

LEVITT CORP  
Form 10-Q  
May 10, 2005

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-Q**

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

**For the Quarter Ended March 31, 2005**

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**

(State or other jurisdiction of  
incorporation or organization)

**11-3675068**

(I.R.S. Employer  
Identification No.)

**1750 East Sunrise Boulevard  
Ft. Lauderdale, Florida**

(Address of principal executive offices)

**33304**

(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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding for each of the Registrant's classes of common stock, as of May 6, 2005:

<b>Class of Common Stock</b>	<b>Shares Outstanding</b>
Class A common stock, \$0.01 par value	18,597,166
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)**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 134,784	125,522
Restricted cash	1,041	2,017
Notes receivable	4,284	4,484
Inventory of real estate	401,818	413,471
Investments in real estate joint ventures	475	608
Investment in unconsolidated trust	699	
Investment in Bluegreen Corporation	82,761	80,572
Property and equipment, net	34,832	31,137
Other assets	22,849	20,656
Total assets	\$ 683,543	678,467
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable and accrued liabilities	\$ 66,255	66,271
Customer deposits	41,524	43,022
Current income tax payable	18,822	4,314
Notes and mortgage notes payable	184,294	221,605
Notes and mortgage notes payable to affiliates	23,605	46,621
Junior subordinated debentures	23,196	
Deferred tax liability, net	1,605	1,845
Total liabilities	359,301	383,678
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: 18,597,166 shares	186	186
Class B Common Stock, \$0.01 par value		
Authorized: 10,000,000 shares		

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Issued and outstanding: 1,219,031 shares	12	12
Additional paid-in capital	180,734	180,790
Retained earnings	143,065	113,643
Accumulated other comprehensive income	245	158
Total shareholders' equity	324,242	294,789
Total liabilities and shareholders' equity	\$ 683,543	678,467

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****Levitt Corporation****Consolidated Statements of Income    Unaudited**  
**(In thousands, except per share data)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Sales of real estate	\$ 198,866	98,523
Title and mortgage operations	948	970
Total revenues	199,814	99,493
<b>Costs and expenses:</b>		
Cost of sales of real estate	130,589	69,665
Selling, general and administrative expenses	23,146	14,047
Interest expense, net		58
Other expenses	1,316	616
Minority interest		25
Total costs and expenses	155,051	84,411
Earnings from Bluegreen Corporation	2,138	2,086
Earnings from real estate joint ventures	90	3,607
Interest and other income	1,322	478
Income before income taxes	48,313	21,253
Provision for income taxes	18,495	8,198
Net income	\$ 29,818	13,055
<b>Earnings per share:</b>		
Basic earnings per share	\$ 1.50	0.88
Fully diluted earnings per share	\$ 1.49	0.87
<b>Weighted average common shares outstanding:</b>		
Basic average number of shares outstanding	19,816	14,816
Diluted average number of shares outstanding	19,965	14,852
<b>Dividends declared per common share:</b>		
Class A common stock	\$ 0.02	



Class B common stock \$ 0.02

See accompanying notes to unaudited consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 29,818	13,055
Other comprehensive income:		
Pro-rata share of unrealized gain (loss) recognized by Bluegreen on retained interests in notes receivable sold, net of tax	87	(92)
Comprehensive income	\$ 29,905	12,963

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, 2005**  
(In thousands)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Compre- hensive Income (Loss)	Total
<b>Balance at December 31, 2004</b>	\$ 186	12	180,790	113,643	158	294,789
Net income				29,818		29,818
Pro-rata share of unrealized gain recognized by Bluegreen on sale of retained interests, net of tax					87	87
Issuance of Bluegreen common stock, net of tax			(56)			(56)
Cash dividends paid				(396)		(396)
 <b>Balance at March 31, 2005</b>	 \$ 186	12	180,734	143,065	245	324,242

See accompanying notes to unaudited consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities:</b>		
Net income	\$ 29,818	13,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	362	252
Change in deferred income taxes	(260)	901
Earnings from Bluegreen Corporation	(2,138)	(2,086)
Earnings from unconsolidated trust	(3)	
Earnings from real estate joint ventures	(90)	(3,607)
Write-off of debt offering costs		117
Changes in operating assets and liabilities:		
Restricted cash	976	(216)
Inventory of real estate	11,653	(10,205)
Notes receivable	200	175
Other assets	(1,272)	(2,199)
Accounts payable, accrued expenses and other liabilities	12,994	16,980
<b>Net cash provided by operating activities</b>	<b>52,240</b>	<b>13,167</b>
<b>Investing activities:</b>		
Investment in real estate joint ventures		(35)
Distributions from real estate joint ventures	223	1,473
Investment in unconsolidated trust	(696)	
Additions to property and equipment	(4,052)	(3,415)
<b>Net cash used in investing activities</b>	<b>(4,525)</b>	<b>(1,977)</b>
<b>Financing activities:</b>		
Proceeds from notes and mortgage notes payable	74,984	35,525
Proceeds from notes and mortgage notes payable to affiliates	5,148	10,167
Proceeds from junior subordinated debentures	23,196	
Repayment of notes and mortgage notes payable	(112,295)	(35,638)
Repayment of notes and mortgage notes payable to affiliates	(28,164)	(11,155)
Payments for debt offering costs	(926)	(117)
Repayment of development bonds payable		(86)
Cash dividends paid	(396)	
<b>Net cash used in financing activities</b>	<b>(38,453)</b>	<b>(1,304)</b>

<b>Increase in cash and cash equivalents</b>	9,262	9,886
<b>Cash and cash equivalents at the beginning of period</b>	125,522	35,965
<b>Cash and cash equivalents at end of period</b>	\$ 134,784	45,851

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Supplemental cash flow information</b>		
Interest paid on borrowings, net of amounts capitalized	\$ (247)	60
Income taxes paid	4,200	300
<b>Supplemental disclosure of non-cash operating, investing and financing activities:</b>		
Change in shareholders' equity resulting from pro-rata share of unrealized gain recognized by Bluegreen on sale of retained interests, net of tax	87	(92)
Change in shareholders' equity resulting from the Issuance of Bluegreen common stock, net of tax	(56)	(177)

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) and Bowden Building Corporation (Bowden), developers of single family home, townhome and condominium communities. The Land 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 industrial and residential properties (Levitt Commercial); investments in real estate and real estate joint ventures; and an equity investment in Bluegreen Corporation, 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 (Bluegreen).

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, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. 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, 2004.

**2. Stock Based Compensation**

The Company currently 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.

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The following table illustrates the effect on net income and 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):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Pro forma net income</b>		
Net income, as reported	\$ 29,818	13,055
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related income tax effect	(152)	(462)
Pro forma net income	\$ 29,666	12,593
<b>Basic earnings per share:</b>		
As reported	\$ 1.50	0.88
Pro forma	\$ 1.50	0.85
<b>Diluted earnings per share:</b>		
As reported	\$ 1.49	0.87
Pro forma	\$ 1.48	0.84

The fair values of options granted were estimated on the date of their grant using the Black-Scholes option pricing model based on the following assumptions:

Expected volatility	43.08% - 50.35%
Expected dividend yield	0.00% - 0.32%
Risk-free interest rate	4.13% - 4.40%
Expected life	7 - 10 years

**3. Inventory of Real Estate**

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

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Land and land development costs	\$ 295,265	291,414
Construction costs	82,534	100,129
Capitalized interest	11,980	11,110
Other costs	12,039	10,818
	\$ 401,818	413,471





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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 and the amounts capitalized (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Interest incurred to non-affiliates	\$ 2,881	1,360
Interest incurred to affiliates	613	634
Interest capitalized	(3,494)	(1,936)
Interest expense, net	\$	58
Interest expensed in cost of sales	\$ 2,624	1,800

**5. Other Expenses and Interest and Other Income**

Other expenses and interest and other income are summarized as follows (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Other expenses</b>		
Title and mortgage operations expenses	\$ 639	616
Penalty on debt prepayment	677	
Total other expenses	\$ 1,316	616
<b>Interest and other income</b>		
Interest income	\$ 518	166
Other income	804	312
Total interest and other income	\$ 1,322	478

**6. Investment in Bluegreen Corporation**

The Company accounts for its investment in Bluegreen under the equity method. At March 31, 2005, the Company owned approximately 9.5 million shares, or approximately 31%, of Bluegreen's outstanding common 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**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Total assets	\$ 671,266	634,809
Total liabilities	\$ 392,052	363,933
Minority interest	6,782	6,009
Total shareholders' equity	272,432	264,867
Total liabilities and shareholders' equity	\$ 671,266	634,809

**Unaudited Condensed Consolidated Statements of Income**

	<b>Three Months Ended</b>	
	<b>March 31, 2005</b>	<b>March 31, 2004</b>
Revenues and other income	\$ 130,048	107,144
Cost and other expenses	118,776	98,672
Income before minority interest and provision for income taxes	11,272	8,472
Minority interest	773	829
Income before provision for income taxes	10,499	7,643
Provision for income taxes	4,042	2,943
Net income	\$ 6,457	4,700

**7. Debt**

In March 2005, the Company formed a statutory business trust, Levitt Capital Trust I, (the "Trust") for the purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company (the "Debentures"). On March 15, 2005, the Trust issued \$22.5 million of trust preferred securities. The Trust used the proceeds from issuing the trust preferred securities to purchase an identical amount of Debentures from the Company. Interest on the Debentures and distributions on the trust preferred securities will be payable quarterly in arrears at a fixed rate of 8.11% through March 30, 2010 and thereafter at a floating rate of 3.85% over 3-month London Interbank Offered Rate (LIBOR) until the scheduled maturity date of March 30, 2035. Distributions on the trust preferred securities will be cumulative and based upon the liquidation value of the trust preferred security. The trust preferred

securities will be subject to mandatory redemption, in whole or in part, upon repayment of the Debentures at maturity or their earlier redemption. The Debentures are redeemable five years from the issue date or sooner following certain specified events. In addition, the Company contributed \$696,000 to the Trust in exchange for the Trust's common securities, all of which are owned by the Company, and those proceeds were also used to purchase an identical amount of Debentures from the Company. The terms of the Trust's common securities are

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nearly identical to the trust preferred securities. The issuance of trust preferred securities was part of a larger pooled trust securities offering which was not registered under the Securities Act of 1933. Proceeds were used to repay approximately \$22.0 million of indebtedness to affiliates.

**8. Commitments and Contingencies**

At March 31, 2005, the Company had approximately \$211.7 million of commitments to purchase properties for development. Approximately \$37.3 million of these 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, including those contracts subject to the completion of due diligence.

	Purchase Price	Units/Acres	Expected Closing
Homebuilding Division	\$174.4 million	5,339 Units	2005-2006
Land Division	33.8 million	3,300 Acres	2005-2006
Other Operations	3.5 million	90 Units	2005-2006

At March 31, 2005, cash deposits of approximately \$3.8 million secured the Company's commitments under these contracts.

At March 31, 2005 the Company had outstanding surety bonds and letters of credit of approximately \$69.4 million related primarily to its obligations to various governmental entities to construct improvements in the Company's various communities. The Company estimates that approximately \$50.3 million of work remains to complete these improvements. The Company does not believe that any outstanding bonds or letters of credit will likely be drawn upon.

**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 and Other Operations. The Company evaluates segment performance primarily based on net income. 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Eliminations consist primarily of the elimination of sales and profits on real estate transactions between the Land and Homebuilding Divisions, which 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 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, earnings from investments in Bluegreen and other real estate investments and joint ventures.



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The following tables present unaudited segment information as of and for the three months ended March 31, 2005 and 2004 (in thousands).

<b>Three Months Ended March 31, 2005</b>	<b>Homebuilding</b>	<b>Land</b>	<b>Other Operations</b>	<b>Eliminations</b>	<b>Total</b>
Revenues					
Sales of real estate	\$ 117,987	66,551	14,709	(381)	198,866
Title and mortgage operations	948				948
Total revenues	118,935	66,551	14,709	(381)	199,814
Costs and expenses					
Cost of sales of real estate	93,579	27,090	11,326	(1,406)	130,589
Selling, general and administrative expenses	14,608	4,446	4,092		23,146
Other expenses	639	677			1,316
Total costs and expenses	108,826	32,213	15,418	(1,406)	155,051
Earnings from Bluegreen Corporation					
Earnings from joint ventures	104		(14)		90
Interest and other income	214	421	687		1,322
Income before income taxes	10,427	34,759	2,102	1,025	48,313
Provision for income taxes	3,901	13,436	763	395	18,495
Net income	\$ 6,526	21,323	1,339	630	29,818
Inventory of real estate	\$ 307,988	106,645	4,776	(17,591)	401,818
Total assets	\$ 353,412	197,144	150,578	(17,591)	683,543
Total debt	\$ 151,430	23,464	56,201		231,095
<b>Three Months Ended March 31, 2004</b>	<b>Homebuilding</b>	<b>Land</b>	<b>Other Operations</b>	<b>Eliminations</b>	<b>Total</b>
Revenues					
Sales of real estate	\$ 78,664	19,321	538		98,523
Title and mortgage operations	970				970
Total revenues	79,634	19,321	538		99,493
Costs and expenses					
Cost of sales of real estate	61,475	7,968	727	505)	69,665



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Selling, general and administrative expenses	9,292	2,588	2,167		14,047
Interest expense, net		58			58
Other expenses	617		(1)		616
Minority interest			25		25
Total costs and expenses	71,384	10,614	2,918	(505)	84,411
Earnings from Bluegreen Corporation			2,086		2,086
Loss from joint ventures	1,509		2,098		3,607
Interest and other income	43	405	30		478
Income before income taxes	9,802	9,112	1,834	505	21,253
Provision for income taxes	3,781	3,515	707	195	8,198
Net income	\$ 6,021	5,597	1,127	310	13,055
Inventory of real estate	\$ 221,189	43,594	8,638	(5,011)	268,410
Total assets	\$ 246,338	89,149	88,253	(5,011)	418,729
Total debt	\$ 100,248	15,022	57,636		172,906

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The parent company unaudited condensed statements of financial condition at March 31, 2005 and December 31, 2004, and unaudited condensed statements of income for the three months ended March 31, 2005 and 2004 are shown below (in thousands):

**Condensed Statements of Financial Condition**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Total assets	\$ 383,621	370,781
Total liabilities	\$ 59,379	75,992
Total shareholders' equity	324,242	294,789
Total liabilities and shareholders' equity	\$ 383,621	370,781

**Condensed Statements of Income**

	<b>Three Months Ended March 31, 2005      2004</b>	
Earnings from Bluegreen Corporation	\$ 2,138	2,086
(Loss) earnings from real estate joint ventures	(14)	2,099
Other revenues	177	12
Costs and expenses	3,389	2,157
(Loss) income before income taxes	(1,088)	2,040
(Benefit) provision for income taxes	(469)	787
Net (loss) income before undistributed earnings from consolidated subsidiaries	(619)	1,253
Earnings from consolidated subsidiaries, net of income taxes	30,437	11,802
Net income	\$ 29,818	13,055

Cash dividends received from subsidiaries for the three months ended March 31, 2005 and 2004 were \$4.7 million and \$914,000, respectively. Some subsidiaries' borrowings contain covenants that, among other things, may have the effect of limiting dividends that can be paid to Levitt Corporation.

**11. Earnings per Share**

Basic earnings per common share is computed by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is computed in the same manner as basic earnings per share, but it also gives consideration to dilutive stock options using the treasury stock method and the pro rata impact of Bluegreen's dilutive securities (stock options and convertible securities) on the amount of Bluegreen's earnings that the Company recognizes.

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The following table presents the computation of basic and diluted earnings per common share (in thousands, except for per share data):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Numerator:		
Basic earnings per common share:		
Net income basic	\$ 29,818	13,055
Diluted earnings per common share:		
Net income basic	\$ 29,818	13,055
Pro rata share of the net effect of Bluegreen dilutive securities	(39)	(130)
Net income diluted	\$ 29,779	12,925
Denominator:		
Basic average shares outstanding	19,816	14,816
Net effect of stock options assumed to be exercised	149	36
Diluted average shares outstanding	19,965	14,852
<b>Earnings per common share:</b>		
Basic	\$ 1.50	0.88
Diluted	\$ 1.49	0.87

**12. Dividends**

On January 24, 2005, the Company's Board of Directors declared a cash dividend of \$0.02 per share on its Class A common stock and Class B common stock. The dividend was paid on February 15, 2005 to all shareholders of record on February 8, 2005.

On April 25, 2005, the Company's Board of Directors declared a cash dividend of \$0.02 per share on its Class A common stock and Class B common stock. The dividend is payable on May 16, 2005 to all shareholders of record on May 9, 2005.

The Company has not adopted a policy of regular dividend payments. The payment of dividends in the future is subject to approval by the Board of Directors and will depend upon, among other factors, the Company's results of operations and financial condition.

**13. New Accounting Pronouncements**

In December 2004, FASB issued Statement No. 152 ( Accounting for Real Estate Time-Sharing Transactions an amendment of FASB Statements No. 66 and 67.) This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. Bluegreen has indicated in its periodic reports filed with the SEC that this pronouncement is not expected to have a material effect on Bluegreen s financial statements. Accordingly, management does not believe that this Statement will have a material effect on the Company s consolidated financial statements.

In December 2004, FASB issued Statement No. 123 (revision) ( Share-based payments ). This Statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. The Statement eliminated the accounting for share-based transactions under APB No. 25 and its related interpretations instead requiring that all share based payments be accounted

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for using a fair value method. For public companies the Statement will be effective in the first fiscal year that begins after June 15, 2005. Management expects to adopt the Statement on January 1, 2006.

**14. Subsequent Events**

In April 2005, Core Communities entered into a \$40.0 million line of credit with an unaffiliated financial institution to provide future funding for land acquisition and development activities. Borrowings under the line of credit bear interest at either (i) the prime rate less twenty-five basis points or (ii) LIBOR plus two hundred fifty basis points. Accrued interest is due and payable monthly in arrears, and all outstanding principal and accrued interest is due and payable in April 2007. Core Communities may, at its option, extend the line of credit for one additional year to April 2008.

In May 2005, the Company formed a new statutory business trust, Levitt Capital Trust II (the Trust), for the purpose of issuing trust preferred securities and investing the proceeds thereof in junior subordinated debentures of the Company (the May Debentures). On May 4, 2005, the Trust issued \$30.0 million of trust preferred securities and used the proceeds therefrom to purchase an identical amount of May Debentures from the Company. Interest on the May Debentures and distributions on the trust preferred securities will be payable quarterly in arrears at a fixed rate of 8.09% through June 30, 2010 and thereafter at a floating rate of 3.80% over 3-month LIBOR until the scheduled maturity date of June 30, 2035. Distributions on the trust preferred securities will be cumulative and based upon the liquidation value of the trust preferred security. The trust preferred securities will be subject to mandatory redemption, in whole or in part, upon repayment of the May Debentures at maturity or their earlier redemption. The May Debentures are redeemable five years from the issue date or sooner following certain specified events. In addition, the Company contributed \$928,000 to the Trust in exchange for the Trust's common securities, all of which are owned by the Company, and those proceeds were also used to purchase an identical amount of May Debentures from the Company. The terms of the Trust's common securities are nearly identical to the trust preferred securities. The trust preferred securities were issued in a private transaction. The Company used the proceeds from this transaction to repay approximately \$16.0 million of indebtedness to affiliates and intends to use the balance for general corporate purposes.

**Table of Contents****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The objective of the following discussion is to provide an understanding of the financial condition and results of operations of Levitt Corporation and its wholly owned subsidiaries ( Levitt , or the Company ) as of and for the three months ended March 31, 2005 and 2004. The Company may also be referred to as we, us, or our. We engage in homebuilding, land development and other real estate activities through Levitt and Sons, LLC ( Levitt and Sons ), Bowden Building Corporation ( Bowden ), Core Communities, LLC ( Core Communities ) and other operations, which include Levitt Commercial, LLC ( Levitt Commercial ), an investment in Bluegreen Corporation ( Bluegreen ) and investments in real estate projects through subsidiaries and joint ventures. Acquired in December 1999, Levitt and Sons is a developer of single-family home and townhome communities and condominium and rental apartment complexes. Acquired in April 2004, Bowden is a builder of single family homes based in Memphis, Tennessee. Core Communities is currently developing Tradition, its second master-planned community, which is located in St. Lucie County, Florida. Tradition is planned to ultimately include more than 8,000 total acres, including approximately five miles of frontage on Interstate 95. Levitt Commercial specializes in the development of industrial and residential properties. Bluegreen is 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.

Except for historical information contained herein, the matters discussed in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), that involve substantial risks and uncertainties. Some of the forward-looking statements can be identified by the use of words such as anticipate, believe, estimate, may, intend, expect, will, should, seeks or other similar expressions. Forward-looking based largely on management's expectations and involve inherent risks and uncertainties including certain risks described in this report. When considering those forward-looking statements, you should keep in mind the risks, uncertainties and other cautionary statements made in this report. You should not place undue reliance on any forward-looking statement, which speaks only as of the date made. In addition to the risks identified below, you should refer to our periodic and current reports filed with the United States Securities and Exchange Commission (the SEC ) for specific risks which could cause actual results to be significantly different from those expressed or implied by those forward-looking statements. Some factors which may affect the accuracy of the forward-looking statements apply generally to the real estate industry, while other factors apply directly to us. Any number of important factors which could cause actual results to differ materially from those in the forward-looking statements include: the impact of economic, competitive and other factors affecting the Company and its operations, including the impact of hurricanes and tropical storms in the areas in which we operate; the market for real estate generally and in the areas where the Company has developments, including the impact of market conditions on the Company's margins; unanticipated delays in opening planned new communities; the availability and price of land suitable for development; shortages and increased costs of construction materials and labor; the effects of increases in interest rates; environmental factors, the impact of governmental regulations and requirements; the Company's ability to timely deliver homes from backlog and successfully manage growth; and the Company's success at managing the risks involved in the foregoing. Many of these factors are beyond our control. The Company cautions that the foregoing factors are not exclusive.

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### **Executive Overview**

Management evaluates the performance and prospects of the Company and its subsidiaries using a variety of financial and non-financial measures. The key financial measures utilized to evaluate historical operating performance include revenues from sales of real estate, cost of sales of real estate, margin (which we measure as revenues from sales of real estate minus cost of sales of real estate), margin percentage (which we measure as margin divided by revenues from sales of real estate), income before taxes and net income. Non-financial measures used to evaluate historical performance include the number and value of new orders executed, the number of housing starts and the number of homes delivered. In evaluating the Company's future prospects, management considers non-financial information such as the number of homes and acres in backlog (which we measure as homes or land subject to an executed sales contract) and the aggregate value of those contracts. Additionally, we monitor the number of properties remaining in inventory and under contract to be purchased relative to our sales and construction trends. The Company's ratio of debt to shareholders' equity and cash requirements are also considered when evaluating the Company's future prospects, as are general economic factors and interest rate trends. Each of the above measures is discussed in the following sections as it relates to our operating results, financial position and liquidity. The list of measures above is not an exhaustive list, and management may from time to time utilize additional financial and non-financial information or may not use the measures listed above.

### **Impact of 2004 Hurricanes**

The majority of our business operations are located in the State of Florida, which is subject to hurricanes and other tropical weather systems. In the months of August and September 2004, three hurricanes made landfall in areas where we have significant homebuilding operations (Ft. Myers, Orlando, Sarasota and Port St. Lucie). These hurricanes caused property damage in several of our communities in Central Florida, and the Company has expended considerable resources on homes under construction and previously delivered homes repairing stucco, replacing insulation and dry wall as well as other materials damaged in the storms. The Company has also expended funds to mitigate other hurricane-related damage, including replacing landscaping, fences, repairing lake beds and replacing building materials. Our consolidated statement of income for the three months ended March 31, 2005 includes insurance proceeds of \$1.2 million which were offset by hurricane related expenses.

### **Impact of Increasing Costs, Interest Rates and Local Government Regulation**

Our business operations are impacted by competition for labor—direct and subcontracted—raw materials, supply and delivery issues. Ongoing strength in homebuilding and other construction activities has resulted in higher prices of most building materials, including lumber, steel, concrete and asphalt. We compete with other real estate developers—regionally, nationally and globally—for raw materials and labor. In addition, local materials suppliers periodically limit the allocation of their product to their customers which slows our production process and forces us to obtain those materials from other suppliers, typically at higher prices. In particular, supplies of cement block remain tight in the Florida market and we are currently subject to allocations of deliveries in some of our Florida developments. Although these allocations have not materially disrupted our operations to date, continued allocations could adversely impact our future operations or restrict our ability to expand in certain markets. Without corresponding increases in the sales prices of our real estate inventories (both land and finished homes), increasing materials and labor costs associated with land development and home building will negatively affect our future results of operations.



**Table of Contents****Critical Accounting Policies and Estimates**

Critical accounting policies are those that are important to the understanding of our financial statements and also involve estimates and judgments about inherently uncertain matters. In preparing our financial statements, management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates require the exercise of judgment, as future events cannot be determined with certainty. Accordingly, actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in subsequent periods relate to the valuation of (i) real estate, including the estimation of costs required to complete development of a property, (ii) investments in real estate joint ventures and unconsolidated subsidiaries (including Bluegreen), and (iii) the fair market value of assets and liabilities in the application of the purchase method of accounting. The accounting policies that we have identified as critical to the portrayal of our financial condition and results of operations are: (a) real estate inventories; (b) investments in real estate joint ventures and other equity investments; (c) revenue recognition; (d) capitalized interest; and (e) income taxes. For a more detailed discussion of these critical accounting policies see **Critical Accounting Policies** appearing in our Annual Report on Form 10-K for the year ended December 31, 2004.

**CONSOLIDATED RESULTS OF OPERATIONS**

	<b>Three Months Ended March 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
(In thousands)			
<b>Revenues</b>			
Sales of real estate	\$ 198,866	98,523	100,343
Title and mortgage operations	948	970	(22)
Total revenues	199,814	99,493	100,321
<b>Costs and expenses</b>			
Cost of sales of real estate	130,589	69,665	60,924
Selling, general and administrative expenses	23,146	14,047	9,099
Interest expense, net		58	(58)
Other expenses	1,316	616	700
Minority interest		25	(25)
Total costs and expenses	155,051	84,411	70,640
Earnings from Bluegreen Corporation	2,138	2,086	52
Earnings from joint ventures	90	3,607	(3,517)
Interest and other income	1,322	478	844
Income before income taxes	48,313	21,253	27,060
Provision for income taxes	18,495	8,198	10,297
<b>Net income</b>	<b>\$ 29,818</b>	<b>13,055</b>	<b>16,763</b>

***For the Three Months Ended March 31, 2005 Compared to the Same 2004 Period:***

Consolidated net income increased \$16.8 million, or 128%, for the three months ended March 31, 2005 as compared to the same period in 2004. The increase in net income primarily resulted from the bulk sale of five non-contiguous parcels of land adjacent to Tradition consisting of a total of 1,294 acres for \$64.7 million. Also contributing to the increase in net income were increases in sales of real estate by our Homebuilding Division and Other Operations. These increases were offset, in part, by

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lower earnings from joint ventures, lower margins in homebuilding and higher selling, general and administrative expenses.

Our revenues from sales of real estate increased 102% to \$198.9 million for the quarter ended March 31, 2005 from \$98.5 million for the same 2004 period. This increase was attributable primarily to the bulk land sale discussed above, as well as from an increase in home deliveries. In the quarter ended March 31, 2005, 501 homes were delivered compared to 341 homes delivered in the first quarter of 2004. Revenues also reflect increased sales of flex warehouse properties as Levitt Commercial closed out deliveries at two warehouse developments. Profits recognized by the Land Division from sales to the Homebuilding division are deferred until the Homebuilding Division delivers homes on those properties to third parties, at which time the deferred profit is applied against consolidated cost of sales. Previously deferred profits of \$1.0 million related to land sales by our Land Division to our Homebuilding Division were recognized as income during the quarter ended March 31, 2005, compared to \$505,000 for the same 2004 period.

Selling, general and administrative expenses increased during the first quarter of 2005 compared to the same 2004 period primarily as a result of higher employee compensation and benefits including sales commissions and accrued bonus compensation. Bonus compensation, which is tied to our profitability, increased during the first quarter of 2005 commensurate with higher earnings during the period. The increase in compensation expense is also associated with increased headcount in our new development projects in Central and South Florida, the expansion of homebuilding activities into North Florida and Georgia, and the addition of Bowden (which was acquired in April 2004), as well as an increase in our home deliveries. The number of our full time employees increased to 551 at March 31, 2005 from 386 at March 31, 2004, offset in part by a decrease in the number of part time employees from 38 at March 31, 2004 to 26 at March 31, 2005. As a percentage of total revenues, selling, general and administrative expenses declined to 12% in the first quarter of 2005 from 14% in the first quarter of 2004.

Interest incurred on notes and development bonds payable totaled \$3.5 million for the 2005 period and \$2.0 million for the 2004 period. Interest incurred was higher due to higher outstanding balances of notes and mortgage notes payable, as well as to an increase in the average interest rate on our variable-rate debt. Most of our variable-rate debt is indexed to the Prime Rate, which increased from 4.00% at March 31, 2004 to 5.75% at March 31, 2005. Interest capitalized was \$3.5 million for the 2005 period and \$1.9 million for the 2004 period. At the time of home closings and land sales, the capitalized interest allocated to such inventory is charged to cost of sales. Cost of sales of real estate for the three months ended March 31, 2005 and 2004 included previously capitalized interest of approximately \$2.6 million and \$1.8 million, respectively.

The increase in other expenses was primarily attributable to a \$677,000 penalty on debt prepayment incurred during the first quarter of 2005 at our Land Division. The penalty arose from the repayment of indebtedness under a line of credit using the proceeds of the bulk land sale described above.

Bluegreen's reported net income for the three months ended March 31, 2005 was \$6.5 million, as compared to \$4.7 million for the same period in 2004. Our interest in Bluegreen's earnings, net of purchase accounting adjustments, was \$2.1 million in each of those periods. Purchase accounting adjustments increased our interest in Bluegreen's earnings by \$110,000 for the first quarter of 2005, whereas purchase accounting and other adjustments increased our interest in Bluegreen's earnings by \$294,000 for the first quarter of 2004. For the three months ended March 31, 2005 and 2004, the 9.5 million shares of Bluegreen that we own represented approximately 31% and 37%, respectively, of the outstanding shares of Bluegreen. Our ownership percentage was diluted in the 2005 period as a result

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of Bluegreen's issuance of common stock in 2004 in connection with the conversion by holders of \$34.1 million of its 8.25% Convertible Subordinated Debentures and the exercise of stock options.

The increase in interest and other income is primarily related to an increase in rental income and higher balances of interest-earning deposits at various financial institutions, including our affiliate, BankAtlantic. At March 31, 2005, we had cash and cash equivalents of \$134.8 million, as compared with \$45.9 million at March 31, 2004.

Earnings from real estate joint ventures in the first quarter of 2004 included earnings generated by the sale of an apartment complex and deliveries of homes and condominium units developed by joint ventures. There were no earnings generated by these joint ventures in the first quarter of 2005, as they were winding down their operations.

**HOMEBUILDING DIVISION RESULTS OF OPERATIONS**

	<b>Three Months Ended March 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
(Dollars in thousands)			
<b>Revenues</b>			
Sales of real estate	\$ 117,987	78,664	39,323
Title and mortgage operations	948	970	(22)
Total revenues	118,935	79,634	39,301
<b>Costs and expenses</b>			
Cost of sales of real estate	93,579	61,475	32,104
Selling, general and administrative expenses	14,608	9,292	5,316
Other expenses	639	617	22
Total costs and expenses	108,826	71,384	37,442
Earnings from joint ventures	104	1,509	(1,405)
Interest and other income	214	43	171