LEVITT CORP
Form 10-Q
August 16, 2004

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended June 30, 2004

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.)
1750 East Sunrise Boulevard Ft. Lauderdale, Florida	**33304**
(Address of principal executive offices)	(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 x No o

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

Indicate the number of shares outstanding for each of the Registrant s classes of common stock, as of August 9, 2004:

Class of Common Stock	Shares Outstanding
Class A common stock, $0.01 par value	18,597,166
Class B common stock, $0.01 par value	1,219,031

1

Levitt Corporation and Subsidiaries
Index to Consolidated Financial Statements

2

Table of Contents

Levitt Corporation

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

	June 30, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$118,971	35,965
Restricted cash	4,997	3,384
Notes receivable	5,782	5,163
Inventory of real estate	383,999	257,556
Investments in real estate joint ventures	3,671	4,106
Investment in Bluegreen Corporation	75,678	70,852
Other assets	16,465	15,034
Goodwill	1,541	
Deferred tax asset, net		654
Total assets	$611,104	392,714
Liabilities and Shareholders Equity		
Accounts payable and accrued liabilities	$ 50,598	39,987
Customer deposits	58,236	52,134
Current income tax payable	4,995	1,024
Notes and mortgage notes payable	175,180	111,625
Notes and mortgage notes payable to affiliates	52,939	61,618
Development bonds payable	459	850
Deferred tax liability, net	1,790	
Total liabilities	344,197	267,238
Minority interest in consolidated joint venture	(38)	24
Shareholders equity:		
Preferred stock, $0.01 par value		
Authorized: 5,000,000 shares		
Issued and outstanding: no shares		
Common stock, Class A, $0.01 par value		
Authorized: 50,000,000 shares		
Issued and outstanding: 18,597,166 and 13,597,166 shares, respectively	186	136
Common stock, Class B, $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	182,542	67,855
Retained earnings	83,762	57,020

Accumulated other comprehensive income	443	429
Total shareholders equity	266,945	125,452
Total liabilities and shareholders equity	$611,104	392,714

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Levitt Corporation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Revenues:				
Sales of real estate	$142,530	67,039	241,053	120,003
Title and mortgage operations	1,339	577	2,309	981
Total revenues	143,869	67,616	243,362	120,984
Costs and expenses:				
Cost of sales of real estate	107,676	49,151	177,341	88,675
Selling, general and administrative expenses	18,888	10,482	32,935	18,502
Interest expense, net		8	58	249
Other expenses	778	376	1,394	668
Minority interest	(1)	28	24	149
Total costs and expenses	127,341	60,045	211,752	108,243
	16,528	7,571	31,610	12,741
Earnings from Bluegreen Corporation	2,775	1,940	4,861	1,806
Earnings (loss) from real estate joint ventures	2,130	231	5,737	(82)
Interest and other income	849	621	1,327	1,267
Income before income taxes	22,282	10,363	43,535	15,732
Provision for income taxes	8,595	3,997	16,793	6,072
Net income	$ 13,687	6,366	26,742	9,660
Earnings per common share:				
Basic	$ 0.70	0.43	1.55	0.65
Diluted	$ 0.68	0.42	1.53	0.64
Weighted average common shares outstanding:				
Basic	19,596	14,816	17,206	14,816
Diluted	19,638	14,816	17,245	14,816

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Levitt Corporation

Consolidated Statements of Comprehensive Income Unaudited
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Net income	$13,687	6,366	26,742	9,660
Other comprehensive income:				
Pro-rata share of unrealized gain recognized by Bluegreen Corporation on retained interests in notes receivable sold, net of tax	106	257	14	663
Comprehensive income	$13,793	6,623	26,756	10,323

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Levitt Corporation

Consolidated Statements of Shareholders Equity Unaudited
For the Six Months Ended June 30, 2004
(In thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Compre-hensive Income (Loss)	Total
Balance at December 31, 2003	$ **136**	**12**	**67,855**	**57,020**	**429**	**125,452**
Net income				26,742		26,742
Other comprehensive income					14	14
Issuance of common stock, net of stock issuance costs	50		114,719			114,769
Issuance of Bluegreen Corporation common stock, net of tax			(32)			(32)
Balance at June 30, 2004	$ 186	12	182,542	83,762	443	266,945

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

Levitt Corporation

Consolidated Statements of Cash Flows Unaudited
(In thousands)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Operating activities:		
Net income	$ 26,742	9,660
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	308	149
Minority interest expense	24	149
Increase in deferred income taxes	1,692	1,876
Earnings from Bluegreen Corporation	(4,861)	(1,806)
(Earnings) loss from real estate joint ventures	(5,737)	82
Gain on sale of building	(2,162)	
Changes in operating assets and liabilities:		
Increase in restricted cash	(1,613)	(579)
(Increase) decrease in notes receivable	(619)	83
Increase in inventory of real estate	(104,516)	(20,347)
Increase (decrease) in other assets	241	(2,136)
Increase in accounts payable, accrued expenses and other liabilities	17,083	9,031
Net cash used in operating activities	(73,418)	(3,838)
Investing activities:		
Investment in real estate joint ventures	(35)	(800)
Distributions from real estate joint ventures	6,410	1,031
Partial sale of joint venture interest	305	
Purchase of Bowden Building Corporation, net of cash received	(6,109)	
Proceeds from sale of building	5,315	
Other	(1,905)	(262)
Net cash provided by (used in) investing activities	3,981	(31)
Financing activities:		
Proceeds from notes and mortgage notes payable	157,136	73,102
Proceeds from notes and mortgage notes payable to affiliates	18,771	19,012
Repayment of notes and mortgage notes payable	(110,306)	(54,155)
Repayment of notes and mortgage notes payable to affiliates	(27,450)	(20,008)
Repayment of development bonds payable	(391)	(2,025)

Proceeds from issuance of common stock, net of issuance costs	114,769	
Change in minority interest in consolidated joint ventures	(86)	(70)
Net cash provided by financing activities	152,443	15,856
Increase in cash and cash equivalents	83,006	11,987
Cash and cash equivalents at the beginning of period	35,965	16,014
Cash and cash equivalents at end of period	$ 118,971	28,001

(Continued on next page)

Table of Contents

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

	Six Months Ended June 30,	
	2004	**2003**
Supplemental cash flow information		
Interest paid on borrowings	$ 4,181	4,205
Income taxes paid	13,480	5,372
Supplemental disclosure of non-cash activities:		
Change in shareholder s equity resulting from the change in other comprehensive gain, net of taxes	$ 14	663
Change in shareholder s equity from the net effect of Bluegreen s capital transactions, net of taxes	(32)	
Assumption of development bonds payable		(1,190)
Decrease in notes receivable from assumption of development bonds payable		1,190
Increase in joint venture investment resulting from unrealized gain on non-monetary exchange	508	
Fair value of assets acquired from acquisition of Bowden Building Corporation	26,696	
Fair value of liabilities assumed from acquisition of Bowden Building Corporation	20,587	

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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 Development Divisions and other operations. The Homebuilding Division operates through Levitt and Sons, LLC (Levitt and Sons) and Bowden Building Corporation (Bowden), developers of single family home, town home and condominium communities. The Land Development Division consists of the operations of Core Communities, LLC, a land and master-planned community developer (Core Communities). Other Operations includes Levitt Commercial, LLC, a developer of commercial properties (Levitt Commercial); an equity investment in Bluegreen Corporation, a New York Stock Exchange-listed company engaged in the acquisition, development, marketing and sale of ownership interests in primarily drive-to vacation resorts, and the development and sale of golf communities and residential land (Bluegreen); and investments in real estate and real estate joint ventures.

The accompanying unaudited consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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 and six month periods ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004. Certain items in prior period financial statements have been reclassified to conform to the current presentation. 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, 2003 and quarterly report on Form 10-Q for the quarter ended March 31, 2004.

2. Stock Based Compensation

The Company accounts for stock option grants under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No compensation expense is recognized because all stock options granted have exercise prices not less than the market value of the Company s stock on the date of grant.

Table of Contents

The following table illustrates the effect on net earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, to stock-based employee compensation (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
Pro forma net income				
Net income, as reported	$13,687	6,366	26,742	9,660
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effects and minority interest	(137)		(544)	
Pro forma net income	$13,550	6,366	26,198	9,660
Basic earnings per share:				
As reported	$ 0.70	0.43	1.55	0.65
Pro forma	$ 0.69	0.43	1.52	0.65
Diluted earnings per share:				
As reported	$ 0.68	0.42	1.53	0.64
Pro forma	$ 0.68	0.42	1.50	0.64

3. Inventory of Real Estate

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

	June 30, 2004	December 31, 2003
Land and land development costs	$269,219	174,142
Construction costs	101,469	67,895
Other costs	13,311	15,519
	$383,999	257,556

Table of Contents

4. 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 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 as related homes, land and units are sold. The following table is a summary of interest incurred on notes and mortgage notes payable and the amounts capitalized (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2004	**2003**	**2004**	**2003**
Interest incurred to non-affiliates	$ 1,821	1,349	3,181	2,905
Interest incurred to affiliates	561	600	1,195	1,200
Interest capitalized	(2,382)	(1,941)	(4,318)	(3,856)
Interest expense, net	$	8	58	249
Interest included in cost of sales	$ 2,779	1,222	4,579	2,424

5. Investment in Bluegreen Corporation

The Company accounts for its investment in Bluegreen under the equity method. As of June 30, 2004, the Company owned approximately 9.5 million shares, or approximately 36% of Bluegreen s outstanding common stock.

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

Condensed Consolidated Balance Sheet

	June 30, 2004	December 31, 2003
Total assets	$599,251	570,406
Total liabilities	$382,295	378,878
Minority interest	6,980	4,648
Total shareholders equity	209,976	186,880
Total liabilities and shareholders equity	$599,251	570,406

Condensed Consolidated Statements of Income

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Revenues and other income	$153,374	106,843	260,591	187,725
Cost and other expenses	137,078	96,001	235,823	172,968
Income before minority interest and provision for income taxes	16,296	10,842	24,768	14,757
Minority interest	1,503	266	2,332	723
Income before provision for income taxes	14,793	10,576	22,436	14,034
Provision for income taxes	5,695	4,350	8,638	5,681
Net income	$ 9,098	6,226	13,798	8,353

6. Notes and Mortgage Notes Payable

On September 30, 2003 the SEC declared effective the Company s Registration Statement on Form S-1 for the public offering of up to $100 million of unsecured subordinated investment notes. The investment notes are unsecured obligations and are subordinated to substantially all other liabilities. In March 2004, the unsold notes were deregistered. Approximately $3.2 million of investment notes were outstanding as of June 30, 2004.

7. Commitments and Contingencies

At June 30, 2004, the Company had $100.5 million of commitments to purchase properties for development. Approximately $25.8 million of such commitments are subject to due diligence and satisfaction of certain requirements and conditions, including financing contingencies. The following table summarizes certain information relating to outstanding purchase and option contracts.

	Purchase Price	Units/ Acres	Expected Closing
Homebuilding Division	$99.6 million	5,579 units	2004
Other	$836,000	22 units	2004

At June 30, 2004, cash deposits and option payments of approximately $3.5 million secured the Company s commitments under these contracts.

8. Litigation

On December 29, 2000, Smith & Company, Inc. (Smith) filed a law suit against, among others, Levitt-Ansca

Towne Partnership, a Florida limited partnership (Partnership), and Bellaggio by Levitt Homes, Inc., a Florida corporation and a wholly owned subsidiary of Levitt and Sons, LLC (BLHI). The suit alleged, among other things, wrongful termination, breach and failure to pay for extra work performed outside the scope of the contract. The case was tried before a jury, and on March 7, 2002 the jury returned a verdict against the Partnership and awarded Smith $4.4 million, which amount included interest and attorneys fees. BLHI s potential liability was estimated at $2.6 million. The Partnership appealed the verdict, and on April 14, 2004 the Fourth District Court of Appeal of the

Table of Contents

State of Florida reversed the trial court s previous award of damages in its entirety and remanded the matter to the trial court for a new trial on damages. Under the Fourth District Court of Appeal s decision, Smith is precluded from claiming several items of damages at the new trial that were previously claimed. At June 30, 2004 the Company s financial statements included a $2.6 million accrual in other liabilities associated with this suit and $2.8 million in restricted cash to secure the appeal bond previously posted.

9. Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has three reportable business segments: Homebuilding, Land Development and Other Operations. The Company evaluates segment performance primarily based on net income after tax. The information provided for segment reporting is based on management s internal reports. The accounting policies of the segments are generally the same as those described in the summary of significant accounting policies. Eliminations consist primarily of the elimination of sales and profits on real estate transactions between the Land Development and Homebuilding Divisions, which intra-company sales were recorded based upon terms that management believes would be attained in an arm s-length transaction. The presentation and allocation of assets, liabilities and results of operations may not reflect the actual economic costs of the segments as stand-alone businesses. If a different basis of allocation were utilized, the relative contributions of the segments might differ, but management believes that the relative trends in segments would likely not be impacted.

The Company s Homebuilding segment consists of the operations of Levitt and Sons and Bowden while the Land Development segment consists of the operations of Core Communities. The Other Operations segment consists of the activities of Levitt Commercial, the Company s parent company operations and earnings from investments in Bluegreen and other real estate investments and joint ventures.

The following tables present unaudited segment information as of and for the three and six months ended June 30, 2004 and 2003 (in thousands).

Table of Contents

Land	Other