To: jeevacation@gmail.com[jeevacation@gmail.com]
Cc: Gerald Barton[redacted]
From: Joe Olree
Sent: Mon 4/5/2010 7:52:19 PM
Subject: Landmark Deferred Tax Benefit

Jeffrey,

Jerry asked that I send you the following information relative to Landmark's NOL and deferred tax assets.

Landmark Land Company, Inc. has approximately $49.9 million in net future tax benefits available from all its deferred tax positions at December 31, 2009. The benefit relates, primarily, to a net operating loss carryover from the 2002 federal tax return in which the company reported it's loss from the government's seizure of Oak Tree Savings Bank. That NOL, in the amount of $146.9 million, represents a deferred federal tax benefit of approximately $49.8 million that expires in 2022. Realization of the deferred tax benefit is dependent on the company's ability to generate taxable income in the future. Landmark may acquire profitable businesses, include their income in future consolidated returns and offset their taxable income with the NOL; however, if Landmark were acquired (a "change of control" under IRS regulations) future use of the NOL would be severely limited. A "change of control" occurs when one or more 5% owners increase their percentage of ownership in the corporation by more than 50% over their lowest pre-change ownership percentage (generally, within the three years prior to the ownership change.)

We have not filed our 2009 Form 10K yet, but following is an excerpt from the draft. Note 14 Income Taxes is expected to read as follows:

14. Income taxes

A reconciliation of the expense for income taxes calculated at statutory rates to the actual expense recognized in the Consolidated Financial Statements for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Federal income tax (benefit) computed at statutory rate	**$(2,001,149)**	$2,161,408
Increase (decrease) in income taxes:		
State income tax, current provision, net of federal benefit	**27,060**	768

State income tax, deferred provision (benefit)	**(117,000)**	130,000
Incentive stock options	**19,037**	8,535
Personal airplane usage	**10,341**	32,471
Non-deductible meals	**5,996**	9,724
Valuation allowance (decrease)	**2,095,000**	(2,073,000)
Other	**1,715**	(743)
Provision for income taxes	**$41,000**	$269,163

The company reported a loss before income taxes of $5.9 million for the year ended December 31, 2009 and a profit before income taxes of $6.4 million for the year ended December 31, 2008. Certain stock based compensation, airplane expenses, and meals which cannot be deducted for income tax purposes, (permanent differences in book and taxable income) and changes in the deferred tax valuation allowance during the year account for the differences in the actual provisions for each year and the amount of provision or benefit that would have been recognized at statutory rates. The various entities included in the company's Consolidated Financial Statements and consolidated federal income tax return are taxed separately in the various states in which they operate. The current provisions for state income taxes shown above represents the estimated state income tax payable on income reported in the various states each year, less the 34% federal tax benefit of deducting such taxes in the federal return. The deferred provisions or benefits for state income taxes are based on an estimated effective state tax rate of 2% on changes in temporary differences between book and tax income during each year. .

The company had no material unrecognized tax benefits at December 31, 2008 nor does it expect any significant change in that status during the next twelve months. No accrued interest or penalties on uncertain tax positions have been included on the Consolidated Statements of Operations or the Consolidated Balance Sheets. Should the company adopt tax positions for which it would be appropriate to accrue interest and penalties, such costs would be reflected in the tax expense for the period in which such costs accrued. The company is subject to U.S Federal income tax and to several state and foreign jurisdictions. Returns filed for tax periods ending after December 31, 2005 are still open to examination by those relevant taxing authorities.

The estimated net future benefit available to the company from all its deferred tax positions is approximately $49.9 million at December 31, 2009; however, realization of that benefit is dependent on the company's ability to generate taxable income in the future. In view of historical earnings, the company has established a valuation allowance against the asset in the approximate amount of $45.5 million, reducing the net benefit to $4.4 million included on the December 31, 2009 balance sheet.

The components of the deferred income tax asset at December 31, 2009 and 2008, are as follows:

	2009	2008

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Net operating loss carryforward	**$53,829,000**	$52,093,000
Basis difference in foreign operation, tax asset	**646,000**	450,000
Basis difference in miscellaneous South Padre assets	**96,000**	77,000
Basis difference in office building	**11,000**	11,000
Acquisition costs capitalized for tax	**43,000**	43,000
Management fees capitalized for tax	**8,000**	21,000
Warranty reserve	**27,000**	31,000
Accrued vacation	**109,000**	100,000
Depreciation, book greater than tax	**-**	-
Accrued interest	**232,000**	214,000
Allowance for uncollectible accounts	**16,000**	15,000
Directors' stock options	**60,000**	60,000
Gross deferred tax asset	**55,077,000**	53,115,000
Valuation allowance	**(45,471,000)**	(43,376,000)
Net deferred tax asset	**9,606,000**	9,739,000
Basis difference in foreign operation, tax liability	**(3,715,000)**	(3,968,000)
Basis difference in contract rights	**(836,000)**	(836,000)
Basis difference in other real estate assets	**(450,000)**	(450,000)
Depreciation, tax greater than book	**(180,000)**	(60,000)
Basis difference in South Padre golf improvements	**(25,000)**	(25,000)
Total net deferred tax asset	**4,400,000**	4,400,000
Less deferred tax asset, current	**-**	-
Deferred tax asset, non-current	**$4,400,000**	$4,400,000

At December 31, 2009, the company's net operating loss carryovers available to reduce future federal and state taxable income expires as follows:

Year Ending December 31,	Amount
2020	$11,945
2021	144,768
2022	146,961,277
2023	14,693
2024	511,239
2027	470,610
2028	4,727,493
2029	4,844,580
Total	$157,686,605

Future tax benefits from the net operating losses above may be subject to IRS limitation as to timing and amount, based on the amount and character of the loss carryovers, the expiration of the loss carryover periods, and the availability of carryover benefits as a result of ownership changes.

The company will continue to provide income taxes for undistributed earnings of its foreign equity investees that are not considered permanently reinvested in these operations.

Jeffrey, I claim no expertise in income taxes, but if you have questions, please call Bill Vaughan or me and we will try to get any additional information you need.

Joe Olree

Landmark Land Company, Inc.

[redacted]

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