

LEVITT CORP
Form 10-Q
May 10, 2006

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **MARCH 31, 2006**
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number: **001-31931**
LEVITT CORPORATION
(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of
incorporation or organization)

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

**2100 W. Cypress Creek Road,
Fort Lauderdale, FL**
(Address of principal executive offices)

33309
(Zip Code)

(954) 760-5200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 5, 2006
Class A common stock, \$0.01 par value	18,604,053 1,219,031
Class B common stock, \$0.01 par value	

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Levitt Corporation
Consolidated Statements of Financial Condition **Unaudited**
(In thousands, except share data)

Assets	March 31, 2006	December 31, 2005
Cash and cash equivalents	\$ 75,772	113,562
Restricted cash	1,157	1,818
Inventory of real estate	698,811	611,260
Investment in Bluegreen Corporation	95,948	95,828
Property and equipment, net	52,899	44,250
Other assets	27,980	28,955
Total assets	\$ 952,567	895,673
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 63,252	66,652
Customer deposits	57,081	51,686
Current income tax payable		12,551
Notes and mortgage notes payable	421,715	353,623
Notes and mortgage notes payable to affiliates		223
Junior subordinated debentures	54,124	54,124
Deferred tax liability, net	6,857	7,028
Total liabilities	603,029	545,887
Shareholders' equity:		
Preferred stock, \$0.01 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares		
Class A Common Stock, \$0.01 par value		
Authorized: 50,000,000 shares		
Issued and outstanding: 18,604,053 shares	186	186
Class B Common Stock, \$0.01 par value		
Authorized: 10,000,000 shares		
Issued and outstanding: 1,219,031 shares	12	12
Additional paid-in capital	181,620	181,084
Unearned compensation		(110)
Retained earnings	165,911	166,969

Accumulated other comprehensive income	1,809	1,645
Total shareholders' equity	349,538	349,786
Total liabilities and shareholders' equity	\$ 952,567	895,673

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statements of Operations Unaudited
(In thousands, except per share data)

	Three Months Ended	
	March 31,	
	2006	2005
Revenues:		
Sales of real estate	\$ 125,543	198,866
Title and mortgage operations	1,008	948
Total revenues	126,551	199,814
Costs and expenses:		
Cost of sales of real estate	102,055	130,589
Selling, general and administrative expenses	26,755	23,146
Other expenses	626	1,316
Total costs and expenses	129,436	155,051
(Loss) earnings from Bluegreen Corporation	(49)	2,138
Earnings from real estate joint ventures		90
Interest and other income	1,832	1,322
(Loss) income before income taxes	(1,102)	48,313
(Benefit) provision for income taxes	(442)	18,495
Net (loss) income	\$ (660)	29,818
(Loss) earnings per share:		
Basic	\$ (0.03)	1.50
Diluted	\$ (0.03)	1.49
Weighted average common shares outstanding:		
Basic	19,821	19,816
Diluted	19,821	19,965
Dividends declared per common share:		
Class A common stock	\$ 0.02	0.02
Class B common stock	\$ 0.02	0.02

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statements of Comprehensive Income Unaudited
(In thousands)

	Three Months Ended March 31,	
	2006	2005
Net (loss) income	\$ (660)	29,818
Other comprehensive income:		
Pro-rata share of unrealized gain recognized by Bluegreen Corporation on retained interests in notes receivable sold	267	142
Provision for income taxes	(103)	(55)
Pro-rata share of unrealized gain recognized by Bluegreen Corporation on retained interests in notes receivable sold (net of tax)	164	87
Comprehensive (loss) income	\$ (496)	29,905

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statement of Shareholders Equity Unaudited
Three Months Ended March 31, 2006
(In thousands)

	Class A Shares	Class B Shares	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Compre- hensive Income (Loss)	Total
Balance at December 31, 2005	18,604	1,219	\$ 186	12	181,084	166,969	(110)	1,645	349,786
Net loss						(660)			(660)
Pro-rata share of unrealized gain recognized by Bluegreen on sale of retained interests, net of tax								164	164
Issuance of Bluegreen common stock, net of tax					(60)				(60)
Cash dividends paid						(398)			(398)
Share based compensation related to stock options and restricted stock					706				706
Reclassification of unamortized stock compensation related to restricted stock upon adoption of SFAS 123 (R)					(110)		110		

Balance at									
March 31, 2006	18,604	1,219	\$ 186	12	181,620	165,911		1,809	349,538

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statements of Cash Flows Unaudited
(In thousands)

	Three Months Ended	
	March 31,	
	2006	2005
Operating activities:		
Net (loss) income	\$ (660)	29,818
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	550	362
Change in deferred income taxes	(236)	(260)
Loss (earnings) from Bluegreen Corporation	49	(2,138)
Earnings from unconsolidated trust	(33)	(3)
Earnings from real estate joint ventures		(90)
Share-based compensation expense related to stock options and restricted stock	706	
Changes in operating assets and liabilities:		
Restricted cash	661	976
Inventory of real estate	(94,105)	11,653
Notes receivable	178	200
Other assets	1,056	(1,272)
Accounts payable, accrued expenses and other liabilities	(10,556)	12,994
Net cash (used in) provided by operating activities	(102,390)	52,240
Investing activities:		
Investment in and advances to real estate joint ventures	(402)	
Distributions of capital from real estate joint ventures	138	223
Investment in unconsolidated trust		(696)
Distributions from consolidated trusts	33	
Additions to property and equipment	(2,640)	(4,052)
Net cash used in investing activities	(2,871)	(4,525)
Financing activities:		
Proceeds from notes and mortgage notes payable	136,660	74,984
Proceeds from notes and mortgage notes payable to affiliates		5,148
Proceeds from junior subordinated debentures		23,196
Repayment of notes and mortgage notes payable	(68,568)	(112,295)
Repayment of notes and mortgage notes payable to affiliates	(223)	(28,164)
Payments for debt offering costs		(926)
Cash dividends paid	(398)	(396)
Net cash provided by (used in) financing activities	67,471	(38,453)
(Decrease) increase in cash and cash equivalents	(37,790)	9,262

Cash and cash equivalents at the beginning of period	113,562	125,522
Cash and cash equivalents at end of period	\$ 75,772	134,784

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statements of Cash Flows Unaudited
(In thousands)

	For the Three Months Ended March 31,	
	2006	2005
Supplemental cash flow information		
Interest paid on borrowings, net of amounts capitalized	\$ (500)	(247)
Income taxes paid	12,200	4,200
Supplemental disclosure of non-cash operating, investing and financing activities:		
Change in shareholders' equity resulting from pro-rata share of unrealized gain recognized by Bluegreen on sale of retained interests, net of tax	\$ 164	87
Change in shareholders' equity resulting from the issuance of Bluegreen common stock, net of tax	\$ (60)	(56)
Decrease in inventory from reclassification as property and equipment	\$ (6,554)	
Increase in property and equipment reclassified from inventory	\$ 6,554	
See accompanying notes to unaudited consolidated financial statements.		

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Levitt Corporation
Notes to Unaudited Consolidated Financial Statements

1. Presentation of Interim Financial Statements

Levitt Corporation (including its subsidiaries, the Company) engages in real estate activities through its Homebuilding and Land Divisions, and Other Operations. The Homebuilding Division operates through Levitt and Sons, LLC (Levitt and Sons), which primarily develops single family and townhome communities. The Land Division consists of the operations of Core Communities, LLC (Core Communities), a land and master-planned community developer. Other Operations includes Levitt Commercial, LLC (Levitt Commercial), a developer of industrial properties; investments in real estate and real estate joint ventures; and an equity investment in Bluegreen Corporation (Bluegreen), a New York Stock Exchange-listed company engaged in the acquisition, development, marketing and sale of vacation ownership interests in primarily drive-to resorts, as well as residential homesites located around golf courses and other amenities.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-segment transactions have been eliminated in consolidation. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These financial statements should be read in conjunction with the Company's consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

2. Stock Based Compensation

On May 11, 2004, the Company's Shareholders approved the 2003 Levitt Corporation Stock Incentive Plan (Plan). Under the Plan, the maximum number of shares with respect to which stock option and restricted stock awards may be granted is 1,500,000. The maximum term of options granted under the plan is 10 years. The vesting period is established by the compensation committee in connection with each grant and is generally five years utilizing cliff vesting. Option awards issued to date become exercisable based solely on fulfilling a service condition.

In the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, (FAS 123R). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees over the vesting period in their statement of income. FAS 123R eliminates the alternative to use the intrinsic method of accounting provided for in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), which generally resulted in no compensation expense recorded in the financial statements related to the grant of stock options to employees if certain conditions were met.

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The Company adopted FAS 123R using the modified prospective method effective January 1, 2006, which requires the Company to record compensation expense over the vesting period for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

Accordingly, amounts for periods prior to January 1, 2006 presented herein have not been restated to reflect the adoption of FAS 123R. The proforma effect for the 2005 prior period is as follows and has been disclosed to be consistent with prior accounting rules (in thousands, except per share data):

	March 31, 2005
Pro forma net income	
Net income, as reported	\$ 29,818
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effect	(223)
Pro forma net income	\$ 29,595
Basic earnings per share:	
As reported	\$ 1.50
Pro forma	\$ 1.49
Diluted earnings per share:	
As reported	\$ 1.49
Pro forma	\$ 1.49

The fair values of options granted are estimated on the date of their grant using the Black-Scholes option pricing model based on the assumptions included in the table below. The fair value of the Company's stock option awards, which are primarily subject to cliff vesting, is expensed over the vesting life of the stock options under the straight-line method. Expected volatility is based on the historical volatility of the Company's stock. Due to the short period of time the Company has been publicly traded, the historical volatilities of similar publicly traded entities are reviewed to validate the Company's expected volatility assumption. The risk-free interest rate for periods within the contractual life of the stock option award is based on the yield of US Treasury bonds on the date the stock option award is granted with a maturity equal to the expected term of the stock option award granted. The expected life of stock option awards granted is based upon the simplified method for plain vanilla options contained in SEC Staff Accounting Bulletin No. 107. Due to the short history of stock option activity, forfeiture rates are estimated based on historical employee turnover rates. During the three months ended March 31, 2006 and 2005, no stock option awards were granted by the Company. The fair value of each option granted was estimated using the following assumptions for all grants since January 1, 2004.

Expected volatility	37.99% - 50.35%
Weighted-average volatility	44.64%
Expected dividend yield	0.00% - 0.33%
Weighted-average dividend yield	0.13%
Risk-free interest rate	4.02% - 4.40%
Weighted-average risk-free rate	4.30%
Expected life	7.5 years
Forfeiture rate - executives	5.0%
Forfeiture rate - non-executives	10.0%

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Non-cash stock compensation expense for the three months ended March 31, 2006 related to unvested stock options amounted to \$651,000 with an income tax benefit of \$175,000. The impact of adopting SFAS No. 123R on basic and diluted loss per share for the three months ended March 31, 2006 was \$0.02 per share. At March 31, 2006, there was \$9.1 million of unrecognized stock compensation expense related to outstanding stock option awards which is expected to be recognized over a weighted-average period of 3.7 years.

Stock option activity under the Plan for the three months ended March 31, 2006 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (thousands)
Options outstanding at December 31, 2005	1,305,176	\$ 25.59		\$ 1,189
Granted				
Exercised				
Forfeited	39,500	\$ 25.31		6
Options outstanding at March 31, 2006	1,265,676	\$ 25.60	8.48 years	\$ 1,183
Vested & expected to vest in the future at March 31, 2006	943,759	\$ 25.60	8.48 years	\$ 882
Options exercisable at March 31, 2006	55,176	\$ 22.33	8.04 years	\$ 85
Stock available for equity compensation grants at March 31, 2006	227,437			

A summary of the Company's non-vested shares activity for the three months ended March 31, 2006 is as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Non-vested at December 31, 2005 Grants	1,250,000	\$ 13.44		\$ 1,104