

CONSOLIDATED TOMOKA LAND CO

Form 10-Q

November 09, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**

**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 0-5556**

**CONSOLIDATED-TOMOKA LAND CO.**

(Exact name of registrant as specified in its charter)

**Florida**

(State or other jurisdiction of incorporation or organization)

**59-0483700**

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

**1530 Cornerstone Blvd., Suite 100**

**Daytona Beach, Florida 32117**

(Address of principal executive offices) (Zip Code)

**(386) 274-2202**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year,  
if changed since last report)

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 \_\_\_\_\_

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See

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definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined by 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 of Common Stock Outstanding  
November 5, 2007  
\$1.00 par value 5,725,806

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CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED BALANCE SHEETS

(Unaudited)

|   | SEPTEMBER 30,<br>2007 | DECEMBER 31,<br>2006  |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                       |
| Cash  | \$ 3,233,154          | \$ 738,264            |
| Restricted Cash                                       | 1,524,347             | 1,185,962             |
| Investment Securities                                 | 9,521,974             | 11,780,205            |
| Notes Receivable                                      | 700,000               | 700,000               |
| Land and Development Costs                            | 16,012,716            | 15,058,340            |
| Intangible Assets                                     | 4,814,186             | 5,103,649             |
| Other Assets  | 4,949,229             | 5,569,605             |
|   | 40,755,606            | 40,136,025            |
| <b>Property, Plant, and Equipment:</b>                |                       |                       |
| Land, Timber and Subsurface Interests                 | 6,267,707             | 3,012,623             |
| Golf Buildings, Improvements, and Equipment           | 11,613,112            | 11,442,492            |
| Income Properties Land, Buildings, and Improvements   | 104,820,647           | 104,819,695           |
| Other Building, Equipment, and Land Improvements      | 2,819,381             | 2,584,467             |
| Total Property, Plant, and Equipment                  | 125,520,847           | 121,859,277           |
| Less, Accumulated Depreciation and Amortization       | (9,762,392)           | (8,221,138)           |
| Net - Property, Plant, and Equipment                  | 115,758,455           | 113,638,139           |
| <b>TOTAL ASSETS</b>                                   | <b>\$ 156,514,061</b> | <b>\$ 153,774,164</b> |
| <b>LIABILITIES</b>                                    |                       |                       |
| Accounts Payable                                      | \$ 201,235            | \$ 167,378            |
| Accrued Liabilities                                   | 8,744,896             | 7,749,121             |
| Accrued Stock Based Compensation                      | 3,597,598             | 5,743,773             |
| Income Taxes Payable                                  | 419,748               | --                    |
| Deferred Profit                                       | --                    | 563,467               |
| Deferred Income Taxes                                 | 30,127,978            | 29,491,587            |
| Notes Payable   | 6,872,781             | 7,061,531             |
| <b>TOTAL LIABILITIES</b>                              | <b>49,964,236</b>     | <b>50,776,857</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                           |                       |                       |
| Common Stock  | 5,725,806             | 5,693,007             |
| Additional Paid in Capital                            | 5,130,574             | 2,630,748             |
| Retained Earnings                                     | 96,686,473            | 95,650,170            |
| Accumulated Other Comprehensive Loss                  | (993,028)             | (976,618)             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                     | <b>106,549,825</b>    | <b>102,997,307</b>    |
| <b>TOTAL LIABILITIES AND<br/>SHAREHOLDERS' EQUITY</b> | <b>\$ 156,514,061</b> | <b>\$ 153,774,164</b> |

See Accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED STATEMENTS OF INCOME

|   | (Unaudited)<br>Three Months Ended |                       | (Unaudited)<br>Nine Months Ended |                       |
|---|-----------------------------------|-----------------------|----------------------------------|-----------------------|
|   | September 30,<br>2007             | September 30,<br>2006 | September 30,<br>2007            | September 30,<br>2006 |
| Income  |                                   |                       |                                  |                       |
| Real Estate Operations:   |                                   |                       |                                  |                       |
| Real Estate Sales   |                                   |                       |                                  |                       |
| Sales and Other Income  | \$ 2,994,820                      | \$ 5,095,658          | \$ 8,860,680                     | \$ 14,620,160         |
| Costs and Other Expenses  | (627,262)                         | (1,494,549)           | (4,833,438)                      | (2,997,659)           |
|   | 2,367,558                         | 3,601,109             | 4,027,242                        | 11,622,501            |
| Income Properties   |                                   |                       |                                  |                       |
| Leasing Revenues & Other Income                                   | 2,207,308                         | 2,183,626             | 6,537,982                        | 5,997,775             |
| Costs and Other Expenses  | (520,110)                         | (407,697)             | (1,373,192)                      | (1,069,569)           |
|   | 1,687,198                         | 1,775,929             | 5,164,790                        | 4,928,206             |
| Golf Operations   |                                   |                       |                                  |                       |
| Sales and Other Income  | 930,164                           | 1,027,067             | 3,907,346                        | 3,909,816             |
| Costs and Other Expenses  | (1,577,723)                       | (1,568,987)           | (5,236,862)                      | (4,946,804)           |
|   | (647,559)                         | (541,920)             | (1,329,516)                      | (1,036,988 )          |
| Total Real Estate Operations                                      | 3,407,197                         | 4,835,118             | 7,862,516                        | 15,513,719            |
| Profit on Sales of Other  |                                   |                       |                                  |                       |
| Real Estate Interests   | 816,235                           | 212,550               | 1,400,979                        | 668,420               |
| Interest and Other Income   | 149,627                           | 38,831                | 450,420                          | 484,516               |
| Operating Income  | 4,373,059                         | 5,086,499             | 9,713,915                        | 16,666,655            |
| General and Administrative Expenses                               | (1,044,337)                       | (1,911,250)           | (5,525,328)                      | (4,541,745)           |
| Income from Continuing Operations                                 |                                   |                       |                                  |                       |
| Before Income Taxes   | 3,328,722                         | 3,175,249             | 4,188,587                        | 12,124,910            |
| Income Taxes  | (1,226,158)                       | (791,231)             | (1,553,895)                      | (3,897,309)           |
| Income Before Discontinued Operations<br>and Cumulative Effect of |                                   |                       |                                  |                       |
| Change in Accounting Principle                                    | 2,102,564                         | 2,384,018             | 2,634,692                        | 8,227,601             |
| Income from Discontinued Operations                               |                                   |                       |                                  |                       |
| Net of Income Tax   | --                                | --                    | --                               | 240,476               |
| Cumulative Effect of Change in<br>Accounting Principle            | --                                | --                    | --                               | (216,093)             |
| Net Income  | \$ 2,102,564                      | \$ 2,384,018          | \$ 2,634,692                     | \$ 8,251,984          |

## Per Share Information:

Basic and Diluted Income (Loss) Per Share

Income Before Discontinued Operations

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|                                     |    |      |    |      |                 |
|-------------------------------------|----|------|----|------|-----------------|
| and Cumulative Effect of            |    |      |    |      |                 |
| Change in Accounting Principle      | \$ | 0.37 | \$ | 0.42 | \$ 0.46 \$ 1.45 |
| Income from Discontinued Operations |    |      |    |      |                 |
| Net of Income Tax                   |    | --   |    | --   | -- 0.04         |
| Cumulative Effect of Change in      |    |      |    |      |                 |
| Accounting Principle                |    | --   |    | --   | -- (0.04)       |
| Net Income                          | \$ | 0.37 | \$ | 0.42 | \$ 0.46 \$ 1.45 |
| Dividends                           |    |      |    |      |                 |
|                                     | \$ | 0.10 | \$ | 0.09 | \$ 0.28 \$ 0.25 |

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME  
(Unaudited)

|   | Common<br>Stock | Additional<br>Paid- In<br>Capital | Retained<br>Earnings | Accumulated<br>Other Comprehensive<br>Income | Total Shareholders'<br>Equity | Co |
|---|-----------------|-----------------------------------|----------------------|--|-------------------------------|----|
| Balance, December<br>31, 2006   | \$ 5,693,007    | \$ 2,630,748                      | \$ 95,650,170        | \$ (976,618)                                 | 102,997,307                   |    |
| Net Income  |                 |                                   | 2,634,692            |  | 2,634,692                     | \$ |
| Other<br>Comprehensive<br>Loss: Cash Flow<br>Hedging<br>Derivative, Net of<br>Tax |                 |                                   |                      | (16,410)                                     | (16,410)                      |    |
| Comprehensive<br>Income   |                 |                                   |                      |  |                               | \$ |
| Exercise of<br>Liability Classified<br>Stock<br>Options                           | 32,799          | 2,499,826                         |                      |  | 2,532,625                     |    |
| Cash Dividends<br>(\$ .28 per share)  |                 |                                   | (1,598,389)          |  | (1,598,389)                   |    |
| Balance, September<br>30, 2007  | \$ 5,725,806    | \$ 5,130,574                      | \$ 96,686,473        | \$ (993,028)                                 | 106,549,825                   |    |

See Accompanying Notes to Consolidated Financial Statements.

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See

CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | (Unaudited)<br>Nine Months Ended |                       |
|---|----------------------------------|-----------------------|
|   | September 30,<br>2007            | September 30,<br>2006 |
| Cash Flow from Operating Activities                         |                                  |                       |
| Net Income  | \$ 2,634,692                     | \$ 8,251,984          |
| Adjustments to Reconcile Net Income to Net Cash             |                                  |                       |
| Provided By Operating Activities:                           |                                  |                       |
| Depreciation and Amortization                               | 1,848,214                        | 1,662,368             |
| Loss (Gain) on Sale of Property, Plant, and Equipment       | 110,790                          | (436,971 )            |
| Deferred Income Taxes                                       | 636,391                          | 3,353,834             |
| Non Cash Compensation                                       | 1,661,438                        | 1,348,525             |
| Deferred Profit   | (563,467)                        | --                    |
| (Increase) Decrease in Assets:                              |                                  |                       |
| Land and Development Costs                                  | (954,376)                        | (3,744,466)           |
| Refundable Income Taxes                                     | 37,664                           | --                    |
| Other Assets  | 582,714                          | 293,022               |
| Increase (Decrease) in Liabilities:                         |                                  |                       |
| Accounts Payable  | 33,857                           | 502,140               |
| Accrued Liabilities and Accrued Stock Based Compensation    | 979,365                          | 379,620               |
| Deferred Profit   | --                               | (3,648,986)           |
| Income Taxes Payable  | 419,748                          | (4,772,188)           |
| Net Cash Provided By Operating Activities                   | 7,427,030                        | 3,188,882             |
| Cash Flow From Investing Activities:                        |                                  |                       |
| Acquisition of Property, Plant, and Equipment               | (3,789,860)                      | (15,627,639)          |
| Acquisition of Intangible Assets                            | --                               | (858,808)             |
| Increase in Restricted Cash for Acquisitions                |                                  |                       |
| Through the Like-Kind Exchange Process                      | (338,385)                        | 5,736,528             |
| Net (Increase) Decrease in Investment Securities            | 2,258,231                        | 7,430,271             |
| Proceeds from Disposition of Property, Plant, and Equipment | --                               | 1,630,205             |
| Net Cash Used In Investing Activities                       | (1,870,014)                      | (1,689,443)           |
| Cash Flow from Financing Activities:                        |                                  |                       |
| Proceeds from Notes Payable                                 | 1,776,000                        | 5,540,000             |
| Payments on Notes Payable                                   | (1,964,750)                      | (4,816,914)           |
| Cash Proceeds from Exercise of Stock Options                | 16,762                           | 19,515                |
| Cash Used to Settle Stock Appreciation Rights               | (1,291,749)                      | (771,333)             |
| Dividends Paid  | (1,598,389)                      | (1,421,071)           |
| Net Cash Used in Financing Activities                       | (3,062,126)                      | (1,449,803)           |
| Net Increase in Cash  | 2,494,890                        | 49,636                |

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|                         |              |              |
|-------------------------|--------------|--------------|
| Cash, Beginning of Year | 738,264      | 1,127,143    |
| Cash, End of Period     | \$ 3,233,154 | \$ 1,176,779 |

See Accompanying Notes to Consolidated Financial Statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

**NOTE 1. PRINCIPLES OF INTERIM STATEMENTS**

The unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission.

Certain information and note disclosures, which are normally included in annual financial statements prepared in accordance with U.S. generally accepted

accounting principles, have been omitted pursuant to those rules and regulations. The consolidated financial statements reflect all adjustments which are,

in the opinion of management, necessary to present fairly the Company's financial position and the results of operations for the interim periods. The

consolidated format is designed to be read in conjunction with the last annual report. For further information, refer to the consolidated financial statements

and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Inter-company balances and transactions have been eliminated in consolidation.

**NOTE 2. DISCONTINUED OPERATIONS**

In accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets," the Company has classified the revenues and income/(loss) of a vacant income- property, a former automobile dealer site, located in Daytona Beach, Florida, and sold on May 26, 2006, as discontinued operations. Financial statements for 2006 have been reclassified to reflect the discontinued operation.

Summary financial information for the operation is as follows:

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September          | September | September         | September   |
|  | 30,                | 30,       | 30,               | 30,         |
|  | 2007               | 2006      | 2007              | 2006        |
| Revenues                                       | --                 | --        | --                | --          |
| Loss   | --                 | --        | --                | \$ (45,475) |
| Income Tax Benefit                             | --                 | --        | --                | 17,542      |
| Gain on Sale ( Net of Income Tax of \$168,562) | --                 | --        | --                | 268,409     |
| Net Income                                     | --                 | --        | --                | \$ 240,476  |

**Index****NOTE 3. COMMON STOCK AND EARNINGS PER SHARE**

Basic earnings per common share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share are based on the assumption of the conversion of stock options at the beginning of each period using the treasury stock method at average cost for the periods.

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|   | <u>Three Months</u>                   |                       | <u>Nine Months</u>                    |                       |
|---|---------------------------------------|-----------------------|---------------------------------------|-----------------------|
|   | <u>Ended</u><br>September 30,<br>2007 | September 30,<br>2006 | <u>Ended</u><br>September 30,<br>2007 | September 30,<br>2006 |
| Income Available to Common Shareholders:                                  |                                       |                       |                                       |                       |
| Income Before Discontinued Operations and                                 |                                       |                       |                                       |                       |
| Cumulative Effect of Change in Accounting Principle                       | \$ 2,102,564                          | \$ 2,384,018          | \$ 2,634,692                          | \$ 8,227,601          |
| Discontinued Operations (Net of Income Tax)                               | --                                    | --                    | --                                    | 240,476               |
| Cumulative Effect of Change in Accounting Principle (Net of Income Tax)   | --                                    | --                    | --                                    | (216,093)             |
| Net Income  | \$ 2,102,564                          | \$ 2,384,018          | \$ 2,634,692                          | \$ 8,251,984          |
| Weighted Average Shares Outstanding                                       | 5,720,219                             | 5,691,192             | 5,713,450                             | 5,681,060             |
| Common Shares Applicable to Stock Options Using the Treasury Stock Method | --                                    | 7,452                 | 14,738                                | 11,526                |
| Total Shares Applicable to Diluted Earnings Per Share                     | 5,720,219                             | 5,698,644             | 5,728,188                             | 5,692,586             |
| Per Share Information:  |                                       |                       |                                       |                       |
| Basic Income Per Share  |                                       |                       |                                       |                       |
| Income Before Discontinued Operations and                                 |                                       |                       |                                       |                       |
| Cumulative Effect of Change in Accounting Principle                       | \$ 0.37                               | \$ 0.42               | \$ 0.46                               | \$ 1.45               |
| Discontinued Operations (Net of Income Tax)                               | --                                    | --                    | --                                    | 0.04                  |
| Cumulative Effect of Change in Accounting Principle (Net of Income Tax)   | --                                    | --                    | --                                    | (0.04)                |
| Net Income  | \$ 0.37                               | \$ 0.42               | \$ 0.46                               | \$ 1.45               |
| Diluted Income Per Share  |                                       |                       |                                       |                       |
| Income Before Discontinued Operations and                                 |                                       |                       |                                       |                       |
| Cumulative Effect of Change in Accounting Principle                       | \$ 0.37                               | \$ 0.42               | \$ 0.46                               | \$ 1.45               |
| Discontinued Operations (Net of Income Tax)                               | --                                    | --                    | --                                    | 0.04                  |
| Cumulative Effect of Change in Accounting Principle (Net of Income Tax)   | --                                    | --                    | --                                    | (0.04)                |
| Net Income  | \$ 0.37                               | \$ 0.42               | \$ 0.46                               | \$ 1.45               |

Diluted shares outstanding for the quarter ended September 30, 2007, does not assume the conversion of stock options as it would have an anti-dilutive effect on earnings per share.

Index**NOTE 4. NOTES PAYABLE**

Notes Payable consist of the following:

|                             | September 30, 2007 |                     |
|-----------------------------|--------------------|---------------------|
|                             | Total              | Due Within One Year |
| \$20,000,000 Line of Credit | \$ --              | \$ --               |
| Notes Payable               | 6,872,781          | 266,726             |
| Total                       | \$ 6,872,781       | \$ 266,726          |

Payments applicable to reduction of principal amounts will be required as follows:

| <u>Year Ending June 30,</u> |              |
|-----------------------------|--------------|
| 2008                        | \$ 266,726   |
| 2009                        | 287,004      |
| 2010                        | 308,824      |
| 2011                        | 332,303      |
| 2012                        | 5,677,924    |
| 2013 & thereafter           | --           |
|                             | \$ 6,872,781 |

During the first quarter of 2007 the Company amended its financing agreements with its primary lender. The changes to the agreements included the expansion of the revolving line of credit to \$20 million from \$10 Million, while decreasing the interest rate to 140 basis points over the 30-day LIBOR and releasing the 3,000 acres mortgaged under the \$8 million ten-year term loan.

For the first nine-months of 2007, interest expense was \$290,313, net of \$94,344 interest capitalized to land and development costs, with interest of \$384,657 paid during the nine-month period. During the first nine months of 2006, interest expensed and paid totaled \$406,334.

Index**NOTE 5. STOCK OPTION PLAN**

The Company maintains a stock option plan ("Plan") pursuant to which 500,000 shares of the Company's common stock may be issued. A summary of share option activity under the Plan as of September 30, 2007, and changes during the nine months ended is presented below:

## STOCK OPTIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007:

|                               | Shares   | Wtd Avg. Ex. Price | Wtd. Avg. Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|-------------------------------|----------|--------------------|--|---------------------------|
| Outstanding December 31, 2006 | 172,200  | \$ 41.96           |  |                           |
| Granted                       | 62,000   | \$ 77.25           |  |                           |
| Exercised                     | (54,400) | \$ 30.78           |  |                           |

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|                                   |         |          |      |              |  |
|-----------------------------------|---------|----------|------|--------------|--|
| Expired                           | --      | --       |      |              |  |
| Outstanding September 30, 2007    | 179,800 | \$ 59.04 | 8.15 | \$ 2,094,708 |  |
| Exercisable at September 30, 2007 | 8,400   | \$ 65.53 | 8.34 | \$ 14,604    |  |

STOCK APPRECIATION RIGHTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007:

|                                   | Shares   | Wtd.Avg.<br>Fair Value | Wtd. Avg.<br>Remaining<br>Contractual<br>Term<br>(Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|----------|------------------------|--|---------------------------------|
| Outstanding December 31, 2006     | 172,200  | \$ 13.60               |  |                                 |
| Granted                           | 62,000   | \$ 15.73               |  |                                 |
| Exercised                         | (54,400) | \$ 20.83               |  |                                 |
| Expired                           | --       | --                     |  |                                 |
| Outstanding September 30, 2007    | 179,800  | \$ 13.89               | 8.15   | \$ 1,127,920                    |
| Exercisable at September 30, 2007 | 8,400    | \$ 11.43               | 8.34   | \$ 7,864                        |

In connection with the exercise of 54,400 option shares, 32,799 shares of stock were issued and 21,601 shares of stock were surrendered to relieve the stock option liability by \$2,515,863. Cash proceeds of \$16,762 were received on the exercise of the stock options.

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**NOTE 6. PENSION PLAN**

The Company maintains a defined benefit pension plan for all employees who have attained the age of 21 and completed one year of service. The pension benefits are based primarily on age, years of service, and the average compensation for the highest five years during the final ten years of employment. The benefit formula provides for a life annuity benefit.

Following are the components of the Net Period Benefit Cost:

|                                | Three Months Ended    |                       | Nine Months Ended     |                       |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                | September 30,<br>2007 | September 30,<br>2006 | September 30,<br>2007 | September 30,<br>2007 |
| Service Cost                   | \$ 72,716             | \$ 69,291             | \$ 218,148            | \$ 207,873            |
| Interest Cost                  | 100,683               | 95,915                | 302,049               | 287,745               |
| Expected Return on Plan Assets | (126,296)             | (114,224)             | (378,888)             | (342,672)             |
| Net Amortization               | 12,497                | 17,480                | 37,491                | 52,440                |
| Net Periodic Benefit Cost      | \$ 59,600             | \$ 68,462             | \$ 178,800            | \$ 205,386            |

A contribution in the amount of \$387,017 was made in the first nine months of 2007.

**Index****NOTE 7. INCOME TAXES**

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. The Company recognized no change in the liability for unrecognized tax benefits as a result of the implementation of FIN 48. As of the date of adoption, the Company had no unrecognized tax benefits.

The Company files a consolidated income tax return in the United States Federal jurisdiction and the State of Florida. In addition, subsidiaries file separate tax returns in the States of Georgia and North Carolina. The Internal Revenue Service has audited the federal tax returns through the year 2004, with all proposed adjustments settled.

The Company recognizes all potential accrued interest and penalties related to unrecognized tax benefits in income tax expense.

Income taxes of \$611,822 were paid in the nine months ended September 30, 2007.

**NOTE 8. BUSINESS SEGMENT DATA**

The Company primarily operates in three business segments: real estate, income properties, and golf. Real estate operations include commercial real estate, real estate development, residential, leasing properties for oil and mineral exploration, and agricultural operations. The Company evaluates performance based on income or loss from operations before income taxes. The Company's reportable segments are strategic business units that offer different products. They are managed separately because each segment requires different management techniques, knowledge, and skills.

Information about the Company's operations in different segments is as follows (amount in thousands):

|                   | Three Months Ended    |                       | Nine Months Ended     |                       |
|-------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                   | September 30,<br>2007 | September 30,<br>2006 | September 30,<br>2007 | September 30,<br>2006 |
| Revenues:         |                       |                       |                       |                       |
| Real Estate       | \$ 2,995              | \$ 5,096              | \$ 8,861              | \$ 14,620             |
| Income Properties | 2,207                 | 2,184                 | 6,538                 | 5,998                 |
| Golf              | 930                   | 1,027                 | 3,907                 | 3,910                 |

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|                              |          |          |           |           |
|------------------------------|----------|----------|-----------|-----------|
| General, Corporate and Other | 966      | 251      | 1,851     | 1,153     |
|                              | \$ 7,098 | \$ 8,558 | \$ 21,157 | \$ 25,681 |
| Income (Loss):               |          |          |           |           |
| Real Estate                  | \$ 2,368 | \$ 3,601 | 4,027     | 11,623    |
| Income Properties            | 1,687    | 1,776    | 5,165     | 4,928     |
| Golf                         | (648)    | (542)    | (1,329)   | (1,037)   |
| General, Corporate and Other | (78)     | (1,660)  | (3,674)   | (3,389)   |
|                              | \$ 3,329 | \$ 3,175 | \$ 4,189  | \$ 12,125 |

|                               | September 30,<br>2007 |
|-------------------------------|-----------------------|
| Identifiable Assets           |                       |
| Real Estate                   | \$ 25,711             |
| Income Properties             | 105,476               |
| Golf                          | 8,301                 |
| General, Corporate and Other  | 17,026                |
|                               | \$ 156,514            |
| Depreciation and Amortization |                       |
| Real Estate                   | \$ 268                |
| Income Properties             | 1,143                 |
| Golf                          | 362                   |
| General, Corporate and Other  | 75                    |
|                               | \$ 1,848              |
| Capital Expenditures          |                       |
| Real Estate                   | \$ 2,028              |
| Income Properties             | 2                     |
| Golf                          | 171                   |
| General, Corporate and Other  | 1,589                 |
|                               | \$ 3,790              |
|                               |                       |

Identifiable assets by industry are those assets that are used in the Company's operations in each industry. General corporate assets and assets used in the Company's other operations consist primarily of cash, investment securities, and property, plant, and equipment.

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## **NOTE 9. RELATED PARTY TRANSACTIONS**

During the second quarter of 2007, the Company exercised its right to repurchase a parcel of land, at a price of \$1,430,660, which had been acquired from the Company by SunTrust Bank in 2004. The land, which was originally sold in 2004 to SunTrust Bank, was repurchased at its original sales price pursuant to the terms of the contract, as it could not meet the build provision in the contract due to an overall change in direction of the Bank's real estate ownership strategy. At the time of the original contract in 2004 (at which point the price of the repurchase was set) and the Company's exercise of its right to repurchase in 2007, William H. Davison, Chairman, President, and Chief Executive Officer of SunTrust Bank of East Central Florida, was not a member of the Company's Board of Directors. As of the date of the closing of the repurchase, Mr. Davison was a member of the Board.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to be read in conjunction with the financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations in the last annual report on Form 10-K. Readers should also refer to the information set forth in Item 1A of Part II below.

### **OPERATIONS OVERVIEW**

The Company is primarily engaged in real estate land sales and development, reinvestment of land sales proceeds into income properties, and golf course operations. The Company lands are well located in the growing central Florida Interstate 4 corridor, providing an excellent opportunity for reasonably stable land sales in the near-term future and following years.

With its substantial land holdings in Daytona Beach, the Company has parcels available for the entire spectrum of real estate uses. Along with land sales, the Company selectively develops parcels primarily for commercial uses. Sales and development activity on and around Company owned lands have been strong in the last five years. Although pricing levels and changes by the Company and its immediate competitors can affect sales, the Company generally enjoys a competitive edge due to low costs associated with long-time land ownership and a significant ownership position in the immediate market.

Over the last five years, the Company has had a trend of strong sales and development activities, primarily within the Company's western Daytona Beach area core land holdings. These activities include: the sale of 120 acres of land to Florida Hospital in 2005 for the construction of a new facility, which commenced in 2006; the expansion of the Daytona Beach Auto Mall; the opening of a second office building in the Cornerstone Office Park; the continued development within the 250-acre Gateway Commerce Park; and the sale of approximately 100 acres of land on which a private high school is under development. During the first quarter of 2007, development began on the future site of the City of Daytona Beach police station. This parcel was sold by the Company to the City of Daytona Beach in 2006 at a discounted sales price, for which the Company received a charitable contribution deduction. This site is located adjacent to Gateway Commerce Park. Residential development has also been strong on lands sold by the Company in prior years, including within the LPGA International community, and on other lands both east and west of Interstate 95. These development activities tend to create additional buyer interest and sales opportunities.

In addition to the development activities performed by third parties on Company owned lands, the Company has begun self-development of income properties. These projects include the construction of a two-building 30,000 square-foot flex office space complex located within the Gateway Commerce Park in addition to a 23,000 square-foot office building located on LPGA Blvd. Site work has begun on both projects.

While most national homebuilders have experienced significant reductions in new sales contracts from the peak in mid-to-late 2005, the Company continues to experience a relatively stable Daytona Beach commercial real estate market. A significant backlog of contracts is in place for closing in the remainder of 2007 and 2008. Management intends to focus its efforts on closing this backlog while creating additional contracts and value for Company owned lands.

During the third quarter of 2007, a contract was signed for the sale of 25 acres of land near the Florida Hospital site at a price approximating \$17.4 million. The parcel is intended to be developed for retail uses. Prior to closing, the contract provides for an inspection period. Additionally, certain customary contingencies must be satisfied, and governmental approvals must be obtained, before the buyer will be obligated to close the transaction. It is anticipated this sale will close in late 2008.

In 2000, the Company initiated a strategy of investing in income properties utilizing the proceeds of agricultural land sales qualifying for income tax deferral through like-kind exchange treatment for tax purposes. As of September 30, 2007, the Company had invested approximately \$110 million in twenty-five income properties through this process, with an additional \$1.3 million held by a qualified intermediary and an additional \$8.5 million, which was generated through Internal Revenue Code Section 1033, Involuntary Conversion Under Threat of Condemnation, available for investment in additional properties. The existing investment base is expected to generate lease revenue of approximately \$8.5 million annually. This income, along with income from additional net-lease income property investments, is expected to decrease earnings volatility in future years and add to overall financial performance. The Company is now in a position to consider other forms of real estate investment to diversify and enhance potential returns.

Golf operations consist of the operation of the golf courses, a clubhouse facility, and food and beverage activities within the LPGA International mixed-use residential community on the west side of Interstate 95, south and east of LPGA Blvd.

The Company's agricultural operations consist of growing, managing, and selling timber and hay products on approximately 11,100 acres of Company lands on the west side of Daytona Beach, Florida.

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**SUMMARY OF 2007 OPERATING RESULTS**

Net income of \$2,102,564, equivalent to \$.37 per share, was posted for the quarter ended September 30, 2007. This net income represents a 12% reduction from 2006's third quarter profits of \$2,384,018, equivalent to \$.42 per share. The decreased earnings were primarily attributable to lower earnings from real estate sales. Lower income taxes in 2006 also contributed to the decline, as charitable contributions of land were made during the third quarter of 2006 to lower the effective tax rate to 25% during the period.

During the first nine months of 2007, net income totaled \$2,634,692, equivalent to \$.46 per share, a significant downturn from profits of \$8,251,984, equivalent to \$1.45 per share, recorded for the same period one year earlier. Lower profits from land sales were the major cause of this downturn, with higher stock option expense also a contributing factor.

The third quarter and first nine months of 2006 have been adjusted to reflect the impact of the adjustment made under Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements" ("SAB 108"), in the fourth quarter of 2006. The adjustment was considered immaterial for each of the periods of 2006.

The Company also uses Earnings before Depreciation, Amortization, and Deferred Taxes (EBDDT) as a performance measure. The Company's strategy of investing in income properties through the deferred tax like-kind exchange process produces significant amounts of depreciation and deferred taxes.

The following is the calculation of EBDDT:

|   | Three Months Ended       |                          |
|---|--------------------------|--------------------------|
|   | September<br>30,<br>2007 | September<br>30,<br>2006 |
| Net Income  | \$ 2,102,564             | \$ 2,384,018             |
| Add Back:   |                          |                          |
| Depreciation and Amortization                                   | 616,964                  | 613,565                  |
| Deferred Taxes  | 445,854                  | 2,108,492                |
| Earnings before Depreciation<br>Amortization and Deferred Taxes | \$ 3,165,382             | \$ 4,343,522             |

|   | Nine Months Ended        |                          |
|---|--------------------------|--------------------------|
|   | September<br>30,<br>2007 | September<br>30,<br>2006 |
| Net Income  | \$ 2,634,692             | \$ 8,251,984             |
| Add Back:   |                          |                          |
| Depreciation and Amortization                                   | 1,848,214                | 1,662,368                |
| Deferred Taxes  | 636,391                  | 3,353,834                |
| Earnings before Depreciation<br>Amortization and Deferred Taxes | \$ 5,119,297             | \$ 13,268,186            |

EBDDT is calculated by adding depreciation, amortization, and the change in the deferred income tax liability to net income as they represent non-cash charges. EBDDT is not a measure of operating results or cash flows from operating activities as defined by U.S. generally accepted accounting principles. Further, EBDDT is not necessarily indicative of cash availability to fund cash needs and should not be considered as an alternative to cash flow as a measure of liquidity. The Company believes, however, that EBDDT provides relevant information about operations and is useful, along with net income, for an understanding of the Company's operating results.

EBDDT totaling \$3,165,382 and \$5,119,297 for the third quarter and first nine months of 2007, respectively, was significantly lower than 2006's third quarter and first nine months EBDDT amounting to \$4,343,522 and \$13,268,186, respectively. The lower profits from land sales transactions and the resulting reduced deferral of the gains for income tax purposes were the primary cause of the unfavorable results. The reversal of deferred taxes on gains from year-end 2006 transactions for which the like-kind exchange process was not completed also contributed to the reduced EBDDT in the first nine-months of 2007, as the Company was unable to identify investment property which met established criteria.

## **REAL ESTATE SALES**

Earnings from real estate sales totaled \$2,367,558 during the third quarter of 2007. These earnings were realized on the sale of 11 acres of property, which produced revenues amounting to \$2,994,820. Revenues amounting to \$5,095,658 and profits of \$3,601,109 were realized from real estate sales during the third quarter of 2006. These revenues and profits were earned on the sale of 100 acres of property. Included in property sales during 2006's third quarter were profits of \$577,000 realized on transactions that had been deferred in previous periods, due to post-closing obligations. During the third quarter of 2006, the Company made a charitable contribution of 11 acres of land, which had a fair market value of \$950,000. This transaction was recorded as a sale of real estate with an offsetting charge to real estate costs and expenses.

During the first nine months of 2007, the sale of 104 acres of land, including a charitable contribution of 25 acres of land valued at \$1,500,000, produced revenues and profits from land sales totaling \$8,860,680 and \$4,027,242, respectively. Also included in sales during the period was the sale of approximately \$1,900,000 of impact fee credits. Costs and expenses rose substantially during the period with the higher cost basis associated with both the charitable contribution and the impact fee credits. Profits of \$11,622,501 were realized on the sale of 143 acres of property, which generated revenues of \$14,620,160, during 2006's first nine-month period. Also included in earnings for the first nine months of 2006 was the recognition of profits totaling \$4,733,000, that had previously been deferred in 2005 due to post-closing obligations. An additional \$1,084,000 of profit was deferred at September 30, 2006, on two transactions which closed in 2006, as post-closing obligations had not been completed.

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## **INCOME PROPERTIES**

Income properties produced revenues and profits of \$2,207,308 and \$1,687,198, respectively, during the third quarter of 2007. These revenues represented a modest 1% increase over 2006's same period revenues of \$2,183,626, while profits declined 5% over prior year profits totaling \$1,775,929. Operating expenses rose during the period on higher real estate taxes and other operating costs associated with properties purchased in 2006.

The addition of two properties in June 2006 accounted for revenue and profit gains of 9% and 5%, respectively, for the first nine months of 2007 when compared to 2006's same period. Revenues totaling \$6,537,982 produced profits from income properties of \$5,164,790 in 2007's nine month period, with 2006's same period resulting in revenues and profits of \$5,997,775 and \$4,928,206, respectively. Income properties costs and expenses increased 28% during the period to \$1,373,192 with depreciation and operating expenses associated with the two new properties for the full nine-month period.

## **GOLF OPERATIONS**

Revenues from golf operations decreased 9% during the third quarter of 2007 resulting in a 19% increase in losses posted from the operation. The revenue decline, to \$930,164, was the result of decreases in both golf and food and beverage activities. The number of golf rounds played fell 9% during the three-month period and average rate per round played declined 3%. Weather was a factor in the lower numbers with a greater number of rain days experienced during the current period compared to the abnormally dry period experienced in 2006. Losses during 2007's third quarter amounted to \$647,559. Revenues and losses during the third quarter of 2006 totaled \$1,027,067 and \$541,920, respectively. Golf operations costs and expense were in line with prior year results.

Losses from golf operations rose 28% to \$1,329,516 for the first nine months of 2007 when compared to losses of \$1,036,988 posted in 2006's same period. Revenues of \$3,907,346 were in line with 2006's revenues totaling \$3,909,816 but were offset by a 6% increase in golf operations costs and expenses. Stable revenues were achieved despite a 2% decrease in revenues from golf activities as food and beverage activities produced a 4% increase in revenue. Golf rounds played during the nine-month period rose 1%, but were offset by a 4% fall in the average rate per round. The higher costs and expenses recorded during the period in 2007 were primarily attributed to higher food and beverage cost of sales and payroll costs, along with increased course maintenance costs.

Results from the third quarter and first nine months of 2006 have been adjusted to reflect the quarterly impact of the SAB 108 adjustment made in the fourth quarter of 2006. The adjustment was related to golf operations' lease expense and related depreciation of property under the lease. The adjustment was considered immaterial for each of the periods of 2006.

## **GENERAL, CORPORATE AND OTHER**

Profits on the sale of other real estate interests totaled \$816,235 and \$1,400,979 for the third quarter and first nine months of 2007, respectively. These profits were realized on the release of subsurface entry rights on 645 acres of which 394 were released in the third quarter. During the first nine months of 2006, profits on the release of subsurface interests totaled \$668,420 of which \$212,550 was earned in the third quarter. Releases were granted on 610 acres and 49 acres for the nine months and third quarter of 2006, respectively.

Interest and other income increased to \$149,627 in the third quarter of 2007 from \$38,831 recorded in 2006's third quarter. Higher interest on investment securities, mortgage notes receivable, and funds held for reinvestment through the like-kind exchange process all contributed to the rise. For the nine-month period interest and other income decreased 7% to \$450,420 compared to \$484,516 in the prior year. The decline was primarily the result of lower interest earned on funds held for reinvestment through the like-kind exchange process, offset by higher earnings from investment securities and mortgage notes receivable.

Lower stock options expense for the quarter resulted in a 45% decrease in general and administrative expenses during the period. Stock option expenses were reduced approximately \$880,000 when compared to the prior year's third quarter when the price of the Company's stock rose significantly. General and administrative expenses totaled \$1,044,337 and \$1,911,250 for the third quarter of 2007 and 2006, respectively.

General and administrative expenses of \$5,525,328 for the first nine months of 2007 represented a 22% increase over 2006 general and administrative expenses of \$4,541,745. For the nine-month period stock option expense increased approximately \$665,000 over the prior year. Also contributing to the increased general and administrative expenses were higher legal fees and pension and other post-retirement benefit costs.

During the first nine months of 2006, the Company made charitable contributions of land to qualified organizations. These contributions, which the Company determined with reasonable assurance could be utilized over the five year carryforward period, resulted in an approximate \$690,000 positive adjustment to the income tax provision in the first nine months of 2006. This positive adjustment resulted in an effective tax rate approximating 32% for the nine-month period and 25% for the third quarter of 2006.

In May 2006, the Company sold a former automobile dealership site located in Daytona Beach, Florida, which was being held as an income property. The financial results of operations have been reported separately as discontinued operations in the financial statements. Income, net of income taxes, of \$240,476 was posted in 2006's nine months ended September 30, 2006.

On January 1, 2006, the Company implemented SFAS No. 123R, "Share Based Payment." The implementation resulted in the recording of a \$216,093, cumulative effect of change in accounting principle during the first quarter, net of income tax.

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## **LIQUIDITY AND CAPITAL RESOURCES**

Cash, restricted cash, and investment securities amounted to \$14,279,475 at September 30, 2007, of which \$1,524,347 was being held by a qualified intermediary for reinvestment through the like-kind exchange process. These funds increased \$575,044 since December 31, 2006. The primary increase in these funds was from operating activities offset by \$3,789,860 for the acquisition of property, plant, and equipment, \$4,840,721 for land development and road construction, and \$1,598,389 for the payment of dividends equivalent to \$.28 per share. The acquisition of property, plant and equipment included the continued land clearing and planting of Company lands for the hay operation in addition to the repurchase of approximately 4 acres of land on LPGA Blvd. in Daytona Beach, Florida. At the time of the original contract in 2004 (at which point the price of the repurchase was set) and the Company's exercise of its right to repurchase in 2007, William H. Davison, Chairman, President, and Chief Executive Officer of SunTrust Bank of East Central Florida, was not a member of the Company's Board of Directors. The land, which was originally sold in 2004 to SunTrust Bank, was repurchased at its original sales price pursuant to the terms of the contract, as it could not meet the build provision in the contract due to an overall change in direction of the Bank's real estate ownership strategy. The Bank had previously announced the sale of its real estate portfolio and curtailment of new construction.

The Company's Board of Directors and management periodically review the allocation of any excess capital with a goal of providing the highest return for all shareholders over the long term. The reviews include consideration of various alternatives, including increasing regular dividends, declaring special dividends, commencing a stock repurchase program, and retaining funds for reinvestment. At its October 24, 2007 meeting the Board declared a quarterly dividend of \$0.10 per share and reaffirmed its support for investment of raw land sales proceeds through the tax deferred like-kind exchange process and self-development of income properties on Company-owned lands.

Capital expenditures for the remainder of 2007 are expected to approximate \$2 million. These expenditures include approximately \$500,000 for land clearing and planting in the hay operation, \$300,000 for road development, and \$750,000 for site development and construction of a two building 30,000 square-foot flex office space complex and a 23,000 square-foot office building on Company owned lands. In addition to these requirements, the Company intends to invest in additional real estate opportunities through the like-kind exchange process as properties are identified and qualified funds become available.

Capital to fund planned expenditures is expected to be provided from cash and investment securities, as they mature, operating activities, and existing financing sources. The Company has the ability to borrow on a non-recourse basis against its existing income properties, which are all free of debt as of the date of this filing. Outstanding balances on notes payable totaled \$6,872,781 at September 30, 2007, with no balance outstanding on the \$20 million revolving line of credit.

## **CRITICAL ACCOUNTING POLICIES**

The profit on sales of real estate is accounted for in accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." The Company recognizes revenue from the sale of real estate at the time the sale is consummated unless the property is sold on a deferred payment plan and the initial payment does not meet criteria established under SFAS No. 66, or the Company retains continuing involvement with the property.

During 2005 and 2006, the Company closed transactions for which it had post-closing obligations to provide off-site utilities and/or road improvements. Full cash payment was received at closing, and warranty deeds were transferred and recorded. The sales contracts do not provide any offsets, rescission or buy-back if the improvements are not made. During the first six months of 2007, post-closing obligations were completed, and thus revenues and profits of \$667,252 and \$563,467 were recognized, respectively, on these transactions. No post-closing obligations existed at September 30, 2007, and in accordance with SFAS No. 66, no revenues or profits were deferred at that time.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company has reviewed the recoverability of long-lived assets, including land and development and property, plant, and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may or may not be recoverable. Land and development is evaluated for impairment by estimating sales prices less costs to sell. Impairment on income properties and other property, plant, and equipment is measured using an undiscounted cash flow approach. There has been no material impairment of long-lived assets reflected in the consolidated financial statements.

The Company has an interest rate swap agreement. This swap arrangement changes the variable-rate cash flow exposure on the debt obligations to fixed cash flows so that the Company can manage fluctuations in cash flows resulting from interest rate risk. This swap arrangement essentially creates the equivalent of fixed-rate debt. The above-referenced transaction is accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133." The accounting requires the derivative to be recognized on the balance sheet at its fair value and the changes in fair value to be accounted for as other comprehensive income or loss. The Company measures the ineffectiveness of the interest rate swap derivative by comparing the present value of the cumulative change in the expected future cash flows on the variable leg of the swap with the present value of the cumulative change in the expected future interest cash flows on the floating rate liability. This measure resulted in no ineffectiveness for the periods ended September 30, 2007 and September 30, 2006. A liability in the amount of \$374,823 at September 30, 2007, has been established on the Company's balance sheet. The change in fair value, net of applicable taxes, in the cumulative amount of \$230,235 at September 30, 2007, has been recorded as accumulated other comprehensive loss, a component of shareholders' equity.

The Company maintains the 2001 Stock Option Plan (the "Plan") pursuant to which 500,000 shares of the Company's common stock may be issued. The current Plan was approved at the April 25, 2001 shareholders' meeting. Under the Plan, the option exercise price equals the stock market price on the date of grant. The options vest over five years and all expire after ten years. The Plan provides for the grant of (1) incentive stock options, which satisfy the requirements of Internal Revenue Code (IRC) Section 422, and (2) non-qualified options, which are not entitled to favorable tax treatment under IRC Section 422. No optionee may exercise incentive stock options in any calendar year for shares of common stock having a total market value of more than \$100,000 on the date of grant (subject to certain carryover provisions).

In connection with the grant of non-qualified options, a stock appreciation right for each share covered by the option may also be granted. The stock appreciation right will entitle the optionee to receive a supplemental payment, which may be paid in whole or in part in cash or in shares of common stock, equal to a portion of the spread between the exercise price and the fair market value of the underlying shares at the time of exercise. All options granted to date have been non-qualified options.

On January 1, 2006, the Company adopted SFAS No. 123R by using the modified prospective method of adoption. SFAS No. 123R requires the classification of share-based payment arrangements as liability or equity instruments.

Both the Company's stock options and stock appreciation rights are liability classified awards under SFAS No. 123R and are required to be remeasured to fair value at each balance sheet date until the award is settled. For liability-classified awards, SFAS No. 123R requires an entity to remeasure the liability from its intrinsic value to its fair value on the adoption date, as the cumulative effect of change in accounting principle, net of any related tax effect. The Company remeasured the value of its stock options and stock appreciation rights as of January 1, 2006, which resulted in a cumulative effect of change in accounting principle, net of tax, totaling \$216,093.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risk (i.e., the risk of loss arising from adverse changes in market rates and prices) to which the Company is exposed is interest rates. The objective of the Company's asset management activities is to provide an adequate level of liquidity to fund operations and capital expansion, while minimizing market risk. The Company utilizes overnight sweep accounts and short-term investments to minimize the interest rate risk. The Company does not actively invest or trade in equity securities. The Company does not believe that its interest rate risk related to cash equivalents and short-term investments is material due to the nature of the investments.

The Company manages its debt, considering investment opportunities and risk, tax consequences, and overall financial strategies. The Company is primarily exposed to interest rate risk on its \$8,000,000 (\$6,872,781 outstanding at September 30, 2007) term loan. The borrowing bears a variable rate of interest based on market rates. Management's objective is to limit the impact of interest rate changes on earnings and cash flows and to lower the overall borrowing costs. To achieve this objective, the Company entered into an interest rate swap agreement during the second quarter of 2002. A hypothetical change in the interest rate of 100 basis points (i.e., 1%) would not materially affect the Company's financial position, results of operations or cash flows.

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### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities and Exchange Act of 1934 (the "Exchange Act")). Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) under the Exchange Act) during the third fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party.

### **ITEM 1A. RISK FACTORS**

Certain statements contained in this report (other than statements of historical fact) are forward-looking statements. The words “believe,” “estimate,” “expect,” “intend,” “anticipate,” “will,” “could,” “may,” “should,” “plan,” “potential,” “predict,” “project,” and similar expressions and variations thereof identify certain of such forward-looking statements, which speak only as of the dates on which they were made. Forward-looking statements are made based upon management’s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on the Company will be those anticipated by management.

We wish to caution readers that the assumptions, which form the basis for forward-looking statements with respect to or that may impact earnings for the year ended December 31, 2007, and thereafter, include many factors that are beyond the Company’s ability to control or estimate precisely. These risks and uncertainties include, but are not limited to, the strength of the real estate market in the City of Daytona Beach and Volusia County, Florida; the ability to successfully execute acquisition or development strategies; any loss of key management personnel; changes in local, regional, and national economic conditions affecting the real estate development business and income properties; the impact of environmental and land use regulations; the impact of competitive real estate activity; variability in quarterly results due to the unpredictable timing of land sales; the loss of any major income property tenants; and the availability of capital. These risks and uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes to those risk factors. The risks described in the Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company.

While we periodically reassesses material trends and uncertainties affecting our results of operations and financial condition, we do not intend to review or revise any particular forward-looking statement referenced herein in light of future events.

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### **ITEM 6. EXHIBITS**

(a) Exhibits:

Exhibit 3.1 - Articles of Incorporation of CTLC, Inc. dated February 26, 1993 and Amended Articles of Incorporation dated March 30, 1993 filed with the registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 1993 and incorporated by this reference.

Exhibit 3.2 - By-laws of Consolidated-Tomoka Land Co. as amended October 24, 2007 filed as Exhibit 3.2 to the registrant’s Current Report on Form 8-K filed October 26, 2007 and incorporated by this reference.

Exhibit 31.1 - Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification furnished pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

Exhibit 32.1 - Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 - Certification pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CONSOLIDATED-TOMOKA LAND CO.  
(Registrant)

Date: November 8, 2007 By:/s/ William H. McMunn

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William H. McMunn, President  
and Chief Executive Officer

Date: November 8, 2007 By:/s/ Bruce W. Teeters

Bruce W. Teeters, Senior Vice President  
Finance and Treasurer

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