LEVITT CORP
Form 10-Q
May 10, 2007

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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, 2007**

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	**11-3675068**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2200 W. Cypress Creek Road, Fort Lauderdale, FL	**33309**
(Address of principal executive offices)	(Zip Code)

(954) 958-1800

(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 x No o

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 x 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 x

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, 2007
Class A common stock, $0.01 par value	18,612,042
Class B common stock, $0.01 par value	1,219,031

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	March 31, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 60,550	48,391
Restricted cash	312	1,397
Inventory of real estate	836,303	822,040
Investment in Bluegreen Corporation	108,615	107,063
Property and equipment, net	87,444	78,675
Other assets	27,968	33,100
Total assets	$ 1,121,192	1,090,666
Liabilities and Shareholders Equity		
Accounts payable, accrued liabilities and other	$ 71,039	85,123
Customer deposits	32,358	42,696
Current income tax payable	985	3,905
Notes and mortgage notes payable	586,712	530,651
Junior subordinated debentures	85,052	85,052
Total liabilities	776,146	747,427
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: 18,612,042 and 18,609,024 shares, respectively	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	185,133	184,401
Retained earnings	157,333	156,219
Accumulated other comprehensive income	2,382	2,421
Total shareholders equity	345,046	343,239

Total liabilities and shareholders equity	$ 1,121,192	1,090,666

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, 2007	2006
Revenues:		
Sales of real estate	$ 141,742	125,543
Other revenues	2,497	1,951
Total revenues	144,239	127,494
Costs and expenses:		
Cost of sales of real estate	112,908	102,055
Selling, general and administrative expenses	32,906	26,755
Other expenses	482	626
Total costs and expenses	146,296	129,436
Earnings (loss) from Bluegreen Corporation	1,744	(49)
Earnings from real estate joint ventures	3	
Interest and other income	2,339	889
Income (loss) before income taxes	2,029	(1,102)
(Provision) benefit for income taxes	(779)	442
Net income (loss)	$ 1,250	(660)
Earnings (loss) per share:		
Basic	$ 0.06	(0.03)
Diluted	$ 0.06	(0.03)
Weighted average common shares outstanding:		
Basic	19,826	19,821
Diluted	19,837	19,821
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 (loss) Unaudited
(In thousands)

	Three Months Ended March 31, 2007	2006
Net income (loss)	$ 1,250	(660)
Other comprehensive income:		
Pro-rata share of unrealized (loss) gain recognized by Bluegreen Corporation on retained interests in notes receivable sold	(64)	267
Benefit (provision) for income taxes	25	(103)
Pro-rata share of unrealized (loss) gain recognized by Bluegreen Corporation on retained interests in notes receivable sold (net of tax)	(39)	164
Comprehensive income (loss)	$ 1,211	(496)

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, 2007
(In thousands)

	Class A Shares	Class B Shares	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Compre-hensive Income (Loss)	Total
Balance at December 31, 2006	**18,609**	**1,219**	**$ 186**	**12**	**184,401**	**156,219**	**2,421**	**343,239**
Net income						1,250		1,250
Pro-rata share of unrealized loss recognized by Bluegreen on sale of retained interests, net of tax							(39)	(39)
Issuance of Bluegreen common stock, net of tax					(79)			(79)
Cash dividends declared						(396)		(396)
Share based compensation related to stock options and restricted stock					811			811
Issuance of restricted common stock	3							
Cumulative impact of change in accounting for uncertainties in income taxes (FIN 48 - See Note 11)						260		260

Balance at March 31, 2007	**18,612**	**1,219**	**$ 186**	**12**	**185,133**	**157,333**	**2,382**	**345,046**

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating activities:		
Net income (loss)	$ 1,250	(660)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	906	550
Change in deferred income taxes	(945)	(236)
(Earnings) loss from Bluegreen Corporation	(1,744)	49
Earnings from unconsolidated trust	(55)	(33)
Earnings from real estate joint ventures	(3)	
Share-based compensation expense related to stock options and restricted stock	811	706
Impairment of long lived assets	282	
Changes in operating assets and liabilities:		
Restricted cash	1,085	661
Inventory of real estate	(14,638)	(94,105)
Notes receivable	4,076	178
Other assets	3,031	1,056
Customer deposits	(10,338)	5,395
Accounts payable, accrued expenses and other liabilities	(17,004)	(15,951)
Net cash used in operating activities	(33,286)	(102,390)
Investing activities:		
Investment in and advances to real estate joint ventures	(144)	(402)
Distributions of capital from real estate joint ventures	5	138
Distributions from consolidated trusts	55	33
Capital expenditures	(9,332)	(2,640)
Net cash used in investing activities	(9,416)	(2,871)
Financing activities:		
Proceeds from notes and mortgage notes payable	117,407	136,660
Repayment of notes and mortgage notes payable	(61,346)	(68,568)
Repayment of notes and mortgage notes payable to affiliates		(223)
Payments for debt offering costs	(804)	
Cash dividends paid	(396)	(398)
Net cash provided by financing activities	54,861	67,471
Increase (decrease) in cash and cash equivalents	12,159	(37,790)
Cash and cash equivalents at the beginning of period	48,391	113,562

Cash and cash equivalents at the end of period	$ 60,550	75,772

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

	For the Three Months Ended March 31,	
	2007	**2006**
Supplemental cash flow information		
Interest paid on borrowings, net of amounts capitalized	$ (254)	(500)
Income taxes paid	4,370	12,200
Supplemental disclosure of non-cash operating, investing and financing activities:		
Change in shareholders equity resulting from pro-rata share of unrealized (loss) gain recognized by Bluegreen on sale of retained interests, net of tax	$ (39)	164
Change in shareholders equity resulting from the issuance of Bluegreen common stock, net of tax	$ (79)	(60)
Decrease in inventory from reclassification to property and equipment	$ 93	6,554
Increase in deferred tax liability due to cumulative impact of change in accounting for uncertainties in income taxes (FIN 48 see Note 11)	$ 260	

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 and multi-family home and townhome communities specializing in both active adult and family communities in Florida, Georgia, Tennessee and South Carolina. The Land Division consists of the operations of Core Communities, LLC (Core Communities), which develops master-planned communities. Other Operations include Levitt Commercial, LLC (Levitt Commercial), a developer of industrial properties; the operations at Levitt Corporation (Parent Company); 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 home sites 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 statement have been included. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. The year end balance sheet data was derived from the audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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, 2006.

2. Stock Based Compensation

On May 11, 2004, the Company s shareholders approved the 2003 Levitt Corporation Stock Incentive Plan and on May 16, 2006 the Company s shareholders approved an amendment to this plan which is currently named the Amended and Restated 2003 Stock Incentive Plan (the Plan). The maximum number of shares of the Company s Class A Common Stock, that may be issued for restricted stock awards and upon the exercise of options under the Plan is 3,000,000 shares.

The maximum term of options granted under the Plan is 10 years. The vesting period for each option grant is established by the Compensation Committee of the Board of Directors and for employees is generally five years utilizing cliff vesting and for directors the option awards are immediately vested. Option awards issued to date become exercisable based solely on fulfilling a service condition. Since the inception of the Plan there have been no expired stock options.

The Company follows Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R). This Statement requires companies to expense the estimated fair

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value of stock options and similar equity instruments issued to employees over the vesting period in their statement of operations. The Company uses the modified prospective method which requires the Company to record compensation expense over the vesting period for all awards granted after January 1, 2006, and for the unvested portion of stock options that were outstanding at January 1, 2006.

The fair values of options granted are estimated on the date of their grant using the Black-Scholes option pricing model based on certain assumptions. The fair value of the Company s stock option awards, which are primarily subject to five year cliff vesting, is expensed over the vesting life of the stock options under the straight-line method. During the three months ended March 31, 2006, no stock option awards were granted by the Company. During the three months ended March 31, 2007, options to acquire 37,500 shares of Class A Common Stock were granted by the Company. The fair value of each option granted was estimated using the following assumptions:

Expected volatility	40.05%-42.58%
Expected dividend yield	.58%-.73%
Risk-free interest rate	4.58%-4.88%
Expected life	7.5 years
Forfeiture rate executives	5%
Forfeiture rate non- executives	10%

Non-cash stock compensation expense related to stock options for the three months ended March 31, 2007 amounted to approximately $791,000 with an income tax benefit of $202,251 and for the three months ended March 31, 2006 amounted to $651,000 with an income tax benefit of $175,000.

The Company also grants restricted stock, which is valued based on the market price of the common stock on the date of grant and normally vests over a one-year period for directors and a five-year period for employees. Compensation expense arising from restricted stock grants is recognized using the straight-line method over the vesting period. Unearned compensation for restricted stock is a component of additional paid-in capital in shareholders equity in the unaudited consolidated statements of financial condition. Non-cash stock compensation expense related to restricted stock for the three months ended March 31, 2007 and 2006 amounted to $20,000 and $55,000, respectively.

3. Inventory of Real Estate

Inventory of real estate is summarized as follows (in thousands):

	March 31, 2007	**December 31, 2006**
Land and land development costs	$ 578,010	566,459
Construction costs	166,464	172,682
Capitalized interest	55,883	47,752
Other costs	35,946	35,147
	$ 836,303	822,040

Reflected in the above inventory balance are approximately $32.5 million and $33.3 million of impairment reserves at March 31, 2007 and December 31, 2006, respectively. Due to the downturn in the homebuilding market, the Company monitors projected future cash flows of inventory on a quarterly basis to determine if additional impairment charges are needed. In the three months ended

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March 31, 2007 impairment charges amounted to approximately $282,000 due to estimated price reductions on some bulk home sales that are expected to occur in the second quarter of 2007 as well as to adjust the reserve for a land sale that occurred in April 2007 reflecting the final terms of the contract.

4. Interest

Interest incurred relating to land under development and construction is capitalized to real estate inventory 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 stages and the periods that projects are under development. Capitalization of interest is discontinued if development ceases at a project. Capitalized interest is expensed as a component of cost of sales as related homes, land and units are sold. The following table is a summary of interest incurred relating to land under development and construction and the amounts capitalized (in thousands):

	Three Months Ended March 31,	
	2007	**2006**
Interest incurred	$ 13,006	8,029
Interest capitalized to property and equipment	(450)	
Interest capitalized to inventory	(12,556)	(8,029)
Interest expense, net	$	
Interest included in cost of sales	$ 4,425	2,594

For fixed assets under construction, interest associated with these assets is capitalized as incurred and will be relieved to expense through depreciation once the asset is put into use.

5. Investment in Bluegreen Corporation

At March 31, 2007, the Company owned approximately 9.5 million shares of the common stock of Bluegreen Corporation representing approximately 31% of Bluegreen s outstanding common stock. The Company accounts for its investment in Bluegreen under the equity method of accounting. The cost of the Bluegreen investment is adjusted to recognize the Company s interest in Bluegreen s earnings or losses. The difference between a) the Company s ownership percentage in Bluegreen multiplied by its earnings and b) the amount of the Company s equity in earnings of Bluegreen as reflected in the Company s financial statements relates to the amortization or accretion of purchase accounting adjustments made at the time of the acquisition of Bluegreen s stock.

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Bluegreen s unaudited condensed consolidated balance sheets and unaudited condensed consolidated statements of income are as follows (in thousands):

Unaudited Condensed Consolidated Balance Sheets

	March 31, 2007	December 31, 2006
Total assets	$ 887,382	854,212
Total liabilities	$ 511,739	486,487
Minority interest	16,336	14,702
Total shareholders equity	359,307	353,023
Total liabilities and shareholders equity	$ 887,382	854,212

Unaudited Condensed Consolidated Statements of Income

	Three Months Ended	
	March 31, 2007	March 31, 2006
Revenues and other income	$ 146,882	147,105
Cost and other expenses	136,646	139,528