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CONSOLIDATED TOMOKA LAND CO

Form 10-Q

November 09, 2006

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, 2006

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  
(Address of principal executive offices)

32117  
(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 definition "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated Filer X Non-accelerated filer  
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Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Exchange Act).

Yes No X

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-----  
 -----  
 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 1, 2006
\$1.00 par value	5,693,007
1	

CONSOLIDATED-TOMOKA LAND CO.

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CONSOLIDATED-TOMOKA LAND CO.  
CONSOLIDATED BALANCE SHEET

	(Unaudited) September 30, 2006	December 31, 2005
	-----	-----
ASSETS		
Cash	\$ 1,176,779	\$ 1,127,143
Restricted Cash	2,103,639	7,840,167
Investment Securities	6,910,826	14,341,097
Land and Development Costs	12,887,017	9,142,551
Intangible Assets	5,200,132	4,591,944
Other Assets	4,912,393	5,205,415
	-----	-----
	33,190,786	42,248,317
	-----	-----
Property, Plant and Equipment:		
Land, Timber and Subsurface Interests	2,736,231	2,280,355
Golf Buildings, Improvements and Equipment	11,433,071	11,382,515
Income Properties Land, Buildings and Improvements	104,819,695	91,656,972
Other Furnishings and Equipment	2,428,915	1,769,407
	-----	-----
Total Property, Plant and Equipment	121,417,912	107,089,249
Less Accumulated Depreciation and Amortization	(7,351,093)	(6,079,090)
	-----	-----
Net- Property, Plant and Equipment	114,066,819	101,010,159
	-----	-----
TOTAL ASSETS	\$147,257,605	\$143,258,476
	=====	=====
LIABILITIES		
Accounts Payable	\$ 750,838	\$ 248,698
Accrued Liabilities	8,134,752	6,083,047
Income Taxes Payable	384,983	5,157,171
Deferred Profit	1,696,020	5,345,006
Deferred Income Taxes	27,611,626	24,159,074
Notes Payable	8,020,679	7,297,593
	-----	-----
TOTAL LIABILITIES	46,598,898	48,290,589
	-----	-----
SHAREHOLDERS' EQUITY		

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Common Stock	5,692,539	5,667,796
Additional Paid in Capital	2,769,424	4,168,865
Retained Earnings	92,423,354	85,435,246
Accumulated other Comprehensive Loss	(226,610)	(304,020)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	100,658,707	94,967,887
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$147,257,605	\$143,258,476
	=====	=====

See accompanying Notes to Financial Statements.

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## CONSOLIDATED-TOMOKA LAND CO. CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited) Three Months Ended		(Unaudited) Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
	-----	-----	-----	-----
	\$	\$	\$	\$
INCOME:				
Real Estate Operations:				
Real Estate Sales				
Sales and Other Income	5,095,658	3,735,564	14,620,160	26,989,590
Costs and Other Expenses	(1,494,549)	(635,538)	(2,997,659)	(5,415,413)
	-----	-----	-----	-----
	3,601,109	3,100,026	11,622,501	21,574,177
	-----	-----	-----	-----
Income Properties				
Leasing Revenues and Other Income	2,183,626	1,789,114	5,997,775	4,775,031
Costs and Other Expenses	(407,697)	(309,394)	(1,069,569)	(865,791)
	-----	-----	-----	-----
	1,775,929	1,479,720	4,928,206	3,909,240
	-----	-----	-----	-----
Golf Operations				
Sales and Other Income	1,027,067	920,836	3,909,816	3,648,055
Costs and Other Expenses	(1,483,683)	(1,439,149)	(4,690,890)	(4,509,401)
	-----	-----	-----	-----
	(456,616)	(518,313)	(781,074)	(861,346)
	-----	-----	-----	-----
Total Real Estate Operations	4,920,422	4,061,433	15,769,633	24,622,071
Profit on Sales of Other Real Estate Interests	212,550	21,210	668,420	258,943

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Interest and Other Income	38,831	207,070	484,516	676,116
	-----	-----	-----	-----
Operating Income	5,171,803	4,289,713	16,922,569	25,557,130
	-----	-----	-----	-----
General and Administrative Expenses	(1,911,250)	51,130	(4,541,745)	(6,212,496)
	-----	-----	-----	-----
Income from Continuing Operations				
Before Income Taxes	3,260,553	4,340,843	12,380,824	19,344,634
Income Taxes	(824,138)	(1,651,641)	(3,996,028)	(6,730,970)
	-----	-----	-----	-----
Income Before Discontinued Operations				
and Cumulative Effect of Change				
in Accounting Principle	2,436,415	2,689,202	8,384,796	12,613,664
Income (Loss) from Discontinued				
Operations, Net of Income Tax	--	(355)	240,476	8,742
Cumulative Effect of Change in				
Accounting Principle, Net of	--	--	(216,093)	--
Income Tax	-----	-----	-----	-----
Net Income	2,436,415	2,688,847	8,409,179	12,622,406
	=====	=====	=====	=====

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## Consolidated Statements of Income - continued

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2006	2005	2006	2005
	-----	-----	-----	-----
Per Share Information:				
Basic Income Per Share Information:				
Income Before Discontinued Operations				
and Cumulative Effect of				
Change in Accounting Principle	\$0.43	\$0.47	\$1.48	\$2.23
Income (Loss) from Discontinued Operations				
Net of Income Tax	--	-	\$0.04	--
Cumulative Effect of Change in				
Accounting Principle, Net of				
Income Tax			--	(0.04)
	-----	-----	-----	-----
Net Income	\$0.43	\$0.47	\$1.48	\$2.23
	=====	=====	=====	=====
Diluted Income Per Share Information:				
Income Before Discontinued Operations				
and Cumulative Effect of				
Change in Accounting Principle	\$0.43	\$0.47	\$1.48	\$2.20
Income (Loss) from Discontinued Operations				
Net of Income Tax		-	0.04	--

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Cumulative Effect of Change in  
Accounting Principle, Net of  
Income Tax

	-	-	(0.04)	--
	-----	-----	-----	-----
Net Income	\$0.43	\$0.47	\$1.48	\$2.20
	=====	=====	=====	=====
Dividends	\$0.09	\$0.08	\$0.25	\$0.22
	=====	=====	=====	=====

See accompanying Notes to Financial Statements.

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

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Comprehensive Income
	-----	-----	-----	-----	-----	-----
Balance, December 31, 2005	\$5,667,796	\$4,168,865	\$85,435,246	\$ (304,020)	\$94,967,887	
Net Income			8,409,179		8,409,179	\$8,409,179
Other Comprehensive Income:Cash Flow Hedging Derivative, Net of Tax				77,410	77,410	77,410
Comprehensive Income						\$8,486,589
						=====

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## Stock Options:

Exercise of Liability			
Classified Stock			
Options	24,743	1,675,308	1,700,051
Adoption of SFAS			
No. 123R			
Reclassification for			
Liability Based Plan	(3,074,749)		(3,074,749)
Cash Dividends			
(\$ .25 per share)		(1,421,071)	(1,421,071)

Balance,					
September 30, 2006	\$5,692,539	\$2,769,424	\$92,423,354	\$ (226,610)	\$100,658,707
	=====	=====	=====	=====	=====

See accompanying Notes to Financial Statements.

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## CONSOLIDATED-TOMOKA LAND CO. CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
Nine Months Ended

September 30, 2006	September 30, 2005
-----	-----

### CASH FLOW FROM OPERATING ACTIVITIES:

Net Income	\$8,409,179	\$12,622,406
Adjustments to Reconcile Net Income to Net Cash		
Provided By Operating Activities:		
Depreciation and Amortization	1,628,327	1,277,275
(Gain)/Loss on Sale of Property, Plant, and Equipment	(436,971)	19,916
Deferred Income Taxes	3,452,552	2,208,047

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Non Cash Compensation	1,348,525	2,803,328
(Increase) Decrease in Assets:		
Notes Receivable	--	3,935,252
Land and Development Costs	(3,744,466)	132,751
Other Assets	293,022	1,415
Increase (Decrease) in Liabilities:		
Accounts Payable	502,140	(44,301)
Accrued Liabilities	157,748	1,641,057
Deferred Profit	(3,648,986)	--
Income Taxes Payable	(4,655,432)	537,256
	-----	-----
Net Cash Provided By Operating Activities	3,305,638	25,134,402
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES:		
Acquisition of Property, Plant, and Equipment	(15,627,639)	(29,677,147)
Intangible Assets	(858,808)	(1,833,793)
Decrease in Restricted Cash for Acquisitions		
Through the Like-Kind Exchange Process	5,736,528	26,083,525
Net Decrease (Increase) in Investment Securities	7,430,271	(13,237,118)
Proceeds from Disposition of Property, Plant, and Equipment	1,630,205	
	-----	-----
Net Cash Used In Investing Activities	(1,689,443)	(18,664,533)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from Notes Payable	5,540,000	267,000
Payments on Notes Payable	(4,816,914)	(1,630,021)
Cash Proceeds from Exercise of Stock Options	19,515	107,022
Cash Used to Settle Stock Appreciation Rights	(771,333)	(637,367)
Tax Expense Realized from Exercise of Stock Options	(116,756)	--
Dividends Paid	(1,421,071)	(1,245,740)
	-----	-----
Net Cash Used In Financing Activities	(1,566,559)	(3,139,106)
	-----	-----
Net Increase In Cash	49,636	3,330,763
Cash, Beginning of Year	1,127,143	273,911
	-----	-----
Cash, End of Period	\$1,176,779	\$3,604,674
	=====	=====

## Consolidated Statements of Cash Flows (continued)

### Supplemental Cash Flow Disclosure:

Income taxes of \$5,129,248 and \$4,068,891 were paid for the nine months ended September 30 2006 and 2005, respectively.

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.



See accompanying Notes to Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

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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, 2005.

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.

Certain reclassifications were made to the 2005 accompanying consolidated financial statements to conform to the 2006 presentation.

2. Discontinued Operations. In accordance with SFAS No. 144, "Accounting for Impairment of 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 2005 have been reclassified to reflect the discontinued operation.

Summary financial information for the operation is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues	\$ --	\$ 4,495	\$ --	\$ 36,171
Income (Loss)	-	(578)	(45,475)	14,232
Income Tax Benefit (Expense)	--	223	17,542	(5,490)
Gain from Sale (Net of Income Tax of \$168,562)	--		268,409	
Net Income	\$	\$ (355)	\$ 240,476	\$ 8,742

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 period. 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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## Common Stock and Earnings per share-continued

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Income Available to Common Shareholders:				
Income Before Discontinued Operations and Cumulative Effect of Change in Accounting Principle	\$2,436,415	\$2,689,202	\$8,384,796	\$12,613,664
Discontinued Operations (Net of Income Tax)	--	(355)	240,476	8,742
Cumulative Effect of Change in Accounting Principle (Net of Income Tax)	--	--	(216,093)	-
Net Income	\$2,436,415	\$2,688,847	\$8,409,179	\$12,622,406
Weighted Average Shares Outstanding	5,691,192	5,667,996	5,681,060	5,660,564
Common Shares Applicable to Stock Options Using the Treasury Stock Method	7,452	96,589	11,526	83,516
Total Shares Applicable to Diluted Earnings Per Share	5,698,644	5,764,585	5,692,586	5,744,080
Per Share Information:				
Basic Income Per Share				
Income Before Discontinued Operations and Cumulative Effect of Change in Accounting Principle	\$0.43	\$0.47	\$1.48	\$2.23
Discontinued Operations (Net of Income)	--	-	0.04	-
Cumulative Effect of Change in Accounting Principle (Net of Income Tax)	-	-	(0.04)	-
Net Income	\$0.43	\$0.47	\$1.48	\$2.23
Diluted Income Per Share				
Income Before Discontinued Operations and Cumulative Effect of change in Accounting Principle	\$0.43	\$0.47	\$1.48	\$2.20
Discontinued Operations (Net of Income Tax)	--	-	0.04	-
Cumulative Effect of Change in Accounting Principle (Net of Income Tax)	-	-	(0.04)	-
Net Income	\$0.43	\$0.47	\$1.48	\$2.20

4. Notes Payable. Notes payable consist of the following:

	September 30, 2006	
	Total	Due Within One Year
\$10,000,000 Line of Credit	\$ 898,501	\$ 898,501
Mortgage Notes Payable	7,122,178	227,909
	-----	-----
	\$8,020,679	\$1,126,410
	=====	=====

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

Year Ending September 30,	
-----	
2007	\$1,126,410
2008	266,726
2009	287,004
2010	308,824
2011	332,303
2012 & thereafter	5,699,412
	-----
	\$8,020,679
	=====

In the first nine months of 2006 and 2005, interest expensed and paid totaled \$406,334 and \$532,235, respectively.

5. Stock Option Plan. The Company maintains a stock option plan ("the Plan") pursuant to which 500,000 shares of the Company's common stock may be issued. The Plan in place 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 share at the time of exercise. All options granted to date have been non-qualified options.

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On January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123(revised 2004) "Share-Based Payment" (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 and are required to be remeasured to fair value at each balance sheet date until the award is settled. Prior to the adoption of SFAS No. 123R,

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## Stock Option Plan-continued

the Company valued its stock options by applying the intrinsic value-based method, and its stock options were classified in shareholders' equity. 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, and reflect any difference 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. Upon adoption of SFAS No. 123R, the Company also reclassified to liabilities the January 1, 2006, fair value of its stock options, which had been classified within shareholders' equity in the amount of \$3,074,749.

Amounts recognized in the financial statements for stock options and stock appreciation rights are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Total Cost of Share-Based Plans, Charged Against Income, Before Tax Effect	\$ 815,865	\$ (1,163,481)	\$1,348,525	\$ 2,803,328
	=====	=====	=====	=====
Income Tax Expense (Benefit) Recognized in Income	\$ (314,720)	\$ 448,813	\$ (520,194)	\$ (1,081,384)
	=====	=====	=====	=====

Total cost of share-based plans for the nine months ended September 30, 2006 reflects \$216,093 (cost of \$351,800 net of \$135,707 income tax benefit) from the adoption of SFAS No. 123R and reflected as a Cumulative Effect of Change in Accounting Principle on the Consolidated Statement of Income.

The fair value of each share option and stock appreciation right is estimated on the measurement date using the Black-Scholes option pricing model based on assumptions noted in the following table. Expected volatility is based on the historical volatility and other factors of the Company. The Company has elected to use the simplified method of estimating the expected term of the options and stock appreciation rights. Due to the small number of employees included in the Plan, the Company uses the specific identification method to estimate forfeitures and includes all participants in one group. The risk-free rate for periods within the contractual term of the share option is based on the U.S. Treasury rates in effect at the time of

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measurement.

The Company issues new, previously unissued, shares as options are exercised.

Assumptions at September 30, 2006:

Expected Volatility	29.47%
Expected Dividends	.58%
Expected Term	.5-6 years
Risk-Free Rate	4.59-5.02%

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Stock Option Plan-continued

A summary of share option activity under the Plan as of September 30, 2006, and changes during the three months and nine months then ended is presented below:

STOCK OPTIONS FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2006

	Shares	Wtd. Avg. Ex. Price
Outstanding at June 30, 2006	181,200	\$41.23
Granted	-	-
Exercised	(8,000)	33.29
Expired	-	--
Outstanding at September 30, 2006	173,200	\$41.94

STOCK APPRECIATION RIGHTS FOR THE THREE MONTHS ENDED  
SEPTEMBER 30, 2006

	Shares	Wtd. Avg. Ex. Price
Outstanding at June 30, 2006	181,200	\$13.79
Granted	-	-
Exercised	(8,000)	17.93
Expired	-	--
Outstanding at September 30, 2006	173,200	\$13.60

STOCK OPTIONS FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 2006

	Shares	Wtd. Avg. Ex. Price	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2005	160,600	\$30.82		
Granted	55,000	67.27		

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Exercised	(42,400)	26.20		
Expired	-	--		
	-----	-----	-----	-----
Outstanding September 30, 2006	173,200	\$41.94	8.04	\$3,746,204
	=====	=====	=====	=====
Exercisable at September 30, 2006	11,400	\$27.74	6.85	\$ 415,296
	=====	=====	=====	=====

## STOCK APPRECIATION RIGHTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

	Shares	Wtd.Avg. Fair Value	Wtd. Avg. Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	-----	-----	-----	-----
Outstanding December 31, 2005	160,600	\$20.33		
Granted	55,000	11.56		
Exercised	(42,400)	21.33		
Expired	-	--		
	-----	-----	-----	-----
Outstanding September 30, 2006	173,200	\$13.60	8.04	\$2,017,187
	=====	=====	=====	=====
Exercisable at September 30, 2006	11,400	\$17.20	6.85	\$223,621
	=====	=====	=====	=====

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## Stock Option Plan-continued

In connection with the exercise of 42,400 option shares, 24,743 shares of stock were issued and 17,657 shares of stock were surrendered to relieve the stock option liability by \$1,680,536. Cash proceeds of \$19,515 were received on the exercise of stock options.

The weighted-average fair value at September 30, 2006, of options granted during 2006 and 2005 was \$21.85 and \$30.26, respectively. Stock appreciation rights granted during 2006 and 2005 had weighted-average fair values of \$11.76 and \$16.29, respectively. The total intrinsic value of options exercised for the nine months ended September 30, 2006, and 2005, was \$1,511,390 and \$1,316,582, respectively. Stock appreciation rights exercised during the nine months ended September 30, 2006, and 2005, had intrinsic values of \$771,333 and \$637,367, respectively.

As of September 30, 2006, there was \$4,520,749, valued at fair value, of total unrecognized compensation costs related to non-vested stock options and stock appreciation rights granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.58 years. The liability for stock options and stock appreciation rights valued at fair value, reflected on the consolidated balance sheet at September 30, 2006, was \$4,012,178.

Had compensation cost from prior periods been determined under the fair value method for all shares under SFAS No. 123, "Accounting for Stock-Based Compensation" (as amended by Statement 148), the Company's net earnings and earnings per share would have been as follows:

Three Months Ended	Nine Months Ended	Year Ended
-----	-----	-----

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	September 30, 2005	September 30, 2005	December 31, 2005	December 31, 2004
Net Income as Reported	\$2,688,847	\$12,622,406	\$14,817,750	\$14,651,739
Deduct:				
Stock-Based Compensation				
Under Fair Value Based Method				
(Net of Tax)	(52,455)	(331,145)	(384,910)	(221,595)
Add Back:				
Stock-Based Compensation Under				
Intrinsic Value Method				
(Net of Tax)	(464,534)	864,787	1,174,283	402,683
Pro Forma Net Income (Loss)	\$2,171,858	\$13,156,048	\$15,607,123	\$14,832,827
	=====	=====	=====	=====
Basic Income Per Share:				
As Reported	\$0.47	\$2.23	\$2.62	\$2.60
Pro Forma	\$0.38	\$2.32	\$2.76	\$2.63
Diluted Income Per Share:				
As Reported	\$0.47	\$2.20	\$2.58	\$2.58
Pro Forma	\$0.38	\$2.29	\$2.72	\$2.61

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6. Pension Plan. The Company maintains a defined benefit pension plan. The pension benefits are based primarily on age, years of service, and average compensation. 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, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Service Cost	\$ 69,291	\$ 60,680	\$ 207,873	\$ 182,040
Interest Cost	95,915	86,011	287,745	258,033
Expected Return on Plan Assets	(114,224)	(118,596)	(342,672)	(355,788)
Net Amortization	17,480	3,432	52,440	10,296
	-----	-----	-----	-----
Net Periodic Benefit Cost	\$ 68,462	\$ 31,527	\$ 205,386	\$ 94,581
	=====	=====	=====	=====

A contribution of \$44,630 was made in 2006.

7. 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, and agricultural operations. The Company evaluates performance based on income or loss from operations before income taxes. The Company's reportable



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segments are strategic business units that offer different products. They are managed separately because each segment requires different management techniques, knowledge, and skills. Agriculture operations are not considered a separate segment as they are immaterial from a financial statement perspective.

Information about the Company's operations in different segments (with 2005 information reclassified from its previous presentation to exclude discontinued operations) is as follows (amount in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
BUSINESS SEGMENT DATA				
Revenues:				
Real Estate	\$ 5,096	\$ 3,736	\$ 14,620	\$26,990
Income Properties	2,184	1,789	5,998	4,775
Golf	1,027	921	3,910	3,648
General, Corporate & Others	251	228	1,153	935
	-----	-----	-----	-----
	\$ 8,558	\$ 6,674	\$ 25,681	\$36,348
	=====	=====	=====	=====
Income/(loss)before tax:				
Real Estate	\$ 3,601	\$ 3,100	\$ 11,623	\$21,574
Income Properties	1,776	1,480	4,928	3,909
Golf	(456)	(518)	(781)	(861)
Corporate, General & Others	(1,660)	279	(3,389)	(5,277)
	-----	-----	-----	-----
	\$ 3,261	\$ 4,341	\$ 12,381	\$19,345
	=====	=====	=====	=====

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### Business Segment Data-continued

	At September 30, 2006
Identifiable Assets:	
Real Estate	\$ 20,016
Income Properties	106,917
Golf	9,043
Corporate, General & Other	11,282
	-----
	\$147,258
	=====
Depreciation and Amortization:	
Real Estate	\$ 216
Income Properties	1,027
Golf	320
Corporate, General & Other	65
	-----
	\$ 1,628
	=====

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### Capital Expenditures:

Real Estate	\$ 1,042
Income Properties	14,462
Golf	51
Corporate, General & Other	73
	-----
	\$ 15,628
	=====

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.

8. Recent Accounting Standards. The FASB issued FASB No. 157 "Fair Value Measurements" (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 18, 2007 and interim periods within those fiscal years. The Company does not believe the SFAS No. 157 will have an impact on its financial statements.

The Financial Accounting Standards Board issued FASB No. 158 "Employers' Accounting for Defined Benefit Pension and other Post-retirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132 " (SFAS No. 158). This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit post-retirement plan as an asset or a liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Additional disclosure information is also required by the statement. An employer with publicly traded equity securities is required to recognize the funded status of defined benefit post-retirement plan, and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company will adopt SFAS No. 158 in the fourth quarter of 2006 and is currently evaluating the impact of the statement.

In June 2006 the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes an interpretation of FASB statement No. 109 (FIN 48). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes."

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### Recent Accounting Standards-continued

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This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not expect FIN 48 to have an impact on its financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin 108 (SAB 108), which expresses the staff's views regarding the process of quantifying financial statement misstatements. SAB 108 requires registrants to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. The requirements are effective for annual financial statements covering the first fiscal

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year ending after November 15, 2006. The Company will adopt SAB 108 in the fourth quarter of 2006 and is currently evaluating its impact.

### 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.

#### OPERATIONS OVERVIEW

The Company is primarily engaged in the conversion of agricultural lands to income properties, real estate land sales and development, golf course operations, and agriculture operations. The Company has substantial land holdings in the Daytona Beach, Florida area, including its agriculture operations. The Company lands are well-located in the growing central Florida Interstate 4/Interstate 95 corridors, 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. Although pricing levels and changes by the Company and its immediate competitors can affect sales, the Company generally enjoys a competitive edge due to lower cost basis associated with long-time land ownership and a significant ownership position in the immediate market.

The Company has experienced strong sales activity over the last four years with many development activities taking place on or adjacent to Company owned land. 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 the second quarter of 2006, the expansion of the Daytona Beach Auto Mall, the opening of a second office building in the Cornerstone Office Park, and the continued development within the 250-acre Gateway Commerce Park. Residential development has also been strong on lands sold by the Company in prior years, including within the PGA International community, and on other lands both east and west of Interstate 95. During the third quarter of 2006, the Company sold approximately 100 acres of land on which a private high school is expected to be constructed. These development activities tend to create additional buyer interest and sales opportunities. While most national homebuilders have experienced significant reductions in new sales contracts from the peak in mid

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#### Operations Overview-continued

to late 2005, the Company has experienced a relatively stable Daytona Beach commercial real estate market. A backlog of contracts remains in place for closings that the Company expects to occur in fourth quarter 2006.

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

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treatment for tax purposes. At September 30, 2006, the Company had invested approximately \$110 million in twenty-five income properties through this process, including two properties acquired during 2006. The two properties acquired in 2006 are located in the Atlanta, Georgia area, and are under lease to Dick's Sporting Goods and Best Buy.

With this investment base in income properties, lease revenue in excess of \$8.4 million is expected to be generated annually. This income, along with income from additional future net-lease income property investments, is expected to decrease earnings volatility 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 two 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 Boulevard.

The Company's agriculture operations consist of growing, managing, and sales of timber and hay products on approximately 11,150 acres of Company lands on the west side of Daytona Beach, Florida.

### SUMMARY OF 2006 OPERATING RESULTS

Net income for the third quarter of 2006 totaled \$2,436,415, equivalent to \$.43 per basic share, and represented a 9% decline from 2005's same period profit of \$2,688,847, equivalent to \$.47 per basic share. The downturn in profits was primarily attributable to increased stock option expense in 2006 as a decrease in the Company's stock price in the third quarter of 2005 resulted in a reversal in stock option expenses totaling \$1,163,481 during that period. Each of the Company's major business segments, real estate, income properties, and golf operations, posted improved operating results during 2006's third period when compared to the prior year.

For the first nine months of 2006, profits of \$8,409,179, equivalent to \$1.48 per basic share, were recorded. These profits represented a decrease from the profits of \$12,622,406, equivalent to \$2.23 per basic share, earned in 2005's nine-month period. The lower earnings were primarily the result of lower land sales volume, with 2005 results including the sale of 120 acres, at a price approximating \$18 million, to Florida Hospital for the future site of its hospital. Partially offsetting the lower land sales volume were improved results from income properties and golf operations, along with lower stock option expense accruals in 2006 when compared to 2005. The improvement in income properties results was due to the addition of two properties during 2006 and seven properties throughout 2005. Included in 2006's first nine months results were income, net of tax, from discontinued operations of \$240,476, equivalent to \$.04 per share, which represented the operation and sale of an auto dealership facility site in Daytona Beach, Florida, which was being held as an income property.

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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 30, 2006	September 30, 2005
Net Income	\$2,436,415	\$ 2,688,847
Add Back:		
Depreciation and Amortization	602,218	452,202
Deferred Taxes	2,141,398	(406,804)
Earnings Before Depreciation, Amortization and Deferred Taxes	\$5,180,031 =====	\$ 2,734,245 =====

Nine Months Ended		
	September 30, 2006	September 30, 2005
Net Income	\$ 8,409,179	\$ 12,622,406
Add Back:		
Depreciation and Amortization	1,628,327	1,277,275
Deferred Taxes	3,452,552	2,208,047
Earnings Before Depreciation, Amortization and Deferred Taxes	\$13,490,058 =====	\$ 16,107,728 =====

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 is calculated by adding depreciation, amortization, and deferred income taxes to net income as they represent non-cash charges.

EBDDT totaled \$5,180,031 for the third quarter of 2006, a significant increase over 2005's third quarter EBDDT amounting to \$2,734,245. These favorable results were achieved despite the downturn in profits, as the add-back for both depreciation and amortization and deferred taxes increased over the prior year. The depreciation and amortization add-back increased with the additional income properties acquired in 2005 and 2006. The deferred tax adjustment was negative in 2005 with the reversal of deferred taxes on gains from year-end 2004 transactions for which the like-kind exchange process was not completed, as the Company was unable to identify sufficient investment opportunities which met its investment criteria. Also contributing to the deferred tax adjustment in 2005 was the recognition of a gain, for tax purposes, on the collection of a note receivable which had been treated as an installment sale

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in prior years.

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### Summary of Operating Results-continued

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For the first nine months of 2006, EBDDT totaled \$13,490,058 compared to \$16,107,728 in 2005's same period. The decrease in EBDDT was the direct result of lower earnings during 2006 as the add-back for depreciation and amortization and deferred taxes rose over the prior year. These increased add-backs again were the result of the addition of income properties in both years and the reversal of deferred taxable gains in 2005 as the Company was unable to identify sufficient investment opportunities for tax free exchange which met its investment criteria.

### REAL ESTATE OPERATIONS

#### ----- REAL ESTATE SALES.

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 profits, a 16% improvement over 2005's third period income from real estate sales of \$3,100,026, were earned on the sale of 100 acres of property. Included in property sales were \$577,000 in profits realized on transactions, which had been deferred in previous periods. 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. In accordance with relevant accounting literature, the transaction was recorded as a sale of real estate with an offsetting charge to real estate costs and expenses. The recording of this transaction was not reflected in the Company's Earnings Release dated October 17, 2006. This form 10Q reflects additional real estate revenues and expenses of \$950,000 for the three and nine months ended September 30, 2006 compared with the press release with no effect on stated net income and earnings per share for the periods. Profits from 2005's third quarter period were recorded on the sale of 13 acres of land.

For the first nine months of 2006, revenues of \$14,620,160 were generated from real estate sales resulting in profits of \$11,622,501. These revenues and profits were produced on the sale of 143 acres of land in addition to \$4,733,000 recognized on transactions which were deferred in 2005. An additional \$1,084,000 of profit was deferred at September 30, 2006, on two transactions which closed in 2006 and will be recognized as road and utility improvements are completed. The sale of 214 acres of land in 2005's nine-month period, including the sale of 120 acres to Florida Hospital for approximately \$18 million, produced revenues and profits of \$26,989,590 and \$21,574,177, respectively.

#### INCOME PROPERTIES.

Income properties revenues rose 22% for the third quarter of 2006 when compared to prior year and resulted in a 20% increase in profitability. These favorable results were achieved with the addition of two new properties in 2006 and seven new properties throughout 2005. Revenues and profits were \$2,183,626 and \$1,775,929, respectively for 2006 compared to \$1,789,114 and \$1,479,720, respectively for 2005's same period. Income properties costs and expenses rose 32% primarily on additional depreciation associated with the properties acquired.

The addition of the new properties in 2005 and 2006 also accounted for the improved results for the nine-month period as profits increased 21% to \$4,928,206 on revenues of \$5,997,775. For the first nine months of 2005 profit of \$3,909,240 was generated on revenues totaling \$4,775,031. Additional depreciation expense accounted for the 24% gain in costs and expenses during the nine-month period.

GOLF OPERATIONS.

Results from golf operations improved 12% on a 12% rise in revenues during the third quarter of 2006 when compared to 2005's third quarter. Both golf and food and beverage activities contributed to the favorable results with golf revenues increasing 13% on a 14% gain in the number of rounds played, and food and beverage revenues increasing 9%. Revenues of \$1,027,067 were recorded in 2006's third quarter resulting in an operating loss of \$456,616. For the same period of 2005, revenues and operating losses of \$920,836 and \$518,313 were posted, respectively. A 3% increase in golf costs and expenses was attributed to the increased activity during the period.

For the first nine months of 2006, revenues from golf operations of \$3,909,816 produced an operating loss of \$781,074. During 2005's first nine-month period, revenues and operating losses amounted to \$3,648,055 and \$861,346, respectively.

The 7% increase in revenues again was a combination of both golf and food and beverage activities with golf revenues increasing 9% and food and beverage revenues providing a 3% revenue gain. The gain in golf revenues is associated with a 5% rise in the number of rounds played in addition to a 6% climb in average fee per round played. Golf operations costs and expenses increased 4% during the period on the additional volume and higher golf course maintenance costs, and food and beverage payroll and operating costs.

GENERAL, CORPORATE AND OTHER.

For the third quarter and first nine months of 2006, the sale of other real estate interests generated income of \$212,550 and \$668,420, respectively. These profits were realized on the release of subsurface interests on 610 acres of which 49 acres were released during the third quarter. Releases were granted on 1,358 acres during 2005's first nine months, of which 138 were released in the third quarter. These releases generated income of \$21,210 and \$258,943 for the three-month and nine-month periods, respectively.

Interest and other income decreased 81% to \$38,831 in the third quarter of 2006, while declining 36% to \$484,516 for the first nine months when compared to 2005's same periods. Interest and other income totaled \$207,070 and \$676,116 for 2005's third quarter three-month period and nine months, respectively. Declines for both of these periods were attributed to lower earnings on interest from mortgage notes receivable, as there were no notes outstanding during 2006's first nine months, and lower earnings on funds held for reinvestment through the like-kind exchange process. Lower earnings from investment securities on lower funds held for investment, also contributed to the decrease during the third quarter.

For the quarter ended September 30, 2006, general and administrative expenses totaled \$1,911,250 and represented a significant increase over the \$51,130 credit recorded in 2005's same period. The credit in 2005 resulted from a decrease in the Company's stock price causing a reversal of stock option expense during the period. General and administrative expense declined 27% to \$4,541,745 for the nine-month period. The decrease resulted from lower stock option expense in 2006 as the stock price of the Company rose

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significantly during the first six months of 2005 creating an increase for the six months of 2005, though the third quarter decreased. General and administrative expenses totaled \$6,212,496 for the first nine months of 2005.

During the first nine months of 2006, the Company made charitable contributions of land to qualified organizations. As the Company has reasonable assurance that it will generate taxable income over the five-year carryforward period to utilize these income tax deductions, the contributions 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.

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### General Corporate and Other-continued

During the first nine months of 2005, the Company generated significant taxable income, and there was reasonable assurance the Company would produce taxable income for the remainder of the year. Due to this taxable income, the deferred tax asset valuation allowance associated with charitable contribution carryforwards was reversed, resulting in a \$695,000 positive adjustment to the income tax provision for the nine month period of 2005 and an effective tax rate approximating 35%.

In May of 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 and sale of this property have been reported separately as discontinued operations in the financial statements. Income, net of income taxes, of \$240,476 and \$8,742 were posted the first nine months of 2006 and 2005, respectively.

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

### LIQUIDITY AND CAPITAL RESOURCES.

Cash, restricted cash and investment securities totaled \$10,191,244 at September 30, 2006. This balance represented a decrease of \$13,117,163 from the balance at December 31, 2005. The primary uses of these funds were for the acquisition of income properties, payment of income taxes, and road and utility construction.

During the nine month period, two income properties were acquired in the Atlanta, Georgia market through the like-kind exchange process. In total \$15.6 million was used during the period for the acquisition of property, plant, and equipment, including the above mentioned properties, with an additional \$4.4 million expended on road and utility improvements.

The payment of income taxes for the nine months approximated \$5.1 million and included the payment of taxes resulting from the 2002 tax audit, and the amendment of the 2003 and 2004 income tax returns as the result of the settlement the Company reached with the Internal Revenue Service on its like-kind exchange transactions which occurred within the Company's Development of Regional Impact Lands.

Other uses of cash during the period included the payment of dividends totaling \$1,421,071, equivalent to \$.25 per share.



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At September 30, 2006, notes payable totaled \$8,020,679 with \$898,501 outstanding on the \$10.0 million revolving line of credit.

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 run. 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 July 26, 2006 meeting, the Board increased the quarterly dividend from \$0.08 to \$0.09 per share and reaffirmed its support for continuation of the 1031 tax deferred exchange strategy for investment of agricultural land sales proceeds and self-development of income properties on Company owned lands.

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### Liquidity and Capital Resources-continued

Capital expenditures for the remainder of the year, in addition to income property investments, include approximately \$3 million in road construction. Capital to fund planned expenditures is expected to be provided from cash and investment securities, as they mature, operating activities, and current financing sources in place. 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. As additional funds become available through qualified sales, the Company expects to invest in additional real estate opportunities.

### 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 the first nine months of 2006, the Company closed two transactions for which the Company 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.

As the Company has retained post-closing obligations, a portion of the revenues and profits on the sales were deferred in accordance with SFAS No. 66. The transactions are being accounted for on a percentage-of-completion method with revenues and profits recognized as costs are incurred. For the nine months ended September 30, 2006, revenues and profits of \$1,105,746 and \$1,084,173 were deferred, respectively. These profits will be recognized as the off-site improvements are completed.

Also during the first nine months of 2006, revenues and profits of \$4,963,422 and \$4,733,159, respectively, were recognized from 2005 closings, which had been deferred as a result of post-closing obligations existing at the time of closing. A portion of the obligations were completed during the first nine months of 2006, and thus a portion of revenues and profits were recognized. At September 30, 2006,

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deferred profits totaling \$1,696,020 remained on the Company's balance sheet to be recognized with the completion of the post-closing obligations.

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 real estate 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.

Real estate 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 impairment of long-lived assets reflected in the consolidated financial statements.

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### Critical Accounting Policies-continued

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At the time the Company's debt was refinanced, the Company entered into 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. A liability in the amount of \$368,922 at September 30, 2006, has been established on the Company's balance sheet. The change in fair value, net of applicable taxes, in the amount of \$226,610 at September 30, 2006, has been recorded as accumulated other comprehensive loss, a component of shareholders' equity.

The Company maintains a stock option plan ("the Plan") pursuant to which 500,000 shares of the Company's common stock may be issued. The Plan in place 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

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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.

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### Critical Accounting Policies-continued

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. Upon adoption of SFAS No. 123R, the Company also reclassified to liabilities the January 1, 2006, fair value of its stock options, which had been classified within shareholders' equity in the amount of \$3,074,749.

### 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 (\$7,122,178 outstanding at September 30, 2006) long-term mortgage.

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, which effectively

fixed the interest rate paid by the Company.

ITEM 4. CONTROLS AND PROCEDURES.

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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 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," "forecast," "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, 2006, 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 in 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

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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, 2005. 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 reassess 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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Items 2 through 5. Not Applicable

Item 6. Exhibits

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 9, 2006

By:/s/ William H. McMunn  
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William H. McMunn, President  
and Chief Executive Officer

Date: November 9, 2006

By:/s/ Bruce W. Teeters  
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Bruce W. Teeters, Senior  
Vice President - Finance  
and Treasurer

