitalization increased from 53.8% to 64.2% during the same period.

The downturn in the homebuilding industry combined with the timing of inventory acquisitions has increased our supply of land and substantially increased the amount of debt. We have substantially curtailed our acquisition of new land, and are closely monitoring expenditures for land development and community amenities in light of current market conditions. The majority of our Homebuilding inventory was purchased during the peak of the historic high demand in the homebuilding market cycle and remains vulnerable to future additional impairments should market conditions not improve. Additionally, demand for residential property in Florida, where the majority of our inventory is located, has declined significantly, and we have experienced a record number of contract cancellations as customers have elected to forfeit their deposits and not fulfill their purchase commitments. We expect that pricing pressures will erode future margins as we attempt to improve sales through various sales incentives. We do not believe there is any meaningful evidence to suggest market conditions will improve in the near term.

Due to current market conditions and the uncertain duration of the industry downturn, there is no assurance that operating cash flows will adequately support operations, and accordingly, we anticipate seeking additional capital. Sources for additional capital include proceeds from the disposition of certain properties or investments, joint venture partners, as well as issuances of debt or equity. In addition, as discussed in Item 1. -Business-Recent Developments, the decision to enter into an agreement to merge with BFC Financial was predicated in part on the anticipated need for additional capital, and the recognition that BFC provides potential additional access to financial resources. The merger is subject to a number of conditions, including shareholder approval. In the event that the merger is not approved by shareholders, or not consummated for any other reason, it is our current intention to pursue a rights offering to holders of Levitt's Class A common stock giving each then current holder of Levitt Class A common stock the right to purchase a proportional number of additional shares of Levitt Class A common stock. There is no assurance that we will be able to successfully raise additional capital on acceptable terms, if at all.

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At December 31, 2006, our consolidated debt totaled \$615.7 million under total borrowing facilities of up to \$904.4 million, of which \$527.7 was secured by various assets. Those loans are secured by mortgages on various properties. Approximately \$70.4 million was available under the facilities at December 31, 2006 subject to qualifying assets and fulfillment of conditions precedent. The detail of debt instruments at December 31, 2006 and 2005 was as follows (in thousands):

	December 31,	
	2006	2005
Mortgage notes payable	\$ 67,504	127,061
Mortgage notes payable to BankAtlantic		223
Borrowing base facilities	348,600	143,100
Land acquisition and construction mortgage notes payable	1,641	3,875
Land acquisition mortgage notes payable	66,932	48,936
Construction mortgage notes payable	28,884	13,012
Lines of credit	14,000	14,500
Subordinated investment notes	2,489	3,132
Unsecured junior subordinated debentures	85,052	54,124
Other borrowings	601	7
<b>Total Outstanding Debt</b>	<b>\$ 615,703</b>	<b>\$ 407,970</b>

Additional detail on the above borrowings is provided in Item 8 Note 11.

*Operating Activities.* During the year ended December 31, 2006, we used \$240.1 million of cash in our operating activities, as compared to \$132.5 million of cash used in such activities during 2005 and \$78.9 million used in 2004. The net cash used in operations during fiscal 2006 was primarily the result of cash used to increase inventories in our Primary Homebuilding segment and Land Division, as well as a net loss for 2006 compared to net income during 2005. The net cash used in operations during fiscal 2005 and fiscal 2004 was the result of cash provided from net income and an increase in accounts payable, accrued expenses and other liabilities, offset by cash used to increase real estate inventory.

The decision to fund additional inventory growth in the past few years was based on strong market demand and the need to replenish inventory in certain markets, as well as management's decision to diversify into new markets. In addition to the costs of land acquisition, we incur significant land development expenditures to prepare the land for the construction of homes. In addition, many of the projects in the Primary Homebuilding segment provide amenities to residents which include gated entryways, clubhouses, swimming pools and tennis courts. As a result, we incur significant costs which are not recovered until homes are delivered. Depending upon the size of the project, product type and ability to obtain permits and required approvals from governmental authorities, the time between land acquisition and the delivery of the first completed home can take in excess of two years, exposing us to the volatility of demand in the homebuilding market. A reduction in sales activity results in a lower realized rate of return and a longer than anticipated breakeven period for cash flow, placing additional stress on the balance sheet as higher debt levels are maintained. The homebuilding market changed noticeably in early 2006 and further deteriorated throughout the year. The majority of our inventory is located in Florida, which is among many states experiencing challenges in the homebuilding industry associated with excess inventory supply and intense price competition. As a result, it is expected that Florida will lag the overall market recovery until supply is more aligned with market demand.

In light of these challenging market conditions, we modified our land acquisition plans in 2006 and substantially curtailed our planned purchases of new land after the first quarter. Land acquired from third parties, the majority of which was outside the state of Florida, totaled \$64.8 million in 2006, compared with \$197.4 million in 2005. Our inventory growth in 2006 was primarily associated with land development and



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construction activities on land purchases made in 2005 as well as land acquisitions made in the first quarter of the year. We will continue to invest in our existing projects in 2007, many of which require further investment in land development, amenities including entryways and clubhouse facilities, as well as model homes and sales facilities. As a result, we are not expecting a meaningful decline in inventory during the year. At this time, no significant land purchases are contemplated in 2007 based on current market conditions.

We also utilize deposits from customers who enter into purchase contracts to support our working capital needs. These deposits totaled \$42.7 million at December 31, 2006 and represented 10% of our homebuilding backlog value. In comparison, deposits at year end 2005 were \$51.7 million and represented 9% of our homebuilding backlog value. The decline in deposits reflects a reduction in the backlog, as well as a decision in late 2006 to reduce the required deposits in certain communities to 5% of base price, and tier the required deposits on selected options. In 2006, \$2.7 million in deposits were retained by us as a result of forfeitures by buyers as cancellations grew compared with \$77,000 in 2005. If we are unable to increase sales during the same period, the amount of deposits will decline as we deliver homes from backlog.

*Investing Activities.* In fiscal 2006 and 2005, cash used in investing activities represented net purchases of property and equipment, primarily associated with commercial development activities and utility services at Tradition, Florida. In addition, we invested in new technology systems and capitalized related expenses for software, hardware and certain implementation costs. In 2004, we received distributions from a real estate joint venture for the Boca Grande project

*Financing Activities* The majority of our financing needs are funded with cash generated from operations, secured financing principally through commercial banks, and Trust Preferred securities. We have also issued common equity in the public markets, and continue to evaluate various sources of capital from both public and private investors to ensure we maintain sufficient liquidity to deal with the potential of a prolonged slowdown in the residential real estate markets where we operate. Cash provided through financing activities totaled \$203.1 million in 2006, compared with \$134.7 million in 2005 and \$191.4 million in 2004.

Certain of our borrowings require us to repay specified amounts upon a sale of portions of the property securing the debt. These amounts would be in addition to our scheduled payments over the next twelve months. While homes in backlog are subject to sales contracts, there can be no assurance that these homes will be delivered as evidenced by the escalation of our cancellation rates. Upon cancellation, such homes become spec units and are aggressively marketed to new buyers. Our borrowing base facilities include project limitations on the number and holding period, as well as the overall dollar amount of spec units, and accordingly, if that limitation is exceeded, the underlying assets no longer qualify for financing. In that event, our available borrowings are reduced, and depending upon that status of other qualifying assets in the borrowing base, we may be required to repay the lender prior to scheduled payment dates for funds advanced on that particular property. We communicate with our lenders regarding limitations on spec houses, and in the past have received increased spec allowances, but there can be no assurance we will receive such flexibility in the future. Accordingly, our cash flow and liquidity would be adversely impacted should spec inventory continue to rise as a result of customer cancellations and we are unable to obtain waivers from our lenders.

Certain of our borrowings may require additional principal payments in the event that sales and starts are substantially below those agreed to at the inception of the borrowing. There is no assurance that these additional principal payments will not be required. A curtailment schedule is established for each project when that project is included as a qualifying project under a borrowing base facility. The curtailment schedule specifies minimum debt pay downs based on projected construction starts. If the construction starts do not commence, we remain obligated to make the payments. Such obligations total \$84.5 million in 2007. We periodically discuss these curtailment requirements as well as current market activity and revised project budgets with our lenders. If we are unable to meet required construction starts and are not able to defer or eliminate curtailment requirements, significant additional funds will be needed to meet the required debt payments.

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Some of our subsidiaries have borrowings which contain covenants that, among other things, require the subsidiary to maintain financial ratios, including minimum working capital, maximum leverage and minimum net worth. These covenants may have the effect of limiting the amount of debt that the subsidiaries can incur. At December 31, 2006, we were in compliance with all loan agreement financial covenants. There can be no assurance we will remain in compliance in the future should the homebuilding market remain in a prolonged downturn. Noncompliance with financial covenants may result in pressure on earnings and cash flow, and the risk of additional impairments. The risk of additional impairments could adversely impact the subsidiary's net worth which would require additional capital from the parent and restrict the payment of dividends from that subsidiary to the parent.

On each of January 24, 2006, April 26, 2006, August 1, 2006, October 23, 2006 and January 22, 2007 our Board of Directors declared cash dividends of \$0.02 per share on our Class A common stock and Class B common stock. These dividends were paid in February 2006, May 2006, August 2006, November 2006 and February 2007, respectively. The Board has not adopted a policy of regular dividend payments. The payment of dividends in the future is subject to approval by our Board of Directors and will depend upon, among other factors, our results of operations and financial condition. We cannot give assurance that we will declare additional cash dividends in the future.

**Off Balance Sheet Arrangements and Contractual Obligations**

In connection with the development of certain of our communities, we establish community development districts to access bond financing for the funding of infrastructure development and other projects within the community. If we were not able to establish community development districts, we would need to fund community infrastructure development out of operating income or through other sources of financing or capital. The bonds issued are obligations of the community development district and are repaid through assessments on property within the district. To the extent that we own property within a district when assessments are levied, we will be obligated to pay the assessments as they are due. As of December 31, 2006, development districts in Tradition, Florida had \$50.4 million of community development district bonds outstanding and we owned approximately 36% of the property in those districts. During the year ended December 31, 2006, we recorded approximately \$1.7 million in assessments on property we owned in the districts. These costs were capitalized to inventory as development costs and will be recognized as cost of sales when the assessed properties are sold to third parties.

We entered into an indemnity agreement in April 2004 with a joint venture partner at Altman Longleaf, relating to, among other obligations, that partner's guarantee of the joint venture's indebtedness. Our liability under the indemnity agreement is limited to the amount of any distributions from the joint venture which exceeds our original capital and other contributions. Accordingly, our potential obligation of indemnity was approximately \$664,000 at December 31, 2006. Based on the joint venture assets that secure the indebtedness, we do not believe it is likely that any payment will be required under the indemnity agreement.

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The following table summarizes our contractual obligations as of December 31, 2006 (in thousands):

Category (1)	Total	Less than 12 Months	Payments due by period		
			13 - 36 Months	37 - 60 Months	More than 60 Months
Long-term debt obligations	\$ 615,703	46,016	304,341	146,706	118,640
Interest payable on long-term debt	268,250	46,487	78,738	25,791	117,234
Operating lease obligations	8,531	2,287	3,466	1,323	1,455
Purchase obligations	14,220	14,220			
Total obligations	\$ 906,704	109,010	386,545	173,820	237,329

(1) Long-term debt obligations consist of notes, mortgage notes and bonds payable. Interest payable on these long-term debt obligations is the interest that will be incurred related to the outstanding debt. Operating lease obligations consist of lease commitments. Purchase obligations consist of contracts to acquire real estate properties for development and sale for which due diligence has been completed and our deposit is committed; however our liability for not completing the purchase of any

such property is generally limited to the deposit made under the relevant contract. At December 31, 2006, we had \$400,000 in deposits securing such purchase obligations and we currently intend to acquire the land associated with these purchase obligations, subject to market conditions and the Company's financial condition.

- (2) In addition to the above scheduled payments, certain of our borrowings require repayments of specified amounts upon a sale of portions of the property securing the debt.

At December 31, 2006, we had outstanding surety bonds and letters of credit of approximately \$139.4 million related primarily to obligations to various governmental entities to construct improvements in our various communities. We estimate that approximately \$68.6 million of work remains to complete these improvements. We do not believe that any outstanding bonds or letters of credit will likely be drawn upon.

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The table below sets forth our debt obligations, principal payments by scheduled maturity, weighted-average interest rates and estimated fair market value as of December 31, 2006 (dollars in thousands):

	Payments due by year							Fair Market Value at December 31, 2006
	2007	2008	2009	2010	2011	Thereafter	Total	
<b>Fixed rate debt:</b>								
Notes and mortgage payable (a)	2,303	980	328	256	264	101,208	105,339	105,885
Average interest rate	8.03%	8.03%	8.09%	8.10%	8.11%	5.27%	7.61%	
<b>Variable rate debt:</b>								
Notes and mortgage payable	43,713	24,951	278,082	100,312	45,874	17,432	510,364	510,364
Average interest rate	7.73%	7.69%	7.68%	7.73%	7.90%	7.28%	7.71%	
<b>Total debt obligations</b>	<b>46,016</b>	<b>25,931</b>	<b>278,410</b>	<b>100,568</b>	<b>46,138</b>	<b>118,640</b>	<b>615,703</b>	<b>616,249</b>

(a) Fair value calculated based upon recent borrowings in same category of this debt.

Assuming the variable rate debt balance of \$510.4 million outstanding at December 31, 2006 (which does not include approximately \$85.1 million of initially fixed-rate obligations which will not become floating rate during 2007) were to remain constant, each one percentage point increase in interest rates would increase the interest incurred by us by approximately \$5.1 million per year.

**Impact of Inflation**

The financial statements and related financial data and notes presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation.

Inflation could have a long-term impact on us because increasing costs of land, materials and labor result in a need to increase the sales prices of homes. In addition, inflation is often accompanied by higher interest rates which could have a negative impact on housing demand and the costs of financing land development activities and housing construction. Rising interest rates as well as increased materials and labor costs may reduce margins.

Given market conditions we do not believe that we will be able to raise prices or generate sales at levels recorded in 2004 and 2005. Further, our Homebuilding Division generally enters into sales contracts prior to



construction and unanticipated cost increases due to inflation during the construction period will negatively impact our margins and profitability.

**New Accounting Pronouncements**

In June 2006, the FASB issued FIN No. 48 ( Accounting for Uncertainty in Income Taxes an interpretation of FASB No. 109 ). FIN 48 provides guidance for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on a tax return. FIN 48 substantially changes the accounting policy for uncertain tax positions and is likely to cause greater volatility in our provision for income taxes. The interpretation also revises disclosure requirements including a tabular roll-forward of unrecognized tax benefits. The interpretation is effective as of January 1, 2007 and we do not expect a material adjustment upon adoption of this interpretation.

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108 which established an approach to quantify errors in financial statements. The SEC s new approach to quantifying errors in the financial statements is called the dual-approach. This approach

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quantifies the errors under two common approaches requiring the registrant to adjust its financial statements when either approach results in a material error after considering all quantitative and qualitative factors. Adoption of this bulletin did not affect our financial condition or results of operations.

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 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. We are currently reviewing the effect of this Statement on our consolidated financial statements and do not expect the adoption to have an effect on our financial condition or results of operations.

In November 2006, the FASB issued Emerging Issues Task Force Issue 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 (our fiscal year beginning December 1, 2007). The effect of this EITF is not expected to be material to our consolidated financial statements.

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**Bluegreen Corporation**

The financial statements of Bluegreen Corporation, which is considered a significant subsidiary, are required to be included in this report. The restated financial statements of Bluegreen Corporation for the three years ended December 31, 2006, including the Report of Bluegreen's Independent Registered Certified Public Accounting Firm, Ernst & Young LLP, are included as exhibit 99.1 to this report.

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**Report of Independent Registered Certified Public Accounting Firm**

To the Board of Directors and Shareholders of Levitt Corporation:

We have completed integrated audits of Levitt Corporation's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits and the report of other auditors, are presented below.

**Consolidated financial statements**

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Levitt Corporation and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. 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. We did not audit the financial statements of Bluegreen Corporation, an approximate 31 percent-owned equity investment, which were audited by other auditors whose report thereon has been furnished to us. Our opinion expressed herein, insofar as it relates to the Company's net investment in (approximately \$107.1 million and \$95.8 million at December 31, 2006 and 2005, respectively) and equity in the net earnings of (approximately \$9.7 million, \$12.7 million, and \$13.1 million for the years ended December 31, 2006, 2005 and 2004, respectively) Bluegreen Corporation, is based solely on the report of the other auditors. We conducted our audits of these statements 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 4 to the consolidated financial statements, the Company changed the manner in which it accounts for stock-based compensation in 2006.

**Internal control over financial reporting**

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company'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. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the

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design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) 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.

PricewaterhouseCoopers LLP

Fort Lauderdale, Florida

March 14, except for the change in the composition of reportable segments discussed in Note 21, as to which the date is July 3, 2007.

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**Levitt Corporation**  
**Consolidated Statements of Financial Condition**  
**December 31, 2006 and 2005**  
(In thousands, except share data)

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 48,391	113,562
Restricted cash	1,397	1,818
Inventory of real estate	822,040	611,260
Investment in Bluegreen Corporation	107,063	95,828
Property and equipment, net	78,675	44,250
Other assets	33,100	28,955
<b>Total assets</b>	<b>\$ 1,090,666</b>	<b>895,673</b>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable, accrued liabilities and other	\$ 85,123	66,652
Customer deposits	42,696	51,686
Current income tax payable	3,905	12,551
Notes and mortgage notes payable	530,651	353,846
Junior subordinated debentures	85,052	54,124
Deferred tax liability, net		7,028
<b>Total liabilities</b>	<b>747,427</b>	<b>545,887</b>
Shareholders' equity:		
Preferred stock, \$0.01 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares		
Class A Common Stock, \$0.01 par value		
Authorized: 50,000,000 shares		
Issued and outstanding: 18,609,024 and 18,604,053 shares, respectively	186	186
Class B Common Stock, \$0.01 par value		
Authorized: 10,000,000 shares		
Issued and outstanding: 1,219,031 and 1,219,031 shares, respectively	12	12
Additional paid-in capital	184,401	181,084
Unearned compensation		(110)
Retained earnings	156,219	166,969
Accumulated other comprehensive income	2,421	1,645
<b>Total shareholders' equity</b>	<b>343,239</b>	<b>349,786</b>

Total liabilities and shareholders' equity	\$ 1,090,666	895,673
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See accompanying notes to consolidated financial statements

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**Levitt Corporation**  
**Consolidated Statements of Operations**  
**For each of the years in the three year period ended December 31, 2006**  
**(In thousands, except per share data)**

	2006	2005	2004
<b>Revenues:</b>			
Sales of real estate	\$ 566,086	558,112	549,652
Other revenues	9,241	6,772	6,184
Total revenues	575,327	564,884	555,836
<b>Costs and expenses:</b>			
Cost of sales of real estate	482,961	408,082	406,274
Selling, general and administrative expenses	121,151	87,639	71,001
Other expenses	3,677	4,855	7,600
Total costs and expenses	607,789	500,576	484,875
Earnings from Bluegreen Corporation	9,684	12,714	13,068
(Loss) earnings from real estate joint ventures	(416)	69	6,050
Interest and other income	8,260	10,256	3,233
(Loss) income before income taxes	(14,934)	87,347	93,312
Benefit (provision) for income taxes	5,770	(32,436)	(35,897)
<b>Net (loss) income</b>	<b>\$ (9,164)</b>	<b>54,911</b>	<b>57,415</b>
<b>(Loss) earnings per common share:</b>			
Basic	\$ (0.46)	2.77	3.10
Diluted	\$ (0.47)	2.74	3.04
<b>Weighted average common shares outstanding:</b>			
Basic	19,823	19,817	18,518
Diluted	19,823	19,929	18,600
<b>Dividends declared per common share:</b>			
Class A common stock	\$ 0.08	0.08	0.04
Class B common stock	\$ 0.08	0.08	0.04

See accompanying notes to consolidated financial statements



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**Levitt Corporation**  
**Consolidated Statements of Comprehensive (Loss) Income**  
**For each of the years in the three year period ended December 31, 2006**  
**(In thousands)**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Net (loss) income	\$ (9,164)	54,911	57,415
Other comprehensive income:			
Pro-rata share of unrealized gain (loss) recognized by Bluegreen Corporation on retained interests in notes receivable sold	1,263	2,420	(441)
(Provision) benefit for income taxes	(487)	(933)	170
Pro-rata share of unrealized gain (loss) recognized by Bluegreen Corporation on retained interests in notes receivable sold (net of tax)	776	1,487	(271)
Comprehensive (loss) income	\$ (8,388)	56,398	57,144

See accompanying notes to consolidated financial statements.

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**Levitt Corporation**  
**Consolidated Statements of Shareholders' Equity**  
**For each of the years in the three year period ended December 31, 2006**  
**(In thousands)**

Shares of Common Stock Outstanding		Class A Common Stock	Class B Common Stock	Class Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Compre- hensive Income (loss)	Total
Class A	Class B							