LEVITT CORP
Form 10-K
March 16, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, DC 20549**
**FORM 10-K**

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

o **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** | **11-3675068** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **2200 West Cypress Creek Road Ft. Lauderdale, Florida** | **33309** |
| (Address of principal executive offices) | (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** | **New York Stock Exchange** |
|---|---|
| (Title of Each Class) | (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 o No þ

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 o No þ

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 þ No o

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. þ

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 o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

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 March 13, 2007 is as follows:

| Class of Common Stock | Shares Outstanding |
|---|---|
| Class A common stock, $0.01 par value | 18,609,024 |
| Class B common stock, $0.01 par value | 1,219,031 |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement of the Registrant relating to the Annual Meeting of Shareholders are incorporated as Part III of this report. The 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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## 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 lar 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 this Form 10-K, 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 conducted through our Homebuilding and Land Divisions. Our Homebuilding Division consists of the operations of Levitt and Sons, LLC ( Levitt and Sons ), our wholly-owned homebuilding subsidiary, which primarily develops 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 geography and is between $110,000 and $650,000. For 2006, the average closing price of the homes we delivered was $302,000. Our Land Division consists of the operations of Core Communities, LLC ( Core Communities ), our wholly-owned master-planned community development subsidiary. In our master-planned communities, we generate 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. We also sell land to our Homebuilding Division, 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 interests in drive-to vacation resorts as well as residential home sites around golf courses or other amenities.

Levitt and Sons is primarily a real estate developer of single and multi-family home and

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townhome communities specializing in both active adult and family communities in Florida, Georgia, South Carolina and Tennessee. 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. Levitt and Sons includes the operations of Bowden Building Corporation, a builder of single family homes based in Tennessee, which was acquired in April 2004. In the second quarter of 2006 we conducted an impairment review due to profitability and cash flows in Tennessee declining to a point where the carrying value of the assets exceeded their market 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 due to the carrying value of the assets exceeding their current market value.

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. 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 $34.3 million of homebuilding inventory impairments 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.

*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, excluding our Tennessee 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 the Homebuilding Division s 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, our Homebuilding Division will have an opportunity to develop them. Our strategy is to review whether the allocation of the land to our Homebuilding Division maximizes both the community as a whole and our overall business goals. In December 2006 the Homebuilding Division 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 the Homebuilding Division, 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 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 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 three segments: Homebuilding Division, 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 Note 21 to our audited consolidated financial statements for discussion of trends, results of operations and further discussion on each segment.

**Homebuilding Division**

Our Homebuilding Division develops planned communities featuring homes with base prices generally ranging between $110,000 to $650,000. Our average contract price for new home orders in 2006, which includes the base price and buyer selected options and upgrades, was approximately $342,000. Our communities are designed to serve both active adult homeowners, aged 55 and older, and families. 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 |
|---|---|---|---|---|---|---|
| **Active Adult Communities** | | | | | | |
| 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 |
| **Total Active Adult** | **16** | **11,319** | **3,262** | **8,057** | **767** | **7,290** |
| **Family Communities** | | | | | | |
| Current Developments (includes optioned lots) | 33 | 7,271 | 3,200 | 4,071 | 481 | 3,590 |
| Properties Under Contract to be Acquired (b) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Family** | **33** | **7,271** | **3,200** | **4,071** | **481** | **3,590** |
| **TOTAL HOMEBUILDING** | | | | | | |
| Current Developments (includes optioned lots) | 48 | 17,900 | 6,462 | 11,438 | 1,248 | 10,190 |
| Properties Under Contract to be Acquired (b) | 1 | 690 | 0 | 690 | 0 | 690 |
| **TOTAL HOMEBUILDING** | **49** | **18,590** | **6,462** | **12,128** | **1,248** | **10,880** |

(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 properties under contract listed above represent properties for which due diligence have been completed as of December 31, 2006 which our Homebuilding Division has the right to acquire 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 properties under contract with third parties, 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 evaluating this obligation and intend to acquire the land associated with this purchase obligation.

At December 31, 2006, our homebuilding backlog was 1,248 units, or $438.2 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. 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.

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

| | Date Acquired | Acres Acquired | Closed Acres | Current Inventory | Non-Saleable Acres (a) | Saleable Acres (a) | Third party Backlog (b) | Acres Available |
|---|---|---|---|---|---|---|---|---|
| **Currently in Development** | | | | | | | | |
| 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 |
| **Total Currently in Development** | | **13,636** | **1,917** | **11,719** | **4,848** | **6,871** | **74** | **6,797** |

(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.

*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 its Homebuilding senior management 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.



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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 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**

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 |
|---|---|---|
| Homebuilding | 544 | 25 |
| 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. 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 Annual Report on Form 10-K.

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.

## ITEM 1A. RISK FACTORS

*RISKS RELATING TO OUR BUSINESS AND THE REAL ESTATE BUSINESS GENERALLY*

**We engage in real estate activities which are speculative and involve a high degree of risk**

The real estate industry is highly cyclical by nature, the current market is experiencing a significant decline and future market conditions are uncertain. Factors which adversely affect the real estate and homebuilding industries, many of which are beyond our control, include:

- overbuilding or decreases in demand;
- inventory build-up due to buyers contract cancellations;
- the availability and cost of financing;
- unfavorable interest rates and increases in inflation;
- changes in the general availability of land and competition for available land;
- construction defects and warranty claims arising in the ordinary course of business or otherwise, including mold related property damage and bodily injury claims and homeowner and homeowners association lawsuits;
- changes in national, regional and local economic conditions;
- cost overruns, inclement weather, and labor and material shortages;

the impact of present or future environmental legislation, zoning laws and other regulations;

availability, delays and costs associated with obtaining permits, approvals or licenses necessary to develop property, and

increase in real estate taxes, insurance and other local government fees.

**We have experienced a decline in our homebuilding operations over the past year which has adversely affected our sales volume and pricing.**

In 2006, the homebuilding industry in our markets experienced a significant decline in demand for new homes. The trends in the homebuilding industry continue to be unfavorable. Demand has slowed as evidenced by fewer new orders and lower conversion rates in the markets in which we operate. These conditions have been particularly difficult in Florida, which is the market in which we have the strongest presence. Spec inventories have increased as a result of higher cancellation rates on pending contracts as new homeowners sometimes find it more advantageous to forfeit a deposit than to close on the purchase of the home. The combination of the lower demand and higher inventories affects both the number of homes we can sell and the prices at which we can sell them. We cannot predict how long demand and other factors in the homebuilding market will remain unfavorable, how active the market will be during the coming periods and if sales volume and pricing will return to past levels or levels that will enable us to operate more profitably.

**Our industry is highly competitive**

The homebuilding industry is highly competitive. We compete in each of our markets with numerous national, regional and local homebuilders. This competition with other homebuilders could reduce the number of homes we deliver or cause us to accept reduced margins in order to maintain sales volume.

We also compete with the resale of existing homes, including foreclosed home sales by lenders, sales by housing speculators and available rental housing. As demand for homes has slowed, the number of completed unsold homes has increased as well as the supply of existing homes. Competition with existing inventory, including homes purchased for speculation, has resulted in increased pressure on the prices at which we are able to sell homes, as well as upon the number of homes we can sell.

**Continued decline in land values could result in further impairment write-offs.**

Some of the land we currently own was purchased at prices that reflected the historic high demand cycle in the homebuilding industry. The recent slowdown in the homebuilding industry in our markets resulted in $36.8 million of homebuilding inventory impairments for the year ended December 31, 2006. If market conditions continue to deteriorate, the fair value of some of these assets or additional assets may decrease and be subject to future impairment write-offs and adversely affect our financial condition and operating results. Further, impairment write-offs could also result in the acceleration of debt which is secured by impaired assets. In order to remain competitive, we are aggressively offering sales incentives which will negatively impact our margins and may impact our backlog.

**Because real estate investments are illiquid, a decline in the real estate market or in the economy in general could adversely impact our business and our cash flow.**

Real estate investments are generally illiquid. Companies that invest in real estate have a limited ability to vary their portfolio of real estate investments in response to changes in economic and other conditions. In addition, the market value of any or all of our properties or investments may decrease in the future. Moreover, we may not be able to timely dispose of an investment when we find dispositions advantageous or necessary, or complete the disposition of properties under contract to be sold, and any such dispositions may not provide proceeds in excess of the amount of our investment in the property or even in excess of the amount of any indebtedness secured by the property. As part of our strategy for future growth, we significantly increased our land inventory during 2006, with our inventory of real estate increasing from $611.3 million at December 31, 2005 to $822.0 million at December 31, 2006. This substantial increase in our land holdings and concentration in Florida subjects us to a greater risk from declines in real estate values in our markets. Further, these newly acquired properties were purchased at a time when competition for land was very high, and accordingly these properties may be more susceptible to impairment write downs in the current real estate environment. Declines in real estate values or in the economy generally could have a material adverse impact on our financial condition and results of operations.

**Shortages of supplies and labor could increase costs and delay deliveries, which may adversely affect our operating results**

Our ability to develop our projects may be affected by circumstances beyond our control, including:

- shortages or increases in prices of construction materials;
- natural disasters in the areas in which we operate;
- work stoppages, labor disputes and shortages of qualified trades people, such as carpenters, roofers, electricians and plumbers;
- lack of availability of adequate utility infrastructure and services; and
- our need to rely on local subcontractors who may not be adequately capitalized or insured.

Any of these circumstances could give rise to delays in the start or completion of, or increase the cost of, developing one or more of our projects or individual homes. We compete with other real estate developers, both regionally and nationally, for labor as well as raw materials, and the competition for materials has recently become global. Increased costs or shortages of lumber, drywall, steel, concrete, roofing materials, pipe and asphalt could cause increases in construction costs and construction delays.

Historically, we have sought to manage our costs, in part, by entering into short-term, fixed-price materials contracts with selected subcontractors and material suppliers. We may be unable to achieve cost containment in the future by using fixed-price contracts. Without corresponding increases in the sales prices of our real estate inventories (both land and finished homes), increasing materials costs associated with land development and home building could negatively affect our margins. We may not be able to recover these increased costs by raising our home prices because, typically, the price for each home is set in a home sale contract with the customer months prior to delivery. If we are unable to increase our prices for new homes to offset these increased costs, our operating results could be adversely affected.

**Natural disasters could have an adverse effect on our real estate operations**

We currently develop and sell a significant portion of our properties in Florida. The Florida markets in which we operate are subject to the risks of natural disasters such as hurricanes and tropical storms. These natural disasters could have a material adverse effect on our business by causing the incurrence of uninsured losses, increased homebuyer insurance rates, delays in construction, and shortages and increased costs of labor and building materials. In 2005 three named storms made landfall in the State of Florida causing little damage to our communities. In addition, during the 2004 hurricane season, five named storms made landfall in the State causing property damage in several of our communities; however, our losses were primarily related to landscaping and claims based on water intrusion associated with the hurricanes, and we have attempted to address those issues. In May 2005, a purported class action was brought on behalf of owners of homes in a particular Central Florida Levitt and Sons subdivision alleging construction defects and damage suffered during certain of the hurricanes in 2004.

In addition to property damage, hurricanes may cause disruptions to our business operations. New homebuyers cannot obtain insurance until after named storms have passed, creating delays in new home deliveries. Approaching storms require that sales, development and construction operations be suspended in favor of storm preparation activities such as securing construction materials and equipment. After a storm has passed, construction-related resources such as sub-contracted labor and building materials are likely to be redeployed to hurricane recovery efforts around the state. Governmental permitting and inspection activities may similarly be focused primarily on returning displaced residents to homes damaged by the storms rather than on new construction activity. Depending on the severity of the damage caused by the storms, disruptions such as these could last for several months.

**Our ability to sell lots and homes, and, accordingly, our operating results, will be affected by the availability of financing to potential purchasers**

Most purchasers of real estate finance their acquisitions through third-party mortgage financing. Residential real estate demand is generally adversely affected by:

- increases in interest rates,
- decreases in the availability of mortgage financing,
- increasing housing costs,
- unemployment, and
- changes in federally sponsored financing programs.

Increases in interest rates or decreases in the availability of mortgage financing could depress the market for new homes because of the increased monthly mortgage costs or the unavailability of financing to potential homebuyers. Even if potential customers do not need financing, increases in interest rates and decreased mortgage availability could make it harder for them to sell their homes. Recently, increases in rates on certain adjustable rate mortgage products and a trend of increasing defaults by borrowers generally, including under subprime, certain interest only and negative amortization mortgage loans could lead to a reduction in the availability of mortgage financing. If demand for housing declines, land may remain in our inventory longer and our corresponding borrowing costs would increase. This would adversely affect our operating results and financial condition.

**Our ability to successfully develop communities could affect our financial condition**

It may take several years for a community development to achieve positive cash flow. Before a community development generates any revenues, material expenditures are required to acquire land, to obtain development approvals and to construct significant portions of project infrastructure, amenities, model homes and sales facilities. If we are unable to develop and market our communities successfully and to generate positive cash flows from these operations in a timely manner, it will have a material adverse effect on our ability to meet our working capital requirements.

**A portion of our revenues from land sales in our master planned communities are recognized for accounting purposes under the percentage of completion method, therefore if our actual results differ from our assumptions our profitability may be reduced.**

Under the percentage of completion method for recognizing revenue, we record revenue as work on the project progresses. This method relies on estimates of total expected project costs. Revenue and cost estimates are reviewed and revised periodically as the work progresses. Adjustments are reflected in contract revenue in the period when such estimates are revised. Variation of actual results and our estimates in these large master planned communities could be material.

**Product liability litigation and claims that arise in the ordinary course of business may be costly which could adversely affect our business**

Our homebuilding and commercial development business is subject to construction defect and product liability claims arising in the ordinary course of business. These claims are common in the homebuilding and commercial real estate industries and can be costly. We have, and many of our subcontractors have, general liability, property, errors and omissions, workers compensation and other business insurance. However, these insurance policies only protect us against a portion of our risk of loss from claims. In addition, because of the uncertainties inherent in these matters, we cannot provide reasonable assurance that our insurance coverage or our subcontractor arrangements will be adequate to address all warranty, construction defect and liability claims in the future. In addition, the costs of insuring against construction defect and product liability claims, if applicable, are high and the amount of coverage offered by insurance companies is also currently limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims, we may experience losses that could negatively impact our operating results. We are currently a defendant in a purported class action lawsuit alleging construction defects and seeking damages.

While we are vigorously defending this action, we will be required to incur legal fees and there is no assurance that we will be successful in litigation.

Further, as a community developer, we may be expected by community residents from time to time to resolve any real or perceived issues or disputes that may arise in connection with the operation or development of our communities. Any efforts made by us in resolving these issues or disputes may not satisfy the affected residents and any subsequent action by these residents could negatively impact sales and results of operations. In addition, we could be required to make material expenditures related to the settlement of such issues or disputes or to modify our community development plans.

**We are subject to governmental regulations that may limit our operations, increase our expenses or subject us to liability**

We are subject to laws, ordinances and regulations of various federal, state and local governmental entities and agencies concerning, among other things:

- environmental matters, including the presence of hazardous or toxic substances,
- wetland preservation,
- health and safety,
- zoning, land use and other entitlements,
- building design, and
- density levels.

In developing a project and building homes or commercial properties, we may be required to obtain the approval of numerous governmental authorities regulating matters such as:

- installation of utility services such as gas, electric, water and waste disposal,
- the dedication of acreage for open space, parks and schools,
- permitted land uses, and
- the construction design, methods and materials used.

These laws or regulations could, among other things:

- establish building moratoriums,
- limit the number of homes, or commercial properties that may be built,
- change building codes and construction requirements affecting property under construction,
- increase the cost of development and construction, and
- delay development and construction.

We may also at times not be in compliance with all regulatory requirements. If we are not in compliance with regulatory requirements, we may be subject to penalties or we may be forced to incur significant expenses to cure any noncompliance. In addition, some of our land and some of the land that we may acquire have not yet received planning approvals or entitlements necessary for planned or future development. Failure to obtain entitlements necessary for further development of this land on a timely basis or to the extent desired may adversely affect our future results and prospects.

Several governmental authorities have also imposed impact fees as a means of defraying the cost of providing governmental services to developing areas, and many of these fees have increased significantly during recent years.

**Building moratoriums and changes in governmental regulations may subject us to delays or increased costs of construction or prohibit development of our properties**

We may be subject to delays or may be precluded from developing in certain communities because of building moratoriums or changes in statutes or rules that could be imposed in the future. The

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State of Florida and various counties have in the past and may in the future continue to declare moratoriums on the issuance of building permits and impose restrictions in areas where the infrastructure, such as roads, schools, parks, water and sewage treatment facilities and other public facilities, does not reach minimum standards. Additionally, certain counties in Florida, including counties where we are developing projects, have enacted more stringent building codes which have resulted in increased costs of construction. As a consequence, we may incur significant expenses in connection with complying with new regulatory requirements that we may not be able to pass on to buyers.

**We are subject to environmental laws and the cost of compliance could adversely affect our business**

As a current or previous owner or operator of real property, we may be liable under federal, state, and local environmental laws, ordinances and regulations for the costs of removal or remediation of hazardous or toxic substances on, under or in the property. These laws often impose liability whether or not we knew of, or were responsible for, the presence of such hazardous or toxic substances. The cost of investigating, remediating or removing such hazardous or toxic substances may be substantial. The presence of any such substance, or the failure promptly to remediate any such substance, may adversely affect our ability to sell or lease the property, to use the property for our intended purpose, or to borrow using the property as collateral.

**Increased insurance risk could negatively affect our business**

Insurance and surety companies may take actions that could negatively affect our business, including increasing insurance premiums, requiring higher self-insured retentions and deductibles, requiring additional collateral or covenants on surety bonds, reducing limits, restricting coverages, imposing exclusions, and refusing to underwrite certain risks and classes of business. Any of these actions may adversely affect our ability to obtain appropriate insurance coverage at reasonable costs which could have a material adverse effect on our business.

**We utilize community development districts to fund development costs**

We establish community development districts to access tax-exempt bond financing to fund infrastructure and other projects at our master-planned communities. We are responsible for any assessed amounts until the underlying property is sold. We will continue to be responsible for the annual assessments if the property is never sold.

***RISKS RELATING TO OUR COMPANY***

**Our indebtedness and leverage could adversely affect our financial condition, restrict our ability to operate and prevent us from fulfilling our obligations**

We have a significant amount of debt. At December 31, 2006, our consolidated debt was approximately $615.7 million. Our debt could:

- require us to dedicate a substantial portion of our cash flow from operations to payment of or on our debt and reduce our ability to use our cash flow for other purposes,
- be accelerated if we do not meet required covenants or the collateral securing the indebtedness decreases in value,
- make us more vulnerable in the event of a downturn in our business or in general economic conditions.
- impact our flexibility in planning for, or reacting to, the changes in our business,
- limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements or other requirements, and
- place us at a competitive disadvantage if we have more debt than our competitors.

Our ability to meet our debt service and other obligations, to refinance our indebtedness or to fund

planned capital expenditures will depend upon our future performance. We are engaged in businesses that are substantially affected by changes in economic cycles. Our revenues and earnings vary with the level of general economic activity in the markets we serve. The factors that affect our ability to generate cash can also affect our ability to raise additional funds for these purposes through the sale of equity securities, the refinancing of debt, or the sale of assets. Changes in prevailing interest rates may affect our ability to meet our debt service obligations, because borrowings under a significant portion of our debt instruments bear interest at floating rates.

Our anticipated minimum debt payment obligations in 2007 total approximately $46.0 million, which does not include repayments of specified amounts upon a sale of portions of the property securing the debt or any amounts that could be accelerated in the event that property serving as collateral becomes impaired. Our business may not generate sufficient cash flow from operations, and future borrowings may not be available under our existing credit facilities or any other financing sources in an amount sufficient to enable us to service our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity, which we may not be able to do on favorable terms or at all.

Our outstanding debt instruments and bank credit facilities impose restrictions on our operations and activities. The most significant restrictions relate to debt incurrence, lien incurrence, sales of assets and cash distributions by us and require us to comply with certain financial covenants. If we fail to comply with any of these restrictions or covenants, the holders of the applicable debt could cause our debt to become due and payable prior to maturity. In addition, some of our debt instruments contain cross-default provisions, which could cause a default in a number of debt instruments if we default on only one debt instrument.

**Our current land development plans may require additional capital, which may not be available**

We anticipate that we will need to obtain additional financing as we fund our current land development projects. These funds may be obtained through public or private debt or equity financings, additional bank borrowings or from strategic alliances. We may not be successful in obtaining additional funds in a timely manner, on favorable terms or at all. Moreover, certain of our bank financing agreements contain provisions that limit the type and amount of debt we may incur in the future without our lenders consent. In addition, the availability of borrowed funds, especially for land acquisition and construction financing, may be greatly reduced, and lenders may require increased amounts of equity to be invested in a project by borrowers in connection with both new loans and the extension of existing loans. If we do not have access to additional capital, we may be required to delay, scale back or abandon some or all of our land development activities or reduce capital expenditures and the size of our operations.

**Our results may vary**

We historically have experienced, and expect to continue to experience, variability in operating results on a quarterly basis and from year to year. Factors expected to contribute to this variability include:

- the cyclical nature of the real estate and construction industries,
- prevailing interest rates and the availability of mortgage financing,
- the uncertain timing of closings,
- weather and the cost and availability of materials and labor,
- competitive conditions, and
- the timing of receipt of regulatory and other governmental approvals for construction of projects.

The volume of sales contracts and closings typically varies from quarter to quarter depending on the stages of development of our projects. In the early stages of a project s development (two to three years depending on the project), we incur significant start-up costs associated with, among other things, project design, land acquisition and development, construction and marketing expenses. Since revenues from sales of properties are generally recognized only upon the transfer of title at the closing of a sale, no revenue is

recognized during the early stages of a project unless land parcels or residential homesites are sold to other developers. Our costs and expenses were approximately $607.8 million, $500.6 million and $484.9 million during the years ended December 31, 2006, 2005 and 2004, respectively. Periodic sales of properties may be insufficient to fund operating expenses and the current trends we are experiencing with respect to new sales and cancellations in our homebuilding operations makes it likely that our level of sales over the next 12 months will be significantly below past levels. Further, if sales and other revenues are not adequate to cover costs and expenses, we will be required to seek a source of additional operating funds. Accordingly, our financial results will vary from community to community and from time to time.

**We may not successfully integrate acquired businesses into ours**

As part of our business strategy, we have in the past and expect to continue to evaluate acquisition prospects that would complement our existing business, or that might otherwise offer growth opportunities. Acquisitions entail numerous risks, including:

- difficulties in assimilating acquired management and operations,
- risks associated with achieving profitability,
- the incurrence of significant due diligence expenses relating to acquisitions that are not completed,
- unforeseen expenses,
- integrating information technologies,
- risks associated with entering new markets in which we have no or limited prior experience,
- the potential loss of key employees of acquired organizations, and
- risks associated with transferred assets and liabilities.

We may not be able to acquire or profitably manage additional businesses, or to integrate successfully any acquired businesses, properties or personnel into our business, without substantial costs, delays or other operational or financial difficulties. Our failure to do so could have a material adverse effect on our business, financial condition and results of operations. If we are unable to successfully realize the anticipated benefits of an acquisition, we may be required to incur an impairment charge with respect to any goodwill recognized in the acquisition. For the year ended December 31, 2006, $1.3 million of goodwill recorded in connection with the Bowden acquisition consummated in 2004 was fully written off. In addition, we may incur debt or contingent liabilities in connection with future acquisitions, which could materially adversely affect our operating results.

**Our controlling shareholders have the voting power to control the outcome of any shareholder vote, except in limited circumstances**

As of December 31, 2006, BFC Financial Corporation owned 1,219,031 shares of our Class B common stock, which represented all of our issued and outstanding Class B common stock, and 2,074,240 shares, or approximately 11% of our issued and outstanding Class A common stock. In the aggregate these shares represent approximately 53% of our total voting power and approximately 17% of our total equity. Since the Class A common stock and Class B common stock vote as a single group on most matters, BFC Financial Corporation is in a position to control our company and elect a majority of our Board of Directors. Additionally, Alan B. Levan, our Chairman and Chief Executive Officer, and John E. Abdo, our Vice Chairman, beneficially own approximately 35.1% and 17.6% of the shares of BFC Financial Corporation, respectively. As a consequence, Alan B. Levan and John E. Abdo effectively have the voting power to control the outcome of any shareholder vote of Levitt Corporation, except in those limited circumstances where Florida law mandates that the holders of our Class A common stock vote as a separate class. BFC Financial Corporation s interests may conflict with the interests of our other shareholders. On January 31, 2007, we announced that we had entered into a definitive merger agreement whereby we will become a wholly-owned subsidiary of BFC. See Business-Recent Developments-BFC Merger.

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***RISKS ASSOCIATED WITH OUR OWNERSHIP STAKE IN BLUEGREEN CORPORATION***

We own approximately 31% of the outstanding common stock of Bluegreen Corporation, a publicly-traded corporation whose common stock is listed on the New York Stock Exchange under the symbol BXG . Although traded on the New York Stock Exchange, our shares may be deemed restricted stock, which would limit our ability to liquidate our investment if we chose to do so. While we have made a significant investment in Bluegreen Corporation, we do not expect to receive any dividends from the company for the foreseeable future.

For the year ended December 31, 2006, our earnings from our investment in Bluegreen were $9.7 million, decreasing from $12.7 million in 2005, and from $13.1 million in 2004. At December 31, 2006, the book value of our investment in Bluegreen was $107.1 million. Accordingly, a significant portion of our earnings and book value are dependent upon Bluegreen s ability to continue to generate earnings and maintain its market value. Further, declines in the market value of Bluegreen s shares or other events that could impair the value of our holdings would have an adverse impact on the value of our investment. We annually review the investment in Bluegreen for impairment. We refer you to the public reports filed by Bluegreen with the Securities and Exchange Commission for information regarding Bluegreen.

**ITEM 1.B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our principal and executive offices are located at our Corporate Headquarters at 2200 West Cypress Creek Road, Fort Lauderdale, Florida 33309. Our subsidiaries occupy premises in various locations in Florida, Georgia, South Carolina and Tennessee under leases that expire at various dates through 2010. In addition to our properties used for offices, we additionally own commercial space in Florida that is leased to third parties. We believe that our existing facilities are adequate for our current and planned levels of operation. Because of the nature of our real estate operations, significant amounts of property are held as inventory and property and equipment in the ordinary course of our business.

**ITEM 3. LEGAL PROCEEDINGS**

On May 26, 2005, a suit was filed in the 9th Judicial Circuit in and for Orange County, Florida against the Company in Frank Albert, Dorothy Albert, et al. v. Levitt and Sons, LLC, a Florida limited liability company, Levitt Homes, LLC, a Florida limited liability company, Levitt Corporation, a Florida corporation, Levitt Construction Corp. East, a Florida corporation and Levitt and Sons, Inc., a Florida corporation. The suit purports to be a class action on behalf of residents in one of the Company s communities in Central Florida. The complaint alleges, among other claims, construction defects and unspecified damages ranging from $50,000 to $400,000 per house. While there is no assurance that the Company will be successful, the Company believes it has valid defenses and is engaged in a vigorous defense of the action. The amount of loss related to this matter is estimated to be $320,000 which is recorded in the consolidated balance sheet as of December 31, 2006 as an accrued expense.

On December 12, 2006 Levitt Corporation received a letter from the Internal Revenue Service advising that Levitt and its subsidiaries has been selected for an examination of the tax period ending December 31, 2004. The scope of the examination was not indicated in the letter.

We are party to additional various claims and lawsuits which arise in the ordinary course of business. Although the specific allegations in the lawsuits differ, most of them involve claims that we failed to construct buildings in particular communities in accordance with plans and specifications or applicable construction codes and seek reimbursement for sums allegedly needed to remedy the alleged deficiencies, assert contract issues or relate to personal injuries. Lawsuits of these types are common within the homebuilding industry. We do not believe that the ultimate resolution of these claims or lawsuits will have

a material adverse effect on our business, financial position, results of operations or cash flows.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None submitted

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## PART II

## ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

*Market Information*

Our Class A common stock is listed on the New York Stock Exchange under the symbol LEV. BFC Financial Corporation ( BFC ) is the sole holder of the Company s Class B common stock and there is no trading market for the Company s Class B common stock. The Class B common stock may only be owned by BFC Financial Corporation or its affiliates and is convertible into Class A common stock at the discretion of the holder on a one-for-one basis.

The quarterly high and low sale prices of our Class A common stock on the New York Stock Exchange ( NYSE ) for the years ended December 31, 2006 and 2005 are presented in the following table. Our Class A common stock commenced two-way trading on the NYSE on January 2, 2004.

| | 2005 | | 2006 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| First Quarter | $33.85 | $24.67 | $25.50 | $20.10 |
| Second Quarter | $30.66 | $24.60 | $22.33 | $14.15 |
| Third Quarter | $33.20 | $22.00 | $16.10 | $ 9.22 |
| Fourth Quarter | $23.69 | $18.86 | $13.70 | $11.54 |

The stock prices do not include retail mark-ups, mark-downs or commissions. On March 6, 2007, the closing sale price of our Class A common stock as reported on the NYSE was $12.05 per share.

*Shareholder Return Performance Graph*

Set forth below is a graph comparing the cumulative total returns (assuming reinvestment of dividends) for the Class A Stock, the Dow Jones U.S. Total Home Construction Index and the Russell 2000 Index and assumes $100 is invested on January 2, 2004.

| | **Symbol** | **1/2/2004** | **12/31/2004** | **12/31/2005** | **12/31/2006** |
|---|---|---|---|---|---|
| Levitt Corporation | LEV | 100.00 | 151.71 | 112.85 | 60.74 |
| Dow Jones US Total Home Construction Index | DJUSHB | 100.00 | 140.43 | 161.22 | 127.99 |
| Russell 2000 Index | RTY | 100.00 | 116.18 | 120.04 | 140.44 |

*Holders*

On March 13, 2007, there were approximately 732 record holders and 18,609,024 shares of the Class A common stock issued and outstanding. Our controlling shareholder, BFC Financial Corporation, holds all of the 1,219,031 shares of our Class B common stock outstanding.

**Comparison of Three Year Cumulative Total Return**

*NYSE Certification*

On May 31, 2006, the Company submitted its Annual Section 303A.12(b) Certification to the NYSE. Pursuant to this filing, the Chief Executive Officer provided an unqualified certification that, as of the date of the certification, he was not aware of any violation by the Company of the Corporate Governance Listing Standards of the NYSE.

*Dividends*

On each of January 24, 2005, April 25, 2005, July 25, 2005, and November 7, 2005 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 2005, May 2005, August 2005, and November 2005, respectively. 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 assure you that we will declare additional cash dividends in the future.

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## 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.

| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (Dollars in thousands, except per share, and unit data) | | | | |
| **Consolidated Operations:** | | | | | |
| 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 | | |
| **Key Performance Ratios:** | | | | | |
| 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% |
| **Consolidated Balance Sheet Data:** | | | | | |
| 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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| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| | (Dollars in thousands, except per share, and unit data) | | | | |
| **Homebuilding Division (g):** | | | | | |
| Revenues from sales of real estate | $ 500,719 | 438,367 | 472,296 | 222,257 | 162,359 |
| Cost of sales of real estate (a) | 440,059 | 347,008 | 371,097 | 173,072 | 131,281 |
| Margin (a) | $ 60,660 | 91,359 | 101,199 | 49,185 | 31,078 |
| Margin percentage (c) | 12.1% | 20.8% | 21.4% | 22.1% | 19.1% |
| Construction starts | 1,682 | 1,662 | 2,294 | 1,593 | 796 |
| Homes delivered | 1,660 | 1,789 | 2,126 | 1,011 | 740 |
| Average selling price of homes delivered | $ 302,000 | 245,000 | 222,000 | 220,000 | 219,000 |
| Net orders (units) | 1,116 | 1,767 | 1,679 | 2,240 | 980 |
| Net orders (value) | $ 381,993 | 547,045 | 427,916 | 513,436 | 204,730 |
| Backlog of homes (units) | 1,248 | 1,792 | 1,814 | 2,053 | 824 |
| Backlog of homes (sales value) | $ 438,240 | 557,325 | 448,647 | 458,771 | 167,526 |
| **Land Division (h):** | | | | | |
| 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 |
| Acres subject to sales contracts Third parties | 74 | 246 | 1,833 | 1,433 | 1,845 |
| 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 $36.8 million.

(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) Financial measures include land sales to Homebuilding Division, 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).

## 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 the Company 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 the Homebuilding Division.

**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 in the normal course of business is expected to extend over a number of years.

Land and indirect land development costs are accumulated by specific area and allocated to various parcels or housing units using either specific identification or apportioned based upon the relative sales value, unit or area methods. Direct construction costs are assigned to housing units based on specific identification. Construction costs primarily include direct construction costs and capitalized field overhead. Other costs are comprised of tangible selling costs, prepaid local government fees and capitalized real

estate taxes. Tangible selling costs are capitalized by communities 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 cost of sales of the benefited home sales. Start-up costs and other selling costs are expensed as incurred.

The expected future costs of development are analyzed at least annually to determine the appropriate allocation factors to charge to the remaining inventory as cost of sales when such inventory is sold. During the long term project development cycles in our Land Division, such development costs are subject to more relative volatility than similar costs in homebuilding. Costs 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). In analyzing potential impairment, we use projections of future undiscounted cash flows from the inventory. These projections are based on our views of future sales prices, cost of sales levels and absorption rates. We believe that our estimates are consistent with assumptions that marketplace participants would use in their estimates of fair value. Due to changes in economic and market conditions, and assumptions and estimates required of management in valuing inventory during these changing market conditions, all of which are subjective and involve significant estimates, actual results could differ materially from management s assumptions and estimates and may require material inventory impairment charges to be recorded in the future.

During the year ended December 31, 2006, we recorded $36.8 million of impairment charges which included $34.3 million of homebuilding inventory impairments 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. Projections of future cash flows were discounted and used to determine the estimated impairment charges. These adjustments were calculated based on current market conditions and assumptions made by management, which may differ materially from actual results if our assumptions prove not to be accurate or if market conditions change.

*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 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.

*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 operations acquired in connection with our acquisition of Bowden Building Corporation in 2004. The profitability and estimated cash flows of this reporting entity were determined to have declined to a point where the carrying value of the assets exceeded their market value. We used a discounted cash flow methodology to determine the amount of impairment resulting in completely writing off 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.

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**Consolidated Results of Operations**

| | Year Ended December 31, | | | 2006 vs. 2005 Change | 2005 vs. 2004 Change |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | | |
| | (In thousands, except per share data) | | | | |
| **Revenues** | | | | | |
| 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 |
| **Costs and expenses** | | | | | |
| 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 |
| **Net (loss) income** | $ (9,164) | 54,911 | 57,415 | (64,075) | (2,504) |