

LEVITT CORP
Form 10-Q
November 09, 2006

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

**b QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **SEPTEMBER 30, 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) 940-4950

(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 November 1, 2006
Class A Common stock, \$0.01 par value	18,609,024
Class B Common stock, \$0.01 par value	1,219,031

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

	September 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	\$ 65,231	113,562
Restricted cash	408	1,818
Inventory of real estate	845,565	611,260
Investment in Bluegreen Corporation	106,045	95,828
Property and equipment, net	70,278	44,250
Other assets	29,069	28,955
Total assets	\$1,116,596	895,673
Liabilities and Shareholders Equity		
Accounts payable and accrued liabilities	\$ 101,083	66,652
Customer deposits	54,017	51,686
Current income tax payable		12,551
Notes and mortgage notes payable	518,170	353,846
Junior subordinated debentures	85,052	54,124
Deferred tax liability, net	4,942	7,028
Total liabilities	763,264	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: 18,609,024 and 18,604,053 shares, respectively	186	186
Class B Common Stock, \$0.01 par value		
Authorized: 10,000,000 shares		
Issued and outstanding: 1,219,031 and 1,219,031 shares, respectively	12	12
Additional paid-in capital	183,515	181,084
Unearned compensation		(110)
Retained earnings	167,354	166,969
Accumulated other comprehensive income	2,265	1,645

Total shareholders' equity	353,332	349,786
Total liabilities and shareholders' equity	\$1,116,596	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		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
Revenues:				
Sales of real estate	\$ 130,939	128,520	387,140	434,480
Title and mortgage operations	936	962	2,962	2,857
Total revenues	131,875	129,482	390,102	437,337
Costs and expenses:				
Cost of sales of real estate	104,520	98,455	307,485	313,591
Selling, general and administrative expenses	32,736	20,070	89,957	62,675
Other expenses	615	1,448	7,906	3,390
Total costs and expenses	137,871	119,973	405,348	379,656
Earnings from Bluegreen Corporation	6,923	5,951	9,026	12,818
Loss from real estate joint ventures	(128)	(207)	(205)	(75)
Interest and other income	3,569	1,924	8,598	4,699
Income before income taxes	4,368	17,177	2,173	75,123
Provision for income taxes	1,395	6,469	598	28,545
Net income	\$ 2,973	10,708	1,575	46,578
Earnings per common share:				
Basic	\$ 0.15	0.54	0.08	2.35
Diluted	\$ 0.15	0.53	0.07	2.32
Weighted average common shares outstanding:				
Basic	19,824	19,817	19,822	19,816
Diluted	19,831	19,944	19,828	19,952
Dividends declared per common share:				
Class A common stock	\$ 0.02	0.02	0.06	0.06
Class B common stock	\$ 0.02	0.02	0.06	0.06

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2006	2005	2006	2005
Net income	\$2,973	10,708	1,575	46,578
Other comprehensive income:				
Pro-rata share of unrealized gain recognized by Bluegreen Corporation on retained interests in notes receivable sold	1,384	184	1,009	432
Provision for income taxes	(534)	(71)	(389)	(167)
Pro-rata share of unrealized gain recognized by Bluegreen Corporation on retained interests in notes receivable sold (net of tax)	850	113	620	265
Comprehensive income	\$3,823	10,821	2,195	46,843

See accompanying notes to unaudited consolidated financial statements.

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Levitt Corporation
Consolidated Statement of Shareholders Equity Unaudited
Nine Months Ended September 30, 2006
(In thousands)

	Class A Shares	Class B Shares	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned & Accumulated		Total
							Compensation Restricted Stock Grants	Compre- hensive Income	
Balance at December 31, 2005	18,604	1,219	\$ 186	12	181,084	166,969	(110)	1,645	349,786
Net income						1,575			1,575
Pro-rata share of unrealized gain recognized by Bluegreen on sale of retained interests, net of tax								620	620
Issuance of restricted stock	5								
Issuance of Bluegreen common stock, net of tax					113				113
Cash dividends paid						(1,190)			(1,190)
Share based compensation related to stock options and restricted stock					2,428				2,428
Reversal of unamortized stock compensation related to restricted stock upon adoption of					(110)		110		

SFAS 123(R)

**Balance at
September 30,
2006**

18,609	1,219	\$186	12	183,515	167,354	2,265	353,332
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See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2006	2005
Operating activities:		
Net income	\$ 1,575	46,578
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,517	1,348
Change in deferred income taxes	(2,545)	3,532
Earnings from Bluegreen Corporation	(9,026)	(12,818)
Earnings from unconsolidated trusts	(122)	(61)
Loss from real estate joint ventures	205	75
Share-based compensation expense related to stock options and restricted stock	2,428	
Gain on sale of property and equipment	(1,329)	
Impairment of inventory and long lived assets	6,049	
Changes in operating assets and liabilities:		
Restricted cash	1,410	928
Inventory of real estate	(248,089)	(111,832)
Other assets	4,224	(502)
Accounts payable and accrued liabilities	21,088	9,448
Customer deposits	2,331	1,917
Net cash used in operating activities	(220,284)	(61,387)
Investing activities:		
Investment in real estate joint ventures	(465)	(25)
Distributions from real estate joint ventures	138	379
Investment in unconsolidated trusts	(928)	(1,624)
Distributions from unconsolidated trusts	88	67
Proceeds from sale of property and equipment	1,943	
Capital expenditures	(20,410)	(10,193)
Net cash used in investing activities	(19,634)	(11,396)
Financing activities:		
Proceeds from notes and mortgage notes payable	312,855	205,730
Proceeds from notes and mortgage notes payable to affiliates		9,767
Proceeds from junior subordinated debentures	30,928	54,124
Repayment of notes and mortgage notes payable	(148,308)	(166,577)
Repayment of notes and mortgage notes payable to affiliates	(223)	(55,275)
Payments for debt issuance costs	(2,475)	(2,146)
Cash dividends paid	(1,190)	(1,188)

Net cash provided by financing activities	191,587	44,435
Decrease in cash and cash equivalents	(48,331)	(28,348)
Cash and cash equivalents at the beginning of period	113,562	125,522
Cash and cash equivalents at end of period	\$ 65,231	97,174

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

	For the Nine Months Ended September 30,	
	2006	2005
Supplemental cash flow information		
Interest paid on borrowings, net of amounts capitalized	\$ 963	(725)
Income taxes paid	16,344	19,214
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	\$ 620	265
Change in shareholders' equity resulting from the issuance of Bluegreen common stock, net of tax	\$ 113	(45)
Decrease in inventory from reclassification to property and equipment	\$ 7,978	
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, multi-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 statement have been included. Operating results for the three and nine month periods ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. 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, 2005.

2. Stock Based Compensation

On May 11, 2004, the Company's shareholders approved the 2003 Levitt Corporation Stock Incentive Plan (Plan). In March 2006, subject to shareholder approval, the Board of Directors of the Company approved the amendment and restatement of the Company's 2003 Stock Incentive Plan to increase the maximum number of shares of the Company's Class A Common Stock, \$0.01 par value, that may be issued for restricted stock awards and upon the exercise of options under the plan from 1,500,000 to 3,000,000 shares. The Company's shareholders approved the Amended and Restated 2003 Stock Incentive Plan at the Company's Annual Meeting of Shareholders on May 16, 2006.

The maximum term of options granted under the Plan is 10 years. The vesting period for each 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.

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

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over the vesting period in their statements of operations. 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 granting of stock options to employees if certain conditions were met.

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 remained 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 three and nine months ended September 30, 2005 is as follows and has been disclosed to be consistent with prior accounting rules (in thousands, except per share data):

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Pro forma net income:		
Net income, as reported	\$ 10,708	46,578
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effect	(369)	(675)
Pro forma net income	\$ 10,339	45,903
Basic earnings per share:		
As reported	\$ 0.54	2.35
Pro forma	\$ 0.52	2.32
Diluted earnings per share:		
As reported	\$ 0.53	2.32
Pro forma	\$ 0.51	2.29

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.

The fair value of each option granted in the three and nine months ended September 30, 2006 was estimated using the following assumptions:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Expected volatility	37.7204%	37.3701% - 37.7204%
Expected dividend yield	.50% - .61%	.39% - .61%
Risk-free interest rate	4.987% - 5.061%	4.987% - 5.061%
Expected life	5.0 - 7.5 years	5.0 - 7.5 years
Forfeiture rate executives	5%	5%
Forfeiture rate non-executives	10%	10%

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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 expected dividend yield is based on an expected quarterly dividend of \$.02 per share. 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